








# Guidance for Licensed Financial Institutions on Correspondent Banking and Expectations for Managing Correspondent Banking Relationships

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AML/CFT Supervision Department

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# AGENDA

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- 5** Policy and Procedures
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# Purpose, Applicability, and Legal Basis



# Purpose and Applicability of the Guidance

## Purpose

- This Guidance does **NOT** constitute new regulation and does **NOT** introduce new legal obligations.
- It is designed to help CBUAE's LFIs understand the purpose and context of their existing legal obligations, as well as the CBUAE's expectations for how those obligations will be fulfilled.
- LFIs are expected to demonstrate compliance with requirements of the Guidance within one month from its coming into effect.

## Applicability

The guidance document applies to **all natural or legal persons that are licensed and/or supervised by the CBUAE** in the following categories:

- National banks, branches of foreign banks, exchange houses, finance companies, investment companies, payment service providers, virtual asset service providers (“VASPs”), payment token service providers, registered hawala providers;; and
- Insurance companies, agencies and brokers.



# Legal Basis

- **Federal Decree-Law No. (14) of 2018**, Regarding the Central Bank & Organization of Financial Institutions and Activities, and its amendments (“CBUAE Law”). [repealed by Federal Decree-Law No. (6) of 2025, Regarding the Central Bank, Regulation of Financial Institutions and Activities, and Insurance Business]
- **Federal Decree Law No. 20 of 2018** on Anti-Money Laundering and Combating the Financing of Terrorism and Illegal Organizations as amended (“AML-CFT Law”). [repealed by Federal Decree-Law No. 10 of 2025 on Combating Money Laundering, the Financing of Terrorism, and the Financing of Arms Proliferation (the New AML Law)]
- **Cabinet Decision No. (10) of 2019** concerning the Implementing Regulation of Federal Decree Law No. 20 of 2018 on Anti-Money Laundering and Combating the Financing of Terrorism and Illegal Organizations, as amended by Cabinet Decision 24 of 2022 (“AML-CFT Decision”) and its amendments.
- **Cabinet Decision No. (74) of 2020** Regarding Terrorism Lists Regulation and Implementation of United Nations Security Council (UNSC) Resolutions on the Suppression and Combating of Terrorism, Terrorist Financing, Countering the Proliferation of Weapons of Mass Destruction and its Financing and Relevant Resolution (“Cabinet Decision 74”), and its amendments.
- **Cabinet Decision No. (58) of 2020** regulating the Beneficial Owner Procedures (“Cabinet Decision 58”);
- **Guidance for Licensed Financial Institutions** on Digital Identification for Customer Due Diligence;
- **Cabinet Resolution No. (109) of 2023**; and
- **CBUAE/BSD Notice No. 1943.2022** Regarding AML/CFT Minimum Standards and Supervisory Expectations.



# Understanding Correspondent Banking

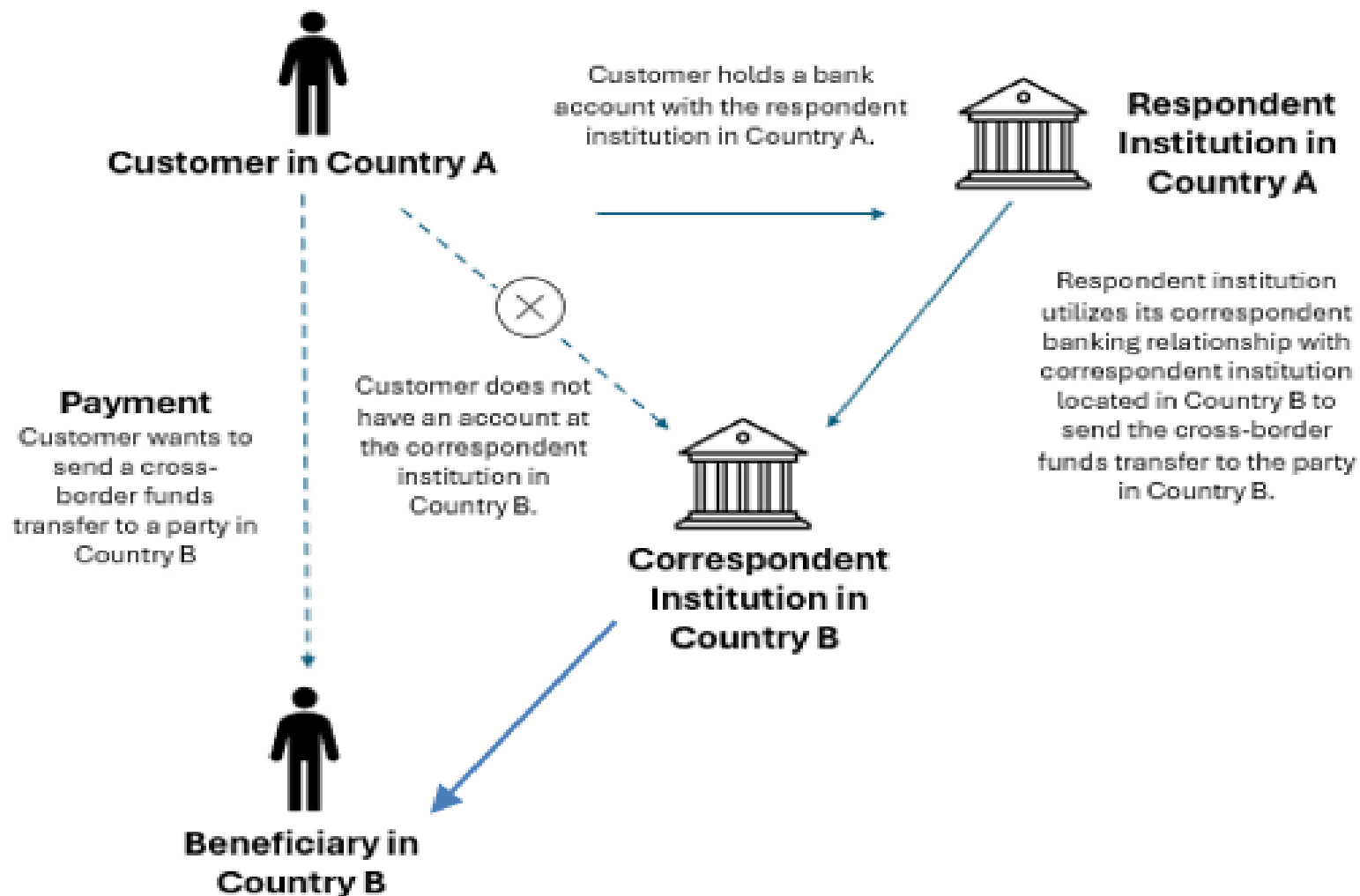


# Correspondent Banking

- Correspondent banking is fundamental to international trade and commerce, as it **helps LFIs facilitate cross-border transactions and serve their customers' payment needs.**
- Correspondent banking relationships may **pose ML/TF/PF risks** due to lack of direct customer oversight and potential vulnerabilities in the implementation of AML/CFT/CFP standards by the respondent institutions.
- In **traditional correspondent banking relationships**, the correspondent institution enters into an agreement with a respondent institution for the respondent institution to execute payments on behalf of its customers or on its own behalf. The respondent institution's customers in traditional correspondent banking relationships do not have direct access to the respondent institution's correspondent banking account.
- **Nested correspondent banking** occurs when a respondent institution allows another financial institution (nested institutions) to access a correspondent account. These nested institutions use the account indirectly to serve their own customers, without having a direct relationship with the correspondent.
- **Payable-through accounts** are similar to nested correspondent banking relationships, but in this case, the respondent institution allows its customers to directly access the correspondent banking account. Because of this, the respondent institution's customers can conduct their own transactions through the correspondent banking account.

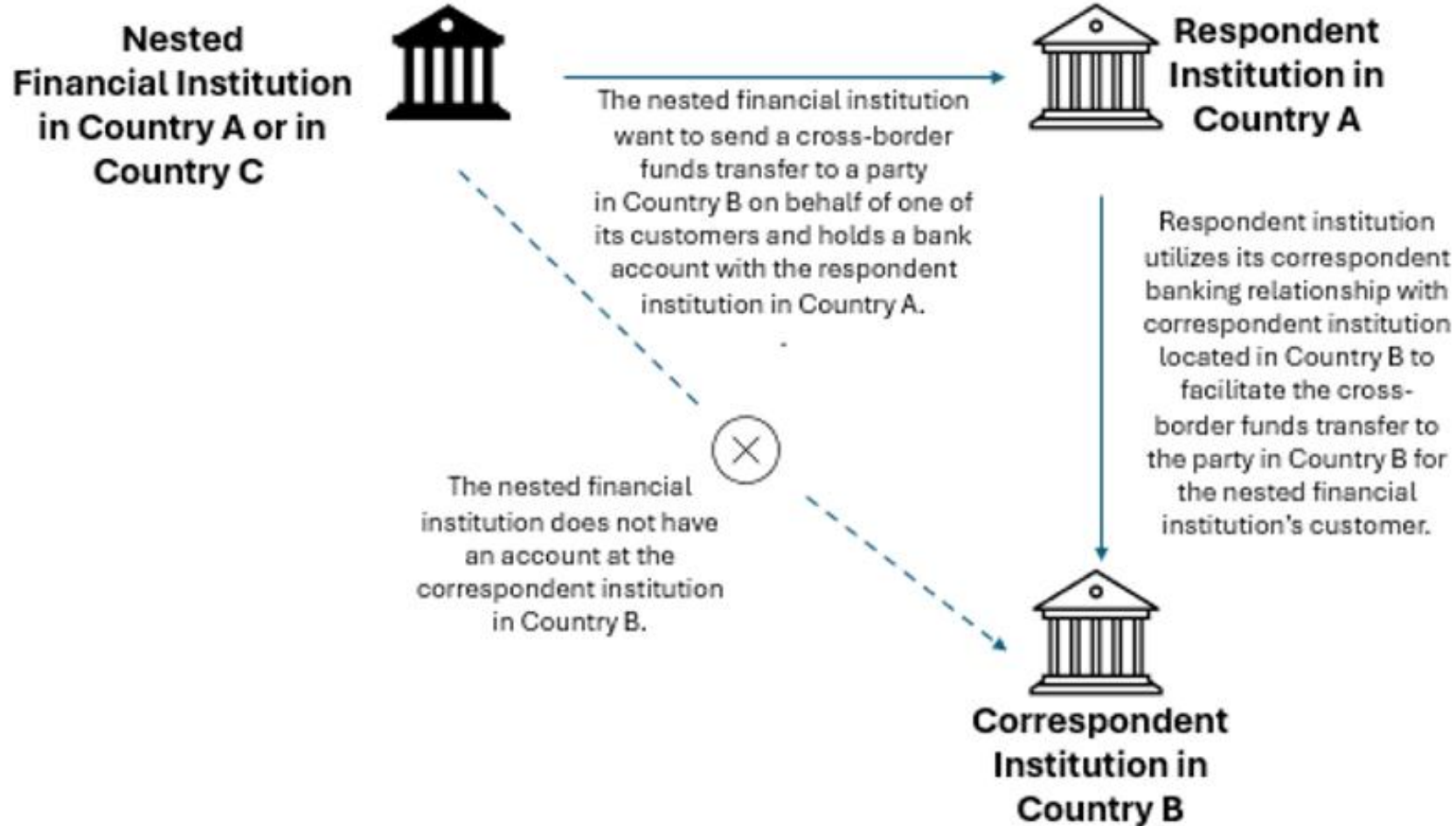


## Traditional Correspondent Banking: Third-party Transactions



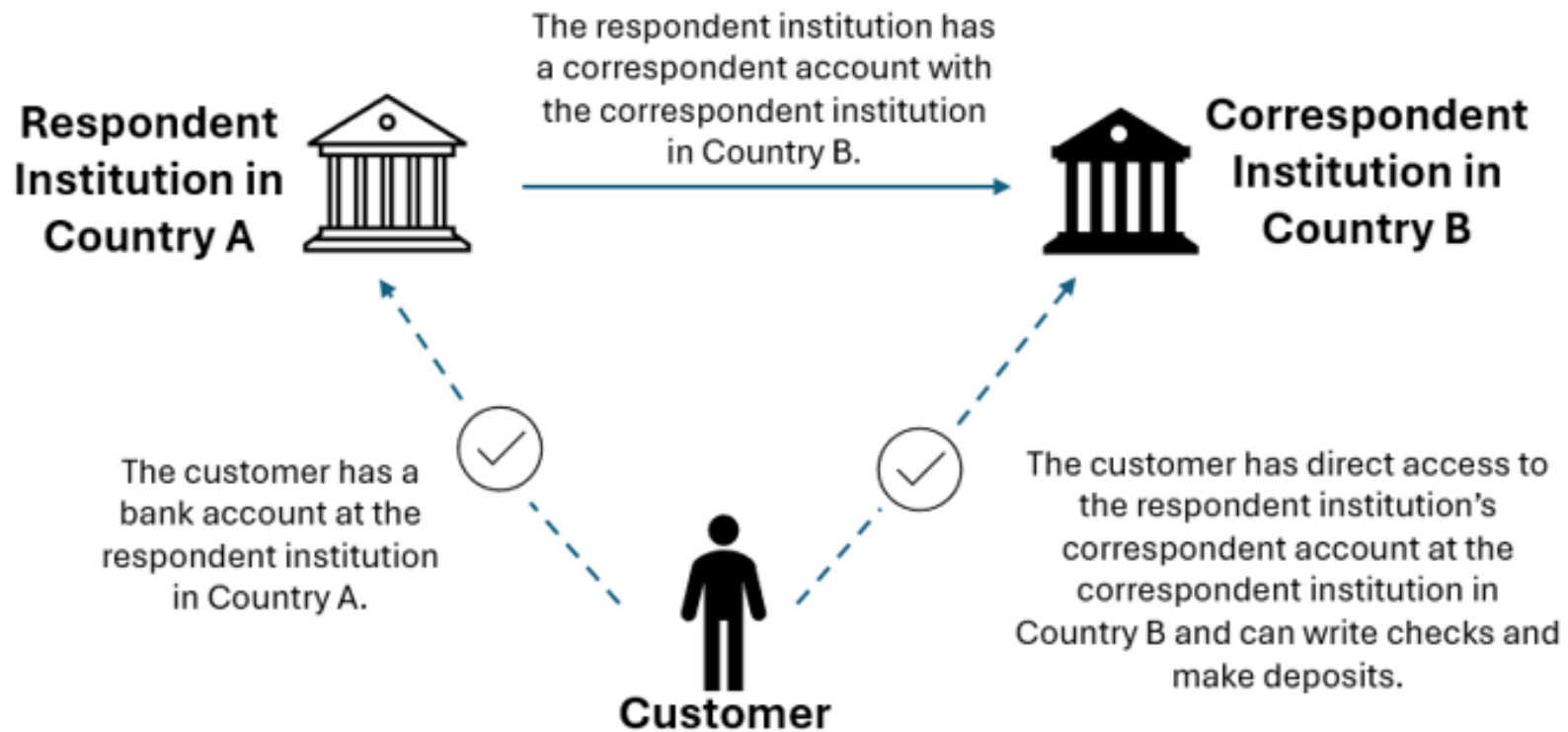


## Nested Correspondent Banking





## Payable-through Account





# Cross-Border Payments



# Cross-Border Payments (1/2)

Cross-border payments refer to financial transactions where the originator and the beneficiary are located in different countries. Cross-border payments cover both wholesale and retail payments, including cross-border remittances.

- LFI's have specific **requirements when processing cross-border fund transfers**. Under Articles 27-29 of the AML-CFT Decision, qualifying cross-border wire transfers **equal to or exceeding AED 3,500** (or equivalent in any other currency) should always contain the following:
  - Originator name, Identity Number, date and place of birth, and address;
  - Originator's Account or Unique Transaction Number;
  - Beneficiary name;
  - Beneficiary's Account or Unique Transaction Number.
- As per Chapter 16 of the CBUAE Standards for the Regulations Regarding Licensing and Monitoring of Exchange Business, exchange houses are subject to stricter due diligence requirements, and should screen all transfers, inwards or outward.
- Failure to comply with the established funds transfer requirements may result in enforcement actions, including fines and restrictions on operations, increased scrutiny from regulators, and potential reputational damage for LFI's.



# Cross-Border Payments (2I2)

- In order to manage the risks associated with cross-border payments, it is essential that all LFIs in the transaction chain—including intermediary financial institutions that may lack a direct customer relationship with the ultimate originator or beneficiary—**be able to screen and monitor the identities and locations of all transacting parties.**
- The **quality of information provided** in payment messages **is critical.** LFIs must ensure that all required data is accurate and complete to facilitate effective monitoring and compliance with AML/CFT obligations.
- Originating financial institutions (e.g. Respondent Bank) should require that information on an originator and beneficiary accompanies wire transfers messages.
- **Other parties** in the payment chain—such as an intermediary financial institution that may lack a direct customer relationship with the ultimate originator or beneficiary—are required to **monitor the payments they process based on this information.**



# Policy and Procedures



# Policy and Procedures (1/2)

LFIs must build a strong financial crime framework to manage risk effectively, rather than merely avoiding risk through derisking. LFI's are required to **develop risk-based internal policies and procedures** for correspondent banking, approved by senior management or the board. These should include:

- **Implementation across the organization:** LFIs should make sure all parts of the institution apply the same policies and monitoring systems consistently.
- **Communication:** LFIs should clearly explain the policies to all staff and service providers and provide regular training so they understand and follow them properly.
- **Review and update:** LFIs should update policies when risks or regulations change and inform all relevant staff and partners promptly.
- **Formal review process:** LFIs should review their policies at least annually to assess effectiveness, identify gaps, and implement necessary updates, subject to appropriate approval.
- **Exceptions and deviations:** LFIs should keep a record of any exceptions to the rules, explain why they happened, and get senior management to approve a plan to address them.
- **Local and international regulatory requirements:** LFIs should ensure policies meet both UAE laws and international standards like FATF to stay compliant.



## Policy and Procedures (2/2)

- Intermediary financial institutions are required to **actively monitor all cross-border wire transfers for compliance with information requirements** and must implement robust procedures to identify and address any deficiencies in originator or beneficiary information.
- Intermediary institutions must **also have risk-based policies and procedures** for determining when to execute, reject, or suspend a wire transfer; and the appropriate follow-up action. These procedures should consider factors such as the completeness and accuracy of originator/beneficiary information and the presence of sanctions alerts.

A **correspondent institution** should:

- Monitor the payment messages transmitted by the respondent institution for the purpose of detecting those which lack required originator and/or beneficiary information, including meaningless fields.
- Verify the reliability of the respondent institution's controls, for instance via sample testing (e.g., take a closer look at a few transactions to identify cases where they do not comply with the wire transfer information requirements).



# Correspondent Banking Risk Factors



# Correspondent Banking Risk Factors

## Overview

- Different types of correspondent banking relationships present varying levels of ML/TF/PF risk.
- LFIs should conduct a comprehensive risk assessment of their correspondent banking relationships, considering all relevant risk factors and determine whether their correspondent banking relationships should be subject to additional EDD measures.
- Simplified due diligence measures are not acceptable in the context of cross-border correspondent banking. Additional measures are necessary because cross-border correspondent banking relationships are inherently higher risk than domestic correspondent relationships
- To ensure effective risk management, LFIs should establish clear criteria for implementing EDD measures based on specific risk factors, such as transaction types and volumes, geographic location, ownership structures, and the nature of the respondent institution's customer base.



# Respondent Institution's Third-Party Transaction Risk

## ML/TF/PF risks

- Correspondent banking relationships - involve the execution of transactions and the provision of other financial services for the respondent institution's customers - introduces third party ML/TF/PF risks.
- Without proper controls, correspondent institutions risk giving indirect access to the financial system to customers whose identities and risk profiles are not adequately known or managed.
- This third-party risk is present across traditional correspondent banking relationships, nested relationships, and payable-through or pass-through accounts.

## Controls

- For **third-party transaction risks**, LFIs should apply enhanced due diligence (EDD) and gather detailed information on the respondent's customers, their risk profiles, and risk management controls.
- For **nested relationships**, correspondent institutions should assess the risks associated with such relationships and require respondents to disclose such relationships during account opening, and conduct ongoing account activity reviews. They should also conduct annual reviews to ensure that adequate AML/CFT/CPF controls are in place to mitigate risks.
- For **Payable-through Accounts**, correspondent institutions should identify authorized users and ultimate beneficial owners (UBOs). Additional controls—such as transaction limits, real-time monitoring, and scrutiny of transaction purpose—should be considered to mitigate elevated risks.



## Best Practices: Nested Relationships

Following a risk-based approach, a correspondent institution may apply the following enhanced measures:

- A correspondent institution should request a respondent institution's list of nested financial institutions receiving downstream services and perform internal watchlist, negative news, politically exposed person ("PEP"), and sanctions screening on these institutions.
- A correspondent institution, on a risk-sensitive basis, may request further information from the respondent on their customer due diligence and AML/CFT/CPF controls of the underlying nested financial institution(s) in order to inform their own assessment of the nested financial institution(s).
- A correspondent institution can communicate to the respondent institution that nested financial institutions' AML/CFT/CPF programs should be updated periodically and that information on their AML/CFT/CPF programs should be provided to the correspondent institution upon request.
- A correspondent institution may wish to collect a statement from the respondent institution affirming that payment instructions for transactions on the correspondent account will be formatted to facilitate monitoring and screening of all involved parties to a transaction.



# Respondent Institution's Geographic Risk

## ML/TF/PF risks

Geographic risk results from respondent institutions' exposure to jurisdictions with elevated ML/TF/PF risks. Risk indicators should be assessed for the jurisdiction of the respondent institution's ultimate parent and the locations where the respondent operates, including its branches and subsidiaries.

Indicators of geographic risk include:

- FATF grey/blacklisted countries.
- Sanctioned or conflict zones.
- Jurisdictions with higher levels of corruption, organised crime, and tax havens.
- Jurisdictions serving as transit corridors to UAE designated high-risk countries.

## Controls

- Assessment of respondent institution's exposure to jurisdictions with elevated ML/TF/PF risk.
- Criteria to assess respondent institutions' jurisdictional risks.
- Continuous monitoring of geographic risks is key.



# Respondent Institution's Ownership and Management Structures

## ML/TF/PF risks

- Certain features of a respondent institution's ownership and management structure may present increased ML/PF/TF risks, making it more vulnerable for illicit actors to own, control, hold a significant or controlling interest, or hold a management function in a respondent institution.
- Correspondent institutions should prioritize transparency in ownership and executive management structures, requiring thorough documentation of beneficial ownership and executive management structures to mitigate potential ML/TF risks.

## Controls

- These risk factors should be considered when deciding to onboard and continue a correspondent banking relationship:
  - Respondent institution's legal form.
  - The location and reputation of shareholders and beneficial owners.
  - The presence of any PEP(s) in the senior management or ownership structure, particularly in circumstances where the PEP(s) have day-to-day control over the respondent.
- To assess ownership and management risk, correspondent institutions should screen shareholders, UBOs, and senior officers for negative news, PEP status, and sanctions.
- The correspondent institution should verify the respondent's ownership structure and confirm it is not a shell bank.
- In certain circumstances, UBOs' source of wealth and source of funds may be assessed.



# Respondent Institution's Products and Services

## ML/TF/PF risks

- The nature of the products and services offered to a respondent institution, or that a respondent institutions offers to its customers, can impact the risk associated with the correspondent banking relationship.
- The respondent institution's products and services may present increased ML/TF/PF risks, because of the potential for intermediation, anonymity, cross-border fund flows, settlement times and terms.

## Controls

- To manage these risks, a correspondent institution should collect the purpose of the respondent institution's account and relationship with the correspondent institution.
- LFI's should consider the following factors when evaluating the risk of products and services involving a respondent institution:
  - Potential for intermediation
  - Potential for anonymity
  - Cross-border funds flows
  - Settlement times and terms
- As part of establishing a correspondent banking relationship, a correspondent institution should also understand the anticipated activity for the products and services the respondent institution intends to use with the correspondent, as well as conduct ongoing transaction monitoring to assess any anomalies.



# Respondent Institution's Customer Base

## ML/TF/PF risks

- A respondent institution's customer base impacts its level of ML/TF/PF risk, and subsequently, the risk it contributes to a correspondent banking relationship. Specifically, a respondent institution that derives a significant portion of its business income from high-risk customers poses greater ML/TF/PF risk to a correspondent institution.

## Controls

- Type of customers to be avoided by correspondent institutions:
  - Shell banks
  - Unlicensed and/or unregulated banks or NBFIs
- **Criteria to assess customer risk:** customers are considered high-risk based on the nature of their business (e.g., dealers in precious metals or stones, non-profit organizations, cash-intensive businesses, PEPs, Virtual Assets Services Providers, and FinTech Companies), or if they are located or operate in high-risk jurisdictions.
- **To manage the risks of a respondent institution's customer base:** collect information on high-risk customer types and their business rationale, assess broader risk factors, as well as the effectiveness of the AML/CFT/CPF controls to manage these risks.



# Risk Mitigation



# Risk Mitigation (1/4)

## Enterprise-wide ML/TF/PF Risk Assessment and Correspondent Banking Risk Assessment

- LFIs are required to identify, assess and understand their ML/TF/PF risk exposure to appropriately manage them.
- Correspondent banks need to assess the risk factors of their respondents through a review of their customers, geographies, products and services, and delivery channels risks.
- Risk assessment should provide a consolidated assessment of an LFIs' ML/TF/PF risks across all business units, including those of branches, subsidiaries, parent entities, or other affiliates located outside the UAE.

## Standard Customer Due Diligence, Specific Due Diligence for Correspondent Banking Relationships

- LFIs should conduct customer due diligence (CDD) before or during the establishment of the business relationship or account or before executing a transaction for a customer with whom there is no business relationship.
- An LFI's CDD program should cover, at minimum: Customer identification and verification, beneficial ownership and verification, understanding the nature and purpose of the customer account and relationship for the purpose of establishing a risk profile, and ongoing monitoring.
- If the LFI discovers that a PEP is associated with a respondent institution, the LFI should ensure it understands the person, their role and the appropriateness of that role in the respondent institution, their ability to influence the respondent institution, and the risk they present.



# Risk Mitigation (2/4)

## Specific Due Diligence for Correspondent Banking Relationships

LFIs are obliged to fulfil certain due diligence requirements regarding their correspondent banking relationships and other similar relationships they maintain, regardless of whether these relationships involve foreign or domestic financial institutions. These obligations include the following:

- **Understand Respondent Institution's Business and Intended Purpose of the Correspondent Account:** When an LFI performs CDD/KYC on a respondent institution, it should gather sufficient information to understand the nature of the respondent institution's business in line with identified risks.
- **Assess Respondent Institution's Regulatory Status and AML/CFT/CPF Regime:** The LFI should verify that the respondent institution is subject to regulatory oversight and is licensed in the jurisdictions where it operates.
- **Evaluate Respondent Institution's AML/CFT/CPF Control Framework:** When assessing the level of risk of a particular correspondent banking relationship, LFIs should also evaluate a respondent institution's AML/CFT/CPF controls. The adequacy of a respondent institution's AML/CFT/CPF controls is particularly important in the context of correspondent banking, as the LFI has limited visibility into the respondent institution's customer base.
- **Assess the Respondent Institution's Reputation:** The LFI should research the respondent institution's reputation and determine if the respondent institution has been the subject of any investigation or regulatory action related to financial crime.
- **Senior Management Approval and Correspondent Banking Agreement:** The LFI should obtain approval from senior management before establishing new correspondent relationships, and document key aspects of the relationship, such as roles, responsibilities and expectations, the products and services to be provided, any restrictions, and permitted third-party usage, for example.



# Risk Mitigation (3/4)

## Enhanced Due Diligence for High-Risk Correspondent Banking Relationships

- LFIs should follow a risk-based approach and scale their due diligence efforts based on the risk levels of correspondent banking relationships.
- Risk-based measures an LFI could apply on a higher risk correspondent banking relationship include: restricting certain products offered to the respondent institution, limiting the volume of activity, and conducting real-time monitoring and sample testing of transactions to ensure timely and effective detection of potentially suspicious activity.

## Ongoing Monitoring of Correspondent Banking Relationships

- An LFI should review its relationships with respondent institutions on an ongoing basis to assess whether the relationship remains within the LFI's risk appetite.
- Ongoing due diligence include periodic reviews of the respondent institution's information. The frequency of these reviews will depend on the risk associated with the respondent institution, based on risk factors, changes in customer behavior, or regulatory updates.

## Suspicious Activity and Reporting in Correspondent Banking

- LFIs should continuously monitor all transactions and customers activities, including those of respondent institutions, to identify suspicious behaviors that may necessitate the filing of a Suspicious Transaction Report (STR), Suspicious Activity Report (SAR), or other report types.
- Transaction monitoring programs should be calibrated to the size, nature, and complexity of each institution.
- LFIs must file an STR, SAR, or other report types with the UAE FIU when they have reasonable grounds to suspect that a transaction, attempted transaction, or certain funds are intended to be used in a crime.



# Risk Mitigation (4/4)

## Targeted Financial Sanctions Obligations

- LFI's must have suitable risk management systems and take sufficient measures to identify whether a customer, or the beneficial owner of a customer has been added to UAE Local Terrorist List or UNSC Consolidated List..
- LFI's should take appropriate steps to screen customers and transactions.
- Strict protocols must be implemented for addressing Confirmed Name Match Reports and Partial Name Match Reports.

## Governance and Independent Audit

- LFI's should organize their AML/CFT/CPF programs according to the 'three lines of defence' model: frontline personnel as the first line of defence; AML/CFT compliance function as the second line, and internal or external auditors as the third line. The governance body should include representation from all three lines to ensure effective oversight and risk management.
- LFI's should follow the requirements of independent testing and audit to provide assurance to the Board of Directors and senior management of the effectiveness and adequacy of the LFI's governance, risk management, and internal controls.

## Training and Recordkeeping

- LFI's should cover correspondent banking risks as part of the AML/CFT/CPF training program, to ensure that employees are aware of the risks of correspondent banking relationships and equipped to apply appropriate risk-based controls to manage these risks.
- LFI's must maintain detailed records associated with the correspondent banking relationships, including the ML/TF/PF risk assessment of the relationship and related mitigation measures.



# Annexures

## Annex 1. Global Standards on Correspondent Banking

- FATF International Standards.
- The Wolfsberg Group

## Annex 2. Correspondent Banking Red Flags

- 27 red flags

## Annex 3: Transition from SWIFT to the ISO 2022 Payment Standard.

## Annex 4: SWIFT and Non-Customer RMA Relationships



# Conclusion and Questions

## Thank You

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