

December 7, 2015

**Comments on the Consultative Report: *Correspondent Banking*,
issued by the Committee on Payments and Market Infrastructures
of the Bank of International Settlements**

Japanese Bankers Association

We, the Japanese Bankers Association (“JBA”), would like to express our gratitude for this opportunity to comment on the Consultative Report (the “Report”): *Correspondent Banking*, published by the Committee on Payments and Market Infrastructures (“CPMI”) of the Bank of International Settlements (“BIS”) on October 6, 2015. We respectfully expect that the following comments will contribute to your further discussion on this issue.

[General comments]

We welcome the BIS’s initiative to compile the Report as part of its initiatives to solve correspondent banking issues common to banks in view of the importance of correspondent banking and for the purposes of mitigating concerns connected with correspondent banking activities and AML/CFT compliance costs which continue to rise in recent years.

The four recommendations presented in the Report would, if appropriately implemented, contribute to reducing AML/CFT compliance costs and clarifying administrative procedures.

Nevertheless, given that the four recommendations have both benefits and challenges as pointed out in the Report itself, a further analysis will be needed especially if it is the case that a detailed fact-finding exercise is not completed yet or feedback from non-CPMI jurisdictions are not gathered yet.

Further, when industry groups, etc. consider the implementation of respective recommendations, it is preferable that the mutual relation will be given due regard in order to ensure that consistent conclusions will be reached from respective considerations.

In addition, the CPMI is requested to take into account differences in business practices across jurisdictions and in characteristics across individual banks as well as to have prudent and broad discussions with related parties in order to avoid additional costs and administrative burdens arising from banks’ implementation of such recommendations.

[Four Recommendations]

We would like to comment on each of the four recommendations presented in the Report in the following.

Recommendation on the use of KYC utilities

Although the use of KYC utilities is considered to be preferable, such use will be limited if the ultimate responsibility for the use of KYC utilities lies with the correspondent banks even if KYC

utilities that store a set of up-to-date and accurate information exist. Given this, it would be useful in order to promote the use of KYC utilities if, for example, regulators express their view that the KYC utilities provided are an appropriate and reliable tool for KYC compliance purposes; specifically, a financial institution is deemed to be adequately in compliance with KYC procedures with the use of such KYC utilities.

Recommendation on the use of the LEI in correspondent banking

We fully understand the usefulness of the LEI in certain banking activities. Nevertheless, as described in the Report, given current characteristics of the LEI (e.g. granted only to legal entities) and its original purpose (i.e. it was not originally designed for AML/KYC purposes), the use of the LEI in correspondent banking would be limited and it is premature to include this in the agenda for a discussion. The CPMI should consider the timing to initiate a discussion on issues related to the LEI, including whether to use the LEI, based on the status of the use of the LEI going forward.

Recommendation on information-sharing initiatives

As indicated in the Report, the key to success of this initiative would be to what extent information disclosure and sharing can be realized from the perspectives of data protection and privacy. To this end, it would be preferable, among other things, to put in place a legal framework to enable information sharing and to consider establishing a repository.

In the case of KYCC (know your customers' customers) with regard to customer information disclosure, as it is recommended in the Report that "the FATF and AMLEG be invited to: (i) provide additional clarity on due diligence recommendations for upstream banks, in particular to what extent banks need to know their customers' customers (KYCC)," the FATF and relevant regulators should clarify requirements and develop legislation for customer information treatment, by taking into account information available in banking practice.

Having said that, a hurdle for financial institutions to address KYCC would be high because it is impractical to obtain approval for information disclosure from customers' customers.

Recommendation on payment messages

It is not preferable, in light of business practices, to have a certain group to determine a certain direction for payment messages used by financial institutions.

Both MT103 and MT202COV, referred to as an example in the Report, should serve adequately as a payment message appropriate to AML/CFT compliance, if used properly. Therefore, it is not a matter of which is superior to the other. The use of such messages is determined by each bank based on customers' convenience and risk management requirements as well as in light of, among other things, comparison between practical preferences and actual costs.

In the case of MT202COV, its function depends on appropriate use. Therefore, relevant regulators and SWIFT are requested to make effort to ensure appropriate use of MT202COV and to remove inappropriate use of MT202COV.