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Basel Committee's work on combating financing of terrorism

The Basel Committee on Banking Supervision is a group of bank regulators that establishes standards for banks in managing and controlling their financial risks. In 1988 the Committee issued *Prevention of the Criminal Use of the Banking System for the purpose of money-laundering* in order to alert banks to the risks they run if customers use them for illegal activities. This short paper became one of the formative documents leading to the creation of the Financial Action Task Force (FATF). The Committee is not a member of the FATF but it is contributing actively to the global fight against terrorism by continuing to create awareness of the issues and by developing good practices in consultation with the banking industry that are designed to deny terrorist organisations access to the traditional financial system. Furthermore, the Committee is lending continuous support to agencies directly involved in investigation/enforcement actions, such as treasuries, judicial authorities and law enforcement agencies through efforts to strengthen the mechanisms for exchanging information between official bodies.

A key to combating terrorist financing is the establishment of an effective customer due diligence programme by financial institutions. Knowing who their customers are is a prerequisite for the identification of accounts related to terrorism. The Basel Committee, in its *Customer due diligence for banks* (CDD) paper of October 2001, issued prudential guidance in this area. Adequate due diligence on new and existing bank customers, including beneficial owners, is a key element. Banks must develop policies and procedures in areas such as customer acceptance, customer identification, ongoing transactions monitoring and risk management. These principles need to be applied by each institution on a global basis. The enforcement of measures contained in the CDD paper make it harder to disguise the ownership of bank accounts although it is still a challenging task for banks to identify beneficial owners in cases where national laws protect them.

Another critical element in combating terrorism is the ability to track terrorist assets and financial transactions. This requires access to financial records by competent authorities. Information-sharing arrangements should exist to ensure that, in circumstances where the financing of terrorism is suspected, there are formal procedures to notify and give full assistance to the relevant law enforcement agencies, as well as making sure the relevant bank supervisors are informed. Supervisors and financial institutions that have shared such information need to be protected from actions under civil liability and privacy legislation. These principles were set spelt out in the document *Sharing of financial records between jurisdictions in connection with the fight against terrorist financing* issued by the Basel Committee in April 2002.

At the International Conference of Banking Supervisors in September 2002, the Basel Committee obtained from banking supervisors in 120 countries endorsement of the standards set out in the CDD paper and their commitment to fight the funding of terrorist activities. Participants at the conference undertook, within the confines of applicable laws and regulations, to give full assistance to other supervisors and law enforcement agencies in the suppression of terrorist financing and agreed that banking secrecy should not be an impediment to the sharing of such information. The resulting press communiqué encouraged information sharing either directly or through the network of financial intelligence units.

In February 2003, the Basel Committee issued a document *General Guide to Account Opening and Customer Identification.* This document focuses on some of the mechanisms that banks can use in developing an effective customer identification programme and is designed to support implementation of the 2001 CDD paper. It therefore represents a starting point for supervisors and banks in the area of customer identification.

Last October 2003 the BCBS issued a consultative document *Consolidated KYC Risk Management.* The paper describes the critical elements for implementing a bank's KYC risk management policy consistently across its domestic and overseas operations and suggests ways in which the four essential elements of a sound KYC programme (namely, customer acceptance policy, customer identification, ongoing monitoring of higher risk accounts and risk management) can be fully applied by a bank on a global basis to all of its branches and subsidiaries around the world.

Currently, the recommendations in the 2001 CDD paper and some of its subsequent policy guidance are being incorporated into the FATF's *Methodology for Assessing Compliance with Anti-Money Laundering and Combating the Financing of Terrorism Standards.* The *Methodology* will be used by FATF, the IMF and the World Bank to assess on a uniform basis the implementation of anti-money laundering and combating terrorist financing measures in all countries.