

TRADE FINANCE SCORECARD

REGULATION AND MARKET FEEDBACK

KEY POINTS

- Preventing criminals and terrorists from using the global financial system is critically important.
- Implementing global regulation across jurisdictions with multiple stakeholders is a challenge, which can have unintended negative consequences.
- The 2017 Trade Finance Gaps, Growth, and Jobs Study of the Asian Development Bank identified unintended consequences from anti-money laundering and combating the financing of terrorism (AML/CFT) regulation as an important contributor to global market gaps for small and medium-sized enterprises financing, including in developing countries.
- The Trade Finance Scorecard: Regulation and Market Regulation is the start of a work in progress. It offers three unique features complementary to other efforts to address unintended consequences:
 - Rather than rating entities associated with creating and implementing AML/CFT regulation, it scores related issues.
 - Complementing the Financial Action Task Force and Financial Stability Board work in this area, the Scorecard offers a new diagnostic tool to identify and overcome unintended consequences of AML/CFT regulations, including their interpretation and implementation.
 - It provides a new channel facilitated by ADB through which stakeholders can engage to resolve issues.
- The Scorecard is not an end in itself, but the beginning of a process. The next step is a workshop with stakeholders to address issues.

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OBJECTIVES

The need for robust regulation on international banking and financial flows is clear. Access to correspondent banking and trade financing is particularly important for developing markets that depend on trade to create economic value and to drive inclusion.

Certain parts of the current regulation, and its interpretation and implementation, are reported to result in adverse unintended consequences on the financing of international trade. Some of these consequences negatively impact cross-border remittance flows, which are equally critical to developing markets.

Some regulatory and perceived compliance requirements have contributed to “derisking” by banks. This term refers to the exit from markets, banking relationships and client relationships that, in the worst cases, have resulted in loss of access to products and services critical to economic activity, trade, development and inclusion.

Requirements or perceptions of requirements related to anti-money laundering and combating the financing of terrorism (AML/CFT) are said to contribute to global unmet demand for trade finance, reducing economic inclusion in regions and markets that need it most.

Africa, the Caribbean, and the Pacific are among the regions most in need of trade financing, and yet, have the most difficulty in accessing it and the critical international trade and development activity it enables.

Case Study: Pacific Region

The Pacific merits attention in the context of the development of the Scorecard and the resulting new engagement channel on anti-money laundering and combating the financing of terrorism (AML/CFT). The region has experienced a material level of unintended adverse impacts of regulation on correspondent linkages. At the same time, the Pacific encompasses jurisdictions at various stages of economic development and maturity and/or efficacy of financial sectors as well as AML/CFT regulation.

These otherwise well-intentioned regulations have made it more expensive and riskier for financial institutions outside the Pacific to maintain relationships within the region, particularly with lesser-known entities such as money transfer operators (MTOs) and small banks. Many of these relationships have been lost.

This hurts [Pacific island countries] in multiple ways. Relationships between financial institutions are essential conduits for money flows. Without them, remittances are more difficult to process and the costs of moving money in and out of the region are high, depriving many families, especially those in remote and poor areas, of an essential financial lifeline. On average, remittances represent 10% of the gross domestic product in the Pacific. In Tonga and Samoa, the figure is more than 20%.

- First, Pacific banks, bank regulators, and MTOs would benefit from more training in due diligence to uncover financial crimes.
- Second, there's a need for clearer regulations and regulatory expectations.
- Third, consolidation of business [pooling trade finance business to attract correspondents] in the Pacific would help to bolster trade finance.

S. Beck. 2018. *Unlocking Money Flows in the Pacific*. *Asian Development Blog*. ADB. 28 February.

Reduced connectivity to the international banking system and global trade architecture exacts very real economic and social costs in the small island economies of the Pacific. The state of governance and regulatory regimes, financial intelligence and enforcement capabilities, and challenges related to information and communication technology infrastructure and access to enabling technologies compound the problem for local authorities and amplify unintended adverse impacts on local communities and businesses.

Traditional trade financing mechanisms like documentary letters of credit are difficult to access as a result of nonexistent correspondent linkages to international banks. As a result, trade is conducted on terms that involve limited risk mitigation. The region is reportedly being targeted by fraudsters as a consequence, and financing costs have risen as a direct result of these circumstances.

An Australian Transaction Reports and Analysis Centre report which focuses on remittance activity in the Pacific illustrates compellingly how collaboration in data collection and financial intelligence can generate actionable insights. It also links to the foregoing issue on using alternatives to traditional trade financing, noting the connection between the use of cash, which is difficult to trace and track, and some degree of compliance risk.

“[Australian Transaction Reports and Analysis Centre] AUSTRAC looked at two areas related to the use of cash by Pacific remittance providers: the extent to which customers used cash to make transactions and the prevalence of cash in the sector as a consequence of de-risking.”

Country	No. of Customers	Total No. of TTRs	Total Amount	Mean Amount
Fiji	3	3	41,500	13,833
Samoa	12	12	176,144	14,679
Tonga	5	6	87,092	17,418

TTR = Threshold Transaction Reports.

Note: Instances where a cash deposits of \$10,000 or more were followed by remittance activity, over a 12-month period.

Government of Australia, Australian Transaction Reports and Analysis Centre and Department of Foreign Affairs and Trade. 2017. *Remittance Corridors: Australia to Pacific Island Countries: Money Laundering and Terrorism Financing Risk Assessment*. <http://www.austrac.gov.au/sites/default/files/remittance-corridors-risk-assessment.pdf>.

There is a clear opportunity to pursue capacity building support in the Pacific, whether at industry level in terms of trade finance and related practice (including compliance), or at the level of national regulatory authorities.

The ability to identify and address region-specific issues similar to those listed in this Scorecard requires a degree of domain and technical expertise that is insufficient today in the region.

Weaknesses in AML/CFT [anti-money laundering and combating the financing of terrorism] compliance is straining correspondent banking relationships (CBR) relationships and leading to withdrawal, as is the presence of offshore financial centers (located in the Marshall Islands, Samoa, and Vanuatu). In many of the small states, AML/CFT regimes are lagging both in terms of framework and effectiveness. Mutual Evaluation Reports for Samoa [...] and Vanuatu were published in 2015 by the Asia/Pacific Group on Money Laundering. Other small states face similar shortcomings. The authorities in many of the small states are making progress in addressing deficiencies, including through by establishing and strengthening financial intelligence units. In Papua New Guinea, legislation has been passed that has substantially addressed the AML/CFT deficiencies and has facilitated removal from the Financial Action Task Force's gray list.

[...]

Collective action is needed to mitigate a breakdown in banking relationships. Addressing the withdrawal of CBRs to prevent detrimental macroeconomic impacts in the small states in the Pacific will entail policy actions by authorities in the small states, in remitter countries, and in the home of global correspondent banks. The small states of the Pacific are currently working to upgrade their AML/CFT frameworks to meet more stringent evaluation of the effectiveness in implementing international standards. But these efforts might not be sufficient to halt or reverse the consequences of withdrawal. Regulators and correspondent banks will also have a role to play.

J. Alwazir et al. 2017. *Challenges in Correspondent Banking in the Small States of the Pacific*. *IMF Working Paper Series*. No. 17/90. Washington, DC: International Monetary Fund. www.imf.org/-/media/Files/Publications/WP/2017/wp1790.ashx.

The Trade Finance Scorecard: Regulation and Market Feedback complements the Trade Finance Gaps, Growth, and Jobs study of the Asian Development Bank (ADB), which identifies a global market gap for trade finance at \$1.5 trillion, mostly focused on unmet demand from small and medium-sized businesses. Unintended consequences from anti-money laundering and combatting the financing of terrorism measures were identified in the ADB study as a major impediment to closing market gaps for trade finance.

“... the reduction in the number of correspondent banking relationships continued at the global level in the first half of 2017. While there are no “silver bullets”, the actions taken to date under the coordinated FSB [Financial Stability Board] action plan are intended to reverse the global decline. But, in order to do so, they will need to be followed up by national authorities and the banking industry.

The FATF [Financial Action Task Force] and Basel Committee on Banking Supervision (BCBS) are following up on their guidance with a joint exercise to assess the traction and transmission of the guidance by national authorities. Results of this assessment will be available later this year.

In addition, work needs to continue to implement industry initiatives that follow up on Committee of Payments and Market Infrastructure (CPMI) recommendations, such as KYC [Know your Client] utilities, the recently published option to include the Legal Entity Identifier in payment messages and the industry standards on the use of these messages.”

FSB. 2018. *FSB reports on correspondent banking and remittances*. <http://www.fsb.org/wp-content/uploads/P160318-1.pdf>.

The Scorecard is also responsive to the invitation by the Financial Stability Board (FSB) for dialogue around key issues in trade financing, including the FSB Action Plan on Correspondent Banking.

The Scorecard focuses on issues related to regulation, and its interpretation, implementation, and compliance with measures designed to avoid money laundering and financing of terrorism in the context of correspondent banking and trade financing. Scores are assigned to Elements of Effective Regulation and issues related to Perceived or Actual Regulatory Requirements. The scope may be adjusted in subsequent editions of the Scorecard and in consultation with stakeholders.

The objective is to launch a process which complements the work of the FSB, the Financial Action Task Force (FATF), and regulatory authorities around the world, also aligning with the efforts of numerous industry bodies in this space.

In addition to helping drive risk-aligned regulatory practice and reducing unintended adverse consequences of regulation, the Scorecard aims to motivate greater

industry engagement through collaboration, and to encourage the collection and provision of data around AML/CFT. Taking a balanced approach with international bodies, regional and national regulators, and industry, is at the heart of the Scorecard.

This is not an exercise in faultfinding, but rather the trigger for a new channel of dialogue, engagement, and advocacy around financial sector regulation, specifically related to correspondent banking, trade financing, and, in future iterations, related areas like international remittances.

It is intended that the Scorecard be seen primarily as a presentation of a set of issues that merit specific, concrete action through an engagement channel hosted by ADB. The scores in this edition are directional and illustrative, based upon qualitative assessments that may evolve into a more data-supported process in concert with stakeholders.

Approach

The Scorecard marks the debut of a new tool to identify and overcome challenges linked to global regulation, including their interpretation, implementation, and compliance.

The design of the Scorecard, including the selection of issues on which to focus, is influenced by discussions with informed stakeholders, but also framed in the context of—and in alignment with—the work of the FSB and the FATF on AML/CFT regulation.

“The FATF has taken initiatives to make sure that the application of AML/CFT measures does not contribute to de-risking. In order to clarify regulatory expectations, the FATF published guidance on correspondent banking services, and risk-based approach guidance for money and value transfer services, which emphasise that financial institutions should identify, assess and understand their (money laundering/terrorist financing) ML/TF risks, and mitigate them, on a case-by-case basis. FATF’s guidance on private sector information sharing also encourages greater collaboration and sharing of information within and among financial institutions.”

Financial Action Task Force. 2018. *BCBS, CPMI, FATF and FSB welcome industry initiative facilitating correspondent banking*. 6 March. <http://www.fatf-gafi.org/publications/fatfgeneral/documents/correspondent-banking-statement-mar-2016.html>.

The Trade Finance Scorecard: Regulation and Market Feedback takes a global view but may, in the future and with the input of other stakeholders, highlight regional or country-level issues. It may address issues through a lens of technical compliance, implementation, and effectiveness, as guided by consultations with key stakeholders.

The Scorecard offers three unique and complementary features. One of the unique features is that, rather than scoring entities associated with creating and implementing AML/CFT regulation, or complying with them, it identifies Elements of Effective Regulation that could be strengthened, and highlights issues with Perceived or Actual Regulatory Requirements.

A second unique feature complementing FATF and FSB work in this area is that it offers a new diagnostic approach and tool through which to identify and overcome unintended consequences associated with AML/CFT.

Third, it provides a new channel through which stakeholders can engage to resolve issues. Creating, implementing, interpreting, and complying with regulation on a global scale is not easy. Unintended consequences are likely to occur and have been identified by all key stakeholders. The Scorecard offers a new channel to address these issues in a completely neutral and results focused environment.

The Scorecard benefits from the expertise, insight, and breadth of perspective shared through interviews, industry interaction, insights from the recent workshops in the Pacific Region attended by the International Monetary Fund and ADB, and detailed written feedback on earlier drafts of this Scorecard. While the Scorecard remains a product of ADB, the Bank would like to thank the members of the FSB and the FATF secretariats, staff of the International Monetary Fund, the World Trade Organization, the Institute of International Finance, the Bankers Association for Finance and Trade, the International Chamber of Commerce, as well as several regulatory bodies and global financial institutions, for their views and contributions to this document.

Global regulatory practice was assessed at two levels. Firstly, at a macro level, to identify characteristics of effective regulation that could be strengthened. Secondly, at a micro transactional level to identify specific, concrete, and actionable challenges in regulatory requirements and implementation that can be addressed in the shorter term.

The Trade Finance Scorecard: Regulation and Market Feedback takes a global view of interactions between three stakeholder groups:

- (i) international regulatory bodies such as the FATF and the FSB,
- (ii) regional and national regulatory authorities, and
- (iii) commercial banks engaged in trade financing and correspondent banking.

To illustrate, if a macro issue associated with Elements of Effective Regulation is identified around the quality of communication flow, it may exist between the international bodies and local regulators, between local regulators and banks, or both. The Scorecard highlights the issue as present and requiring attention. Subsequently, ADB plans to hold a workshop with stakeholders to drive dialogue, data collection, and analysis to address unintended consequences.

At a more transactional level associated with Perceived or Actual Regulatory Requirements, compliance measures taken by banks, for example, can exceed guidance provided by international regulatory bodies, and perhaps even regulatory standards defined by national authorities, with the effect of reducing access to trade financing. Instances of over-compliance with regulation by banks, either by choice or due to misinterpretation, will be reduced through the enhanced clarity brought by the Scorecard in identifying issues and the subsequent workshop with stakeholders.

The Trade Finance Scorecard: Regulation and Market Feedback focuses on recurring challenges identified through numerous consultations and a ‘state of the market’ perspective, presenting an issues-level view to complement regional or national assessments already conducted by regulatory authorities.

“The FATF Recommendations set out a comprehensive and consistent framework of measures which countries should implement in order to combat money laundering and terrorist financing, as well as the financing of proliferation of weapons of mass destruction. Countries have diverse legal, administrative and operational frameworks and different financial systems, and so cannot all take identical measures to counter these threats. The FATF Recommendations, therefore, set an international standard, which countries should implement through measures adapted to their particular circumstances. The FATF Recommendations set out the essential measures that countries should have in place to:

- identify the risks, and develop policies and domestic coordination;
- pursue money laundering, terrorist financing and the financing of proliferation;
- apply preventive measures for the financial sector and other designated sectors;
- establish powers and responsibilities for the competent authorities (e.g., investigative, law enforcement and supervisory authorities) and other institutional measures;
- enhance the transparency and availability of beneficial ownership information of legal persons and arrangements; and
- facilitate international cooperation.”

FATF. 2018. *International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation: The FATF Recommendations*. <http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%202012.pdf>.

This presentation of priority issues, together with a new engagement process triggered by this initiative, will advance FATF and FSB as well as industry efforts to address challenges with AML/CFT regulation, at the same time contributing to the enhancement of the overall efficacy of AML/CFT regulation. While there are differences in scope and methods, the Scorecard found inspiration in other mechanisms, including FSB Peer Reviews, and shares their objectives.

“The objectives of conducting FSB peer reviews are fourfold:

- Exchange information on regulatory, supervisory and other financial sector policies, and receive feedback from peers about the effective implementation of these policies;
- Evaluate the adherence of FSB member jurisdictions to their commitment, under Article 6.1 of the FSB Charter, to (a) pursue the maintenance of financial stability, (b) maintain the openness and transparency of the financial sector, and (c) implement international financial standards;
- Foster a race to the top with regard to the implementation of effective regulatory, supervisory and other financial sector policies; and
- Assess the effectiveness of international financial standards, and of policies agreed within the FSB, in realizing their intended results.”

FSB. 2017. *Handbook for FSB Peer Reviews*. <http://www.fsb.org/wp-content/uploads/Handbook-for-FSB-Peer-Reviews.pdf>.

Contingent on this first edition of the Scorecard measurably adding clarity and driving greater harmonization to AML/CFT-related regulation and implementation, succeeding editions may be published.

Areas for Enhancement

There are clearly areas for further development relative to the Scorecard. These include but may not be limited to:

- (i) definitions and descriptions of the issues;
- (ii) identification, collection, and analysis of relevant data;
- (iii) design of an agreed process to address root causes of identified issues;
- (iv) analysis to delve into greater detail on the origins of the issues identified in the Scorecard; and
- (v) design of a pathway to engage with existing consultation processes.

Structure of the Trade Finance Scorecard: Regulation and Market Feedback

The Scorecard is designed to consider issues related to AML/CFT regulation in international banking,

including correspondent banking and trade financing, on two levels:

- (i) **Elements of Effective Regulation**, where systemic macro issues in the design, implementation, interpretation, and compliance of regulation have created unintended consequences.
- (ii) **Perceived or Actual Regulatory Requirements** that at a micro, transaction level is misaligned among the three stakeholder groups listed above, and/or in terms of unintended adverse consequences that need to be addressed.

Scores encompass all levels from global standards, through national regulations, supervision, and enforcement, down to practical implementation and interpretation of regulation by the private sector.

Trade Finance Scorecard: Regulation and Market Feedback

A. Elements of Effective Regulation

The Trade Finance Scorecard: Regulation and Market Feedback identifies seven systemic, macro-level elements that are critical to effective regulation. Some of these elements could be strengthened to mitigate the risk and manifestation of unintended consequences. The following seven elements of effective regulation offer a new diagnostic tool to identify and help address issues related to regulation:

- (i) **Consistency.** How consistent is regulatory guidance, interpretation, and implementation across borders?
- (ii) **Risk alignment.** Are regulatory and compliance requirements aligned to the risk character of the activity being regulated?

Assessing risks and applying a risk-based approach

“... countries should apply a risk-based approach (RBA) to ensure that measures to prevent or mitigate money laundering and terrorist financing are commensurate with the risks identified. This approach should be an essential foundation to efficient allocation of resources across the anti-money laundering and countering the financing of terrorism (AML/CFT) regime and the implementation of risk-based measures throughout the FATF Recommendations. Where countries identify lower risks, they may decide to allow simplified measures for some of the FATF Recommendations under certain conditions.”

FATF. 2018. *International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation: The FATF Recommendations*. <http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%202012.pdf>.

- (iii) **Co-design.** Does the design and deployment of regulation include some level of market dialogue, consultation, or engagement?
- (iv) **Communication.** Does communication between key stakeholders flow effectively? Does communication across jurisdictions, including information and data-sharing, support effective regulation and compliance?
- (v) **Technology and data.** Are technology and data available and leveraged to inform regulation and compliance? Do industry stakeholders collect and provide the necessary data? How well is this done in developing regions?
- (vi) **Enforcement.** Are regulatory and compliance requirements appropriately and consistently enforced?
- (vii) **Quality control.** Is a feedback process and a quality control discipline designed into regulation to verify its impact against intended outcomes?

Each of the foregoing elements are graded. The scores look holistically at Elements of Effective Regulation related to fighting crime and terrorism that could be strengthened to avoid unintended consequences. Interactions between stakeholders—international regulatory bodies, regional and local regulatory

authorities, and regulated entities—are considered. For example, a gap may exist between guidance and/or minimum standards and how banks interpret and/or actually respond to risk-based regulation.

“...Improve FATF transparency and private sector engagement

“...For example, before new FATF Guidance is published, or amendments to the FATF Recommendations considered, we believe the FATF should proactively consult with private sector stakeholders for feedback on the proposed changes in order to fully and adequately assess the impact on the financial system as a whole. Enshrining this solicitation of stakeholder feedback in the FATF processes would help to improve the deliberations between member states on ultimate outcomes...

However, a more central contribution to the public/private dialogue would be the organization of regular roundtables with the private sector on issues relevant to the FATF agenda where private sector suggestions are then taken back to Plenary for discussion. We commend the FATF for beginning this type of engagement recently on information sharing and through the new Heads of FIU forum at Plenary.

[...]”

[Institute of International Finance letter to the FATF through the United States Department of the Treasury, April 2018.](#)

Scoring Grid Explanation

Name of Macro Issue	Overall Score*	COLOR CODE
	1-3: Poor 4-6: Adequate 7-8: Good 9-10: Excellent (*Across the interactions between international entities, regulators and banks)	

= Poor
 = Adequate

Scores on Elements of Effective Regulation: Correspondent Banking and Trade Finance

Macro Issue	Score (1-10)	Color
Consistency	4	Yellow
Risk Alignment	3	Red
Co-Design	2	Red
Communication	5	Yellow
Technology/Data	5	Yellow
Enforcement	4	Yellow
Quality Control	3	Red

B. Perceived or Actual Regulatory Requirements

The Elements of Effective Regulation also form the framework for assessments of the following five micro-level transaction issues (Perceived or Actual Regulatory Requirements) stemming from AML/CFT-related implementation, interpretation, and compliance issues with regulation that inhibits banks from supporting trade and/or correspondent banking:

- (i) **Party identification.** The requirement for trade finance banks to validate the identity or legitimacy of parties involved in a transaction that are not clients or counterparties. For example, validating the identity of a ship's captain transporting financed cargo is an expectation in some parts of the world. This issue is flagged because information on the captain's identity, in this manifestation/example of party identity, is not typically accessible to a financier. As such, compliance is costly, onerous and is seen to contribute to financing gaps. This is not to say that the requirement should or should not exist, but merely to flag the issue and bring stakeholders to agree a way forward.
- (ii) **Price.** The need for bankers to validate the reasonableness of product pricing to combat invoice-padding (inflated pricing) and related money laundering activity. For example, validation of prices quoted on commercial invoices to ensure that the quoted price is within a reasonable range and does not mask the movement of illicit funds. This issue is relevant during the course of a transaction as well as post-transaction.
- (iii) **Non-customer due diligence.** The degree of due diligence required on non-clients, known as non-customer due diligence is unclear for many stakeholders. This includes, for example, the need for a bank issuing a documentary letter of credit in support of an importing client to conduct sufficient due diligence on a small supplier in a market where the bank has no presence and where tools of due diligence and credit analysis, like audited financial statements or credit reports, may not be available.
- (iv) **Exams.** Regulatory bodies set standards and compliance expectations that are meant to be assessed by examiners through periodic audits of bank operations. Some stakeholders report that examiners may impose different requirements

than were intended by regulatory bodies which employ the examiners. Differing interpretations of the same regulation has been known to add complexity and cost to the due diligence process and therefore contributes to market gaps.

- (v) **Over-compliance.** Banks may mitigate the risk of fines and/or adverse reputational risk by taking measures that go beyond what is required by regulators. These can include engaging in de-risking for preventive purposes or refusing to support transactions (often in developing markets) because a lack of data on non-client participants is seen as a risk in terms of due diligence requirements.

The issue of over-compliance is illustrative. While international bodies aspire to articulate a minimum standard of required compliance around aspects of due diligence, for example, some national authorities (as is their prerogative) opt for a more stringent compliance expectation that exceeds the minimum standard and the standard adopted by other jurisdictions. This can cause material regulatory discrepancies, as banks adopt the most stringent compliance standard to minimize the risk of inadvertent failure to comply.


"FATF standards require financial institutions to apply appropriate customer due diligence (CDD) measures. However, FATF is also aware that applying an overly cautious, non risk-based approach to AML/CFT safeguards when providing financial services (both at the on-boarding stage or in the context of ongoing relationships) can have the unintended consequence of excluding legitimate consumers and businesses from the regulated financial system.

To address this concern, in February 2013, FATF adopted Guidance on AML/CFT Measures and Financial Inclusion, updating the guidance it first provided in 2011. The main purpose of the 2013 Guidance was to provide support for designing AML/CFT measures that meet the goal of financial inclusion, without compromising their effectiveness in combating crime. The 2013 Guidance also reflected the changes made to the FATF Recommendations in 2012, in particular the reinforcement of the risk-based approach (RBA)."

[FATF. 2017. Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion with a Supplement on Customer Due Diligence. http://www.fatf-gafi.org/media/fatf/content/images/Updated-2017-FATF-2013-Guidance.pdf.](http://www.fatf-gafi.org/media/fatf/content/images/Updated-2017-FATF-2013-Guidance.pdf)

These five issues do not represent a complete list of issues that manifest from unintended consequences, but have been identified as recurring, material, and meriting attention.

Scoring Grid Explanation

Issue Name	Assessment Criterion		* These ratings reflect degree, not desirability. For example, there is a high degree (which is not necessarily desirable) of consistency among regulators in requiring banks to undertake price validation.
	Rating (1-10)*	Color Code:	
	1–3: Little or None 4–6: Some 7–8: Significant 9–10: High (*Across the interactions between international entities, regulators, and banks)	GREEN: Top Three Criteria to Address 	

Scores on Perceived or Actual Regulatory Requirements

Transaction-Level Issues	Consistency	Risk Alignment	Co-Design	Communication	Data and Technology	Quality Control	Enforcement
Party ID	7	2	1	3	1	3	5
Price	8	9	1	5	1	5	5
NCDD	4	5	4	7	6	7	6
Exam	3	2	3	6	2	2	2
Overcompliance	4	3	2	2	4	2	2

Party ID = Party identification, NCDD = Non-customer due diligence.

Next Steps: ADB-hosted Workshop

ADB will convene representatives of international regulatory authorities and leading representatives of regulatory authorities from around the world, together with up to five banks, to jointly review the findings of this inaugural scoring exercise along with some further analysis to be conducted in advance of that session. The workshop will include a process to gather feedback on the design of the Scorecard and a session to address and overcome the issues identified in the document.

In preparation for the proposed workshop, and in order to maximize substantive impact and progress flowing from the workshop, ADB will undertake further research and data collection. This activity will help achieve clarity on a recurring issue linked to regulatory alignment and reduce instances of regulatory arbitrage

while clarifying how stakeholders can overcome unintended consequences related to AML/CFT.

The primary focus of the workshop will be to address issues—including root causes of Perceived or Actual Regulatory Requirements issues identified in the Scorecard. In addition, topics may include, but not be limited to:

- refining methodology and perhaps scope of Scorecard as a diagnostic tool for stakeholders;
- data definition, collection, and analysis on AML/CFT issues;
- the degree to which co-design or a consultation process is desired; and
- the degree to which the current regulatory system can evolve from process-focused to outcome-focused.



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