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TECHNICAL NOTE ON ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING TERRORISM (AML-CFT) SUPERVISION OF THE BANKING SECTOR

This technical note on Anti-Money Laundering and Combating the Financing Terrorism (AML-CFT) Supervision of the Banking Sector was prepared by a staff team of the International Monetary Fund and World Bank in the context of a joint IMF-World Bank Financial Sector Assessment Program (FSAP). It is based on the information available at the time it was completed on May 22, 2023.

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TECHNICAL NOTE

ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM (AML/CFT) SUPERVISION OF THE BANKING SECTOR

Prepared By
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This Technical Note was prepared by IMF and World Bank staff in the context of the Financial Sector Assessment Program. It contains technical analysis and detailed information underpinning the FSAP's findings and recommendations. Further information on the FSAP can be found at http://www.imf.org/external/np/fsap/fssa.aspx

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THE WORLD BANK

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Glossary

AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
BC	Banking Commission
BCEAO	Central Bank of West African States (French-Language Acronym)
CDD	Customer Due Diligence
CLAB	Anti-Money Laundering Liaison Committee (French-Language Acronym)
COBAC	Banking Commission of Central Africa (French-Language Acronym)
DCPECEME	Directorate of On-Site Inspection of Credit Institutions and Electronic Money Institutions (French-Language Acronym)
DCPSFD	Directorate of On-Site Inspection of Decentralized Financial Systems (French-Language Acronym)
DERI	Directorate of International Relations and Studies (French-Language Acronym)
DNFBPs	Designated Non-Financial Businesses and Professions
DRCAJ	Directorate of Crisis Resolution and Legal Affairs (French-Language Acronym)
DSP	Directorate of Permanent Supervision (French-Language Acronym)
FATF	Financial Action Task Force
FI	Financial Institution
FIU	Financial Intelligence Unit
FSAP	Financial Sector Assessment Program
GIABA	Inter-Governmental Action Group against Money Laundering in West Africa
GSBC	General Secretariat of the Banking Commission
IMF	International Monetary Fund
IT	Information Technology
ML/TF	Money Laundering and Terrorist Financing
MOU	Memorandum of Understanding
MER	Mutual Evaluation Report
NRA	National Risk Assessment
PEP	Politically Exposed Person
RBA	Risk-Based Approach
SIFI	Systemically Important Financial Institution
STR	Suspicious Transaction Report
TFS	Targeted Financial Sanctions
WAEMU	West African Economic and Monetary Union
WAMU	West African Monetary Union
WMD	Weapon of Mass Destruction

EXECUTIVE SUMMARY[1]

This technical note (TN) discusses anti-money laundering and combating the financing of terrorism (AML/CFT) supervision and was prepared within the specific constraints noted below. This International Monetary Fund (IMF)-World Bank analysis of the AML/CFT supervision of the West African Economic and Monetary Union (WAEMU) banking sector benefited from the cooperation of the regional authorities, including the Banking Commission (BC)/General Secretariat of the BC (GSBC), the Central Bank of West African States (BCEAO), and the financial intelligence units (FIUs) of several WAEMU member states, and from consultation with private sector representatives. However, the analysis was constrained by the authorities' confidentiality concerns and by the COVID-19 pandemic. Documents considered "confidential" were made available in hard copy at the BCEAO's offices in Paris, France, but pandemic-related restrictions prevented the (U.S.-based) authors from traveling overseas to review them. By contrast, the authors were permitted to review certain other, "sensitive" documents electronically, but not to reveal or reproduce the information contained therein. As a result, the observations and recommendations in this TN are focused on the BC/GSBC's supervisory *methodology and procedures*; those instances in which the authors were unable to review key documents, cite pertinent information, or form specific views are noted where relevant in the text.

Following the 2015 adoption of a new, Uniform Law,[2] the BC has taken important steps to develop and strengthen the AML/CFT supervision of the banking sector. As detailed below, the BC/GSBC ensured that relevant staff received at least basic training on AML/CFT supervision (ongoing); introduced a new institutional risk assessment model (in 2017); and administered an AML/CFT-specific questionnaire to banks (in 2019 and 2021), integrating the responses into its institutional risk assessment and on-site inspection planning processes. In addition, the BC procured a software tool (in 2019) to automate key aspects of its on- and off-site supervision programs and issued both an on-site inspection manual and a series of updated on-site inspection checklists (in 2020) that address banks' implementation of their AML/CFT-related obligations. More recently (in 2021), the BC began to take a somewhat more forceful approach to addressing observed AML/CFT deficiencies.

However, critical, longstanding deficiencies persist, particularly with respect to the GSBC's off-site supervision program and implementation of the risk-based approach (RBA). Indeed, there are critical deficiencies in each of the key areas analyzed in this report: off-site supervision, the institutional risk assessment model, on-site inspections, and domestic and international cooperation.

- **The AML/CFT off-site supervision program feeds into the risk-rating process but is not itself risk-based and communication with supervised entities is insufficient.** The off-site

[1] This technical note was prepared by Jay Purcell (IMF Short-Term Expert), Tanjit Sandhu (World Bank), and André Kahn (IMF) under the supervision of Nadine Schwarz (IMF). Virtual consultations took place in November 2021.

[2] Along with the BCEAO's issuance, in 2017, of instructions on the application of the Law, including to banks. The Uniform Law is not fully in line with the Financial Action Task Force (FATF) Standards, thereby limiting the BC's ability to monitor and enforce compliance with the range of FATF-prescribed preventive measures.

supervision program is almost entirely rule-based, meaning that the frequency and intensity of off-site supervisory activities are not adapted to the risks posed by individual banks or banks operating within different WAEMU member-states. This approach can establish a useful baseline but because it is not sensitive to the risk factors identified in national or institutional risk assessments, it does not yield the information needed to address higher-risk scenarios (e.g., banks servicing large numbers of foreign politically-exposed person [PEP] clients or operating in countries with substantial TF risks). The feedback provided to the banks is too narrow in both scope (dealing only with identified, serious deficiencies) and distribution (being shared mainly with banks' senior management on an annual basis). Within the GSBC, the information collected through the off-site supervision program is primarily exploited to generate institutional risk-ratings and plan and inform the conduct of on-site inspections,

- **The AML/CFT-specific inputs to the institutional risk assessment model are unduly limited and the weighting of the ML/TF risk factor is comparatively modest.** The AML/CFT-specific inputs are derived from banks' annual AML/CFT reports, reports on the implementation of banks' internal controls, and, to a lesser extent, banks' responses to two supplementary AML/CFT questionnaires (administered in 2019 and November/December 2021) along with the results of any past inspections. Key statistics maintained by the banks themselves, the views of national financial intelligence units (FIUs), and relevant analysis already available in the public domain—all of which might otherwise function as important ML/TF risk indicators—are not collected, let alone integrated into the institutional risk assessment model (see Paragraph 48).[3] Within that model, the AML/CFT risk factor is weighted at 5.6 percent; that weighting has not yet been subject to a review in light of the information and experience garnered by the GSBC since 2017.

- **The AML/CFT on-site inspection program is reasonably active, but it is not fully in line with the RBA and the methodology is deficient in specific areas.** All "specific inspections" include an AML/CFT component, whether or not that has been identified as a relatively high-risk area, and AML/CFT "thematic inspections" are comprehensive in nature, rather than tailored to address those sub-topics that are of primary concern. The methodology for monitoring banks' compliance with their obligations in regard to PEPs, suspicious transaction reports (STRs), and (terrorism- and proliferation-related) targeted financial sanctions (TFS) is lacking in specific areas and a policy for addressing deficiencies/violations observed over the course of on-site inspections (i.e., an "enforcement policy) has yet to be developed.

- **The BC does not cooperate consistently and effectively with key domestic (i.e., intra-regional) or international (i.e., extra-regional) partners.** The BC's cooperation with the WAEMU region's national FIUs is infrequent and informal, suffering from a number of impediments that affect, *inter alia*, the direct exchange of confidential information. Similarly, the BC's cooperation with counterparts outside the WAEMU region is nearly non-existent in practice,

[3] The insufficient collection of TF risk indicators—from banks and other relevant sources—is particularly noteworthy, as a number of the national risk assessments (NRAs) conducted by WAEMU member states have pointed to elevated terrorism and related TF risks in the region.

despite the availability of a conducive legal framework and the conclusion, thus far, of ten bilateral memoranda of understanding (MOUs).

Addressing these deficiencies will require substantial reform over the short-, medium-, and longer-terms, to include the continual reinforcement of the BC/GSBC's AML/CFT capacity. One key to reinforcing the BC/GSBC's capacity will be to establish an internal pool of AML/CFT expertise and provide more in-depth training to those within the pool.

Notably, feedback to banks as part of off-site supervision should be enhanced, the on-site inspection methodology should be sharpened, and the RBA should be fully implemented.[4] The design of the off-site supervision program (i.e., the frequency and intensity of off-site supervisory activities) should be based on ML/TF risks, including institutional risk-ratings, and feedback should be provided to banks—compliance officers as well as senior managers—in a more systematic and consistent manner. In this context—and with the goal of broadening the range of inputs to the risk assessment model—the GSBC should require banks to submit, on at least an annual basis, a set of basic statistics that would function as additional ML/TF risk indicators. Additionally, the broader topics to be covered during specific inspections—and the sub-topics to be covered during AML/CFT thematic inspections—should be down-selected based on the respective risks posed. Modest but important improvements should be made to the on-site inspection methodology (see Paragraph 75, below) and the BC should continue to stiffen the sanctions levied in response to AML/CFT-related deficiencies. Key impediments to the effective exchange of information between national FIUs and the supervisory authorities should be removed and the BC/GSBC should make greater use of existing authorities and tools for cooperation with foreign counterparts.

[4] A complete list of the recommendations detailed in this note is captured in Table 1, below.

Table 1. WAEMU: AML/CFT Supervision of the Banking Sector: Reform Recommendations

Recommendations	Responsible Authority	Timeframe[1/]	Priority
Off-Site Supervision Program			
Vary the intensity of the off-site supervisory program based on the ML/TF risks posed by individual banks.	GSBC	Medium-Term	High
Continually update the content of the AML/CFT questionnaire issued in 2019 and 2021 and reissue it on at least a biannual basis.	GSBC	Medium-Term	Medium
Follow-up on the reports and questionnaire responses provided by the banks in a more systematic way (not only when serious deficiencies are found).	GSBC	Medium-Term	High
Periodically issue guidelines and/or best practices for meeting AML/CFT-related obligations and completing the required AML/CFT annual reports.	BC/GSBC	Long-Term	Medium
Strengthen the existing partnership with the banking industry by engaging in an open and regular dialogue.	BC/GSBC	Short-Term	Medium
Risk Assessment Model			
Require banks to submit, at least on an annual basis, a set of basic statistics that would function as additional ML/TF risk indicators.	BC/GSBC	Short-Term	High
Ask the WAEMU member states' national FIUs to share, in real-time, any indicators of a change in institution-level ML/TF risks.	BC/GSBC, National FIUs	Medium-Term	Low
Conduct periodic reviews of the composition and weighting of the ML/TF risk factor and adjust them as necessary or desirable.	BC/GSBC	Long-Term[2/]	Medium
On-Site Inspection Program			
Further develop the BC/GSBC's AML/CFT capacity, both within and outside the on-site inspection function (i.e., the DCPECEME).	BC/GSBC	Medium-Term	High
To the extent possible and practical, include one or more branches selected in line with the RBA in AML/CFT on-site inspections of banks.	GSBC	Short-Term	Medium

Table 1. WAEMU: AML/CFT Supervision of the Banking Sector: Reform Recommendations (concluded)

Recommendations	Responsible Authority	Timeframe[1/]	Priority
Down-select the broader topics covered during specific inspections—and the sub-topics covered during AML/CFT thematic inspections—based on the relative risks posed.	GSBC	Short-Term	High
Sharpen the on-site inspection methodology for assessing banks' implementation of obligations related to PEPs, STRs, and TFS.	GSBC	Medium-Term	Medium
Continue to impose stronger sanctions for AML/CFT-related deficiencies to ensure that they are effective and dissuasive (while still proportionate) in all cases.	BC	Short-Term	Medium
Produce and adopt an enforcement policy to foster predictability and consistency in addressing AML/CFT deficiencies.	BC/GSBC	Long-Term	Low
Provide anonymized information to all WAEMU bank AML/CFT compliance functions on AML/CFT deficiencies found and related sanctions levied.	BC/GSBC	Short-Term	Medium
Domestic and International Cooperation			
Remove key impediments to the effective exchange of information between national FIUs and the supervisory authorities (including the signature of the MOU between FIUs and the BC).	BC, BCEAO, National FIUs	Short-Term	High
Cooperate effectively with foreign counterparts that have shared responsibility for banks, including the exchange of information.	BC/GSBC	Medium-Term	Medium

[1]/ "Short-term" means within one year; "medium-term" means within two years; "long-term" means within 3-5 years.

[2]/ Such reviews should be conducted *at least* every 3-5 years, beginning in 2022.

This technical note is focused on risk-based AML/CFT supervision in the WAEMU banking sector within the purview of the regional AML/CFT supervisory authorities: the BCEAO, the BC, and the GSBC. The AML/CFT supervisory frameworks of other sectors that might present relevant risks, e.g., money remitters, mobile money operators, microfinance institutions, or real estate, have not been analyzed.

It should be noted that this was a targeted exercise and, as such, did not involve an exhaustive analysis of the WAEMU region's AML/CFT framework against the full Financial Action Task Force (FATF) Standards.

BACKGROUND

1. **This technical note analyzes and provides recommendations aimed at strengthening the AML/CFT supervision of the WAEMU banking sector.** The decision to focus on the AML/CFT supervision of the WAEMU banking sector was based on the remit of the regional authorities (which includes the supervision of banks), the importance to the regional economy of a well-integrated and well-functioning banking sector, and the results of ML/TF national risk assessments (NRAs) conducted to date in West Africa, which identify banks as relatively high-risk financial institutions (FIs).[5] In that context, the authors have considered the extent to which the BC/GSBC's AML/CFT supervisory program complies with the relevant aspects of FATF Recommendation 26 (on the regulation and supervision of FIs), Recommendation 27 (on the powers of supervisors), Immediate Outcome 2 (on international cooperation), Immediate Outcome 3 (on the appropriate supervision of FIs), and Immediate Outcome 4 (on FIs' application of AML/CFT preventive measures). As this technical note is *not* an AML/CFT mutual evaluation, the region's compliance with the full FATF Standards was not assessed.

2. **The observations and recommendations below are based on discussions with regional and national authorities and the private sector as well as a review of relevant templates.** The GSBC and the BCEAO completed and returned World Bank- and IMF-authored questionnaires and, as requested, provided available, high-level statistics, some of which are reproduced in this note. The authors then conducted virtual meetings with the GSBC, the BCEAO, several national FIUs, a sample of banks operating in the region, and one prominent banking sector association. Lastly, the authors reviewed GSBC-provided templates, including the 2019 AML/CFT questionnaire and the AML/CFT inspection checklists currently in use.

3. **Where noted, the breadth and/or depth of the authors' analysis was constrained by the authorities' confidentiality concerns and/or by pandemic-related travel restrictions.** The GSBC made hard copies of confidential documents (e.g., bank-completed questionnaires, the spreadsheets that constitute the institutional risk assessment model, and final inspection reports) available at the BCEAO's office in Paris, France, but the authors, who are based in the United States, were not able to consult those documents due to pandemic-related travel restrictions. By contrast, the GSBC made certain other, sensitive information (e.g., a list of the non-AML/CFT-related factors in the institutional

[5] The FATF considers banks to be a type of FI—a broad category that also includes investment firms, life insurance providers, foreign exchange bureaus, and other companies.

risk assessment model along with their respective weights) available electronically but did not authorize the revelation or reproduction of that information in this report. As such, the observations and recommendations in this TN are focused on the BC/GSBC's supervisory *methodology and procedures*; those instances in which the authors were unable to review key documents, cite relevant information, or form specific views are noted throughout the text.

A. Status of AML/CFT Mutual Evaluations in the Region

4. As of the end of 2021, the completed mutual evaluation reports (MERs) for WAEMU member-states had all revealed important weaknesses in AML/CFT supervision in the region. All countries except for Cote d'Ivoire (whose assessment was initiated by the IMF in 2021 and was underway at the time of drafting of this TN) have received the on-site mission of the assessment team led by the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA). It is worth noting that there are currently three countries under increased monitoring by the FATF as a result of the range of deficiencies noted in their MERs: Burkina Faso, Mali, and Senegal. All MERs adopted show a "low effectiveness" rating in their AML/CFT supervisory regimes, assessed under Immediate Outcome 3 of the FATF assessment methodology. Although these ratings apply to the AML/CFT supervision of all FIs and designated non-financial businesses and professions (DNFBPs), deficiencies in banking supervision are likely to have had a relatively important impact, given the risks in the sector. The BC actively participates in GIABA Working Group and Plenary Meetings. The WAEMU holds observer status at GIABA.

Table 2. WAEMU: Member-States' MER Status as of December 2021

Country	On-Site Visit	Report Adoption	Under Increased Monitoring by the FATF (FATF "Grey List")
Benin	February 2019	May 2021	
Burkina Faso	July 2018	May 2019	Yes
Côte d'Ivoire	March 2022	November 2022	
Guinea-Bissau	January 2021	February 2022	
Mali	March 2019	November 2019	Yes
Niger	January 2020	August 2021	
Senegal	September 2017	November 2018	Yes
Togo	January 2021	February 2022	

5. The consequences of being under enhanced monitoring by the FATF can include increased reputational risk for the listed countries and even the region. Correspondent relationships may become more difficult/expensive to maintain and transactions conducted by banks in the listed country may be subject to enhanced customer due diligence by banks in other countries. Banks in the listed country may need to enhance their own compliance procedures to maintain access to the global payment system and a link to the worldwide network of banks. Requirements for domestic and international trade payments may become more difficult to fulfil, potentially raising costs and presenting other challenges for companies based in listed countries. The combination of these and other factors may result in a decreased appetite of global companies, investors, and individuals to conduct business in the listed country's financial market.

B. Key, Recent Reforms to the Regional Framework

6. The adoption of a new Uniform Law is the latest major reform in AML/CFT matters. This Uniform Law, adopted by the Council of Ministers of the Union via Decision n°26 02/07/2015/CM/UMOA of July 2, 2015, has been transposed (i.e., incorporated) into the national legal frameworks of all the Member States of the Union. This law aimed to integrate the FATF Recommendations adopted in 2012.

7. Over the past five years, the BCEAO has drawn up the four implementing regulations below aimed at clarifying certain provisions of the Uniform Law:

- **Instruction 007-09-2017** of September 25, 2017, on the terms of application by financial institutions of the Uniform Law on AML/CFT.
- **Instruction 008-09-2017** of September 25, 2017, setting the threshold for the declaration of physical cross-border transport of cash and negotiable bearer instruments.
- **Instruction 009-09-2017** of September 25, 2017, setting the threshold for the payment of a receivable in cash or by negotiable bearer instruments.
- **Instruction 010-09-2017** of September 25, 2017, setting the threshold for the declaration of cash transactions to the national FIUs.

8. The Law is not fully in line with the FATF Standards, such that the BC is limited in its ability to monitor and enforce compliance with FATF-prescribed preventive measures. The current-round MERs that were completed and published for WAEMU member states as of January 1, 2022, all indicate that the Uniform Law contains deficiencies with respect to the application of FATF-prescribed preventive measures, such as those included in Recommendation 10 on customer due diligence.[6] Other observed deficiencies include the lack of a legal requirement for the BC/GSBC to review the ML/TF risk profile of an FI or financial group when there are major events or developments in the management and operations of the FI or financial group (per Recommendation 26 on the regulation and supervision of FIs). While the BC/GSBC does, to a certain extent, monitor

[6] For example, the 2018 MER of Senegal noted that the Uniform Law contains no requirement for FIs to identify and take reasonable measures to verify the beneficial owners of their legal person customers. Although Senegal has taken steps to address this deficiency via domestic Law, it remains in the Uniform Law that establishes the legal obligations with which the BC/GSBC is responsible for monitoring and enforcing compliance.

banks' employment of international AML/CFT "good practices," it can only enforce compliance with banks' formal, legal obligations.

9. Moreover, AML/CFT assessors have observed clear gaps in the effectiveness of AML/CFT supervision of the WAEMU financial sector and of banks' application of preventive measures. The current-round MERs that were completed and published for WAEMU member states as of January 1, 2022, indicate that the frequency and intensity of off- and on-site supervision of banks were not fully risk-based, that the analysis of preventive measures during on-site visits lacked sufficient depth, that the sanctions implemented by the BC were not strong enough to achieve remedial action in many cases, and that the level of cooperation between regional supervisory authorities and national FIUs was too low to allow the development and sharing of AML/CFT good practices. They also indicate that the understanding of ML/TF risks and AML/CFT obligations was relatively strong among larger banks belonging to international financial groups, whereas smaller banks had a less developed understanding and presented significant shortcomings in their internal controls and procedures (shortcomings that were often linked to inadequate human resources); that in many cases an existing business relationship was continued even when customer profiles were incomplete or potentially out-of-date; and that the level of STR reporting was generally low, especially regarding TF.

INSTITUTIONAL FRAMEWORK AND BANKING SECTOR LANDSCAPE

A. Mandate and Responsibilities of the Banking Commission

10. The BC of the WAEMU has the primary responsibility for AML/CFT supervision of credit institutions—a sub-category of FIs that includes banks—operating in the Union. Under Article 1 of the Convention of 2007, the BC was created as an independent entity "responsible for overseeing the organization and supervision of credit institutions," including for AML/CFT matters. More specifically, Article 21 of the Annex to the Convention (as revised in 2017) provides that the BC "shall perform or arrange for the performance, in particular by the Central Bank, of off-site and on-site controls of regulated institutions, on a corporate or consolidated basis, in order to ensure their compliance with the provisions applicable to them." In the performance of its supervisory mission, the BC has broad autonomy to "define the frequency and scope of controls and assessments of regulated institutions, taking into account in particular their size, corporate structure, risk profile, the nature and complexity of their operations and their systemic importance." In addition to its supervisory powers, the BC is responsible for implementing administrative measures and sanctions—including financial penalties—for infringements of banking regulations and good banking practices.

11. Under Article 23 of the Annex, the BCEAO may also conduct the supervision of banks directly, including through on-site visits. In such cases, it must inform the BC of all on-site inspections and report its findings to the BC, along with any violations of applicable regulations or breach of rules of good conduct of which it is aware. However, in practice, the BCEAO does not have a separate team dedicated to conducting supervision and has never exercised this prerogative.

12. The legal framework applicable to AML/CFT supervision is contained in the Uniform Law of 2 July 2015 and its four implementing instructions, all issued by the BCEAO in 2017. Article 12 of Instruction 007-09-2017 of 25 September 2017 provides that the BC and the BCEAO (the latter in view of its ability, in theory, to conduct supervision independently of the BC) receive a mandatory annual report on the implementation of banks' internal AML/CFT measures. As discussed in greater detail, below, this report constitutes the main basis for the BC's AML/CFT off-site inspection program and is complemented by banks' responses to questionnaires sent on an *ad hoc* basis, the last of which was completed in 2021. The Instruction also provides (in Article 11) for banks' production of any documents or other information necessary to the evaluation of their internal AML/CFT preventive measures in the context of on-site inspections. These internal controls, the various reporting obligations imposed on banks, and the list of administrative measures and sanctions available to the BC, are all detailed in the Uniform Law of 2015.

B. Organizational Structure of the General Secretariat

13. In practice, it is the role of the GSBC—the organ within the BC responsible for banking supervision—to implement the supervision of WAEMU banks. The GSBC, which was established by Article 3 of the Revised Annex to the Convention, is headed by a Secretary General who is assisted by two Deputy Secretaries General appointed by the BCEAO Governor from among the Central Bank staff. The BCEAO provides the operational resources of the GSBC, which is composed of seven directorates, two of which—the Directorate of Permanent Supervision (DSP) and the Directorate of On-Site Inspection of Credit Institutions and Electronic Money Institutions (DCPECEME)—are directly responsible for off-site and on-site AML/CFT supervision, respectively, in addition to prudential supervision. Other directorates involved in banking supervision include the Directorate of Crisis Resolution and Legal Affairs (DRCAJ), the Directorate of International Relations and Studies (DERI), and the Directorate of On-Site Inspection of Decentralized Financial Systems (DCPSFD). As of the end of 2021, DSP and DCPECEME staff comprised forty-five (45) staff members,[7] representing about 33 percent of the GSBC's total of 138 staff members. Overall, 14 percent of the GSBC's staff worked on the on-site supervision of credit and electronic money institutions, including, when necessary and appropriate, for compliance with AML/CFT-related obligations.

14. Fewer than half of the total GSBC staff have received specialized AML/CFT training. As further discussed in Paragraph 58, below, the GSBC has also reported that many of its staff have reinforced their AML/CFT knowledge through the conduct of on-site inspections. Those inspectors are integrated into the larger teams conducting supervision on prudential and AML/CFT matters. AML/CFT is sometimes covered as part of stand-alone, AML/CFT thematic inspections (i.e., single subject inspections focused exclusively on AML/CFT), while at other times it is covered in conjunction with other, higher-risk areas, as discussed in further detail in paragraph 44, below.

[7] More specifically, the DSP and DCPECEME comprised 25 and 20 staff members, respectively, including their directors.

C. Banking Sector Landscape

15. The BC has supervisory authority over all banks in the WAEMU region. The Central Bank conducts fit and proper tests and issues banking licenses with the concurrence of the BC. There were 152 banks operating in the WAEMU region as of November 2021 (111 foreign banks and 41 domestic banks). The geographic distribution of those banks within the WAEMU's eight member states is presented in Table 3, below. The banks range widely in size and in ownership structure, from branches or subsidiaries of major international banks, such as Citibank in Côte d'Ivoire or BICIS in Senegal, a BNP-Paribas affiliate, to large African regional groups, state banks, and smaller (private) domestic banks. Overall, as of November 2021, the 152 banks subject to the BC's supervision had more than 14 million retail customers, about 220,000 of whom are foreign, and 1 million legal person customers, about 12,000 of which are foreign. The GSBC does not maintain statistics on the number of customers who have been identified as PEPs by the banks under its supervision as those banks are not specifically required to provide information on their PEP customers, whether within the annual reports they must submit on their internal AML/CFT preventive measures or in response to periodic questionnaires. This is an important gap, particularly given the elevated risk of corruption in the region (see Paragraph 55, below).

Table 3. WAEMU: Banks Under BC Supervision, by Country

WAEMU Member State	Number of Banks under the GSBC's AML/CFT Supervision		Number of Individual Account Holders		Number of Legal Person Account Holders	
	Foreign	Domestic	Foreign	Domestic	Foreign	Domestic
Benin	13	2	43 190	2 126 473	1 677	101 754
Burkina Faso	12	7	33 388	2 062 487	1 597	159 137
Côte d'Ivoire	23	7	38 524	4 376 287	429	184 595
Guinea Bissau	4	1	3 182	164 698	96	10 100
Mali	13	4	9 963	1 681 797	4 490	246 008
Niger	11	7	5686	726246	735	85 438
Senegal	22	9	60 015	1 871 095	1 943	234 576
Togo	13	4	32 754	1 074 676	1360	69 797
Total	**111**	**41**	**226 702**	**14 083 759**	**12 327**	**1 091 405**

OFF-SITE SUPERVISION PROGRAM

16. The GSBC has a total of 25 staff dedicated to off-site supervision; although none specializes in AML/CFT matters, all of them have received relevant training. Staff working under the DSP (the Directorate of Permanent Supervision) are mainly in charge of off-site supervision, including AML/CFT and prudential. All DSP staff, including Heads of Units have received at least basic AML/CFT training. Since 2017, at least one AML/CFT training session has been organized each year for officers in charge of supervision.

17. The GSBC has acquired a software tool in 2019 to perform the analysis of on-site and off-site supervision, including AML/CFT. This tool, called SCAN-R, comprises several modules, including one dedicated to AML/CFT. The platform contains a qualitative AML/CFT questionnaire and a quantitative section dealing with suspicious transactions. Authorities have indicated that since April 2020 this tool has been used to conduct virtual on-site inspections as a consequence of COVID-19-related travel restrictions.

18. The functions of the current off-site supervisory regime are:

- Generating the risk-ratings of banks which are then used to set the annual on-site inspection program and inform the conduct of on-site inspections.
- Identify and follow up on deficiencies as presented in the AML/CFT annual reports submitted by banks or those deficiencies found during on-site inspections.

Understanding of ML/TF Risks

19. All WAEMU member states have conducted national assessments of their respective ML/TF risks and drafted their National Action Plans to mitigate the identified risks. Some of the countries are now considering updating their NRAs to include, where originally omitted, certain sectoral assessments, such as TF risks posed by non-profit organizations, ML/TF risks of legal persons, and arrangements and risks of virtual assets and virtual asset service providers. The BCEAO played an active role in all the NRAs, with the lead role in conducting assessments of the banking sector in each member state. The GSBC was not actively involved in the NRA process. The main predicate offenses generating proceeds of crime in the region were found to be drug trafficking, corruption, and human trafficking. TF risk in the region is considered to be elevated, as noted in the WAEMU member-states' NRAs and MERs. While some countries have a high threat of domestic terrorism and of the financing of terrorism (for example, Burkina Faso and Mali), other countries' geographical location and country context increase the risk of TF (for instance, Côte d'Ivoire, Niger, and Senegal).

20. The BCEAO and the GSBC have a fair knowledge of ML risks in the region; however, better use of the NRA findings could further strengthen the supervisory framework. The information in the NRAs does not appear to have added impactful value to the regional supervisory authorities' understanding of risk. This might be because the GSBC did not directly participate in those assessments. For instance, there has not been any guidance provided by the supervisors to banks on how customer due diligence (CDD) and internal policies and procedures can be tailored in line with the results of the NRAs.

21. TF risk is generally understood by the regional supervisory authorities, but little follow-up action is taken to ensure appropriate mitigation. The GSBC demonstrated a fair knowledge of these risks, and some initiatives are taken during on-site inspections (for instance, monitoring of the implementation of targeted financial sanctions). However, there is not much being done on TF risk when it comes to off-site supervision; there are no specific requirements in the annual reports or questionnaires regarding TF monitoring. In line with the risk-based approach (RBA), special attention should be paid to those banks in countries with a higher risk of TF.

A. Inputs to Perform Off-Site Supervision

22. Off-site AML/CFT supervision is informed by three types of inputs: (i) annual reports; (ii) responses to AML/CFT questionnaires (2019 and 2021); and (iii) internal audit reports. Each of these inputs is discussed in detail below.

Annual Reports

23. The AML/CFT annual reports that banks are required to submit to the BCEAO and BC are one of the main inputs that GSBC considers for off-site supervision. In accordance with Articles 12 and 13 of Instruction n° 007-09-2017 of September 25, 2017, on the terms of application by financial institutions of the uniform law on AML/CFT, banks are required to submit an annual report on the implementation of their internal AML/CFT system. This report, which is prepared by the bank itself, is sent to the BCEAO and the BC within two months after the end of every calendar year. Although the report is (formally) transmitted to the BCEAO and the BC, the analysis of these reports is (actually) conducted by the GSBC.

24. Article 12 of Instruction n° 007-09-2017 specifies the general parameters and sections that these annual reports must include. As per the statutory provision, annual reports must contain the following: description of the organization and resources in terms of AML/CFT, training and awareness-raising carried out, mapping of the most common suspicious transactions, statistics relating to the implementation of the STR system, controls carried out to ensure the proper implementation of and compliance with procedures for identifying customers, record keeping, and suspicious transaction reporting.

25. The amount of information and level of detail provided in the annual reports varies across the sector. As no guidelines for the preparation of the AML/CFT annual reports have yet been issued by the GSBC, their format, content, and level of detail are highly inconsistent. The GSBC acknowledges that there is a greater need to ensure uniformity and steps are being taken to remedy this issue in the upcoming months through the issuance of guidelines.

26. Information regarding risks is neither required nor received in the annual reports. Article 12 of Instruction No. 007-09-2017 does not require banks to provide information on risks and there are no additional actions taken to fill this gap, such as an annual requirement that banks submit their most recent ML/TF institutional risk assessment. Although annual reports are analyzed to complete the GSBC risk matrix, the information collected through annual reports is not sufficient and this can have a cascade effect on the rest of the supervisory system.

27. Annual reports are analyzed by the DSP and feedback is provided only if notable deficiencies are found. When analyzing these reports the DSP checks: compliance with the transmission deadline; compliance of the content of the report with the requirements of Article 12 of Instruction No. 007-09-2017; AML/CFT training and information or awareness actions carried out during the past year; AML/CFT controls carried out over the period; the number of suspicious transaction reports made; the major shortcomings identified; outlook and action plan for the coming year; the overall assessment of the report and the recommendations of the GSBC to improve the system put in place by the institution. Only when notable important deficiencies are found is feedback provided to the banks so corrective measures are taken.

Supplementary Questionnaire

28. In 2019 a broad exercise was conducted by the GSBC to understand banks' basic AML/CFT controls and procedures; it was repeated in late 2021, according to the authorities. In this regard, a questionnaire elaborated in the context of a multilateral technical assistance program was distributed to banks. The answers to this questionnaire and the information received was essential to feed the databases of the supervisory authorities and so, ultimately, to inform the risk-rating of the WAEMU region banks. The main aspects covered in this questionnaire were: (i) designation of a compliance officer; (ii) client identification when opening an account; (iii) identification of occasional clients; (iv) measures to be taken when the client is a PEP; (v) communication of internal policies; (vi) instructing training staff; (vii) information systems (IT and databases); (viii) ongoing monitoring of the AML/CFT framework and mechanisms to detect suspicious transactions; and (ix) external oversight of the AML/CFT system.

29. Although the main AML/CFT requirements were considered in the questionnaire, risk-related inputs are generally missing. There is only one question in the AML/CFT questionnaire in which banks are asked whether they have procedures for conducting institutional risk assessments, however neither the assessments themselves nor their outcomes are collected. The analysis of the questionnaires is limited to qualitative information mostly related to the internal control system, but there is no analysis of the inherent and business risks.

Internal Audits

30. Banks are required to submit internal control reports to the BC biannually. While the internal control reports, as prepared by banks' internal audit functions, cover a broader range of areas, they do include information relevant to AML/CFT. Banks are required to send these reports by February 28 (covering July 1–December 31 of the previous year) and August 31 (covering January 1–

June 30 of the current year). Information included in these reports can also be used for the purpose of ongoing monitoring by the GSBC.

31. The internal control reports are mainly reviewed by the statutory auditor, findings and recommendations are shared with the BC. The GSBC relies on the work of the internal audit function of credit institutions and statutory auditors. The GSBC follows the observations and recommendations relating to the effectiveness of the internal control system issued by the statutory auditor. The authorities confirmed that in general they agree with the recommendations made by the statutory auditor on AML/CFT matters and there are no discrepancies in this regard. Banks interviewed also confirmed that usually the feedback received is provided by the statutory auditor who, along with the DSP, follows-up on the implementation of corrective actions if deficiencies are identified.

Outcomes

32. While the information collected through these reports constitutes an important baseline, no differentiation is made amongst banks based on existing ML/TF risks. All banks operating in the region are required to provide the same amount and type of information in their annual reports, answer the same questionnaires, and submit internal audit reports. While it is appropriate to collect the same information initially to have a horizontal view, to implement a fully risk-based approach, additional details or types of information should also be collected from banks presenting elevated or unusual risks. Currently, despite the particular ML/TF risks that each country has as identified in their National Risk Assessments, no differentiation is made for the purpose of off-site supervision, e.g., no additional information is systematically requested when ML/TF risks are higher.

B. Results and Feedback Provided

33. The DSP provides feedback to the banks only when serious deficiencies are found. Compliance officers met indicated that follow-up on the AML/CFT annual reports is mainly provided to them by the statutory auditor, as this institution also receives a copy of these reports. As per the GSBC, once the annual reports are analyzed by the DSP, follow-up takes place when deficiencies are found. When needed, an action plan is designed to take appropriate corrective measures. The GSBC has issued more than 57 notification letters to banks presenting significant ML/TF deficiencies, over the past 3 years (twelve (12) in 2019, twenty-five (25) in 2020 and twenty (20) in 2021). There is a perception on the part of the banking representatives met that if no feedback is provided by the GSBC on their AML/CFT annual reports, then they are fully compliant with their related obligations and hence, no further action is needed. Whether or not that is the case, supervisors should take proactive steps to engage with the banks more frequently, including with respect to the implementation of best practices.

34. At the BC level, an annual conference is held with the CEOs of the banks where different issues, including AML/CFT, are discussed. AML/CFT compliance officers interviewed by the authors indicated that the CEOs and banking sector association representatives that participate in these annual conferences do not pass along to them (i.e., the compliance officers) the feedback received. Banks interviewed expressed interest in receiving more direct feedback on a recurrent basis from the DSP with clear channels of communication.

35. There are no guidelines or best practice papers issued by the GSBC. Given the evolving nature of ML/TF risks, periodic changes to the AML/CFT legal framework, and the possible misunderstanding of AML/CFT obligations, banks would substantially benefit from the provision of guidelines clarifying legal provisions and the issuance of best practices to better understand evolving risks in the region.

C. Recommendations: Off-Site Supervision

36. The GSBC should proactively participate in future ML/TF national and sectoral risk assessments – and request copies of banks' own ML/TF risk assessments on an annual basis. Information obtained through national, sectoral, and institutional risk assessments should be used to design a risk-based off-site supervisory program. The GSBC will highly benefit from participating in national and sectoral assessments directly by gaining, for example, a better understanding of the ML/TF risks that vary from one country or industry to another. An effective risk based supervisory framework should maintain a good understanding of ML/TF risks at the sectoral as well as entity level based on sound risk assessment of inherent risks and quality of mitigation measures and informed by national ML/TF risk assessment.

37. The intensity of the off-site supervisory program should vary based on the ML/TF risks posed by individual banks. The off-site supervisory program should be adapted based on the outputs of the institutional risk ratings, so the GSBC could vary the intensity of the off-site verifications when risks are higher. To achieve this, the DSP could request supplementary information from higher-risk banks or, the following year, issue such banks a more detailed questionnaire. Alternatively, (or in addition), banks could be requested to identify higher-risk areas and then provide more granular information on those areas within their AML/CFT annual reports and in response to AML/CFT questionnaires. Moreover, the GSBC should pay particular attention to TF risks and the corresponding mitigating measures implemented by the banks, especially in countries where TF risks are higher.

38. The content of the AML/CFT Questionnaire issued in 2019 and 2021 should be continually updated and it should be reissued on at least a biannual basis. It would be highly beneficial to request specific information about banks' risk factors, such as: their risk appetites, the results of their own ML/TF risk assessments (in line with the provisions of Article 11 of the Uniform Law), their high-risk clients, and their application of both enhanced and simplified CDD measures.

39. The DSP should follow-up on the reports and questionnaire responses provided by the banks in a more systematic way. Although the DSP communicates closely with banks when serious deficiencies are found in their AML/CFT annual reports, providing feedback, or arranging for off-site follow-up engagements in all cases upon completing the review of these reports would be highly beneficial to the banks to promote a better understanding of their risks, communicate supervisory expectations and best practices, and, ultimately, improve the quality of reporting.

40. The GSBC should periodically issue guidelines and/or best practices for meeting AML/CFT-related obligations and completing the required AML/CFT annual reports. It is a common practice by AML/CFT supervisors to issue guidance on meeting those AML/CFT-related obligations that may need further clarification and best practice papers on how to fulfil requirements in the context of evolving risks in the region (as per the results of sectoral risk analyses or as identified through a horizontal analysis of annual reports and questionnaire responses). Moreover, the fact that annual reports are not consistent—and that some provide more information than others—can be an obstacle to their analysis and to the making of comparisons across the industry. Hence, to ensure that banks' AML/CFT annual reports are consistent and detailed, further guidance is needed.

41. Strengthen the existing partnership with the banking industry by engaging in an open and regular dialogue. Feedback provided to CEOs and industry associations during the annual conferences organized by the BC should also be communicated directly to the banks' AML/CFT compliance units/functions. In addition, the DSP should circulate to banks' compliance officers/functions the names and contact information for the GSBC staff that would be available, upon request, to clarify legal requirements and regulatory expectations and provide guidance on difficult cases.

RISK ASSESSMENT MODEL

42. The GSBC's risk model generates both global and ML/TF-specific risk ratings for every bank on at least an annual basis. The current model, which comprises 70 datapoints, was designed in the context of a multilateral technical assistance program and introduced in 2017.[8] At a minimum once – but generally twice—per calendar year, the GSBC generates a global risk rating for every bank subject to its supervision. ML/TF risk is both a component of the global rating and a stand-alone risk category for which a specific (sub-)rating is also generated.

43. The GSBC conducts three types of on-site inspections: general/"global," "specific," and "thematic." Global inspections cover the totality of the operations of (typically) a newly established bank and are increasingly rare. Specific inspections cover multiple areas of particular concern or interest, effectively areas presenting elevated risks as determined by the DSP, which is responsible for both the maintenance of the model and the conduct of off-site supervision. As such, in principle, specific inspections would only address AML/CFT when it is identified by the DSP as a higher-risk area for the bank. In practice, however, the GSBC reports that it previously decided to cover AML/CFT

[8] The authors could not analyze the model itself for the purpose of preparing this report but conducted extensive discussions with the relevant GSBC experts.

as part of *every* specific inspection, regardless of the relative risks posed. Thematic inspections cover only one area of particular concern or interest, such as AML/CFT.[9]

44. On-site inspections cover AML/CFT issues under two distinct scenarios, both of which depend on the outputs of the risk assessment model, albeit to different degrees. If a bank is rated as high- or very high-risk globally, the GSBC would most likely conduct a "specific" inspection, which would include an AML/CFT component whether or not ML/TF has itself been identified as a high- (or higher-) risk area. By contrast, if a bank is rated as low- or moderate-risk globally *but* ML/TF has nevertheless been identified as a high-risk area, the GSBC would most likely conduct an AML/CFT thematic inspection. Both scenarios are predicated upon the actual selection of a given bank for inspection, in line with the RBA.

A. Inputs

45. The GSBC relies primarily, but not exclusively, on the information provided in the AML/CFT annual reports noted above to establish the ML/TF-specific risk ratings for every bank. Per Article 12 of Instruction No. 007-09-2017, those reports must cover, among other subjects, the implementation of banks' internal controls, including their organizational structure, training and sensitization programs, and compliance procedures. The reports must present statistics for each bank's suspicious transaction reporting regime as well as a "map" of the most recent such transactions.[10] As a complement, the GSBC may also consider relevant statistics (e.g., statistics on deposits) gathered via the SCAN-R application discussed in Paragraphs 17, above, and 60 and 69, below.

46. Reports on the implementation of banks' internal controls constitute a secondary source of information. As noted above, these reports are of two types: reports prepared by the banks themselves that are submitted to the BC twice a year—the first by the end of February (covering the second half of the previous year) and the second by the end of August (covering the first half of the current year)—and reports prepared by the statutory auditor that are submitted to the BC once a year, by the end of June. The reports focus on the full range of banks' compliance risks.

47. The most common tertiary sources of information include responses to AML/CFT questionnaires, the results of past inspections, and "validated" public information. The GSBC indicates that responses to the AML/CFT questionnaires administered in 2019 and 2021 may impact banks' risk ratings along with the results of past inspections (i.e., information on the status of

[9] Although the term "thematic inspections" typically refers to inspections of *multiple* supervised entities that are focused only on a *single sub-topic* (e.g., suspicious transaction reporting), the GSBC instead uses this term ("vérifications thématiques") to describe inspections of *individual* supervised entities that are focused on one *broader topic*/set of obligations (e.g., AML/CFT).

[10] Note that the requirement to present a "map" of the most recent suspicious transactions is established by Article 12 of Instruction No. 007-09-2017, but the word "map" is not defined, and no further explanation is provided. As discussed in Paragraph 25, above, the ambiguity in that article is a driver of inconsistency in banks' annual reports; the GSBC is therefore working on set of supplementary instructions to guide their production.

previously noted deficiencies and previously ordered corrective measures). In addition, the GSBC may contact supervised entities to follow up on public information that should come to its attention (e.g., a newspaper article indicating that a WAEMU bank had conducted transactions on behalf of an individual prosecuted for ML in a foreign jurisdiction); only upon confirmation/"validation" would such information be considered as part of the risk rating process.

48. There are thus significant gaps in the GSBC's sources of risk information, which should include additional, relevant statistics and any insights FIUs may provide. The GSBC does not request from banks—let alone integrate into its model—certain, basic statistics that would speak to their institutional risk profiles (i.e., their inherent ML/TF risks), which are generally a function of their specific customer base, their full geographic reach, and the range of products and services that they provide, nor does it systematically request copies of banks' own institutional risk assessments. Moreover, the GSBC does not actively gather publicly available information or statistics that would speak to the existence of country- or sector-specific ML/TF risks (e.g., information on individual financial crime convictions or aggregate financial crime statistics) and it does not solicit from the WAEMU member-states' FIUs any information they may have, or analysis they may have conducted, that appears to indicate either an evolution of country-level ML/TF risks or a shift in individual institutional risk tolerances or profiles.[11] The insufficient collection of TF risk indicators is particularly noteworthy, as a number of WAEMU member-state national risk assessments have pointed to elevated terrorism and related TF risks in the region.

49. Although all banks' risk ratings are typically updated based on the internal control reports received three times a year, some may be updated even more frequently. Based on the results of the off-site supervision process and on any other pertinent information obtained—for example over the course of an on-site inspection—any bank's risk rating could potentially be adjusted at any point in the calendar year. Note, however, that these periodic updates reflect the GSBC's current practice rather than any specific legal requirement.

B. Weighting of Risk Factors

50. ML/TF risk is one (1) of the nine (9) factors taken into account in generating a bank's overall/"global" risk rating. The ML/TF risk factor primarily reflects the risk of non-compliance with the applicable regulatory requirements as well as any lack of effective AML/CFT tools. It is one of the four (4) factors with the lowest possible weighting, but the GSBC indicates that certain ML/TF risks are also captured by other, more heavily weighted factors. The authors were provided with the full list of risk factors and their respective weightings, but were not authorized to present that list here, as the BC considers it to be sensitive information. Nevertheless, Paragraphs 43-44, above, and 62-64, below, explain the actions the BC may take in response to banks' overall and ML/TF-specific risk ratings.

[11] Note that some of this information and analysis may become available to the BCEAO following the signature of the memorandum of understanding (MOU) described in the section of this report on Domestic and International Cooperation, below.

51. Given the elevated level of ML/TF risk in the WAEMU region, the weighting of the ML/TF risk factor may need to be revisited over the near-term. As noted in paragraphs 1, 19, and 48, above, the most recent NRAs conducted by the WAEMU region's member-states reveal elevated money laundering[12] and terrorist financing risks and identify the banks as a relatively high-risk sector in this regard. The weighting of the ML/TF risk factor may need to be revisited in view of such findings.

52. The GSBC intends to undertake periodic reviews of the risk model, but none has yet been conducted. Future reviews should consider the results of on-site inspections and any other, relevant information available to the GSBC in assessing the extent to which the ML/TF risk factor captures and reflects banks' "true" risk profiles. Future reviews should also seek to determine whether the weights of the nine (9) factors remain appropriate in light of new developments and/or changing conditions in the regional banking sector.

C. Results

53. The chart below captures the ML/TF risk-ratings of WAEMU region banks over the last four years, broken down by risk category. In each year for which data was requested, the largest number of banks were assessed as presenting "medium" risk, with that category alone capturing 51 percent of the banks in 2018, 48 percent in 2019, 49 percent in 2020, and 60 percent in 2021. This reflects an overall trend that could be described as "movement to the middle." In 2018, 16 percent of the WAEMU region's banks were assessed as presenting "acceptable" risk and 8 percent were assessed as presenting "very high" risk; in 2021, those figures had fallen to 5 percent and 6 percent, respectively, with corresponding increases in the percentages of banks assessed as presenting "medium" or "high" risk.

Table 4. WAEMU: ML/TF Risk-Ratings of Region Banks from 2018–2021

Year	Acceptable Risk[1/]	Medium Risk[2/]	High Risk[3/]	Very High Risk[4/]	Total
2018	18	56	27	9	**110**
2019	21	55	30	9	**115**
2020	16	60	35	12	**123**
2021	6	74	37	7	**124**

1/ "Acceptable Risk" means that the bank has a solid ML/TF risk mitigation system.

2/ "Medium Risk" means that the bank has a generally satisfactory ML/TF risk mitigation system, which nevertheless presents minor weaknesses.

3/ "High Risk" means that the bank has an ML/TF risk mitigation system that presents numerous weaknesses.

4/ "Very High Risk" denotes a critical situation in which the bank's ML/TF risk mitigation system is failing, thereby creating significant ML/TF risks which warrant specific responses by the supervisory authorities.

[12] Particularly as related to the proceeds of drug trafficking, corruption, and human trafficking.

54. From 2018-2021, the banks assessed as presenting "very high" risk were generally concentrated in 2-3 of the WAEMU region's member-states. In both 2018 and 2019, six of the nine banks assessed each year as presenting "very high" risk were operating in just two of the WAEMU region's eight member-states. In 2020, eight of the twelve "very high" risk banks were operating in three of the member-states and in 2021, five of the seven "very high" risk banks were (again) operating in just two of the member-states. Indeed, one of the WAEMU region's member-states consistently ranks among the top two in terms of the number of "very high" risk banks hosted.[13]

D. Recommendations: Risk Rating

55. The GSBC should require banks to submit, on at least an annual basis, a set of basic statistics that would function as additional ML/TF risk indicators. Whether as part of the forthcoming annual report guidelines or in supplementary, annual questionnaires, the GSBC should require banks to submit ML/TF risk-relevant statistics, including on the numbers of their customers who are: (i) foreign and high-risk domestic PEPs; and (ii) resident in specific, potentially higher-risk regions or countries.[14] This recommendation is meant to complement (rather than duplicate) the GSBC's existing efforts, such as those described at the end of Paragraph 45, above. Therefore, the GSBC should take care to request only *supplementary* statistics, i.e., statistics that it does not already collect in other contexts, so as not to burden WAEMU banks unduly. As a complement, the GSBC should systematically request copies of banks' own institutional risk assessments, comparing their conclusions to the corresponding outputs of the BC risk model.

56. The GSBC should ask the WAEMU member states' national FIUs to share, in real-time, any indicators of a change in institution-level ML/TF risks.[15] National FIUs' operational and strategic analysis[16] of the STRs submitted to them may indicate that banks' risk profiles are shifting

[13] The authors were provided with country-by-country breakdowns of the ML/TF risk ratings for the WAEMU region's banks from 2018-2021, but were not given permission to reproduce those breakdowns here, as the BC considers them to be sensitive.

[14] As appropriate, a GSBC-provided list of such countries could include, but should not necessarily be limited to, countries presenting elevated TF risks and countries under review by the FATF.

[15] Note, however, that the GSBC does not currently maintain any direct, bilateral contacts with the national FIUs in the region and that certain regulatory changes will be required to enable those contacts that would involve the sharing of confidential information (for additional details on the required regulatory changes, see the section of this report on Domestic and International Cooperation, and, in particular, the recommendation in Paragraph 97, below).

[16] Per the Interpretive Note to FATF Recommendation 29, "Strategic analysis uses available and obtainable information, including data that may be provided by other competent authorities, to identify money laundering and terrorist financing related trends and patterns. This information is then also used by the FIU or other state entities to determine money laundering and terrorist financing related threats and vulnerabilities. Strategic analysis may also help establish policies and goals for the FIU, or more broadly for other entities within the AML/CFT regime." Similarly, the IMF and World Bank's 2004 publication, "Financial Intelligence Units: An Overview," explains that "[t]he main characteristic of strategic intelligence is that it is not related to individual cases, but rather to new issues and trends. The scope of any strategic analysis may be narrow or wide, as required. It may consist of the identification of evolving criminal patterns in a particular group or the provision of broad insights into emerging patterns of criminality at the national level to support the development of a strategic plan for the FIU." (The full publication is available online at: https://www.imf.org/external/pubs/ft/FIU/fiu.pdf.).

(e.g., as a result of apparent changes in individual banks' risk tolerances, the composition of their clientele, or the patterns of apparent criminal activity in those countries or regions in which they operate). The GSBC should therefore request that any such indicators be proactively communicated in a timely manner. In addition, the GSBC should request that national FIUs flag any suspicious transaction reporting outliers (i.e., any banks submitting substantially more or fewer STRs than would be expected, given their individual risk profiles).

57. The GSBC should conduct periodic reviews of the composition and weighting of the ML/TF risk factor and adjust them as necessary or desirable. As the current model was introduced in 2017, the GSBC should start by conducting a five-year review of the ML/TF risk factor,[17] considering the responses received to the AML/CFT questionnaires administered in 2019 and 2021, the results of the relevant on-site inspections completed since the model's introduction, and new developments/changing conditions in the WAEMU region. To the extent justified by such reviews, the composition of the ML/TF risk factor should be adjusted, and its weighting should be revisited, particularly in light of the evolving terrorist/TF threat to the region. At a minimum, the composition should be expanded to: (i) ensure that all relevant information already collected by the GSBC—such as, for example, the information presented in Table 3, above—is appropriately incorporated; and (ii) account for any additional statistics collected per the related recommendation, above.

ON-SITE INSPECTION PROGRAM

58. The GSBC has a total of 20 staff dedicated to on-site inspections;[18] none specializes exclusively in AML/CFT, although all have received at least basic AML/CFT training. Of the 20 staff dedicated to the on-site inspection of credit (and electronic money) institutions, one (1) was hired in 2021, as the GSBC works to increase its human resources. None of these inspectors specializes exclusively in AML/CFT and there is no AML/CFT-focused unit, team, or permanent working group – but all have participated in general/basic trainings conducted by the FATF (the international AML/CFT standard-setter), the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA, the FATF-style regional body for West Africa), other technical assistance providers, and private sector (e.g., bank) partners.[19]

59. From 2018-2021, the GSBC carried out a total of 80 specific inspections of banks and 26 AML/CFT thematic inspections of banks. A significant percentage of the banks operating in the WAEMU region were subject to an AML/CFT inspection over the course of the last four years, indicating

[17] To commence over the second half of 2022.

[18] This figure reflects the number of staff dedicated to the on-site inspection of credit and electronic money institutions, such as banks; it does not include the staff of the DCPSFD.

[19] While the bankers consulted during the preparation of this note described the GSBC's inspectors as "professional," "knowledgeable," and "fairly well-trained," the authors are unable to offer their own view in this regard, as they did not interview individual inspectors and were not provided with the details of the AML/CFT-related trainings they received (i.e., the specific modules delivered, the methodologies employed, or the good practices highlighted).

that the AML/CFT on-site inspection program involves a high level of effort on the part of the GSBC.[20] See the table below for a more complete breakdown of the GSBC's on-site inspections of banks during this period.

Table 5. WAEMU: GSBC On-Site Inspections of Banks from January 2018–December 2021

Year	Total Number of On-Site Inspections	Number of Specific On-Site Inspections[1/]	Number of AML/CFT Thematic On-Site Inspections
2018	68	3	14
2019	40	18	2
2020	23	21	0
2021	48	38	10

[1]/ Per the GSBC, all specific inspections have an AML/CFT component.

60. Unable to conduct on-site inspections from March-October 2020 due to the pandemic, the GSBC developed and deployed a remote inspection methodology. Using the SCAN-R system described in Paragraph 17, above, eight (8) remote inspections were carried out in 2020 and three (3) remote inspections were carried out in 2021. The GSBC reports that such inspections are functional but limited, as supervisors cannot directly access the bank's information technology (IT) systems (e.g., its account and transaction screening software and customer database) for testing/review.

A. Selection of Banks to Inspect

61. The three (3) criteria used to generate the annual on-site inspection plan for banks are: (i) risk; (ii) systemic importance at the national level; and (iii) length of the supervisory cycle. Each of these criteria is discussed below.

Risk

62. Banks rated as high- or very high-risk are prioritized for specific inspections, which systematically include an AML/CFT component, regardless of the ML/TF sub-rating. As noted with respect to the risk assessment model, above, global inspections are generally conducted with respect to newly established banks and are in any event increasingly rare. As such, banks rated as high- or very high-risk are prioritized for specific inspections, the components of which are partially fixed and partially determined by the sub-ratings for each of the nine (9) risk factors used to calculate each bank's global risk rating.

63. Banks are instead prioritized for thematic inspections when their annual report reveals major deficiencies, or their global risk rating is far lower than their ML/TF sub-rating. In other

[20] The exact percentage of banks subject to an AML/CFT inspection over the course of the last four years could not be calculated for the purposes of this note, as the authorities have indicated that the figures they provided may include multiple AML/CFT inspections of the same bank over successive years.

words, banks whose AML/CFT annual reports indicate that they may have gravely deficient internal controls and/or compliance procedures are generally prioritized for thematic inspections the following year. Similarly, banks with a global risk rating of low or moderate but an ML/TF sub-rating of high or very high are generally also prioritized for AML/CFT thematic inspections (rather than specific inspections).

64. By contrast, banks with both global and ML/TF-specific risk ratings of low or moderate are rarely selected for inspection as such. While it is certainly in-line with the RBA to prioritize the inspection of banks with global and/or ML/TF-specific risk ratings of high or very high, it is also critical to the implementation of that approach that a certain number of low-to-moderate-risk banks, many of which are small or modestly resourced, also be inspected each year. Doing so enables the validation—or invalidation—of lower-risk assessments and so, potentially, the discovery of "hidden risks" that may then be captured in future risk-rating cycles. The GSBC specifically selects only a modest number of low-to-medium risk banks for inspection each year (a total of eight [8] from 2018-2021), but inspects many more such banks in practice, owing to the third criterion noted above — and described in greater detail in Paragraph 66, below.

Systemic Importance at the National Level

65. The GSBC considers banks' systemic importance at the national (vs. regional)-level in preparing its inspection plans, thereby effectively fostering "geographic diversity." The prioritization of national (vs. regional)-level systemically important financial institutions (SIFIs) helps to foster a certain degree of geographic diversity in the GSBC's inspection plans, meaning that it helps to ensure that at least one bank in every WAEMU member-state is subject to inspection each year. Absent such prioritization, there would be a real risk that a year or two passes without the inspection of a single bank in those WAEMU member-states with smaller and seemingly lower-risk banking sectors. In practice, the GSBC indicates that such a risk has never been realized.

Length of the Supervisory Cycle

66. The GSBC also considers the lengths of supervisory cycles in crafting its inspection plans, thereby mitigating the risk that low-to-moderate-risk banks will be underprioritized. Although there is no statutory, regulatory, or policy-based limit on the amount of time that may pass between the on-site inspections of a given bank,[21] the GSBC indicates that it considers the lengths of supervisory cycles (effectively, the dates of banks' most recent previous on-site inspections) when preparing its annual inspection plans. As such, from 2019-2021, the GSBC inspected an average of ten (10) low-to-moderate risk banks each year that would not otherwise have been prioritized for inspection.

[21] The GSBC estimates that, in theory, it would take approximately 3 years to cover the entire population, i.e., to conduct at least one on-site inspection of every bank in the WAEMU region, but that this does not occur in practice, as certain, higher-risk banks may be inspected more than once over a given three-year period while other, lower-risk banks may not be inspected at all during that same timeframe.

B. Methodology

67. In practice, the GSBC's on-site inspections are almost always announced, with a pre-inspection questionnaire sent to the subject bank a week or two in advance. The GSBC indicates that it is permitted to conduct unannounced inspections (to address "particularly sensitive issues"), but that they are extremely rare and have never been used in the AML/CFT context.

68. The GSBC's on-site inspections do not systematically include bank branches (i.e., visits to bank branches or consultations with branch staff). However, bank branches have indeed been visited in the past; they are most often arranged when there is credible information to indicate that a particular branch is not complying fully with the applicable laws and regulations.

69. The GSBC uses an IT system to manage its on-site inspections and support the process of following-up on previously issued orders and/or recommendations. The system (SCAN-R) has been operational since the end of 2019 and has been used since April 2020 to perform virtual AML/CFT inspections, as noted in Paragraphs 17 and 60, above.

70. The AML/CFT on-site inspection methodology employed by the GSBC is laid out in an inspection manual and reflected in eight (8) thematic checklists. The pre-inspection questionnaire noted above, inspection manual,[22] and thematic checklists were all developed over the past two years, with the support of a technical assistance provider. The checklists are clear, detailed, and comprehensive, covering: (i) governance; (ii) procedures; (iii) CDD; (iv) risk mapping; (v) operations; (vi) IT systems; (vii) training; and (viii) asset freezing. They list the inspection items to be completed; they specify whether each item relates to a national or uniform law, a regulatory requirement, or a good practice; and, in many cases, they note the manner in which the necessary information may be obtained from the inspected institution (e.g., taking a sample of customer files).

71. According to statistics provided by the GSBC, specific inspections typically involve three to four inspectors and last two to three weeks. Both the number of the inspectors involved, and the total length of the inspection depend primarily on the size of the inspected bank and the number of components (i.e., risk areas) to be covered.

72. AML/CFT thematic inspections typically involve three inspectors and last one to one-and-a-half weeks; they cover the full range of banks' AML/CFT-related obligations. The GSBC affirms—and a review of the checklists mentioned above confirms—that its AML/CFT thematic inspections cover, at a minimum: (i) the conduct of CDD for both natural and legal persons (and both regular and occasional customers); (ii) the monitoring of the accounts and transactions of customers categorized by the bank as higher-risk; (iii) the identification and reporting of suspicious transactions; (iv) the application of TFS; and (v) the implementation of record-keeping requirements.

[22] Note that the authors were not able to analyze the inspection manual for the purpose of preparing this report.

73. The RBA is not fully applied to the content of either specific inspections or AML/CFT thematic inspections. As noted in Paragraph 62, above, specific inspections include an AML/CFT component regardless of the ML/TF sub-rating and AML/CFT thematic inspections cover the full range of sub-topics, regardless of the relative risks posed.

74. The GSBC's on-site inspections benefit from cooperation with banks' AML/CFT compliance functions and communication with their senior managers. Of the banks that were interviewed by the authors of this note, those that had been subject to an AML/CFT inspection within recent memory indicated that the GSBC carried out its responsibilities in a thorough and professional manner. Although the authors were unable to review on-site inspection reports, as noted in Paragraph 3, above, the GSBC has confirmed that it works closely with the AML/CFT compliance functions of inspected banks, all of which characterized the inspectors themselves as knowledgeable and diligent. The GSBC has also confirmed that it meets with senior bank managers/management committees at both the beginning and end of every on-site inspection—and that, as necessary, the Chairman of the Board is invited to attend the debriefing. The GSBC reports that its main objectives in meeting with senior bank managers are to: (i) take note of any major changes that may have occurred since the last on-site inspection, including as regards the bank's IT infrastructure; (ii) follow-up on the status of implementation of any previously issued supervisory recommendations; (iii) determine the level of management involvement in AML/CFT issues; (iv) better understand the organization of bank groups; and (v) emphasize the need to correct deficiencies identified by the on-site team.

75. The GSBC has a roster of trained inspectors and a comprehensive AML/CFT on-site inspection methodology that should be refined via modest but important improvements. Those improvements include, *but are not necessarily limited to*, the following:

- **Distinguishing between lower- and higher-risk domestic PEPs, in line with the FATF Standard.** When reviewing banks' conduct of CDD and their monitoring of the accounts and transactions of high-risk customers, the GSBC should distinguish—and encourage its supervised entities to distinguish—between lower- and higher-risk domestic PEPs. Currently, the GSBC considers all domestic PEPs (along with all foreign PEPs) to be high-risk customers by default. While such an approach is "conservative" in nature, it is out of step with the RBA and may have the effect of overburdening banks serving lower-level officials that they would otherwise not consider posing elevated ML/TF risks.

- **Consulting with the relevant national FIU to obtain its view of the quality of a bank's STRs and associated cooperation.** The GSBC currently gauges a bank's compliance with its STR-related obligations by analyzing bank-provided copies of all STRs submitted or prepared-but-not-submitted since its last on-site inspection as well as its correspondence with the relevant national FIU. Going forward, the GSBC should also consult with the relevant national FIU to obtain its view of the quality of the STRs, and associated cooperation received from each bank to be inspected.[23] As noted above, the GSBC should also consult with the national FIUs to identify any suspicious transaction reporting outliers (i.e., any banks submitting substantially more or fewer STRs than would be expected, given their individual risk profiles). Absent a compelling explanation for such apparent over- or underreporting, those outliers should be subject to enhanced scrutiny.

- **Taking a random sample of transactions to determine whether any should have been, but were not, identified and reported as suspicious.** While the GSBC's current on-site inspection methodology includes the analysis of samples of large and/or potentially higher-risk transactions[24]—as well as of any STRs submitted or prepared-but-not-submitted—a fuller picture of the efficacy of an inspected bank's transaction monitoring and reporting processes can only be gained by additionally reviewing a *random sample* of transactions. The GSBC could well find that inspected banks carried out certain types of suspicious transactions on behalf of their customers, including PEPs, without ever having flagged, identified, or reported them as such.

- **Ensuring that the names of persons and entities subject to TFS related to the proliferation of weapons of mass destruction (WMDs) are integrated into banks' screening systems.[25]** In reviewing the implementation of TFS ("asset freezing measures"), GSBC inspectors are instructed to confirm that the "lists" (of persons and entities subject to TFS) maintained by the inspected bank or integrated into the commercial screening system to which it subscribes align with those that are applicable in the relevant jurisdiction. However, there is no formal "list" of persons and entities subject to WMD proliferation-related TFS at the United Nations-level and no information has been provided by the GSBC to indicate that its inspectors have received either training or other resources in this specific regard. As such, the GSBC's inspectors appear to be focused on ensuring banks' implementation of (only) the terrorism-related TFS applicable in the member-state(s) in which they operate.

- **Requiring tests of banks' automated or manual screening systems that involve fictitious occasional transactions conducted by (or on behalf of) persons or entities subject to TFS.** Although the GSBC's current on-site inspection methodology contemplates the demonstration of banks' screening systems as well as the *possibility* of direct tests conducted at the behest of its inspectors, such demonstrations and/or tests are neither required nor specifically intended to confirm the timely and comprehensive implementation of terrorism- and WMD proliferation-related TFS. GSBC inspectors should conduct such tests during every specific inspection and

[23] See footnote 15, above, regarding the lack of GSBC-FIU direct, bilateral contacts and their current inability to share confidential information and note that such assessments may become available to the BCEAO following the signature of the MOU described in the section of this report on Domestic and International Cooperation, below.

[24] The GSBC reports that such analyses have in the past revealed a lack of supporting documentation or missing information on the originator or beneficiary.

[25] Note that a broader inspection of the AML/CFT-relevant aspects of banks' screening systems—specifically their design and functioning as well as the quality of the inputs (e.g., data) and the handling of the outputs (e.g., alerts)—is conducted in accordance with the framework established in GSBC Checklist VI, but that the parts of those systems that deal with the implementation of TFS are inspected in accordance with the framework established in GSBC Checklist VIII (see Paragraph 70, above).

every AML/CFT thematic inspection during which TFS are covered to ensure that banks operating in the region are able to detect and prevent prohibited transactions in real-time.

C. Results: Deficiencies and Sanctions or Corrective Measures

76. From 2018-2021, many inspected banks were found to have similar deficiencies in the implementation of their AML/CFT-related obligations. The most frequently observed deficiencies were: (i) a failure to complete and to update customer profiles, including as regards the level and source(s) of income (which most often resulted in a lack of economic justification for even legitimate transactions, a failure to require managerial approval of certain higher-risk transactions, or the non-application of enhanced due diligence to certain higher-risk customers); (ii) poor or inconsistent handling of the alerts generated by monitoring software; and (iii) a failure to conduct (at least) annual independent audits of AML/CFT systems and procedures.

77. The BC has a sufficient range of measures available to address such deficiencies, but no enforcement policy that would promote the predictable and consistent use of those measures. Most of the measures available to address the non- or insufficient implementation of banks' AML/CFT-related obligations are laid out in Articles 29-31 of the *Annex to the Convention Governing the WAMU Banking Commission*. They include, but are not limited to, warnings, reprimands, corrective orders, heightened surveillance, fines, mandatory publication by the bank of the violation committed, the suspension or prohibition of all (or of certain types of) transactions, and, in extreme cases, license withdrawal.[26] Fines are levied according to a formula established in regulation, but there is otherwise no sanctions or enforcement policy to foster the predictability and consistency of the measures imposed in response to similar (or similarly long-standing) deficiencies.

78. The BC has well-established procedures for following up on its recommendations and corrective orders. The BC may issue—and in the past, has issued—recommendations, warnings, reprimands, and formal corrective orders in response to identified deficiencies in a bank's implementation of AML/CFT-related obligations. Among these, corrective orders are the most likely to be time-bound. Regardless, a bank that has received either a set of recommendations or a formal corrective order must follow-up with the BC on a monthly basis, via a signed letter detailing the actions it has taken/reforms it has initiated in response. When the BC is satisfied that a recommendation has been implemented or a corrective action has been completed, the corresponding item is removed from the follow-up process. At some point, however, the BC may conclude that a bank's efforts are insufficient (or stalled); in such cases it will consider escalatory steps, including the possible issuance of a monetary penalty/fine.

79. Over the past year, the BC has begun to take a somewhat more forceful approach. From 2018-2020, the BC opted for a more "corrective" and less forceful (or "repressive") approach to addressing all but the most severe AML/CFT-related deficiencies—an approach that included the issuance of recommendations, warnings, reprimands, and formal corrective orders, as noted in the preceding paragraph. However, the failure on the part of many banks to correct (even modest)

[26] The GSBC reports that no bank license has ever been withdrawn due to a violation of AML/CFT-related obligations.

deficiencies first identified prior to or during the 2019 inquiry prompted the BC to begin taking a somewhat more repressive approach toward the end of 2020/beginning of 2021. This change aligns with a recommendation made in the 2018 report commissioned by the World Bank in the context of the Anti-Money Laundering Liaison Committee (CLAB).[27]

- In 2018, warnings and reprimands were the most frequently employed measures.
- In 2019 and 2020, warnings gave way to a combination of reprimands and corrective orders.
- In 2021, no fewer than four (4) fines (of XOF 151M or approximately $262K each) were levied against banks for violations of banking regulations, including AML/CFT-related obligations.[28] Prior to 2021, only one such fine had been levied.

80. By law, inspection reports are provided only to the inspected bank's board of directors, the BCEAO, and the relevant national finance ministry/ministries. As an exceptional measure, the GSBC made its most recent inspection reports available to the authors of this note at the BCEAO's office in Paris, France, but the (U.S.-based) authors were not able to review them, owing to pandemic-related travel restrictions (see Paragraph 3 for additional details).

81. In addition, the BC relays commonly observed deficiencies to the banking sector at an annual conference to which chief executive officers and national associations are invited. It is important to note, however, that the annual conferences, which are now in their seventh year are not dedicated specifically to AML/CFT. Rather, they address trends and challenges in the regional banking sector more broadly, discussing commonly observed deficiencies—and related sanctions levied—with respect to the *full range* of applicable legal and regulatory obligations.

82. Information communicated by the BC on commonly observed deficiencies—and related sanctions levied—does not appear to be reaching banks' AML/CFT compliance functions. Anecdotal evidence indicates that information on commonly observed AML/CFT deficiencies and related sanctions levied—whether relayed by the BC, during the annual conferences noted above, or directly by the GSBC, which typically communicates with banks' directors of internal audit—is not reaching banks' AML/CFT compliance functions/officers, who are generally best positioned to design and implement corrective actions. Whether this is a simple failure of communication or a reflection of overly rigid bank hierarchies (or both), it represents a clear challenge to achieving the underlying goal of mitigating ML/TF risks to the regional banking sector.

[27] The recommendation reads, "Implement a more repressive policy with regard to serious violations of AML/CFT obligations on the part of regulated entities, notably credit institutions, microfinance institutions, insurance companies, and money or value transfer services. This policy should result in the increased imposition of disciplinary sanctions and/or fines in the event of repeated violations."

[28] The authors are not in a position to assess the extent to which the fines levied were effective, proportionate, and/or dissuasive, as the GSBC did not indicate the specific infractions involved, note the size of the banks fined (or the GSBC's history of engagement with them on the related deficiencies), or provide information on the timing and quality of any corrective measures that may have been taken in response.

D. Recommendations: On-Site Inspections

83. The GSBC should further develop its AML/CFT capacity, both within and outside the on-site inspection function (i.e., the DCPECEME). This could be accomplished by establishing a unit or team of dedicated AML/CFT inspectors and/or a permanent AML/CFT "working group." Although the GSBC reports that all DCPECEME staff have received at least basic AML/CFT training, standing up a dedicated team and/or a permanent working group would yield several advantages, including creating a pool of expertise on which to draw to lead AML/CFT thematic inspections, prepare less experienced colleagues to execute the AML/CFT components of global and specific inspections, facilitate AML/CFT cooperation with extra-regional counterparts, and support the BCEAO in its drafting of relevant community legislation.

84. To the extent possible and practical, AML/CFT on-site inspections of banks should include one or more branches selected in line with the RBA. Even when there is no specific indication that a bank's internal control processes and procedures are insufficient to mitigate the ML/TF risks emanating from its branches or that any particular branch presents elevated ML/TF risks —in which event the GSBC indicates that the inspection plan would be adjusted accordingly—visiting one or more bank branches as part of each on-site inspection is key to determining whether group-level policies are properly understood and implemented outside of banks' headquarters and of the larger cities in which they are typically located. Indeed, visits to branches located in more remote areas, particularly in countries facing elevated TF threats, could reveal previously unknown (or underestimated) risks. Of course, should the systematic inspection of branches fail to reveal previously unknown (or underestimated) risks, the GSBC's implementation of this recommendation could be phased out over time.

85. The broader topics covered during specific inspections—and the sub-topics covered during AML/CFT thematic inspections should be down selected based on the relative risks posed. Specific inspections should only include an AML/CFT component to the extent justified by the ML/TF sub-ratings of the subject banks. Similarly, thematic inspections should only address the full range of AML/CFT sub-topics listed in Paragraph 72, above, when the DSP considers all of them to pose elevated risks. When that is not the case, even thematic inspections should be tailored (i.e., limited in scope), in line with the ML/TF risk profiles of the subject banks. Such tailoring would help to conserve valuable supervisory time and resources and so potentially enable the GSBC to fit additional banks into the annual inspection plan.

86. The GSBC should sharpen its on-site inspection methodology for assessing banks' implementation of obligations related to PEPs, STRs, and TFS. Those improvements should include: (i) distinguishing between lower- and higher-risk domestic PEPs, in line with the FATF Standard; (ii) consulting with the relevant national FIU to obtain its view of the quality of the STRs and associated cooperation received from each bank to be inspected; (iii) using random sampling to determine if any transactions that should have been reported as suspicious were either missed or dismissed; (iv) ensuring that the names of persons and entities subject to WMD proliferation-related TFS are integrated into banks' screening systems; and (v) requiring tests of banks' automated or manual screening systems that involve ostensible occasional transactions conducted by (or on behalf of) persons or entities subject to TFS.

87. The BC should continue to impose stronger sanctions for AML/CFT-related deficiencies to ensure that they are effective and dissuasive (while still proportionate) in all cases. The BC should continue to take a more forceful approach to addressing AML/CFT-related deficiencies, particularly with respect to banks with repeated or persistent violations. (See the related analysis in Paragraphs 78 and 79, above.)

88. The GSBC should produce—and the BC should adopt—an enforcement policy to foster predictability and consistency in addressing AML/CFT deficiencies. At a minimum, the policy should specify the range of measures to be taken to address common categories of AML/CFT deficiencies (considering all relevant factors, such as the level of resources available to the regulated entity and the level of engagement or awareness of its management) and anticipate escalatory steps in response to repeated or persistent violations.

89. The GSBC should provide to all WAEMU bank AML/CFT compliance functions anonymized information on AML/CFT deficiencies found and related sanctions levied. The GSBC reports that it already maintains contact information for the AML/CFT compliance functions/officers of WAEMU banks; communicating with them directly and in real-time regarding all AML/CFT deficiencies found and related sanctions levied throughout the regional banking sector would help individual institutions to learn from others' mistakes rather than inadvertently reproducing them.

DOMESTIC AND INTERNATIONAL COOPERATION

A. Cooperation with National Financial Intelligence Units

90. According to the Law, cooperation with the national FIUs is the responsibility of the BCEAO. As per the Article 18 of the Uniform law, FIUs are composed, amongst other members, by a representative of the BCEAO, who facilitates exchange of information (usually from national FIUs to the BCEAO). This representative is designated for a limited period of time to the respective FIUs with the aim to be the person of contact between the FIU and the BCEAO. National FIUs can also cooperate with the BC/GSBC in practice, although there are some legal gaps, as noted below.

91. National FIUs' periodically provide quarterly reports to the BCEAO. These reports contain aggregate statistical data on STRs, and information related to other activities, such as trainings. These reports are further disseminated to the BC/GSBC to exercise its supervisory functions. When necessary, BCEAO and FIUs can exchange other type of non-confidential information, such as: typologies, new trends, and ML/TF risks identified. When information is disseminated, the BCEAO further disseminates the information to the BC/GSBC. FIUs can also request information from the BCEAO regarding existence of accounts of persons under investigation. However, FIUs in general prefer to send such request directly to the banks to ensure accurate and updated information can be provided on a timely basis.

92. Cooperation between the BCEAO and national FIUs must be reinforced. Authorities acknowledge that the level of cooperation needs to be strengthened and measures are being taken to enable the exchange of a broader range of information. Thus, a draft Memorandum of Understanding[29] between national FIUs and the BCEAO has been prepared and according to the BCEAO should be signed after the completion of the current Financial Sector Assessment Program (FSAP) exercise.

93. Legal gaps that could hinder effective cooperation between national FIUs and the BC need to be addressed. According to the *Annex to the Convention Governing the Banking Commission*, the BC can only perform cooperation with other supervisory bodies. Although the FIUs are not supervisory bodies, the authorities explained that certain cooperation that does not involve the sharing of confidential data is possible. For instance, the BC and the FIUs may share aggregate data on STR reporting, level of compliance, and any other non-sensitive information.

B. Exchange of Information with Extra-Regional Counterparts

94. The BC has the authority to establish international cooperation with foreign counterparts. International cooperation between the BC and other supervisory authorities is subject to reciprocity and confidentiality as stated under Article 60 of the *Annex to the Convention Governing the WAMU Banking Commission*. As noted above, according to the Law, cooperation with national FIUs relies on the BCEAO, while for foreign supervisors it is the BC. Although this lack of uniformity does not necessarily present an obstacle to the performance of supervisory functions, it creates confusion as to who is the primary AML/CFT supervisory authority.

95. Although the legal framework permits cooperation with foreign supervisors, in practice, information sharing with counterparts on AML/CFT matters is nearly inexistent. As of January 1, 2002, 10 MOUs[30] had been signed between the BC and foreign counterparts. It should be noted that not all these supervisory authorities appear to have AML/CFT supervisory competences. There has been an instance where foreign counterparts were invited for a joint inspection; however, it did not cover the AML/CFT agenda. There have been no cases of exchange of information related to AML/CFT issues. The only instances of cooperation with foreign counterparts were in the context of routine fit and proper checks.

C. Recommendations: Domestic and International Cooperation

96. Key impediments to the effective exchange of information between national FIUs and the supervisory authorities should be removed:

[29] The draft MOU has not been analyzed for the purposes of this assessment.

[30] Banking Commission of Central Africa (COBAC), Central Bank of Congo (Congo), French Prudential supervision and resolution authority (France), Bank of Gambia (Gambia), Bank of Ghana (Ghana), Central Bank of Guinea (Republic of Guinea), Central Bank of Liberia (Liberia), Bank Al-Maghrib (Morocco), Central Bank of Nigeria (Nigeria), Bank of Sierra Leone (Sierra Leone), and the Regional Council for Public Savings and Financial Markets -CREPMF- (UMOA region).

- Ideally, the MOU should be signed between the national FIUs and the BC and the BECAO. The signing of the MOU should be prioritized to ensure an effective and meaningful cooperation between the authorities, including sharing information on quality of STRs of individual banks, results of inspections conducted, typologies and any other information that could impact reputational risk of the financial market of the region.

- Although, in practice, information can be shared between the BC and national FIUs, steps must be taken to remedy the legal gaps and ensure by law that the BC can cooperate with national FIUs. This would enable a fluent, operative, and ongoing exchange of information that would ideally include periodic (virtual or in-person) meetings.

97. The BC should cooperate effectively with foreign counterparts that have shared responsibility for banks, including through exchange of information especially in terms of: (i) joint inspections; (ii) weaknesses and sanctions imposed to banking institutions when relevant; (iii) AML/CFT procedures and policies of financial institutions; (iv) CDD information; and (v) transaction information. Establishing MOU with foreign AML/CFT supervisors could facilitate effective exchange of information.