



# Bank Secrecy Act/ Anti-money Laundering (BSA/AML)

October 22, 2019

*The views that I express in this presentation are strictly my own and do not necessarily represent those of the Federal Reserve Bank of New York or the Federal Reserve System*

- Background
- International and USA BSA/AML Regulatory Framework
- BSA/AML Program Requirements and Examination Processes
- Recent Trends and Emerging Issues

# Money Laundering

*The process of making funds derived from criminal activity appear as though they have no connection with the illicit activity and were generated from legitimate sources.*



# Challenges to Effective AML



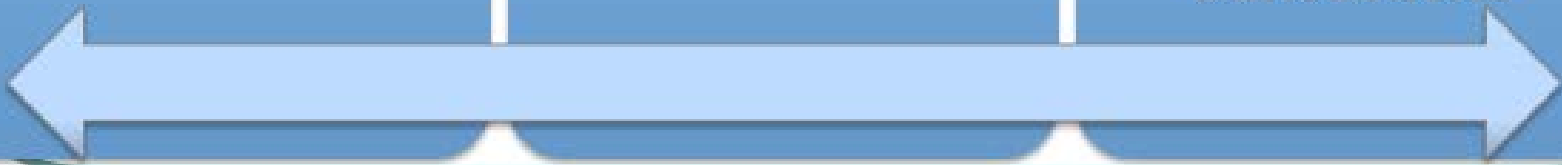
**Globalization**



**Increasing speed,  
complexity, and  
sophistication of  
banking products**



**More difficult to  
identify and  
evaluate complex  
relationships and  
activities,  
especially cross-  
border  
transactions**



# Key AML/CFT International Bodies



Financial Action Task Force  
(Global AML/CFT standard setter)



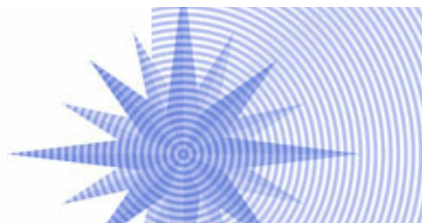
Basel Committee on Banking  
Supervision  
(Supervisory coordination)



Egmont Group  
(Financial Intelligence Unit  
coordination)



World Bank and IMF  
(Development organizations)



Wolfsberg Group  
(Global banking standards)



Financial Stability Board  
(AML/CFT coordinating role)

# US BSA/AML Supervision

Under the US Department of Treasury:



The mission of the Financial Crimes Enforcement Network is to safeguard the financial system from illicit use, combat money laundering, and promote national security through the strategic use of financial authorities and the collection, analysis, and dissemination of financial intelligence.



Administers and enforces economic and trade sanctions based on US foreign policy and national security goals against targeted foreign countries and regimes, terrorists, international narcotics traffickers, those engaged in activities related to the proliferation of weapons of mass destruction, and other threats to the national security, foreign policy or economy of the United States.



The tax administrator for the US. The role of the Internal Revenue Service is to help the large majority of compliant taxpayers with the tax law, while ensuring that the minority who are unwilling to comply pay their fair share.



The Office of the Comptroller of the Currency charters, regulates, and supervises all national banks and federal savings associations as well as federal branches and agencies of foreign banks. Ensures that national banks and federal savings associations operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations.

# US Supervisory Agencies

## Federal Banking Agencies



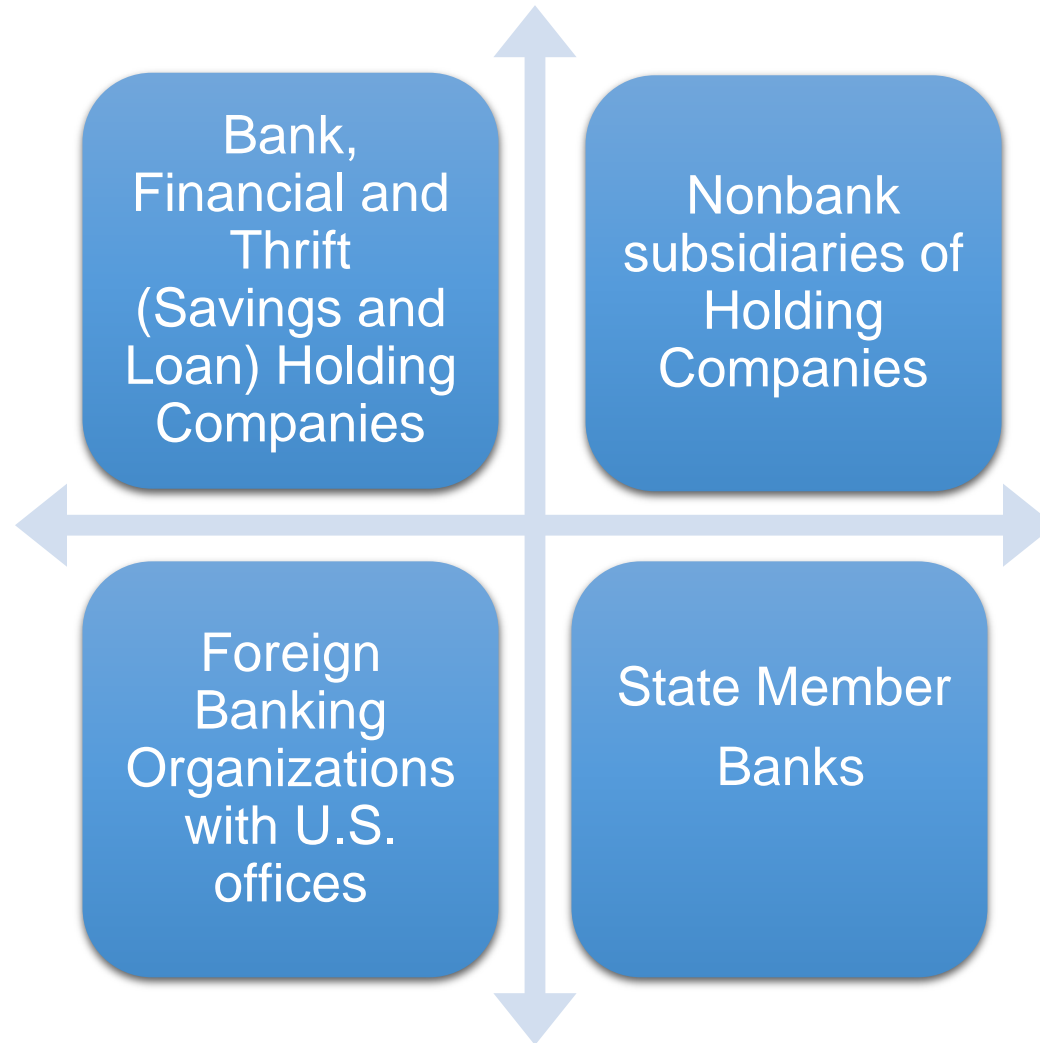
**FDIC**



## Other Agencies

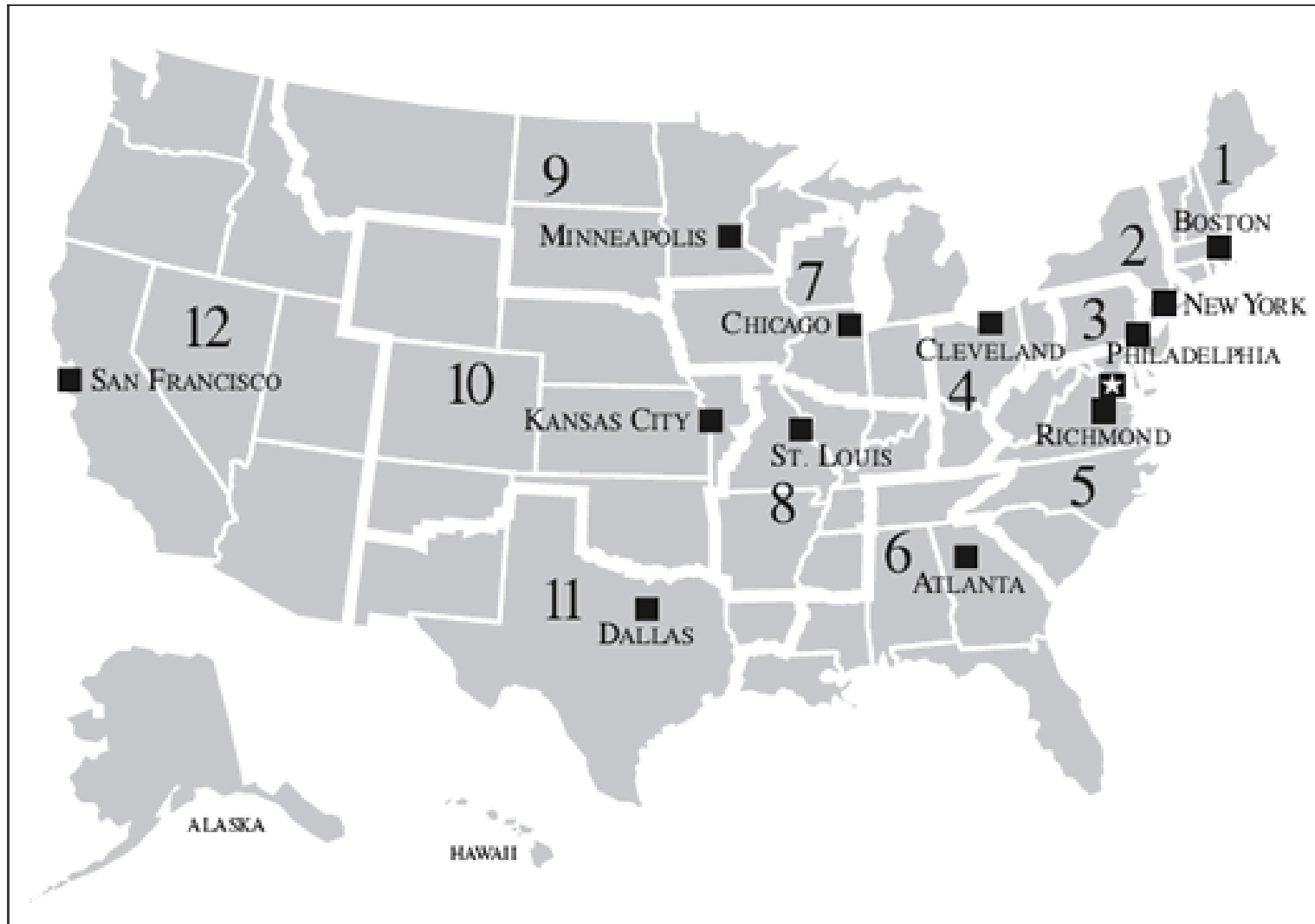


# Federal Reserve System Oversight Responsibilities

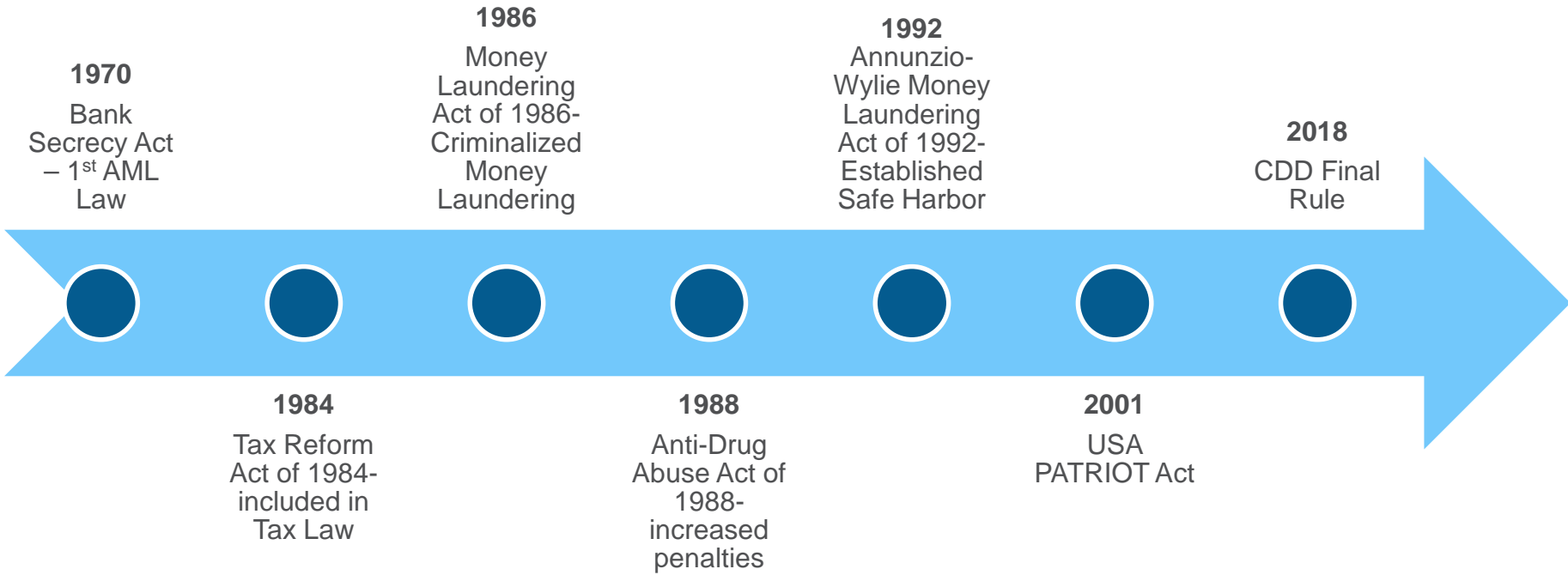




# Federal Reserve System – Reserve Banks



# Evolution of US BSA/AML legislation



# USA PATRIOT Act of 2001

311  
Special Measures

312  
Enhanced Due  
Diligence

313  
Restrictions on Shell  
Bank Account

314(a & b)  
Information Sharing

319  
Availability of  
Recordkeeping  
Requirements

326  
Customer  
Identification

351  
Safe Harbor

352  
Anti-Money  
Laundering Program  
Requirements

355  
SAR

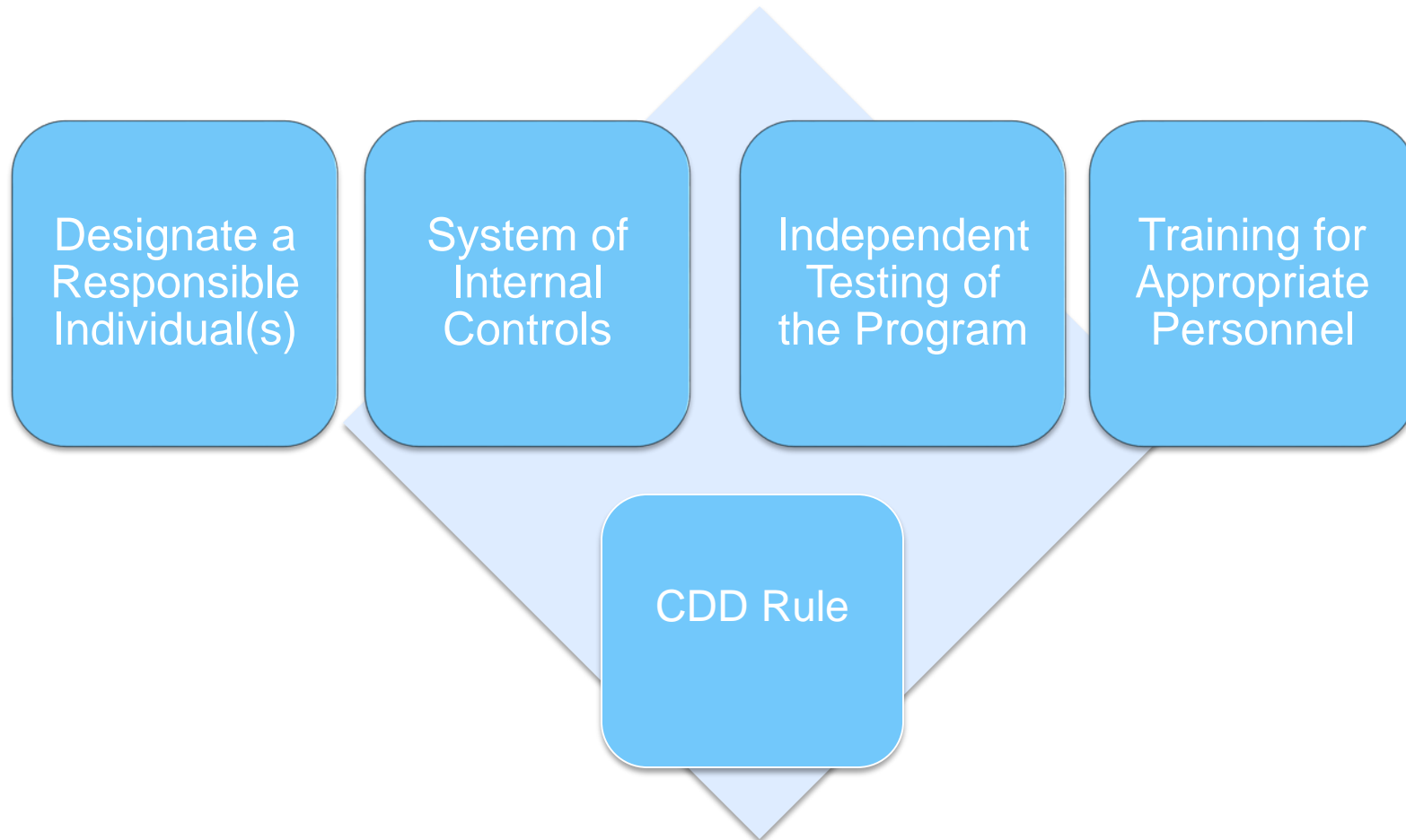


# Examination Approach

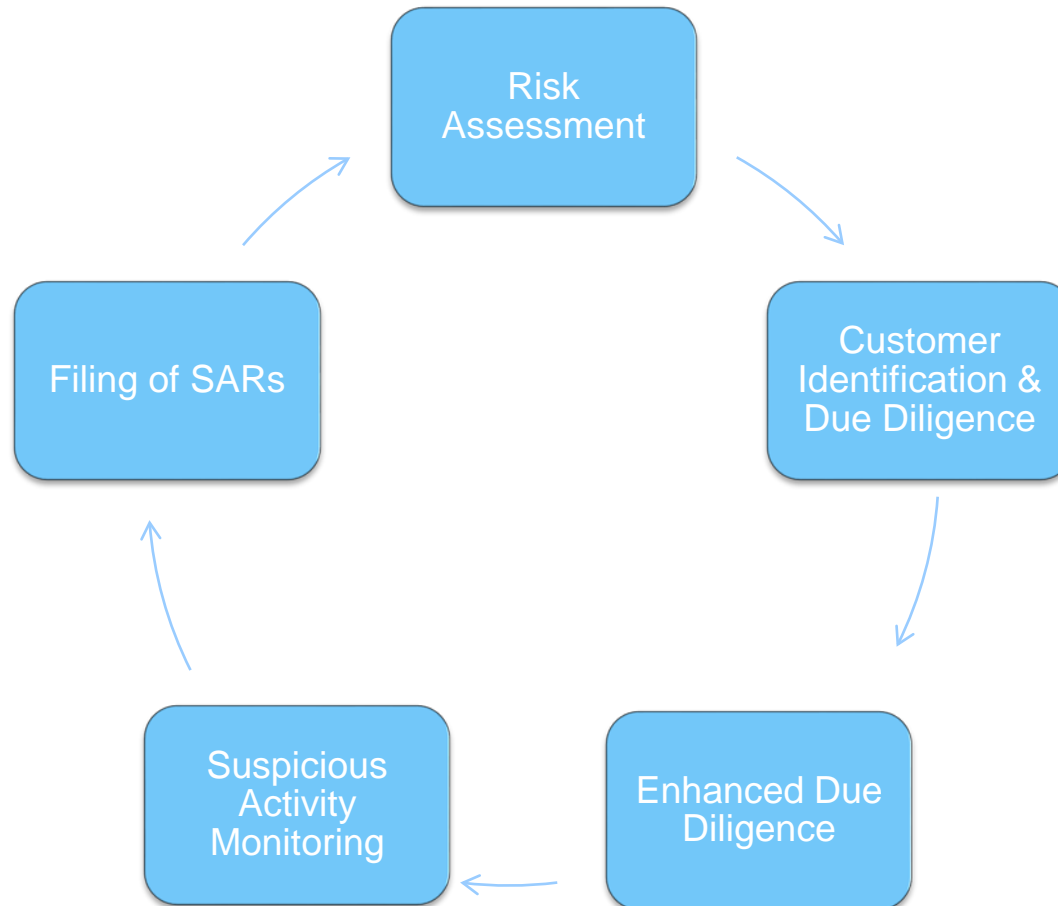
BSA/AML Examination Mandate	General Examination Approach
<p><b>Statutory Mandate:</b> Under 12 USC § 1818(s)(2)(A), a review of compliance with BSA is required for all insured depository institutions, as defined by the statute, which includes state member banks, branches and agencies of foreign banking organizations, and Edge and Agreement corporations.</p> <p><b>In practical terms</b> – The Federal Reserve, along with other supervisors, is responsible for meeting the statutory mandate for these institutions.</p>	<p><b>Pre-examination Process:</b> Review bank’s risk profile and define the scope of the examination including areas to conduct transaction testing</p> <p><b>Examination:</b> Conduct the examination to evaluate and test the effectiveness of the bank’s AML risk management program and determine compliance with legal and regulatory requirements</p> <p><b>Examination Conclusions:</b> Present findings verbally at exit meeting and provide a written examination report to management</p>



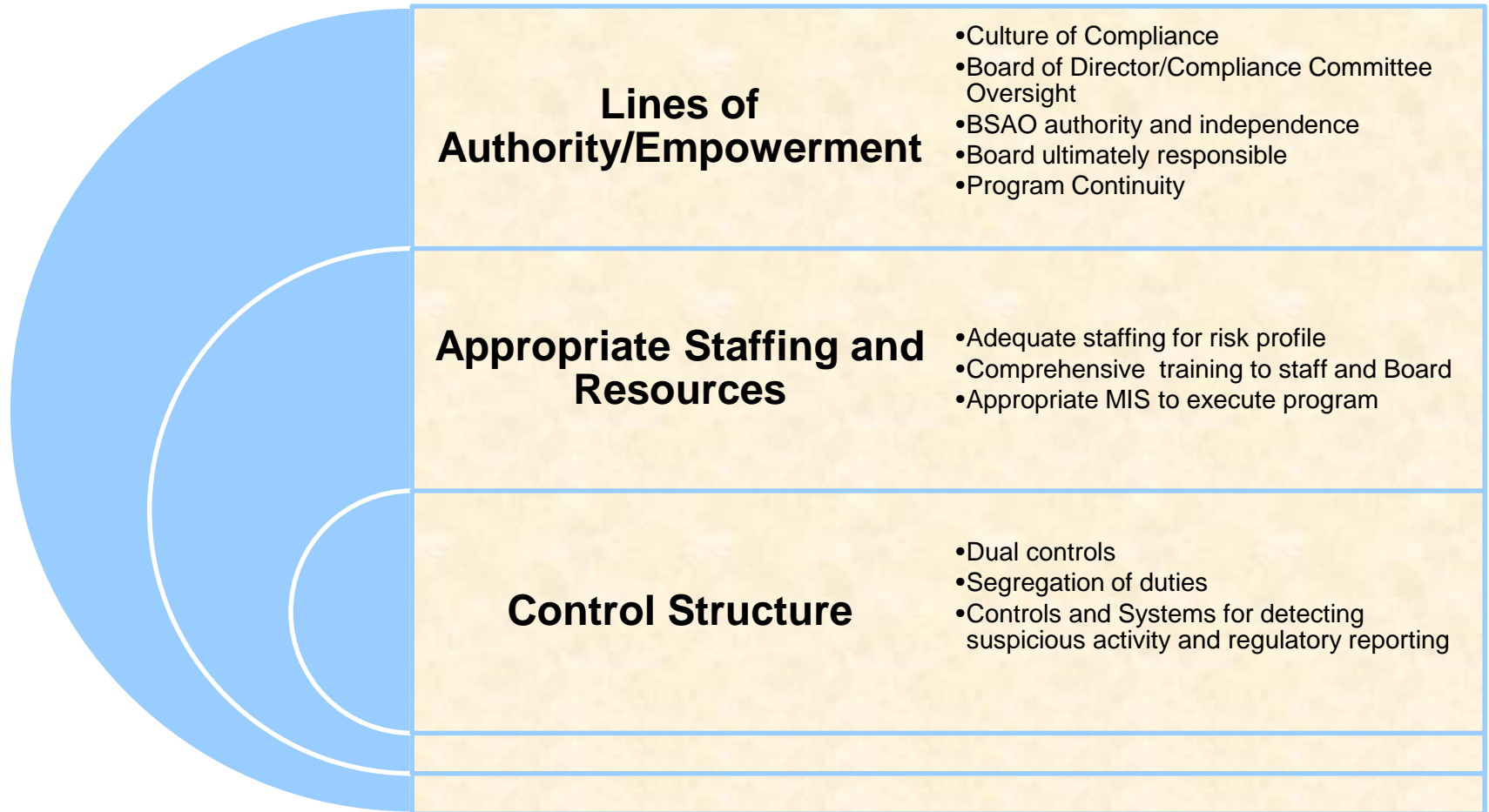
# BSA/AML Program Requirements



# AML Lifecycle



# BSA Officer, Management Oversight & Governance



# Internal Controls—Risk Assessment

## *Identify Risk Categories*

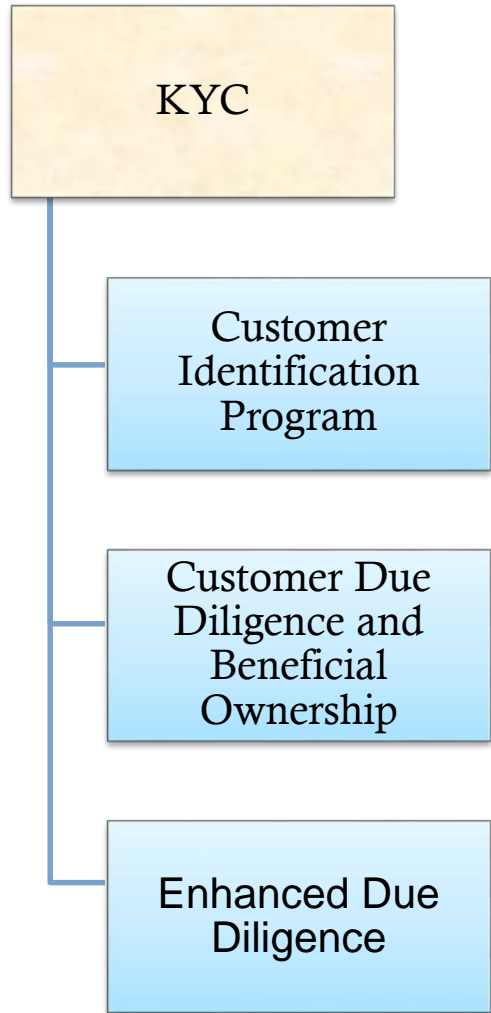
- Products, services, customers, types of entities, transactions, jurisdictions

## *Analyze each category to assess level of risk*

- Factors that affect each categories level of risk:
  - Transaction value & volumes, delivery channels, legal restrictions, regulatory environment and requirements, law enforcement concerns, product complexity



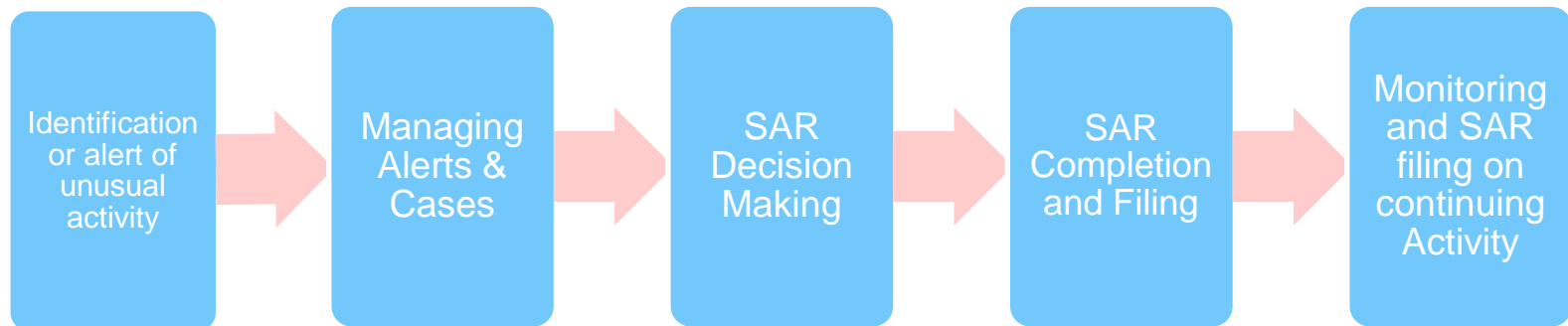
# Internal Controls—Customer Due Diligence



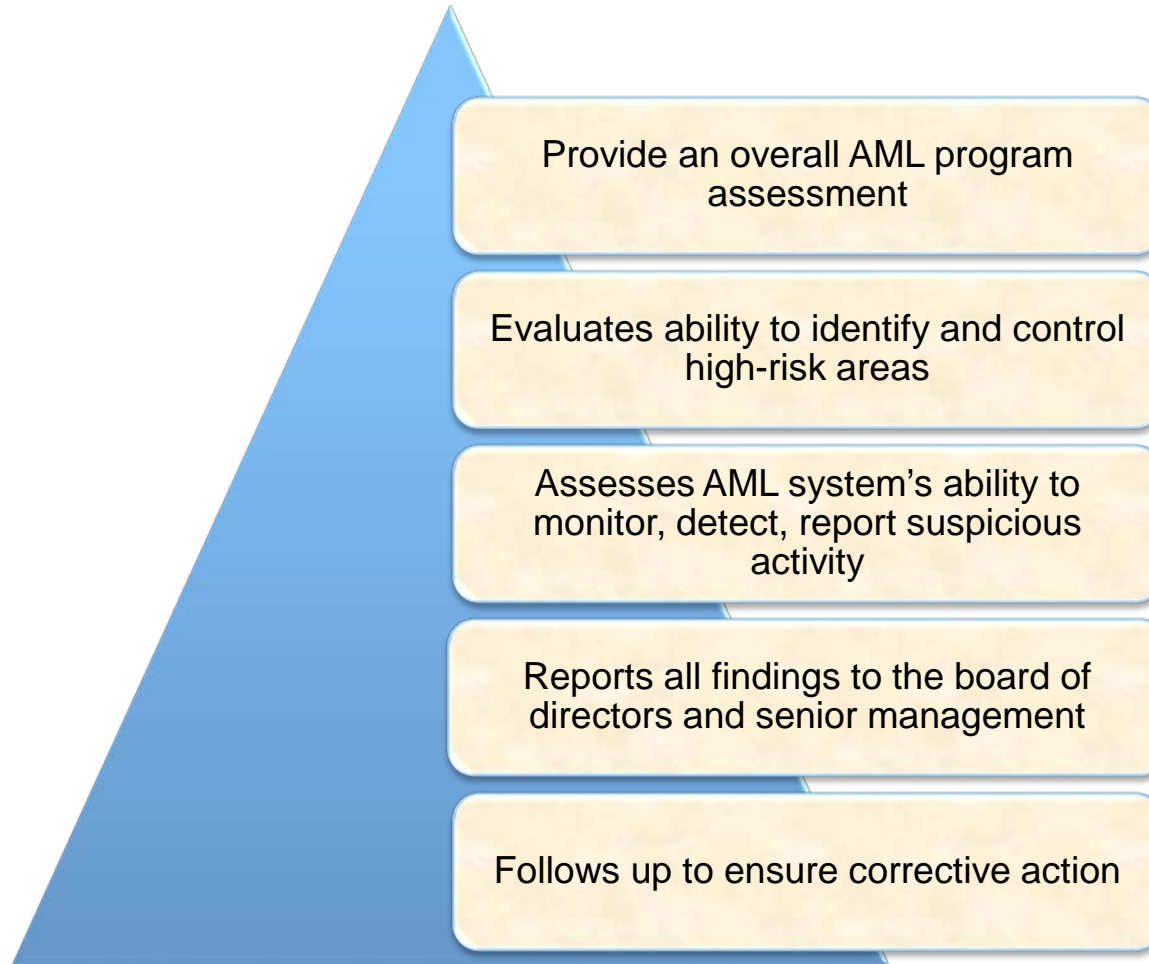
## Customer Due Diligence & Beneficial Ownership Rule (May, 2018)

- Identify and verify the identity of customers;
- Identify and verify the identity of the beneficial owners of companies opening accounts;
- Understand the nature and purpose of customer relationships to develop customer risk profiles; and
- Conduct ongoing monitoring to identify and report suspicious transactions and, on a risk basis, to maintain and update customer information.

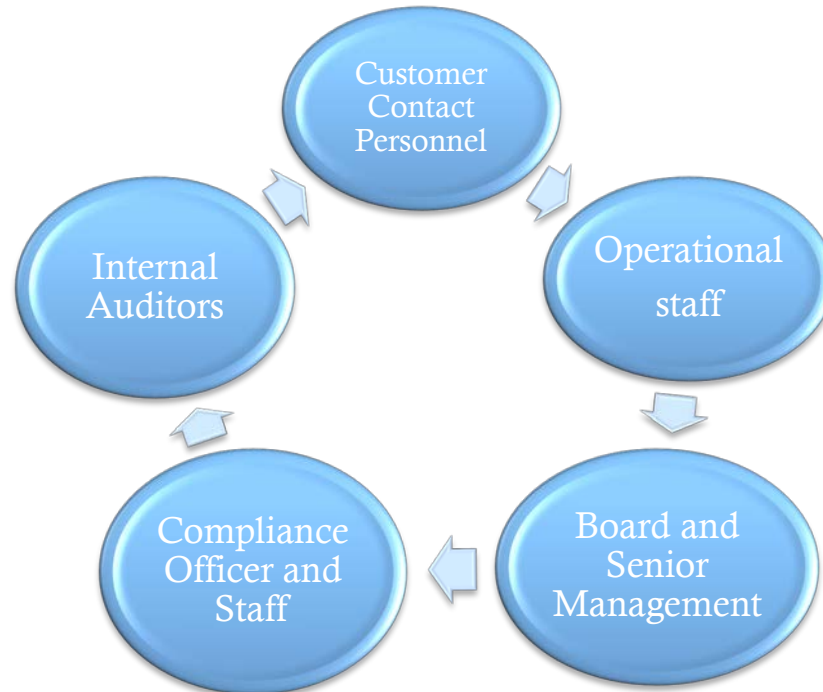
# Internal Controls—Suspicious Activity Monitoring



# Independent Testing



# Training



# Office of Foreign Assets Control

- OFAC - Office of the U.S. Treasury
  - Administers and enforces economic and trade sanctions based on U.S. foreign policy and national security goals.
- OFAC Requirements:
  - Block Accounts
  - Reject Transactions
- Risk-based OFAC Compliance Program



# OFAC Examination

- Review Risk Assessment
- Review Global Policies and Procedures
- Test Internal Controls
  - Reference data screening & alert disposition
  - Transaction screening & alert disposition
  - Blocked/Rejected reporting
- Independent Testing
- Training
- OFAC Compliance Officer



# Penalties for Non-Compliance



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2002: Fined **\$1.9 billion** for allowing itself to be used to launder a river of drug money flowing out of Mexico and other banking lapses.



2007: Fined **\$65 million** for failure to detect drug-related money transactions laundered through a subsidiary over several years.



2010: Fined **\$60 million** for failure to stop more than \$100 million of Colombian and Mexican drug traffickers' money being laundered through accounts at the bank.



2015: Fined **\$8.9 billion** for violations of U.S. economic sanctions concerning Sudan, Cuba and Iran.



2017: Fined **\$97 million** for willfully failing to maintain an effective anti-money-laundering compliance program at Banamex USA.



2019: Fined **\$1.1 billion** for poor money-laundering controls and breaching sanctions against countries including Iran.



# Emerging AML Risks & Issues

- Cryptocurrencies as money laundering vehicle
- Fintech/Regtech
- Advanced Data Analytics/Machine Learning
- Evolution of Sanctions requirements
- BSA regulatory reform



# Examination Resources



- Primary source of guidance for examiners
- Provides guidance on risks associated with money laundering and terrorist financing
- Contains:
  - Overview of BSA/AML compliance program requirements
  - BSA/AML risks and risk management expectations
  - Industry sound practices
  - Examination Procedures

# Questions?

