



16th Annual

Anti-Money Laundering

Audit & Compliance Forum

September 18 - 21, 2006
Crowne Plaza
New York City

The Longest-Running and Most Prestigious AML Conference

Managing Compliance With Your Customer Identification Programs By Applying the Latest Know Your Customer Techniques

Moderator:

Alan Sorcher
Vice President and
Associate General Counsel
Securities Industry Association

Panelists:

Tara Loftus
Executive Director and
Head of Money Laundering
Prevention
UBS Financial Services

Michelle Neufeld
Compliance Director,
Assistant General Counsel
JPMorgan Chase

Jack Sonnenschein
Senior Advisor,
Global Anti-Money Laundering
Citigroup

Don Carlson
Compliance Program Manager
Bank of America

CIP and KYC: When is Enough Enough?

Jack Sonnenschein



"On the Internet, nobody knows you're a dog."

Customer Identification Program is Risk Based

RISK assessment of customer base and product offerings

- The types of accounts offered by the bank.
- The bank's methods of opening accounts.
- The types of identifying information available.
- The bank's
 - » size,
 - » location
 - » customer base,
 - » geographic locations

When are CIP and KYC complete?

- a) Obtain Name, Date of birth, Address and Identification number

When are CIP and KYC complete?

- a) Obtain Name, Date of birth, Address and Identification number
- b) Verify by review of an unexpired government-issued form of identification evidencing:
 - ✓ customer's nationality or residence and
 - ✓ bear a photograph (driver's license or passport).

When are CIP and KYC complete?

- a) Obtain Name, Date of birth, Address and Identification number
- b) Verify by review of an unexpired government-issued form of identification evidencing:
 - ✓ customer's nationality or residence and
 - ✓ bear a photograph (driver's license or passport).
- c) Compare with Government Lists

When are CIP and KYC complete?

- a) Obtain Name, Date of birth, Address and Identification number
- b) Verify by review of an unexpired government-issued form of identification evidencing:
 - ✓ customer's nationality or residence and
 - ✓ bear a photograph (driver's license or passport).
- c) Compare with Government Lists
- d) All of the above

When are CIP and KYC complete?

- a) Obtain Name, Date of birth, Address and Identification number
- b) Verify by review of an unexpired government-issued form of identification evidencing:
 - ✓ customer's nationality or residence and
 - ✓ bear a photograph (driver's license or passport).
- c) Compare with Government Lists
- d) All of the above
- e) Never!!!

At Account Opening:

➤ **Determine appropriate level of due diligence required to evaluate various potential risks that may be posed by new customer**

Ongoing Relationship:

➤ **Identify as early as possible suspicious activity and/or customers that may represent money laundering or terror financing risks**

Meeting the ongoing challenge of CIP and KYC

Screening Capabilities

- Portfolio reviews
- Searching and Matching
- Workflow and documentation

Information

- Risk based
- Up-to-date Information Sources
- Relationships

Screening Capabilities:

- ✓ Enable efficient and cost effective checking of high risk entity information from internal and external databases
- ✓ Advanced entity resolution and disambiguation
- ✓ Allow for periodic reviews of entire customer portfolios
- ✓ Allow for management of false positives
- ✓ Serve as a tool in documenting name searches against databases in order to support due diligence and investigations.

External Information Sources

- **Government lists**
- **International organization lists**
- **Commercially available databases**
 - » **Terrorists**
 - » **Financial crimes**
 - » **Narcotics**
 - » **Senior public officials**
 - » **Military figures**
 - » **Religious leaders**
 - » **Charities**

External Information Sources

- **Commercially available databases (continued)**
 - » **Close associates**
 - » **Relatives**
 - » **Aliases**
 - » **Affiliations with profit or non-profit entities**

Internal Information Sources

- **Suspicious Activity Reports**
- **Internal Investigations**
- **Closed Accounts or Terminated Relationships**
- **Criminal Subpoenas**
- **Negative Lists**

Internal Information Sources – The Details:

- ✓ Identify and inventory the types of lists and how used
- ✓ Determine practice standards for lists and key events :
 - Appearance on government list,
 - Filing of suspicious activity report,
 - Account closure or termination of relationship
 - Receipt of criminal subpoena
 - Involvement in loss or fraudulent transaction
 - Subject of internal investigation
 - Negative press (financial or otherwise)

Internal Information Sources – The Details:(continued):

- ✓ Practices around keeping lists current
- ✓ Extent of detailed information added to lists
- ✓ Review and approval for changes to lists
- ✓ Balance internal sharing and “tipping-off” risk
- ✓ Information security, privacy and data sharing
- ✓ Technology and workflow

Summary

CIP and KYC is an ongoing effort

- **Risk Based**
- **Integrate multiple information sources**
- **Technology and workflow**
- **Search and match**
- **False positive management**
- **Document work done**

Section 326 – Customer Identification Program Basic Requirements

- 1. Verify the identity of each customer to the extent reasonable and practicable**
- 2. Maintain records**
- 3. Determine whether the person appears on a list designated for purposes of this rule.**



16th Annual

Anti-Money Laundering

Audit & Compliance Forum

September 18 - 21, 2006
Crowne Plaza
New York City

The Longest-Running and Most Prestigious AML Conference

Definitions

Definition of Customer

includes:

- A Person (Individual, corporation, partnership, trust, estate, etc.) that opens a new *account*
- An individual who opens a new account for:
 - 1) an individual who lacks legal capacity
 - 2) an entity that is not a legal person

does not include:

- A person who has an existing account (if firm reasonably believes knows person's true identity)
- Publicly-listed companies on certain U.S. Exchanges
- Financial institutions regulated by a Federal functional regulator
- State-regulated banks
- Federal, state and local government entities



16th Annual

Anti-Money Laundering

Audit & Compliance Forum

September 18 - 21, 2006
Crowne Plaza
New York City

The Longest-Running and Most Prestigious AML Conference

Recent Guidance

Omnibus - October 1, 2003

- (1) The omnibus account or relationship is established by or on behalf of a financial intermediary for the purpose of executing transactions that will clear or settle at another financial institution, or the omnibus accountholder provides limited information to the broker-dealer solely for the purpose of delivering assets to the custody account of the beneficial owner at another financial institution;
- (2) the limited information given to the broker-dealer about the beneficial owner is used primarily to assist the financial intermediary with recordkeeping or to establish sub-accounts that hold positions for a limited duration to facilitate the transfer of assets to another financial institution;
- (3) all transactions in the omnibus account or sub-accounts at the broker-dealer are initiated by the financial intermediary; and
- (4) the beneficial owner has no direct control over the omnibus account or sub-accounts at the broker-dealer.



16th Annual

Anti-Money Laundering

Audit & Compliance Forum

September 18 - 21, 2006
Crowne Plaza
New York City

The Longest-Running and Most Prestigious AML Conference

Recent Guidance

Agent Lending – April 26, 2006

- (1) the agent lender's customer does not initiate the transaction,
- (2) the agent lender determines the securities that will be used to fulfill the broker-dealer borrower's request,
- (3) the broker-dealer borrower records the loan transaction into an account in the name of the agent lender, and
- (4) the information about the agent lender's customer is generally provided to the broker-dealer borrower after the fact and principally for the purposes of determining credit risk and reporting regulatory capital.



16th Annual

Anti-Money Laundering

Audit & Compliance Forum

September 18 - 21, 2006

Crowne Plaza
New York City

The Longest-Running and Most Prestigious AML Conference

Section 326 – Customer Identification Program Basic Requirements

Definition of Account

- A formal or contractual relationship with a financial institution to provide financial products and services

***Exceptions include:**

ERISA Accounts

Transfer exception - Accounts acquired through acquisition, merger, etc.



16th Annual

Anti-Money Laundering

Audit & Compliance Forum

September 18 - 21, 2006
Crowne Plaza
New York City

The Longest-Running and Most Prestigious AML Conference

Core Four

Identification Information – Core Four

1. Name

Must be full legal name

2. Date of Birth, for an individual

3. Physical Address

Purpose – law enforcement
drop boxes

4. Identification number

Must be US taxpayer id (SSN) for US Persons
Application for taxpayer id



Section 326 – Customer Identification Program Basic Requirements

- Verify client's identity by documentary or non-documentary means
 - Practical Implications
 - Students
 - Elderly
 - Foreign Language
- Notice of verification provided to clients
- Maintain records of the information used to verify
 - Core 4 - 5 years after account is closed
 - Description of documents, verification method and resolution of issues – 5 years after the record is made
- Close accounts if unable to verify identity
 - Additional Review for Certain Customers
 - SAR filing required?
- Cross reference clients against lists of suspected terrorists or terrorist organizations
 - No List so designated
 - OFAC/SDN is a separate requirement
- CIP must be Risk-based



16th Annual

Anti-Money Laundering

Audit & Compliance Forum

September 18 - 21, 2006

Crowne Plaza
New York City

The Longest-Running and Most Prestigious AML Conference

CIP vs. KYC/Due Diligence

- CIP is only the first step
- Risk Assess Accounts to determine level of KYC/Due Diligence
 - Client Risk
 - Jurisdiction Risk
 - Business/Transaction Risk
- Risk Category should establish:
 - Additional Information/Documents & Vetting methods required
 - Level of Approvals Needed
 - Timing of Account Approvals
 - Frequency of KYC reviews
 - Type of Ongoing Monitoring required



16th Annual

Anti-Money Laundering

Audit & Compliance Forum

September 18 - 21, 2006
Crowne Plaza
New York City

Bank of America



The Longest-Running and Most Prestigious AML Conference

CIP “In Control”: A Process Engineering Perspective

Complete Set of AML CIP/KYC Process Are:

Defined (Policy and Procedures)

Measured (via Critical To Quality attributes (CTQ's))

In Control (Statistical Process Controls, Change Controls, with
Formal Control Plan)

Active Process Owners (Effective Execution, Training and Tools)

Meeting CTQ's (Capable Processes)

Continuous Improvements (Where Needed)

Certified Through Process Excellence!

Meets The Business Need(s)

Passes Internal Audits

Passes Regulatory Exams