

- **Workshop: Part II
Procedures & Best Practices
for Preparing for an
BSA/AML Examination**

John Wagner
Director, BSA/AML Compliance
Office of the Comptroller of the Currency
September 18, 2006



Discussion Topics

- Structure and Changes of the FFIEC BSA/AML Examination Manual
- BSA/AML Risk Assessment
- Stored Value
- USAPA Section 312
- Helpful Hints – How to Prepare for an Examination

o

Structure and Changes of the Examination Manual



Purpose of Examination Manual

- Interagency consistency
- Emphasize risk-based expectations
- Enhance understanding of...and compliance with...legal and regulatory requirements

o Examination Manual Structure

- **Introduction**
- **Core**
 - Assessing the BSA/AML Compliance Program
 - Regulatory requirements and Related Topics
- **Expanded**
 - Enterprise-Wide Compliance Program & Other Structures
 - Products and Services
 - Persons and Entities
- **Appendices**

Examination Manual Structure

- **Core**

- Assessing the BSA/AML Compliance Program
 - Scoping and Planning
 - Risk Assessment
 - BSA/AML Compliance Program
 - Developing Conclusions and Finalizing the Examinations

Examination Manual Structure

■ Core

- Regulatory Requirements and Related Topics
 - Customer Identification Program
 - Customer Due Diligence
 - Currency Transaction Reporting and Exemptions
 - Information Sharing
 - Monetary Instrument Recordkeeping
 - Due Diligence and Recordkeeping of Foreign Correspondent Banks and Private banking
 - Office of Foreign Assets Control (OFAC)

○ Expanded: Enterprise-Wide

- Expanded
 - Enterprise-wide BSA/AML Compliance Program
 - Foreign Branches and Offices of U.S. Banks
 - Parallel Banking



Expanded: Products and Services

- Expanded
 - Monetary Instruments
 - Wire Transfer
 - Correspondent Accounts
 - Private banking (Domestic / International)
 - Electronic Banking
 - Trust and Asset Management Services
 - Trade Finance Activities



Expanded: Persons and Entities

- Expanded
 - Nonresident Aliens and Foreign Individuals
 - Politically Exposed Persons (PEP)
 - Embassy and Foreign Consulate Accounts
 - Professional Service providers
 - Non-Government Organizations and Charities
 - Business Entities (Domestic and Foreign)
 - Cash-Intensive Businesses

O

Appendices

- BSA laws and Regulations, Directives, References
- Money Laundering and Terrorist Financing “Red Flags”
- Structuring
- Customer Risk vs Due Diligence & Suspicious Activity Monitoring
- SAR Quality Guidance
- Examiner Tools. Etc.

O New Areas / Updated Areas

New Areas:

- Risk Assessment
- Automated Clearing House (ACH)

Updated Areas:

- Trade Finance Activities
- Section 312
- Insurance
- SAR Sharing
- E-Cash
- Non-Bank Financial Institutions
- Business Entities

○ BSA/AML Risk Assessment

- **Purpose:**
 - ✓ Quantify BSA/AML Risk
- **Process:**
 - ✓ Step I - Identifying Specific Risk Categories
 - ✓ Step II – Analysis of Specific Risk Categories
- **Value:**
 - ✓ Impact on Development and Implementation of BSA/AML Compliance Program

○ BSA/AML Risk Assessment

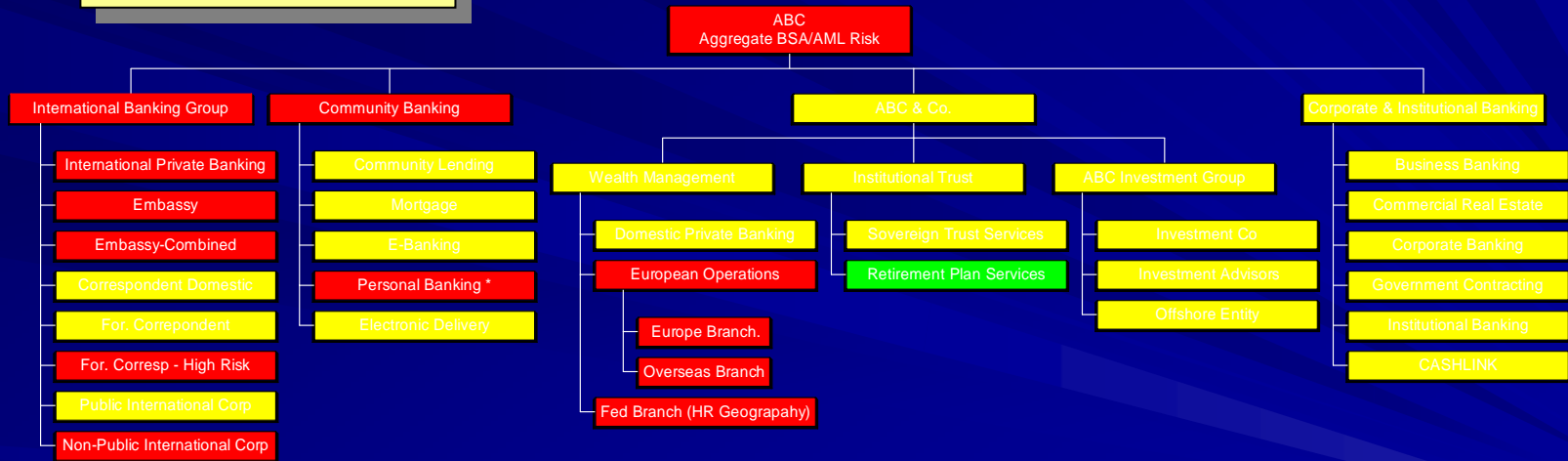
- Step I - Identifying Specific Risk Categories
 - ✓ Products / Services
 - ✓ Customers
 - ✓ Geographies
- Step II – Analysis of Specific Risk Categories
 - ✓ Private Banking
 - ✓ Non-resident Alien
 - ✓ Foreign Correspondent
 - ✓ Money Service Businesses

Organizational Risk Perspective

ABC Bank, NA

International Banking and Community Banking represent 60-75% of the bank's total business, outweighing other bank departments in relation to risk.

ABC, NA - Aggregate BSA/AML Risk



Red – High Risk

Yellow – Moderate Risk

Green – Low Risk

* Personal Banking's volume of high-risk clients, products and activity outweighs all other medium risk areas. This causes total Community Banking to be high-risk.



What Are Stored Value Cards?

- Stored value cards (or prepaid cards) are an emerging cash alternative for both legitimate consumers and money launderers alike.
- Cover a variety of uses and technologies that include:
 - embedded data processing chips,
 - magnetic stripe, and
 - Limited to access numbers or password information printed on them, but cannot access or transfer cash or value (e.g. prepaid phone service cards)

○ Open and Closed Systems

- Stored value cards operate within either an “open” or “closed” system
 - “Open” systems connect to global debit and automated teller machine (ATM) networks
 - “Closed” system cards are limited to only buying goods or services from the merchant issuing the card or a select group of merchants or service providers that participate in a network

Vulnerabilities

- Transportable, and potentially anonymous way to store and access cash value
 -
- Open system cards lower the barrier to the U.S. payment system, allowing individuals without a bank account to access illicit cash via ATMs globally

USAPA Section 312

Final & Proposed Rule

■ Final Rule

- Due diligence for Foreign Correspondent Accounts
- Due diligence for Private Banking Accounts for non-U.S. persons and enhanced scrutiny of Senior Foreign Political Figures

■ Proposed Rule

- “Enhanced Due Diligence” for Foreign Correspondent Accounts
- Proposal: no categorical exemptions



What is a Correspondent Account?

- Account established for a foreign financial institution to receive deposits from, or to make payments, disbursements or handle other transactions on behalf of the foreign financial institution

For banks, this means:

- A formal relationship established to provide regular services, and includes a demand deposit, savings deposit, or other transaction or asset account and a credit account or other extension of credit.



Due Diligence Requirements for Foreign Correspondent Accts

- Establish a due diligence program that includes appropriate, specific, risk-based and, where necessary, enhanced policies, procedures and controls that are reasonably designed to detect and report money laundering and to:
 - Determine whether enhanced due diligence is required for the correspondent account
 - Assess the money laundering risks posed by each correspondent account
 - Apply risk-based procedures and controls for each correspondent account, including the periodic review of account activity



Risk Assessment – Factors to Consider

- Nature of the foreign financial institution's business and the markets it serves
- Type, purpose, and anticipated activity of the account
- Nature and duration of U.S. institution's relationship with the foreign institution
- Anti-money laundering and supervisory regime of the jurisdiction where the foreign institution is located and, if applicable, where its parent company is located
- Information known or reasonably available about the foreign institution's anti-money laundering record



“Enhanced Due Diligence”



When is Enhanced Due Diligence Required?

Enhanced due diligence is required by statute for foreign banks operating under:

- An offshore banking license
- A license issued by a foreign country designated as non-cooperative with international anti-money laundering standards by an intergovernmental body (and the U.S. concurs with the designation)
- A license issued by a foreign country designated by the Secretary of the Treasury as warranting special measures due to money laundering concerns



What Enhanced Due Diligence Measures are Required

- Reasonable, risk-based, steps to conduct enhanced scrutiny to guard against money laundering, including, as appropriate:
 - Reviewing documentation concerning a foreign bank's anti-money laundering program
 - Monitoring transactions for money laundering and suspicious activity
 - Obtaining information about entities that can direct transactions through Payable-Through Accounts
- Reasonable steps to determine existence of nested accounts and, if so, take reasonable steps to minimize associated money laundering risks, including, as appropriate, identifying the nested foreign banks
- Reasonable steps to identify owners (10% or more) of non-publicly traded banks



Private Banking



What is a Private Banking Account?

- Account established for one or more non-U.S. persons who are direct or beneficial owners of the account
- Account requires minimum aggregate deposit of not less than \$1 million
- Account is managed by a liaison



Due Diligence for Private Banking Accounts

- Determine identity of direct & beneficial owners
- Determine if owner is a Senior Foreign Political Figure
- Determine source(s) of funds, purpose, and expected use of account
- Review account activity to ensure consistency with stated purpose
- Report known or suspected money laundering or other suspicious activity



Effective Dates

- **July 5, 2006 – New Accounts**
Requirements apply to each account established on or after this date
- **October 2, 2006 – Existing Accounts**
Requirements apply to each account established before April 4, 2006



o Helpful Hints – How to Prepare for an Examination

- Ensure Prior Examination and Audit Criticisms are Corrected**
- Double Check Risk Assessment**
- Know Strong and Weak points within BSA/AML Compliance Program**
- Hot Topics?**
- Stay Ahead of the Examiners!**



Contact Information

John Wagner

Director, BSA/AML Compliance Policy

Phone: 202-874-4428

E-mail: john.wagner@occ.treas.gov