



# Interpreting New FFIEC BSA/AML Manual Updates

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CENTRAL NEW JERSEY COMPLIANCE GROUP



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# Agenda

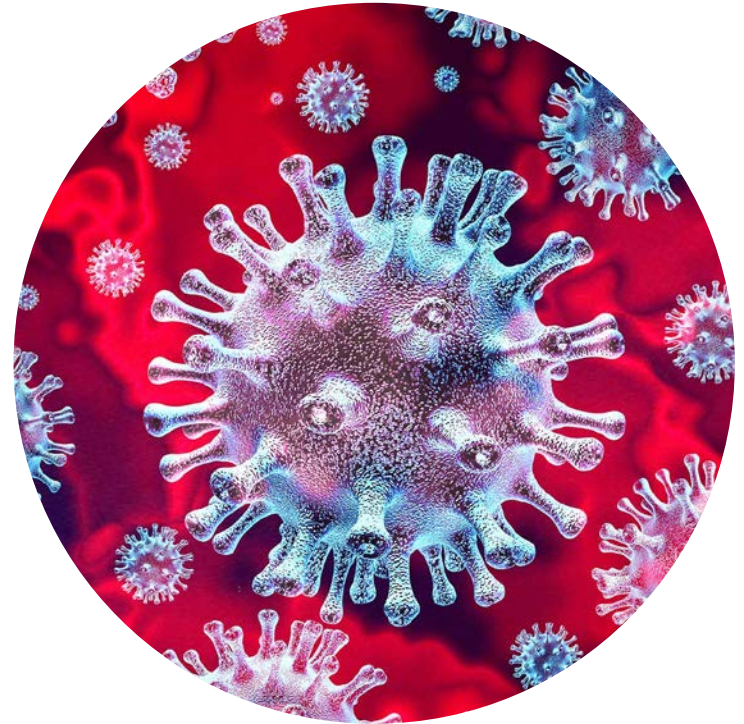
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- Purpose & History of the FFIEC BSA/AML Manual
- Key Takeaways
- Specific Updates to the BSA/AML Manual
- Potential Impact on Examinations
- Program Considerations for Temporary Changes in Customer Behavior Due to Pandemic
- Questions

# Program Considerations for Temporary Changes Due to Pandemic

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- Observations on differing customer behavior during pandemic
- Impact on Customer Risk Rating
  - What is the risk?
- Re-assessing BSA/AML models to account for changes in behavior



# What is the FFIEC BSA/AML Manual?

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- The ***Federal Financial Institutions Examination Council (FFIEC) Bank Secrecy Act (BSA)/Anti-Money Laundering (AML) Examination Manual*** provides guidance to examiners for carrying out BSA/AML & Office of Foreign Assets Control (OFAC) examinations.
- An effective BSA/AML compliance program requires sound risk management; therefore, the manual also provides guidance on identifying & controlling risks associated with money laundering & terrorist financing.

# Background

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- In 1970, Congress passed the Currency & Foreign Transactions Reporting Act commonly known as the *Bank Secrecy Act (BSA)*, which established requirements for recordkeeping & reporting by private individuals, banks & other financial institutions.
- The BSA was designed to help identify the source, volume & movement of currency & other monetary instruments transported or transmitted into or out of the United States or deposited in financial institutions.

# Background *(cont'd.)*

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- The statute sought to achieve that objective by requiring individuals, banks & other financial institutions to file currency reports with the U.S. Dept. of the Treasury (U.S. Treasury), properly identify persons conducting transactions & maintain a paper trail by keeping appropriate records of financial transactions.
- These records enable law enforcement & regulatory agencies to pursue investigations of criminal, tax & regulatory violations, if warranted & provide evidence useful in prosecuting money laundering & other financial crimes.

# Where Can I Access the FFIEC BSA/AML Manual?

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<https://bsaaml.ffiec.gov/manual>

## **BSA/AML Examination Manual Section List & Download Options**

- Available within a Online Link or PDF version
- Spanish translation is available



# Key Takeaways

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- Subtle changes
- More risk-based approach
- Use of bank's BSA Risk Assessment & Independent Audit
- Distinction between legal requirements & supervisory expectations
- Board of directors responsibility emphasized



# Shortcut to Updates

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- PDF Version of Updated Manual (See handout)

## Bank Secrecy Act/ Anti-Money Laundering Examination Manual

Federal Financial Institutions Examination Council

Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation,  
National Credit Union Administration, Office of the Comptroller of the Currency,  
Consumer Financial Protection Bureau and State Liaison Committee

April 2020 Update

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# Scoping & Planning Intro

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- Risk management practices
- Compliance with BSA requirements on areas of greatest ML/TF & other illicit financial activity risks.
- Tailored to the bank's risk profile
- Contains OFAC requirements
- Update included wording change from “effectiveness” to “adequacy.”



# Risk-Focused BSA/AML Supervision

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- Risk-focused approach
- Assess the adequacy of the bank's BSA/AML compliance program relative to its risk profile & the bank's compliance with BSA regulatory requirements.
- Scope of a BSA/AML examination varies by bank.



# BSA/AML Risk Assessment

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- Assists examiners in developing an understanding of the bank's risk profile, risk-focusing the examination scope & assessing the adequacy of the bank's overall BSA/AML compliance program & its compliance with BSA regulatory requirements.
- Provides information & procedures for examiners in determining whether the bank has developed a risk assessment process that adequately identifies the ML/TF & other illicit financial activity risks within its banking operations.

# BSA/AML Risk Assessment *(cont'd.)*

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- Whenever the bank has not completed a BSA/AML risk assessment, or it is deemed inadequate, the examiners must develop a BSA/AML risk assessment for the bank, though the expectation is that the “examiner-developed BSA/AML risk assessment generally is not as comprehensive as one developed by the bank.”



# Independent Testing

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- Identify & obtain independent testing
- Evaluation of independent testing to identify high-risk areas
- If the bank's independent testing is adequate, findings may be leveraged to reduce the examination areas covered & the testing needed to assess the BSA/AML compliance program.




# BSA Reporting Available from FinCEN

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- FinCEN Query used to access all BSA reports.
- Downloaded information from FinCEN Query may be important to the examination, as it helps examiners:
  - Identify high-volume currency customers.
  - Identify the volume & characteristics of SARs filed.
  - Identify frequent SAR subjects.
  - Identify the volume & nature of CTRs and CTR exemptions.
  - Select accounts, transactions, or BSA filings for testing, if warranted.

# Risk-Focused Testing

- Testing specific transactions vs. performing analytical or other reviews.
  - Consider size & type of testing composition of the sample to align with the bank's size & risk profile.
  - Consider recent changes to bank to determine the adequacy of the BSA/AML compliance program.
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# BSA/AML Risk Assessment

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- BSA/AML Risk Assessment Process
- Updating the Risk Assessment
- Assessing the Bank's BSA/AML Risk Assessment
- Developing a BSA/AML Compliance Program Based on the BSA/AML Risk Assessment

# Assessing the Compliance Manual

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- Banks must establish & maintain procedures reasonably designed to assure & monitor compliance with BSA regulatory requirements (BSA/AML compliance program)
- The BSA/AML compliance program must provide for the following requirements:
  - *A system of internal controls*
  - *Independent testing*
  - *Designation of BSA compliance officer*
  - *Training for appropriate personnel*
  - *Customer Due Diligence (CDD) Requirements*

# BSA Compliance Officer

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- Designated by board of directors
- Responsible for coordinating & monitoring day-to-day BSA/AML compliance
- The board of directors is ultimately responsible for:
  - Bank's board-approved BSA/AML compliance program
  - Ensuring that the BSA compliance officer has appropriate authority, independence & access to resources to administer an adequate BSA/AML compliance program

# BSA/AML Training

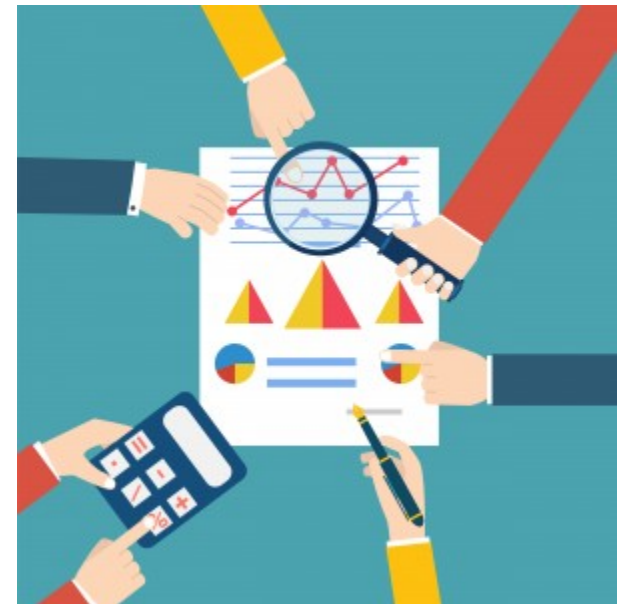
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- Targeted training for specific ML/TF & other illicit financial activity risks for certain business lines.
- The BSA officer should receive relevant & appropriate periodic training.
- The board of directors & senior management should receive foundational training & be informed of changes & new developments in the BSA.
- Training & testing materials & the dates of training sessions should be maintained by the bank for auditor or examiner review.

# BSA/AML Internal Controls

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- Ultimately responsibility lies with the Board of Directors
- Bank's system of internal controls should be designed to mitigate & manage ML/TF & other illicit financial activity risks.
- Commensurate with the bank's size or complexity & organizational structure.
- Departmental internal controls, if applicable.





# Customer Due Diligence (CDD) Requirements

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- The BSA/AML compliance program must also include appropriate risk-based procedures for conducting ongoing customer due diligence (CDD) & complying with beneficial ownership requirements for legal entity customers.
- BSA recordkeeping & reporting requirements (e.g., customer information program (CIP), customer due diligence (CDD), etc.

# Developing Conclusions & Finalizing the Exam

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- Conclusions about the adequacy of the bank's BSA/AML compliance program.
- Banks have flexibility in the design of their BSA/AML compliance.
- Bank has established appropriate processes to manage ML/TF & other illicit financial activity risks & that the bank has complied with BSA requirements.
- Significant findings should be presented in a written format for inclusion in the report of examination (ROE).

# Developing Conclusions & Finalizing the Exam *(cont'd.)*

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- **Isolated or Technical Violations**
  - Based on the nature, duration & severity of the problem.
  - Either informal or formal enforcement actions to address violations of BSA regulatory requirements.
- **Systemic or Repeat Violations**
  - Substantive deficiency or a repeated failure to comply with BSA regulatory requirements.
  - Negative impact on the adequacy of the bank's BSA/AML compliance program.

# Potential Impact on Examinations

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- Bank's policies, procedures & internal controls to are aligned to the subtle changes to the FFIEC manual.
- Increased focus of the bank's risk assessment & comprehensiveness of independent audit testing.
- Board & senior management should have sufficient resources, including staffing & technology.



# Questions?



# Contact Us

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