



Focus on Anti-Money Laundering in 2022

Navigating the Winding Road

NACUSAC 2022 Annual Conference & Expo

June 15 – 18, 2022

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Agenda

AML Act of 2020

- Strengthening Treasury Financial Intelligence AML and CFT Programs
- Modernizing the AML and CFT System
- Improving AML and CFT Communication, Oversight and Processes
- Establishing Beneficial Ownership Information Reporting Requirements

Model Risk Management and BSA/AML/OFAC Compliance

- New Model Risk Management Guidance
- Audit Considerations and Challenges

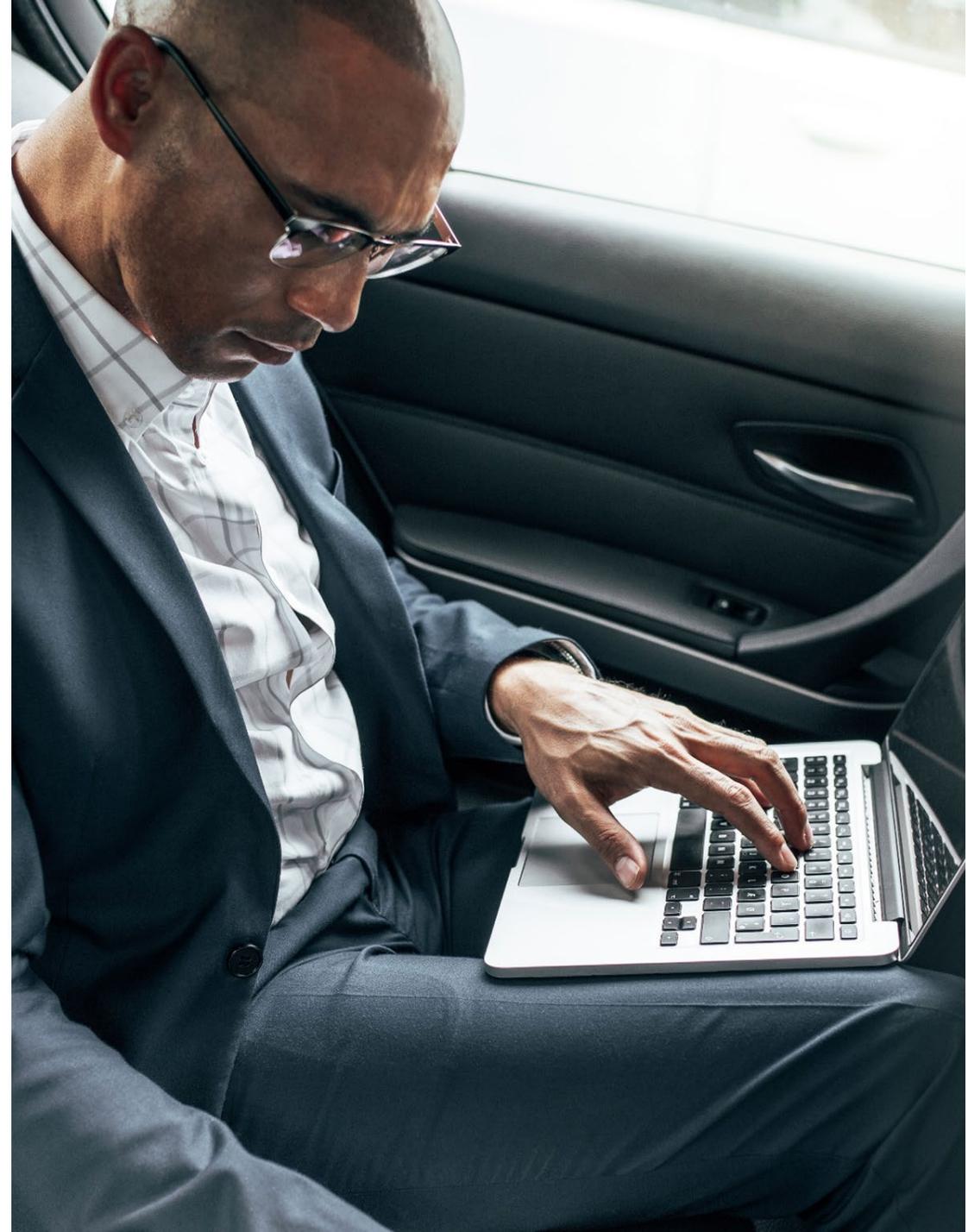
FFIEC Exam Manual Updates

Enforcement Actions

- Supervision Priorities
- Recent Examples & Fines
- What's Next?

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- Regulatory Landscape – AML Independent Testing
- Common Challenges and Criticisms of AML Audit – Scope and Coverage



Anti-Money Laundering Act of 2020



AML Act of 2020



- Passed on January 1, 2021, the FY2021 National Defense Authorization Act (“NDAA”) includes some of the largest revisions to the Bank Secrecy Act (“BSA”) and other Anti-Money Laundering (“AML”) regulations since 2001.
- Comprised of 4,500 pages of which approximately 200 pages are specifically related to AML/BSA reform and Countering the Financing of Terrorism (“CFT”).
- There are five key sections relating to BSA/AML that may impact an organization’s compliance efforts.

The five sections of the NDAA related to BSA/AML reform include:

- 1) Strengthening Treasury Financial Intelligence, AML, and CFT Programs;
- 2) Modernizing the AML and CFT System;
- 3) Improving AML and CFT Communications, Oversight and Processes;
- 4) Establishing Beneficial Ownership (“BO”) Information Reporting Requirements; and
- 5) Miscellaneous.

Strengthening Treasury Financial Intelligence, AML, and CFT Programs

This section focuses primarily on changes within U.S. government structures and its relationship to foreign Financial Intelligence Units (“FIU”). There is emphasis on the importance of the U.S. government working closely with foreign counterparts in the sharing of information.

Key Points to Remember:

- Establishes national examination and supervisory priorities
- FinCEN now required to facilitate a voluntary public-private information sharing partnership among law enforcement agencies, national security agencies, financial institutions and FinCEN.
- Expands AML/BSA requirements to antiquities dealers.
- Amends Section 5312(a)(2) of Title 31, USC to expand definition of “funds” to include digital currencies.

Modernizing the AML and CFT System

This section of the 2021 NDAA will have a direct impact on organizations' FIU operations, as it emphasizes the usage of data and technology. One of the significant changes recommended within the 2021 NDAA is the evaluation of the reporting thresholds. As systems are tuned and configured to identify activity that occurs within thresholds, additional tuning exercises may be required.

Thresholds for structuring rules are directly related to the current \$10,000 reporting threshold. If the threshold is raised, a financial institution's model configuration would need to be adjusted or alerts would be generating without adding value to the monitoring program.

Key Points to Remember:

- Streamlined opportunities and potential new thresholds for CTRs and SARs.
- Creation of new standard for how financial institutions test their technology.
- Creation of pilot program for financial institutions to share SAR info with their foreign branches, subsidiaries and affiliates.
- Permission for two or more financial institutions to collaborate and share compliance resources.
- FinCEN required to report semi-annually on threat patterns and trend data.

Improving AML and CFT Communication, Oversight and Processes

Focus on AML in 2022

This section focuses on promoting cooperation with law enforcement by incentivizing individuals to come forward and report illicit activity, while also creating harsher penalties for those who do not comply with BSA/AML law. Whistleblowers are specifically mentioned and now receive increased protections and a newly established private right of action if the whistleblower suffers retaliation for disclosing BSA violations.

Key Points to Remember:

- Additional safe harbors for financial institutions cooperating with law enforcement Keep-Open letters.
- Provides DOJ increased ability to subpoena records of foreign banks that maintain correspondent accounts in U.S.
- Significant increases to damages/penalties for BSA/AML non-compliance.
- Increased protections and potential rewards for whistle-blowers to incentivize the reporting of BSA/AML violations.

Establishing Information Reporting Requirements

Focus on AML in 2022

The 2021 NDAA **requires** FinCEN to maintain a secure, non-public database as a registry of Beneficial Owner information collected for companies that are based in or operating within the U.S. LLCs, corporations, and other similar entities will now have to provide ownership information to FinCEN. Under the Act, ownership is defined as:

“An individual who, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise (i) exercises substantial control over the entity; or (ii) owns or controls not less than 25 percent of the ownership interest of the entity.”

Key Points to Remember:

- FinCEN will be required to maintain a registry of beneficial ownership information in a secure, non-public database collected for certain U.S. companies and companies doing business in the U.S.
- FIs will be able to request information from the FinCEN Beneficial Ownership database with consent from the reporting company if subject to the CDD requirements.
- FinCEN will be required to eventually revise the CDD Final Rule to reduce burdens on FIs and legal entity customers that are unnecessary or duplicative.
- Requirements established for law enforcement and other government agencies to access the FinCEN database.

“Miscellaneous”

The AML/BSA reform included in the 2021 NDAA concludes with a “Miscellaneous” section. This section includes the expansion of SEC enforcement power, creating a 10-year statute of limitations for the SEC to seek disgorgement. The Act also places processes for the Government Accountability Office (GAO) and Department of the Treasury to evaluate trends related to financial crimes risk.

The regulatory landscape continues to evolve and FinCEN will be communicating additional action items for organizations to implement to adhere to the newly enacted regulations in the future.

Key Points to Remember:



Amends the Securities Exchange Act of 1934, expanding SEC enforcement power to seek disgorgement.



Includes provisions for numerous studies to be performed by the GAO and the Department of the Treasury.

Model Risk Management and BSA/AML Compliance



Model Risk Management Guidance

- Interagency Statement issued in April 2021 addressed the applicability of the 2011 Guidance (MRMG) to systems and models used to comply with BSA/AML/OFAC regulations.
- **About 2011 Guidance (MRMG):**
 - Intended to assist financial institutions relying on models to do so in a safe and sound manner.
 - Laid out principles in three key areas:
 1. model development, implementation, and use;
 2. model validation; and
 3. governance, policies and controls.
 - Defined the term “model”: *“a quantitative method, system, or approach that applies statistical, economic, financial, or mathematical theories, techniques, and assumptions to process input data into quantitative estimates.”*
 - Explained that a model consists of three key components:
 1. an information input component, which delivers assumptions and data to the model;
 2. a processing component, which transforms inputs into estimates; and
 3. a reporting component, which translates the estimates into useful business information.

Issue:

While the MRMG is useful, it is not clear how it applies to the unique attributes of BSA/AML/OFAC compliance.

Key Points From Guidance

- Risk management principles discussed in the MRMG are indeed appropriate considerations for BSA/AML/OFAC requirements.
- **Whether a BSA/AML/OFAC system is considered a model is an institution-specific determination.**
 - No definition in statute or regulation of what constitutes a model – refer to definition in MRMG.
 - Some, but not all, TM systems may involve use of modeling.
 - “Prudent risk management” means periodically reviewing and testing filtering criteria/thresholds and independently validating system methodology/effectiveness.
- **Examples of what would likely NOT be considered BSA/AML/OFAC models are specified:**
 - Stand-alone, simple tools that flag transactions based on a singular factor, such as reports that identify cash, wire transfer, or other transaction activity over certain value thresholds.
 - Systems used to aggregate cash transactions occurring at institution’s branches for purposes of filing CTRs.
- **Testing/validation of BSA/AML/OFAC models should be customized to fit purpose of model’s use.**
 - Frequency of validations not defined.
 - Use of third-party models requires reasonable due diligence.

Other Related Regulatory Guidance

- In August 2021, the OCC issued a Model Risk Management version of the Comptroller's Handbook, which is prepared for use by the OCC in connection with examinations of national banks. While the guidance is not binding on other types of financial institutions, there are key aspects for consideration:
- **Specific Mention of BSA/AML/OFAC Models:**
 - An institution's compliance risk can increase when BSA/AML/OFAC models inaccurately reflect an institution's risk profile.
 - Objective and structure differs from other business units; emphasis on coverage over efficiency.
 - May require quick adjustments to reflect changing nature of criminal behavior or the institution's risk profile.
 - Testing and performance monitoring may not use the same techniques.
 - Lack of information about realized outcomes (e.g., SARs).
 - Shift from traditional back-testing to greater focus on ATL/BTL review as there is no definitive way to measure the total amount of suspicious activity that occurred to activity detected by the system.
 - ATL = Alert productivity metrics like (1) false positive rate, (2) the proportion of alerts generated by the model that are escalated to the next level of manual review, and (3) the proportion of alerts that result in a SAR.
 - BTL = Drawing sample of activity that does not result in an alert by the model to determine if the rate of false negatives is within the institution's risk tolerance.

Model Risk Management

The two areas in which we typically see audit failures cited relate to Model Validation and Model Tuning.

Model Validation and Tuning & Optimization Common Findings

- Lack of formal validation methodology or not being completed
- Lack of internal ongoing testing (e.g., balancing and reconciliation)
- MRM methodology not including user access or change control
- Lack of a formal tuning methodology or not being completed
- Tuning and/or Validation not being completed for all AML Models in use (across CRR, TM, and OFAC/Sanctions)
- Lack of model development documentation such as BRD and FRD

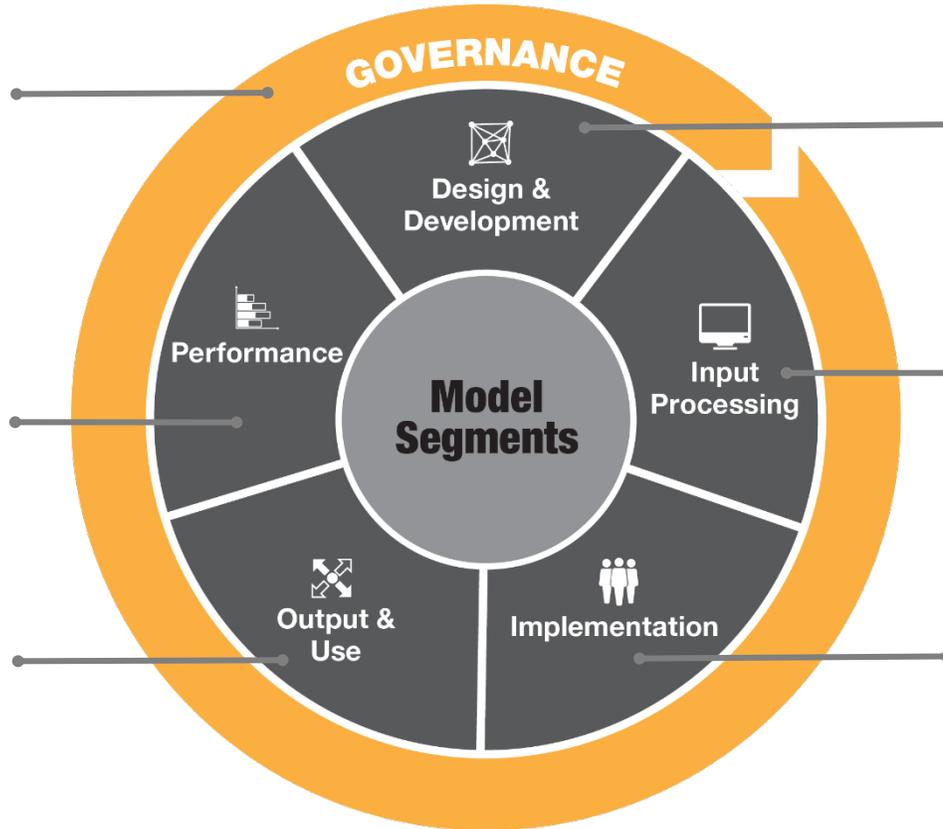
Model Validation

BSA/AML Model Validation Segments

The governance surrounding the ongoing support of the model is evaluated throughout each of the five model segments.

Validates the procedures and processes used to prioritize and assess the model's outputs; evaluates the ability to calibrate and optimize the model performance over time.

Validates the policies, procedures, and processes in use to confirm that the model output is as designed and is being evaluated by the proper users without unexpected or unintended bias.



Validates the intended purpose of the model, the model logic and functionality, alignment of the model to the purpose, assumptions and limitations of the model, and methodology used to design and develop the model.

Validates the inputs relied upon by the model, including the accuracy and completeness of the model data as well as the ongoing maintenance of inputs.

Validates the integration of the model's design and functionality into the institution's business-as-usual processes and technology. Model versions and parameters tied to specific BUs, geographies, and products are assessed.

FFIEC Examination Manual Updates



2020 FFIEC Exam Manual Updates

- Noteworthy Verbiage Changes
- Independent Testing Adequacy
- Risk Focusing the BSA/AML Examination Plan
- Two-Step Risk Assessment
- Enabling Technology
- Appropriate Authority of the BSA Compliance Officer
- Customer Due Diligence and Beneficial Ownership Requirements
- Foundational Training

| Examination Procedures | Download |
|---|------------------------------|
| Scoping and Planning | |
| Risk - Focused BSA/AML Supervision (2020) | Word (.docx) |
| Developing the BSA/AML Examination Plan (2020) | Word (.docx) |
| BSA/AML Risk Assessment | |
| BSA/AML Risk Assessment (2020) | Word (.docx) |
| Assessing the BSA/AML Compliance Program | |
| Assessing the BSA/AML Compliance Program (2020) | Word (.docx) |
| BSA/AML Internal Controls (2020) | Word (.docx) |
| BSA/AML Independent Testing (2020) | Word (.docx) |
| BSA Compliance Officer (2020) | Word (.docx) |
| BSA/AML Training (2020) | Word (.docx) |
| Developing Conclusions and Finalizing the Exam | |
| Developing Conclusions and Finalizing the Exam (2020) | Word (.docx) |

FFIEC Exam Manual Updates

Noteworthy Verbiage Changes

- FFIEC BSA/AML Examination Manual has been updated to reference both money laundering and terrorist financing (ML/TF).
- Verbiage in the updated manual has changed from assessing the “effectiveness” of a BSA/AML compliance program to assessing the program’s “adequacy.”
- The addition of less stringent language was noted throughout the update, suggesting a more customized examination process.
- Several sections, such as “Developing the BSA/AML Examination Plan” and “Developing the BSA/AML Examination Procedures” were reorganized to provide clarity.

Independent Testing Adequacy

- The potential utilization of an institution’s independent testing results to augment examination scope may drive institutions to enhance or change how independent testing is conducted.
- Management should review how the scope of independent testing is determined, executed, documented, and reported to the Board of Directors.
- Management may consider placing an increased emphasis on ensuring the expertise, qualifications, and independence of the person or persons conducting the independent testing.



FFIEC Exam Manual Updates

Risk Focusing the BSA/AML Examination Plan

- Regulatory expectations have progressed from a prescriptive, compliance-based approach to a risk-based approach.
- Institutions must demonstrate to regulators that they understand and employ what is required, all while considering cost-control initiatives and overall institutional risk environment.

Two-Step Risk Assessment

- Increased emphasis has been placed on first identifying specific risk categories and then performing an analysis of the specific risk categories.
- Additional information has been added on required risk categories and how risk should be quantified relevant to specific institutions.
- The risk assessment should be based on a repeatable and sustainable methodology and be updated whenever a triggering event occurs which may change the risk profile of the institution.



FFIEC Exam Manual Updates

Enabling Technology

- There is an increasing focus on enabling technologies, data analysis, and analytics to refine institutional approaches to identifying, monitoring, and mitigating ML/TF risk.
- The complexity of new solutions may require specialist's insight to effectively assess the adequacy of the technologies.
- System testing strategies should be designed to target the specific risk inherent in each system type and, go beyond data and address system governance, design, implementation, and performance.

Appropriate Authority of the BSA Compliance Officer

- Several new indicator examples have been added that should be utilized by examiners when determining BSA Compliance Officer's qualifications.
- The updates provide additional details into indicators that the BSA Compliance Officer is given appropriate resources, authority, and lines of reporting to lead an effective and comprehensive BSA/AML compliance program.



FFIEC Exam Manual Updates

Customer Due Diligence and Beneficial Ownership Requirements

- The adoption of customer due diligence and beneficial ownership requirements previously issued by FinCEN on May 11, 2018, has been formalized.
- It continues to be imperative that an institution understands the nature and purpose of the customer relationship to develop an accurate customer risk profile.

Foundational Training

- The FFIEC BSA/AML Examination Manual now refers to this training as “foundational training” and calls for the incorporation of changes and development in BSA/AML regulation and guidance.
- The manual now specifies the need for appropriate documentation should a third party be utilized to conduct training.



2021 FFIEC Exam Manual Updates

Updates to the examination manual continued throughout 2021.

February 2021 – Updated introductory section and revisions to CIP, CTR and CTR Exemptions

June 2021 – Updates to Monetary Instrument Sales, Special Measures, FBAR and CMIR reporting

December 2021 – Updates related to high-risk customer types:

- Charities and Nonprofit Organizations
- Independent Automated Teller Machine owners
- Politically Exposed Persons

Overall, the updates revise examination handbook language, examiner expectations, and as applicable incorporating previous regulatory changes.

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

BSA/AML WHAT'S NEW

What's New

This section is where all changes made to the InfoBase are listed. Each change entry includes the effective date and a brief description.

Below are the most recent updates to the InfoBase. For a complete listing of all changes, click here: [Change History Log](#)

December 1, 2021

New Section: [Introduction - Customers](#)

Revised Sections: [Independent Automated Teller Machine Owners or Operators, Politically Exposed Persons, and Charities and Nonprofit Organizations](#)

The FFIEC members have revised content in the Independent Automated Teller Machine Owners or Operators, Politically Exposed Persons, Charities and Nonprofit Organizations and added a new Introduction - Customers. The agencies made revisions to ensure language clearly distinguishes between mandatory regulatory requirements and considerations set forth in guidance or supervisory expectations. Further, the revisions incorporate regulatory and other changes since the last update of the Manual in 2014. These updated sections provide further transparency into the BSA/AML examination process and do not establish new requirements. The FFIEC revised the sections in close collaboration with Treasury's Financial Crimes Enforcement Network.

June 21, 2021

Revised Sections: [Purchase and Sale of Certain Monetary Instruments Recordkeeping, Special Measures, Reports of Foreign Financial Accounts, and International Transportation of Currency or Monetary Instruments Reporting](#)

The FFIEC members have revised content in the Purchase and Sale of Certain Monetary Instruments Recordkeeping, Special Measures, Reports of Foreign Financial Accounts, and International Transportation of Currency or Monetary Instruments Reporting sections. The agencies made revisions to ensure language clearly distinguishes between mandatory regulatory requirements and considerations set forth in guidance or supervisory expectations. Further, the revisions incorporate regulatory and other changes since the last update of the Manual in 2014. These updated sections provide further transparency into the BSA/AML examination process and do not establish new requirements. The FFIEC revised the sections in close collaboration with Treasury's Financial Crimes Enforcement Network.

February 25, 2021

New Section: [Assessing Compliance with BSA Regulatory Requirements](#)

Revised Sections: [Customer Identification Program, Currency Transaction Reporting, Transactions of Exempt Persons](#)

The FFIEC members have added a new introductory section and revised content in the Customer Identification Program, Currency Transaction Reporting, and Transactions of Exempt Persons. The Manual provides instructions to examiners for assessing the adequacy of a bank's BSA/AML compliance program and its compliance with BSA regulatory requirements. The Manual itself does not establish requirements for banks; such requirements are found in statutes and regulations. The updates should not be interpreted as new instructions or as a new or increased focus on certain areas; instead, they offer further transparency into the examination process and support risk-focused examination work. The FFIEC revised the sections in close collaboration with Treasury's Financial Crimes Enforcement Network.

Regulatory Enforcement: Roadmaps for Compliance Officers and Auditors

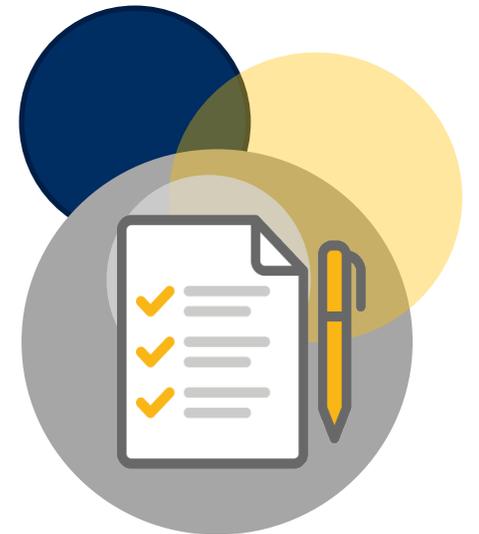


Bank Secrecy Act / Anti-Money Laundering

Examiner expectations have expanded, and pressure continues to mount as evidenced through continuing consent orders and regulatory actions.

- Updates to the exam manual are intended to improve transparency in the exam process. Examiners are focused on a risk-based approach placing greater focus on the risk assessment and the independent audit.
- Additional focus on the BSA Compliance Officer and the role of the Board in ensuring the BSA Officer is fully supported with *appropriate authority, independence, and access to resources to administer an adequate BSA/AML Compliance program based on the institution's ML/CFT and other illicit financial activity risk profile.*

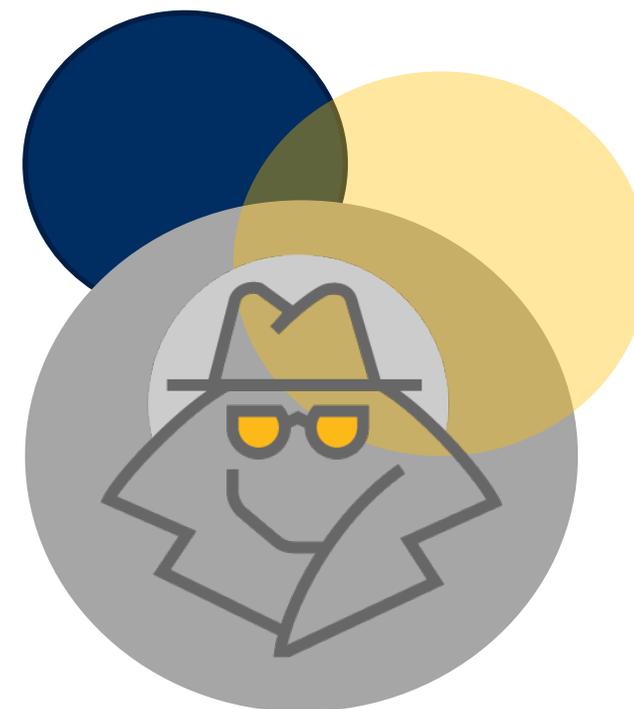
An identified shortcoming of an AML program is the lack of a strong compliance culture within the institution, particularly within senior management and the board. A compliance culture can be defined as the norms and values that a financial institution adheres to that are embedded in the everyday work that the employees carry out.



Bank Secrecy Act / Anti-Money Laundering

Supervision Priorities for BSA/AML include:

- Customer due diligence and beneficial ownership
- Whether BSA/AML risk management systems match the complexity of the business models and products offered
- Evaluating technology solutions to perform or enhance BSA/AML oversight
- Adequacy of suspicious activity monitoring and reporting systems and processes
- Overlapping issues of money laundering, fraud, consumer protection and cyber vulnerabilities

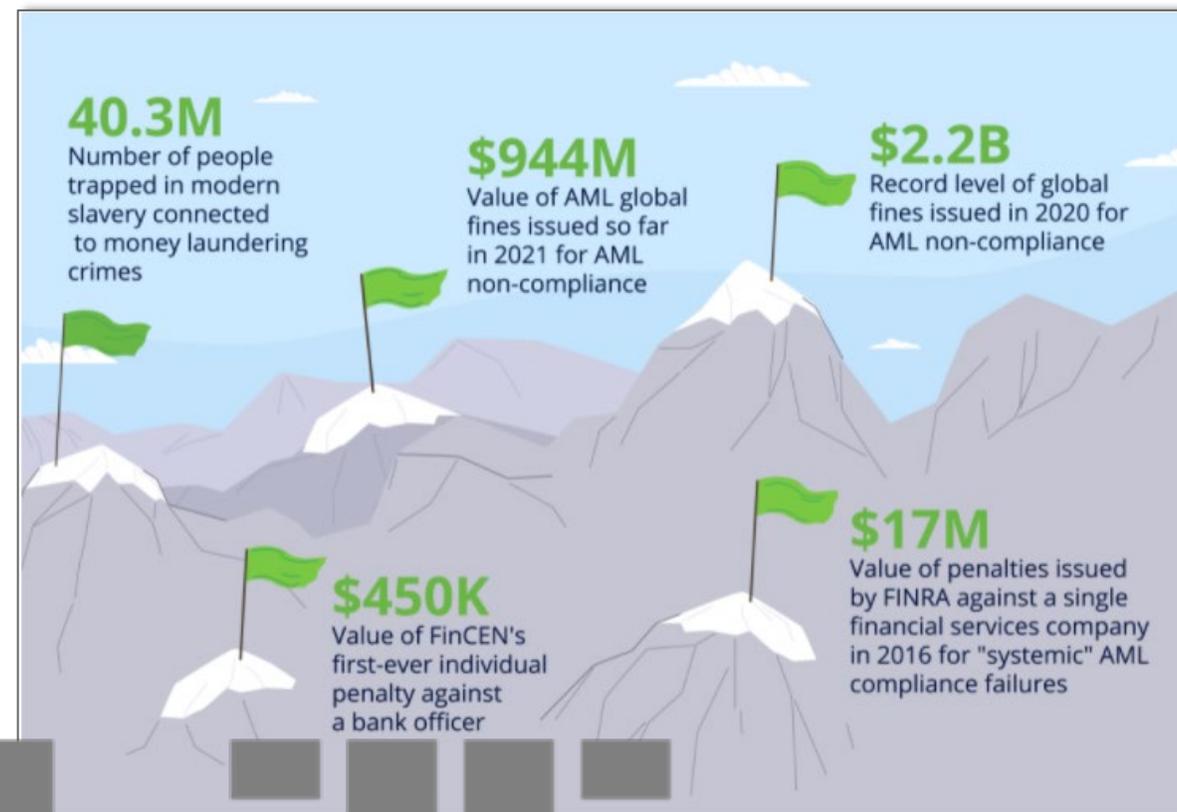


Enforcement Actions

AML fines globally are expected to exceed \$2 billion in 2022, potentially surpassing the record set in 2020 of \$2.2 billion.

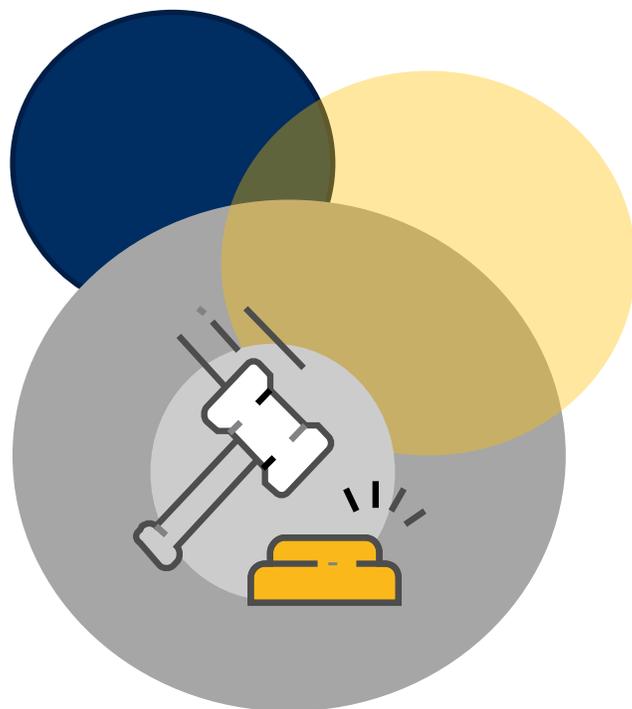
Not only are firms penalized for AML non-compliance, **in March 2020, FinCEN imposed a \$450,000 civil money penalty on an institution officer.**

In addition, fines and penalties for sanctions violations have increased.



\$2.2 billion

Enforcement Actions



Recent examples of global enforcement actions due to failures within the institution's AML program:

- December 2021 – NatWest fined nearly 265 million (pounds) for AML failures. The FCA indicated the UK-based financial institution was fined for failing to properly monitor the activity of a commercial customer between November 2012 – June 2016. The initial due diligence indicated limited cash and annual sales of 15 million. Over four years 50 NatWest branches received cash from the jewelry dealing depositing as much as 1.8 million in cash each day. NatWest was fined for failing to flag and investigate this customer.
- December 2021 – FinCEN fined Community Bank of Texas \$8 million for violations of the BSA. The Bank's consent order stated the Bank was understaffed and inadequately resourced. The Bank also indicated they failed to report suspicious transactions for their customers to FinCEN from 2015 – 2019. Additionally, the OCC fined the Bank \$1 million.
- February 2021 – NCUA cited a Michigan-based Credit Union for weak and ineffective marijuana banking policies and procedures. The NCUA's Administrative Order required the CU to stop opening MRB accounts, immediately file all missing SARs, and develop and implement an automated system to effectively monitor all transactions for suspicious activity, among other requirements.
- January 2021 – FinCEN fined Capital One \$390 million for BSA violations. Capital One admitted that from at least 2008 through 2014 it failed to file around 50,000 Currency Transaction Reports worth over \$16 billion, which were linked to organized crime, tax evasion, fraud, and other financial crimes.

Enforcement Actions

The purpose of BSA regulatory enforcement actions is meant to ensure compliance with the requirements of the BSA, the rise in BSA enforcement actions may cause both the financial industry and regulatory authorities to re-examine BSA regulation and enforcement and their effectiveness at fulfilling the purposes of the AML/CFT regime.

Recent actions demonstrate that despite the government's work to ease regulations, regulators continue to rigorously enforce BSA/AML compliance at financial institutions.

Financial institutions not meeting their obligations under the BSA or correcting known deficiencies can lead to greater scrutiny, significant fines, operational and reputational risks and potentially even a criminal conviction.



Enforcement Actions

Criminal Penalties for willful BSA regulations violations can cost you!

A person convicted of money laundering can face up to 20 years in prison and a fine of up to \$500,000.

Any property involved in a transaction or traceable to the proceeds of the criminal activity, including property such as loan collateral, personal property, and, under certain conditions, entire banking accounts (even if some of the money in the account is legitimate), may be subject to forfeiture.

... the U.S. Department of Justice may bring criminal actions for money laundering that may include criminal fines, imprisonment, and forfeiture actions. In addition, institutions risk losing their charters, and employees risk being removed and barred from banking.



Enforcement Actions



Three trends can be found in BSA enforcement:

- 1) an increase in the frequency and size of penalties;
- 2) an emphasis on the acceptance of responsibility by institutions; and
- 3) the increased risk of individual liability.

Remember FinCEN's \$1 million civil money penalty against Thomas Haider?

Haider was the former chief compliance officer of MoneyGram International. FinCEN found Haider guilty of willful violations of BSA program requirements and not filing suspicious activity reports.

FinCEN's enforcement action was brought before the courts over the application of the BSA to individuals. The court found in favor of FinCEN, and that Haider could be held liable for violations of the BSA's AML program requirements.

The case was settled in 2017 with Haider agreeing to pay a \$250,000 fine and be barred from a similar job for three years.

BSA/AML– What’s Next?

- **Continued emphasis on BSA/AML Investigations:** federal, and state regulators/examiners remain focused on BSA/AML compliance. Regulators and examiners maintain focus on financial institutions’ response to COVID-19 and how staffing and remote work may have affected compliance.
- **Broad Application of AML Requirements:** Actions against crypto-businesses illustrate the broad view U.S. regulators are taking in mandating adequate AML compliance. Developments in application of BSA rules to sports betting, additional crypto regulations, further attention on the real estate industry, and enactment of pending legislation may bring about further change.
- **FinTech:** Legislators and regulators will continue to try to ensure that financial technology platforms are not used for money laundering.
- **Corporate Governance:** Sanctions and AML regulators are increasingly interested in corporate compliance. Russia’s invasion of Ukraine and the ongoing war has resulted a large spike in sanctions activities, taxing some institution’s abilities to effectively manage their sanctions risks in a highly evolving environment.

Audit Perspectives and
Challenges:
BSA/AML/OFAC Independent
Testing



Regulatory Landscape – AML Independent Testing



Increase in regulatory focus on the quality of AML independent testing performed

- Examiners frequently request and review AML independent testing workpapers during their examinations
- Increase in time spent by examiners reviewing the audit work
- Examiners request information to assess the qualifications of the persons performing and supervising the AML independent testing



Many of the AML-related enforcement actions contain provisions related to AML independent testing

- Examiners have evolved how they assess the quality of AML independent testing
- Focus on the quality of testing to leverage and shape examinations

AML independent testing plans need to continually evolve and improve to meet rising expectations

- AML audit programs should be based on the risk assessment and must evolve and change with changes in the credit union's risk profile to avoid criticism

AML Independent Testing and Requirements

Objective: Independent testing should provide management and the Board of Directors / Supervisory Committee with independent feedback on the quality of the institution's AML compliance program and the ability of the compliance program to meet both the business and regulatory needs of the financial institution.

Regulatory requirements for AML independent testing apply to all covered financial institutions under the BSA.

- Credit unions, banks, MSBs, trust companies, broker dealers, etc.
- Guidance on independent testing may vary by company type, but basic requirements remain the same

Independent testing is considered one of the five pillars of an effective AML compliance program

1. A system of internal controls to ensure ongoing compliance;
2. Independent testing of BSA/AML compliance;
3. Designate an individual or individuals responsible for managing BSA/AML compliance;
4. Training for appropriate personnel; and
5. Customer due diligence/beneficial ownership.

AML Independent Testing Requirements

For non-bank financial institutions, AML independent testing often is used to satisfy other business needs, not just regulatory needs

- Partner due diligence standards
- Banker due diligence requirements

Regulatory guidance related to AML independent testing is limited, but the requirements have been defined and include:

- Independence
- Qualifications
- Reporting
- Frequency
- Coverage

Regulators emphasize the importance of risk-based test plans

- No one size fits all test plan
- Needs to be customized to each organization's risk, processes and controls
- Should change and adapt from year-to-year
- Inclusive of issue validation / corrective action testing
- Inclusive of model validation



Common Challenges and Criticisms of AML Audit – Scope and Coverage

Scoping and planning is not a “one size fits all” approach

- Degree and sophistication of coverage will depend on complexity of institution, size of the credit union, and level of regulatory scrutiny
- Scoping should be based on the risk assessment, as well as past results
- Scope should change year-over-year, with particular emphasis each year being placed on new products/services/customers/geographies and areas of heightened regulatory focus
- Reports should include detailed and prescriptive recommendations based on the results of an appropriate root cause analysis
- Results of audit should feed back into risk assessment – feedback loop

Questions to Consider When Scoping

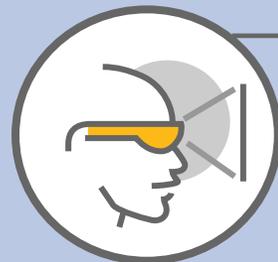
- *What resources can I use to develop an audit plan?*
- *How can I ensure all LOBs/BUs are covered?*
- *How frequently should the AML program be audited, and how in-depth?*
- *Am I certain that all institutional changes have been included within the audit scope?*
- *Has the BSA/AML/Sanctions risk assessment been utilized to form the basis of the audit?*
- *Have I allocated sufficient time for interviews and qualification reviews of personnel from staff through management?*
- *Is my test plan based on FFIEC Examination Manual principles and other relevant guidance?*
- *Are audit personnel qualified to perform the audit?*
- *Are sufficient QA processes in place to ensure workpapers are appropriately completed and documented?*

Audit Challenges



Regulatory Expectations

Ability to align process and function to regulatory standards and expectations



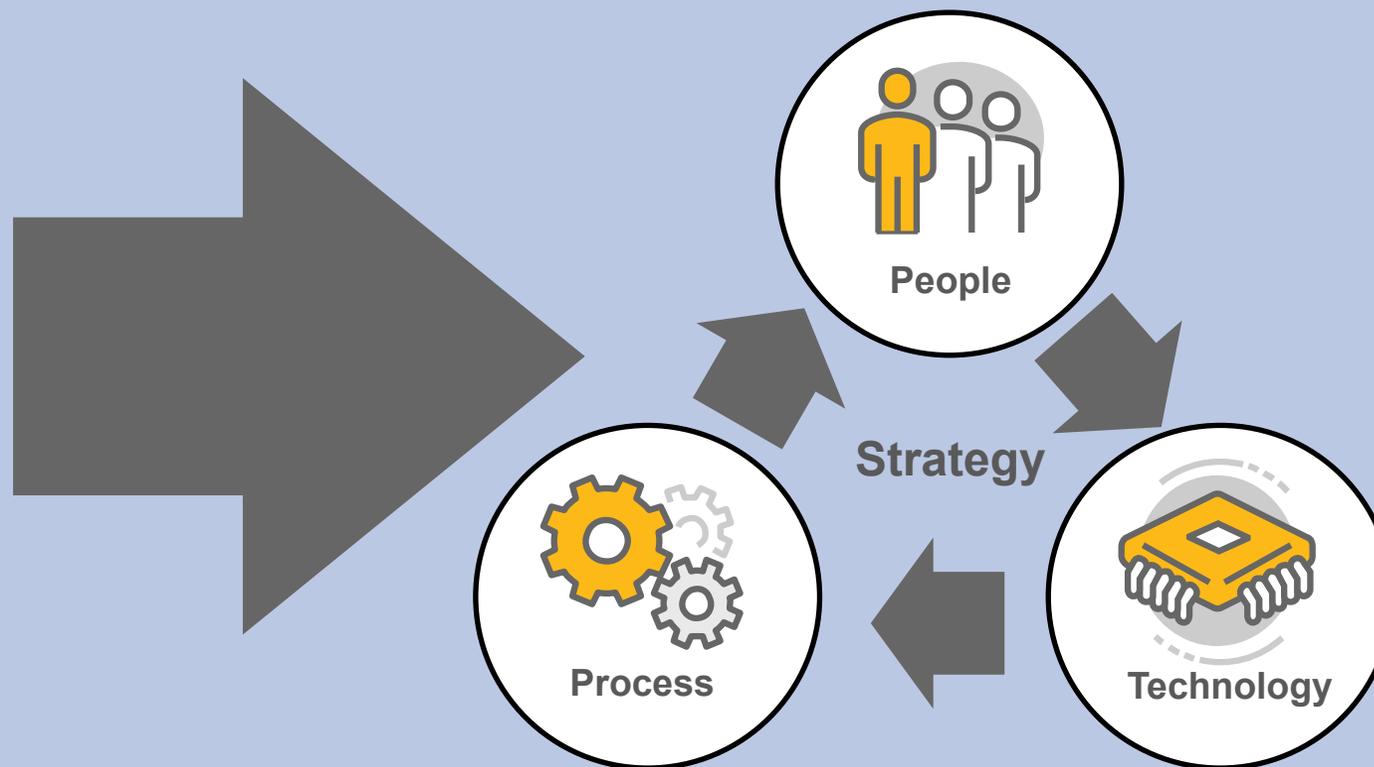
Risk Insight

Ability to identify, foresee, and communicate relevant risks in a timely manner



Spend and Inefficiencies

Bring efficiency to IA function through more advanced technology enabled processes



The Goal: Operational cost savings and improved outcomes without increasing risk of non-compliance



Thank You



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