

BSA Essentials for the Board & Senior Management



Presented by:

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Today's Presenter



Dawn Kincaid, Brode Consulting Services, Inc.

Dawn Kincaid began her banking career while attending The Ohio State University. She has over 20 years' experience in client service, operations, information technology, administrative and board relations, marketing, and compliance. Most recently Dawn served as the Senior Vice President of Operations for a central-Ohio-based community bank, where she created and refined policies and procedures, conducted self-audits and risk assessments, and organized implementation of new products and services. Dawn has served in the roles of Compliance, BSA/AML, CRA, Privacy, and Security Officer. She has led training initiatives, prepared due diligence information, completed a variety of regulatory applications, and coordinated internal and external audits and exams.

Overview

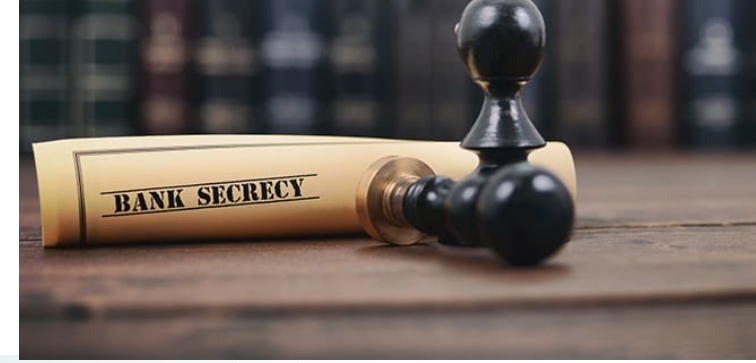


- **Ultimate responsibility** for BSA compliance lies with the Board
- Must understand importance of BSA/AML **regulatory requirements, ramifications** of noncompliance, and **risks** posed to your institution
- Recent **penalties and enforcement actions** against institutions without strong BSA programs

BSA Background: 1970s



Bank Secrecy Act: What is it?



Designed to help identify the **source**, **volume**, and **movement** of currency and other monetary instruments transported or transmitted into or out of the United States or deposited in financial institutions.

Required financial institutions to **report currency transaction** and **maintain appropriate records**.

Enables law enforcement and regulatory agencies to pursue investigations of **criminal, tax, and regulatory violations**, and **provide evidence** useful in prosecuting money laundering and other financial crimes.

Bank Secrecy Act: & Then September 11, 2001...



The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (**USA PATRIOT Act**)

- **Criminalized** the financing of terrorism;
- **Strengthened** customer identification procedures;
- **Prohibited** financial institutions from engaging in business with foreign shell banks;
- **Required** financial institutions to have due diligence procedures and, in some cases, enhanced due diligence (EDD) procedures for foreign correspondent and private banking accounts;
- **Improved** information sharing between financial institutions and the U.S. government.

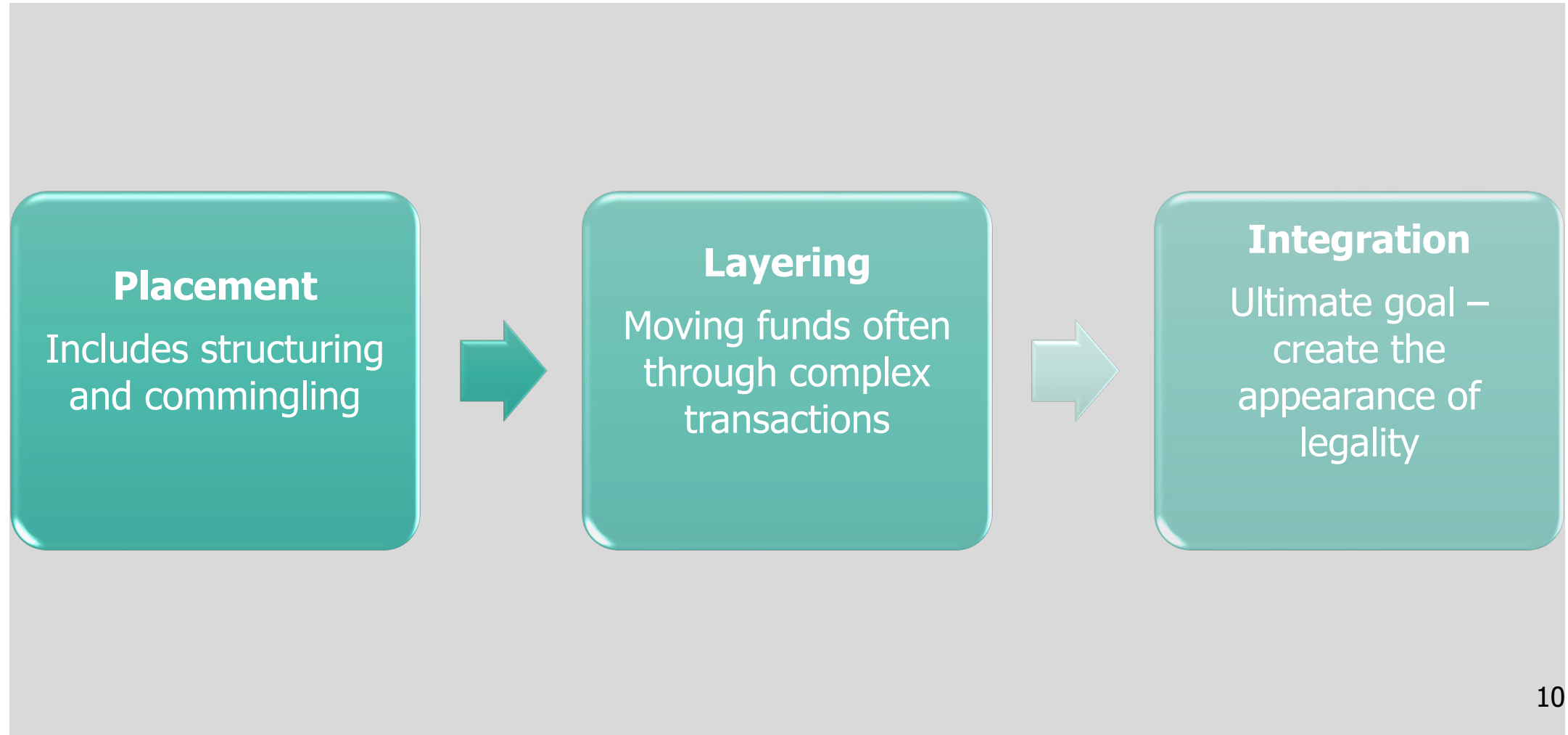
Money Laundering

- Criminal practice of processing ill-gotten gains, or "**dirty**" money, through a series of transactions.
- In this way, the funds are "**cleaned**" so that they appear to be proceeds from legal activities.
- Generally, does not involve currency at every stage of the laundering process.





Money Laundering



BSA Background



Foundation of an effective BSA/AML program is built upon **five pillars:**

- Designation of a compliance officer
- Development of internal policies, procedures, and controls
- Ongoing, relevant training of employees
- Independent testing and review
- *Establish risk-based procedures for conducting ongoing customer due diligence, including the development of customer risk profiles and implementation of ongoing monitoring to identify and report suspicious activity and on a risk basis, to update customer information.*

A Crack in a Pillar...



Leads to violations and penalties



Program Requirements:

Designate BSA Officer & Assistant

- Must be designated by the Board
 - Reappointed annually
- Must be granted the authority to:
 - Develop and administer a program that provides for BSA compliance and training
- Must designate an OFAC Officer and 314(a) point of contact
 - Notate the appointment in Board minutes
- An Assistant BSA/OFAC Officer should also be designated for continuity purposes



Program Requirements:

System of Internal Controls



- Board is **ultimately responsible** for ensuring the financial institution maintains an effective BSA/AML internal control structure, including suspicious activity monitoring and reporting.
- Internal controls:
 - Policies,
 - Procedures, and
 - Processes designed to limit and control risks and achieve compliance with the BSA.

Program Requirements:

Independent Testing

- Should be **conducted annually** by a qualified independent party.
- Auditors should **report directly to the Board.**
- Audit deficiencies should be **tracked**, and corrective actions **documented.**



Program Requirements:

Annual Training



- Training should be ongoing and incorporate current developments and changes to BSA and related regulations.
- Ensure **all** employees and the Board understand their role in maintaining an effective BSA/AML compliance program.
- Document, Document, Document.

Program Requirements:

CDD



- Policies and procedures to detail how the institution will assign risk levels and develop risk profiles for its accountholders based on defined risk factors and anticipated activity
- Procedures for automated and manual ongoing monitoring of its accountholder base for the purpose of identifying and reporting suspicious activity and updated risk information as needed
- High-risk accountholders
- Beneficial owner identification

Other Responsibilities



- File reports (CTRs) of daily transactions conducted in currency in amounts over \$10,000 with certain exemptions
- Recordkeeping on beneficiaries and originators of funds transfers in amounts over \$3,000
- Information gathering and recordkeeping on sales of money orders, cashier's checks, prepaid cards and traveler's checks in amounts between \$3,000 and \$10,000

OFAC Overview

- OFAC Regs not part of BSA
- OFAC review not *required* each exam, but usually are part of your BSA/AML exam
 - Will be a risk-based decision
- Will evaluate the sufficiency of your OFAC program
 - Includes review of **OFAC Risk Assessment**



OFAC Screening

OFAC screening should be performed for:

- All new accountholders
- Beneficial owners
- All parties to the loan **PRIOR** to loan disbursement
- All parties to a wire
- Monetary instruments



OFAC Verification

- Required to monitor all financial transactions performed by or through your institution
- Easiest to scan all new accountholders at account opening
- Matches should be reviewed by the BSA Officer, who will consult with OFAC



OFAC Verification – Transactions Subject to OFAC



- Deposit accounts
- Loans
- Lines of credit
- Letters of credit
- Safety deposit boxes
- Wire transfers/ACH transfers
- Currency exchanges
- Depositing or cashing checks
- Purchase of money orders or cashier's checks
- Loan payments
- Guarantors and collateral owners
- Trust accounts
- Credit cards
- Vendors

OFAC – Other Areas of Importance



- OFAC Submission Reports
- Independent Testing
- Individual Responsible
- Training
- OFAC Enforcement Actions

CIP – Who Is Your Accountholder?

- Required to Obtain **at a Minimum:**
 - Name
 - Date of Birth of Individuals
 - Address
 - Identification Number
- Documentary and Non-Documentary Verification Methods





Elements of CDD

1. **Identifying and verifying** the accountholder.
2. **Identifying and verifying** the identity of the **beneficial owners** of “legal entity customers” opening accounts.
3. Understanding the **nature and purpose of accountholder relationships** to develop accountholder risk profiles.
4. Conducting **ongoing monitoring** to identify and report suspicious transactions and, on a risk basis, to maintain and update accountholder information.



Why Are We Identifying Beneficial Owners?

...especially when they may not even be signers or guarantors on an account?

These rules provide information that will:

- **Assist** law enforcement in financial investigations
- **Help** prevent evasion of targeted financial sanctions
- **Improve** the ability of financial institutions to assess risk
- **Facilitate** tax compliance, and
- **Advance** U.S. compliance with international standards and commitments

Which Accounts Do These Rules Apply to?

The beneficial ownership rules apply to **ALL** accounts opened for legal entity customers **on or after** May 11, 2018, including checking, savings, certificates of deposits and loans.

Some exclusions apply!



Which Accountholders Are We Gathering Beneficial Ownership Information for?

- Corporation
- Limited Liability Company (LLC), business trust, or other entity created by filing a public document with the Secretary of State or similar office
- General and Limited Partnerships
- Similar entity formed under the laws of a foreign jurisdiction that opens an account

Does **NOT** include **trusts** other than those that may be created through a state filing or **sole proprietorships**.

Again...Some exclusions apply!





Rule Requirements

- You must follow your institution's procedures to **identify and verify the identity of the beneficial owners of all legal entity customers** (other than those that are excluded) **at the time a new account is opened.**
- We are **required** to verify the identity of accountholders that are individuals under our customer identification program ("CIP") requirements.
- You must identify and verify the legal entity customer's beneficial ownership information for **each new account opening**, regardless of the number of accounts opened or over a specific period of time.

Two Separate Tests:

Test #1: Ownership

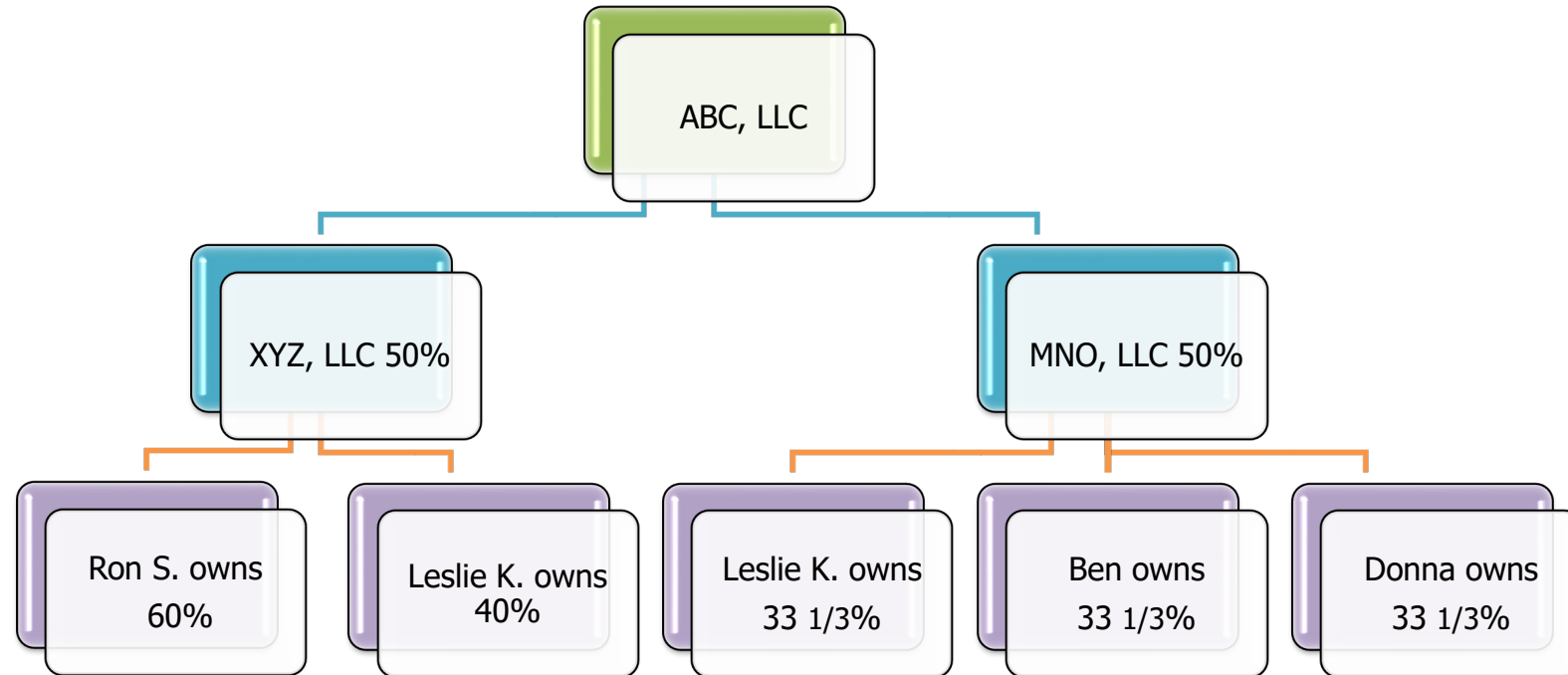
- *Ownership* prong: required to identify zero to four individuals.
 - Natural person owns **25%** or more equity interest.
 - **Zero** to **four** individuals who meet this test.
 - Non-governmental organizations (NGOs), charities and religious organizations such as churches are **excluded from the ownership prong**.



Two Separate Tests:

Test #1: Ownership

Who meets the beneficial ownership test
(25%+ owner of ABC, LLC)?



Two Separate Tests: Test #2: Control



Control Prong: An individual with **significant responsibility** to control, manage, or direct a legal entity customer, including the:

- Required to identify at least one individual
- Can be the same person as identified under the ownership test
- Examples include:
 - Chief Executive Officer
 - Chief Financial Officer
 - Chief Operating Officer
 - Managing Member
 - General Partner
 - President
 - Vice President
 - Treasurer
 - Other Senior Manager or Executive Officer

What Information Do We Need on Beneficial Owners?



Required to Obtain at a Minimum:

- Name
- Date of Birth of Individuals
- Address
- Identification Number

High-Risk Accountholders

- Regulators say that due to their cash intensive nature, some businesses should be deemed “high-risk”
- List on page 22
 - Others?
- Why are accountholders high-risks?
 - Concentrations?



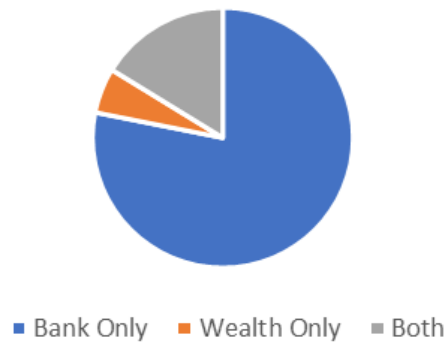
Cash-Intensive Businesses

- Convenience stores
- Restaurants
- Retail stores
- Liquor stores
- Cigarette distributors
- Privately owned ATMs
- Vending machine operators
- Parking garages

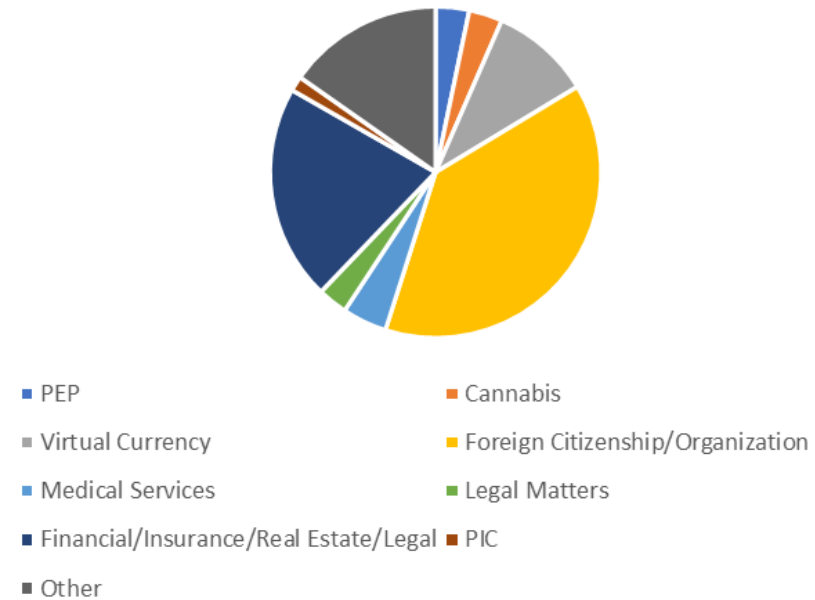


Board Reporting

High-Risk Accountholders by Division



High-Risk Accountholders



Suspicious Activity Reports (SARs)

Four categories that *require* filing an SAR:

- Insider Abuse
- Known Suspect
- Unknown Suspect
- Money Laundering....**AND**
- Cyber Events



Policies, procedures, and processes for **referring unusual activity** from all business lines to the personnel or department responsible for evaluating unusual activity should be in place.

Voluntary SAR Filings

You can still file a SAR that **doesn't** meet the thresholds if you feel it is a possible violation of law or regulation



Notification & Confidentiality

- Required to notify the Board that SARs have been filed.
- **Prohibited** from mentioning a SAR has been filed as well as what information is contained in the SAR or documentation supporting a SAR.



Red Flags

- The mere presence of a red flag is **not** by itself evidence of criminal activity
 - Analyze further
- Examples:
 - Money Laundering
 - Lending Activity
 - Employees
 - Other Suspicious Accountholder Activity





Mortgage Fraud – Categories

- **Fraud for Property**

- Typically involves a borrower who will overstate income or asset values on his or her financial statement to qualify for a loan to purchase a home.

- **Fraud for Profit**

- Fraudulent methods are used to acquire and dispose of property with the inflated profits going to the perpetrators of the fraudulent transaction.

Mortgage Fraud – Types Examiners Are Seeing



- Broker-facilitated fraud
- Loan documentation fraud
- Appraisal fraud
- Property flipping
- Misapplication of funds from construction or rehabilitation projects

Common Fraud Schemes

- Occupancy Fraud
- Income Fraud
- Appraisal Fraud
- Employment Fraud
- Liability Fraud
- Debt Elimination Schemes
- Foreclosure Rescue Scams
- SSN Fraud/Identity Theft
- Home Equity Conversion Mortgage



Red Flags for Mortgage Loan Fraud

See **Pages 35-37**



Commercial Real Estate Fraud

SARs related to the CRE market involve a variety of transactions and activities:

- Purchase and development of raw land
- Acquisition, development, construction, and improvement of commercial buildings
- Most loans are under \$1 million

When might you know?

- Borrower files for bankruptcy
- Finding undisclosed liens on collateral
- After conducting property instructions

Examples: **Pages 38-39**



Mitigating Risks – Lending

- All loans considered **accounts** for CIP
- You should complete due diligence on related account parties
 - **(i.e., guarantors, signatories, or principals)**



New Product & Service Implementation

Most successful product launches involve a **team of individuals** from all effected departments

Compliance and BSA Officers should be involved in:

- Early discussions regarding new products/services
- Development of policies, procedures, disclosures, controls, and training



BSA: Penalties for Noncompliance



▪ Civil Money Penalties

- Negligence to **\$500** per bank/**\$50,000** for patterns of violations
- Recordkeeping and Reporting Requirements: Up to **\$100,000**
- OFAC and Information Sharing: Up to **\$500,000**
- AML Program: Up to **\$25,000**

▪ Criminal Penalties

- Willful violations of BSA: Up to **\$250,000 and/or 5 years in prison**
- BSA and Other U.S. Law Violation: Up to **\$500,000 and/or 10 years in prison**
- OFAC: Up to **\$500,000 and/or 13 years in prison AND** up to **\$1,000,000** in corporate fines



Increased Penalties for Repeat Findings

- Penalties for **repeat violations** are permitted to increase to the greater of:
 - Three times the profit gained, or loss avoided as a result of the violation **OR**
 - Two times the maximum applicable penalty. 24 For this purpose, only violations occurring after the Act's enactment will be subjected to the heightened sanctions.
- **Criminal penalties** increased:
 - Fine in an amount equal to the profit gained; **and**
 - If a partner, director, officer, or employee at the time of the violation, repayment to the FI of any bonus paid during the year in which the violation occurred or the following year.
- New **10-year prohibition** from serving on a financial institution's board of directors for anyone who commits an "egregious violation."

Whistleblower Program



- Increases the reward for reporting violations that lead to civil or criminal penalties exceeding \$1 million
- Whistleblower may receive an award of up to 30% of the monetary penalty or fine assessed against the violator

AML Act: Purpose

- Improve agency coordination and information sharing
- Adapt laws to new and emerging threats
- Encourage technological innovation
- Reinforce “risk-based” programs
- Establish new beneficial ownership requirements
- Establish a beneficial ownership database





AML/CFT Program Standards

- Treasury, DOJ, and regulatory agencies will develop **minimum risk-based standards** for AML/CFT programs
- Codifies the “**risk-based**” exam guidance we’ve seen
- Duty to establish, maintain, and enforce an AML/CFT program must remain the responsibility of, and be performed by, **persons in the United States**

Risk-Focused BSA/AML Supervision

- Tailor BSA/AML examinations to **your institution's risk profile**
 - Exam testing
 - Risk-focused testing
- **Aligns** with our Compliance and "Safety and Soundness" examinations



Exam Process – How It Starts

- Process starts with a review of your institution's information to determine your risk level
- Retain copies for your records



Assessing BSA/AML Compliance Program

- Minimum set of procedures for **full-scope** examinations
- Separates the following into individual sections:
 - Internal controls
 - Independent testing
 - BSA compliance officer
 - Training



Testing

- Size and composition is risk-based
- May focus on regulatory requirements, but isn't necessary for **every** regulation
- Will concentrate on areas you've made **recent changes** to and areas of past **weakness**



Established Policies & Procedures

Need to have a *written* program to address the five pillars,
including CIP



BSA/AML Risk Assessment

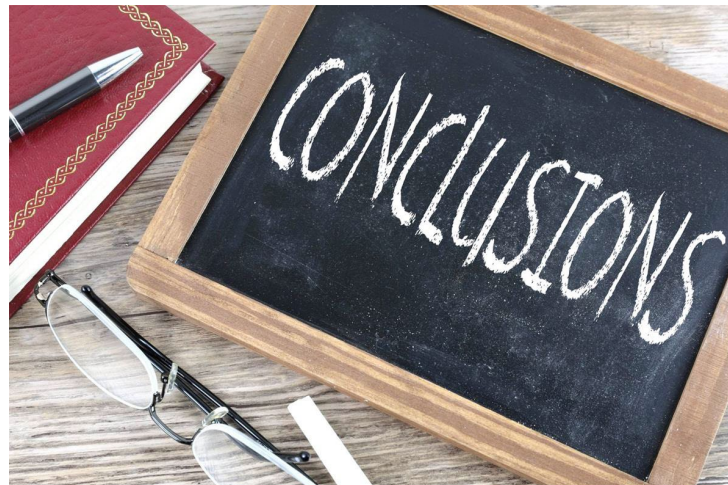
- Identify specific risk categories:
 - Products and Services
 - Customers
 - Geographic Locations
- Analysis of the information to assess risk
- No required format
- No required timeframe for updating



Developing Conclusions & Finalizing Exam

- You have flexibility in the design of your program
 - Must meet the needs of the size and complexity of your institution

Minor weaknesses, deficiencies, and technical violations alone are not indicative of an inadequate program



Systemic Violations

Above all...**avoid systemic/repeat violations**

- Number of violations is high compared to total activity
- Similar violations across a series of transactions or multiple departments
- Relationship of violations to one another
- Impact on your FI's suspicious activity monitoring process
- Grounded in written policy/procedures
- Have a common source
- Resulted from errors in software programming



De-Risking

- “**De-Risking**” When an FI terminates or restricts business relationships with clients or categories of clients to avoid, rather than manage risk.
- This has excluded some entities from normal banking channels.
- Treasury reviewing CTR and SAR requirements and impact of de-risking.



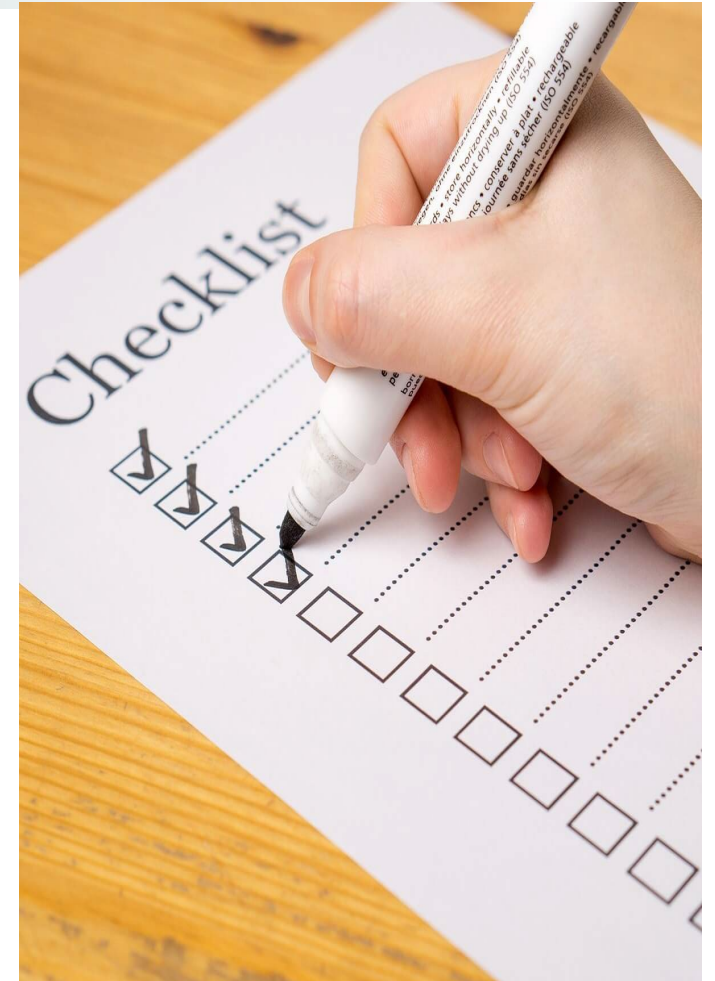
National Priorities

- **Most significant** AML/CFT threats facing the country
- FinCEN **will revisit** at least once every four years



National Priorities – The Big Eight

- Corruption
- Cybercrime
- Foreign and Domestic Terrorist Financing
- Fraud
- Transnational Criminal Organizational Activity
- Drug Trafficking Organization Activity
- Human Trafficking/Smuggling
- Proliferation Financing



What Do You Need to Do Now?

- Awareness is the first step – **CHECK!**
- Board, management team, compliance council, and BSA Departments should stay informed
- **Tackle** the AML Act provisions we've discussed...



What Do You Need to Do **Now**? AML/CFT Priorities

- No **immediate** action required!
- **However...**
 - Board and management team should review eight priorities
 - Consider how you will incorporate the Priorities into your risk-based program
 - Products and services offered
 - Delivery methods
 - Geographic area in which you operate



What Do You Need to Do **Now**? Technology Updates

- BSA Dept., IT Dept., management and Board committees stay **informed** of FinCEN exchange meetings
- Drive **strategic** discussion
- **Assess** your BSA/AML program's preparedness



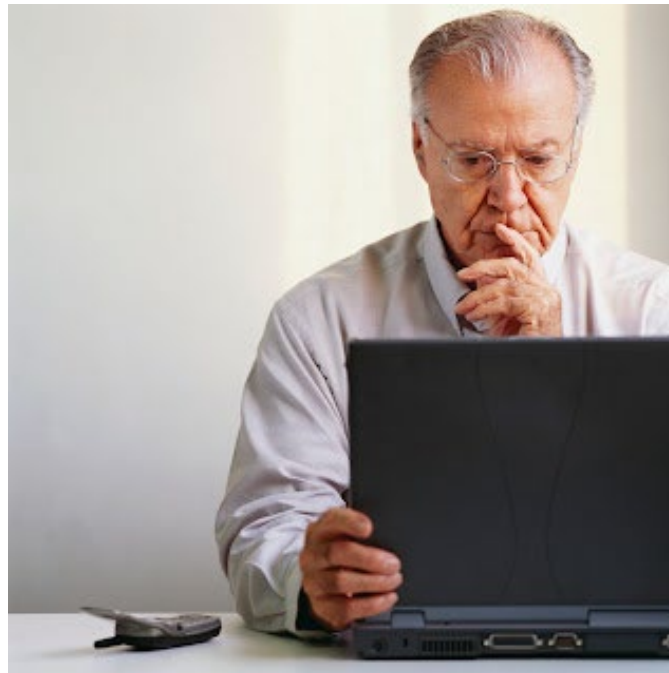
What Do You Need to Do **Now**? Training

- **Red flags** for AML/CFT Priorities and other areas of money laundering risks identified by the AML Act
- Training for staff, BSA personnel, management, and Board



What Do You Need to Do **Now**? Stay Alert!

Expect **A LOT** of communication from FinCEN over the next **6-12 months**



New Requirements & Registry

- Will require certain entities (“reporting companies”) to report the personal information of their beneficial owners to FinCEN.
 - Identifying the “beating hearts” behind these companies. **Sound familiar?**
- Information to be maintained in a non-public registry.



New Requirements & Registry – Reporting Company Definition

- New and existing state corporations, tribal corporations, limited liability companies, and other similar entities both domestic and foreign
- Exclusions apply (23 categories)
 - Publicly traded companies
 - Financial institutions
 - Insurance companies
 - Larger companies (see **page 53**)



New Requirements & Registry – Beneficial Owner Definition

- Similar to CDD Rules, but....a *little* different
 - Individuals who own or control **25 percent or more** of the ownership interests of a **Reporting Company**; or
 - Exercise “**substantial control**” over a **Reporting Company**
- “Substantial control”
 - FinCEN has defined a range of activities
 - Person able to make “**significant decisions**” on behalf of the entity



New Requirements & Registry

- Beneficial owners will provide similar information as under the CDD Rules
- Companies will have **1 year** to comply
 - After initial phase, companies will provide the information at the time of registration
 - Required to file updates within 30 days
- CDD Rules to be revised to conform to new regulations



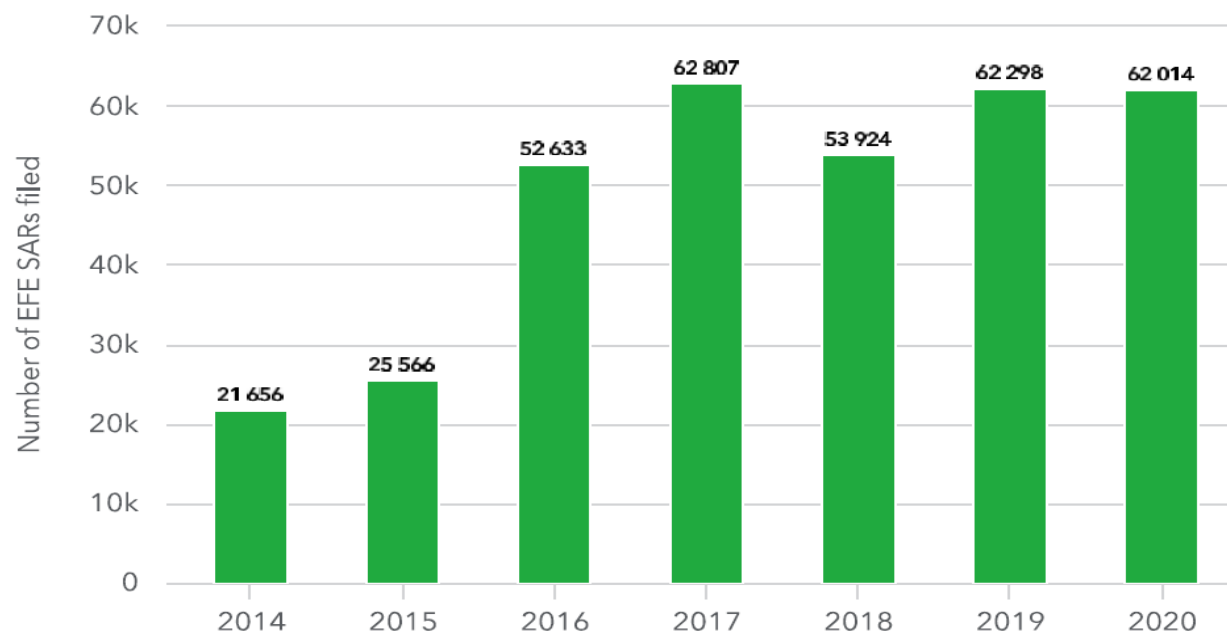


New Requirements & Registry – What Does This Mean for You?

- How will you utilize the Registry when available?
 - Customer consent will be required.
 - Valuable to risk-profile process.
 - Penalties will be enforced for unauthorized disclosure of info.
- What will regulator expectations be?
- Begin discussions now on what your process will look like.
- **Remember:** This **does not** relieve your FI of its responsibilities under CDD Rules.

Elder Financial Exploitation

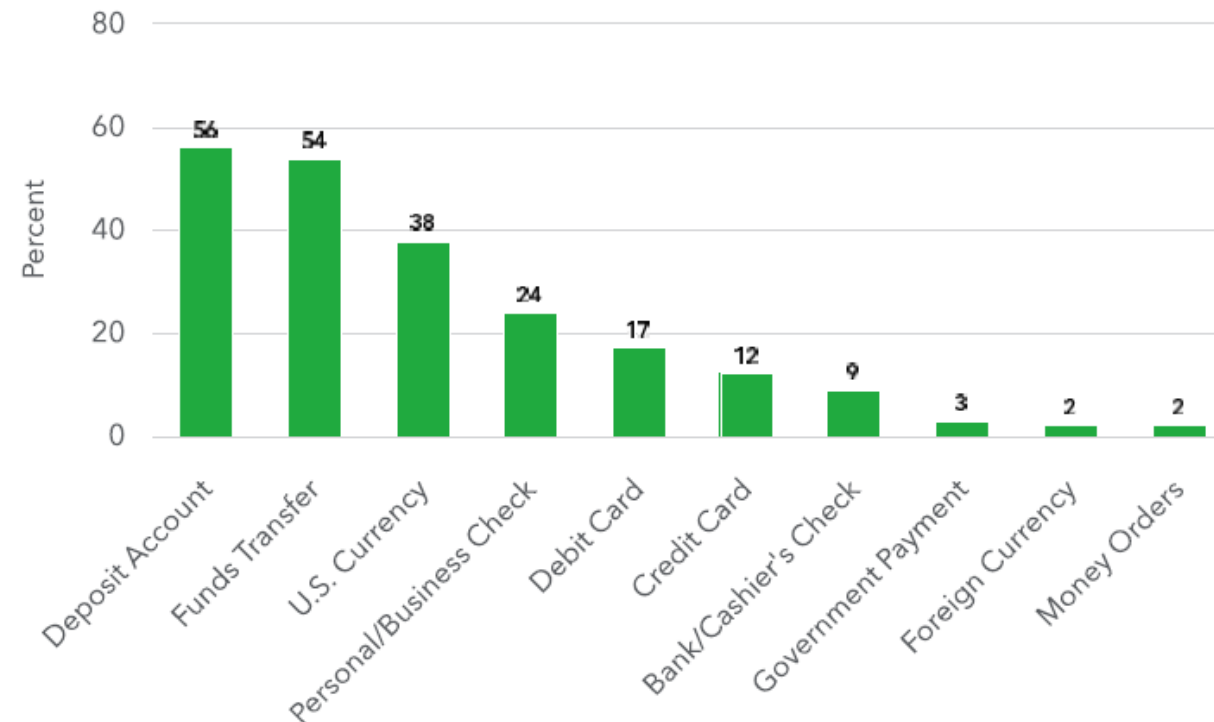
Number of EFE SARs filed by year (2014-2020)



Source: CFPB analysis of FinCEN's SAR Stats at <https://www.fincen.gov/reports/sar-stats>. Note: Analysis is limited to initial EFE SAR filings and excludes related SARs which provide information on suspicious activity that continues (Continuing Activity SARs) or include a correction to a previous filing (Correction SARs).

Products & Payments Involved in EFE

Top ten financial products or payments methods involved in EFE SARs (2020)



SeniorSafe Act of 2017 – The Specifics

- Immunity applies to certain **depository-institution**, investment-adviser, broker-dealer, insurance-company, and insurance-agency employees...
- ...who have received specified **training** related to identifying and reporting the suspected exploitation of a senior citizen.
- FI is **not liable** with respect to disclosures made by such employees.





CFPB Recommendations

- **Develop, implement, and maintain** internal protocols and procedures for protecting account holders from elder financial exploitation.
- **Train** employees.
- **Detect** elder financial exploitation by harnessing technology.
- **Report** suspicious activity.
- **Protect** older accountholders from financial exploitation.
- **Collaborate** with stakeholders.



2019 CFPB Guidance

*“Reporting of Suspected Elder Financial Exploitation by
Financial Institutions.”*

- 26 states and DC mandate reporting of suspected EFE by FIs or specified financial professionals
- Expedite this information to agencies when possible

A decorative graphic on the left side of the slide, consisting of a dark red square and a teal square, with a thin teal line extending upwards from the teal square.

2019 CFPB Guidance – Collaboration Among Agencies

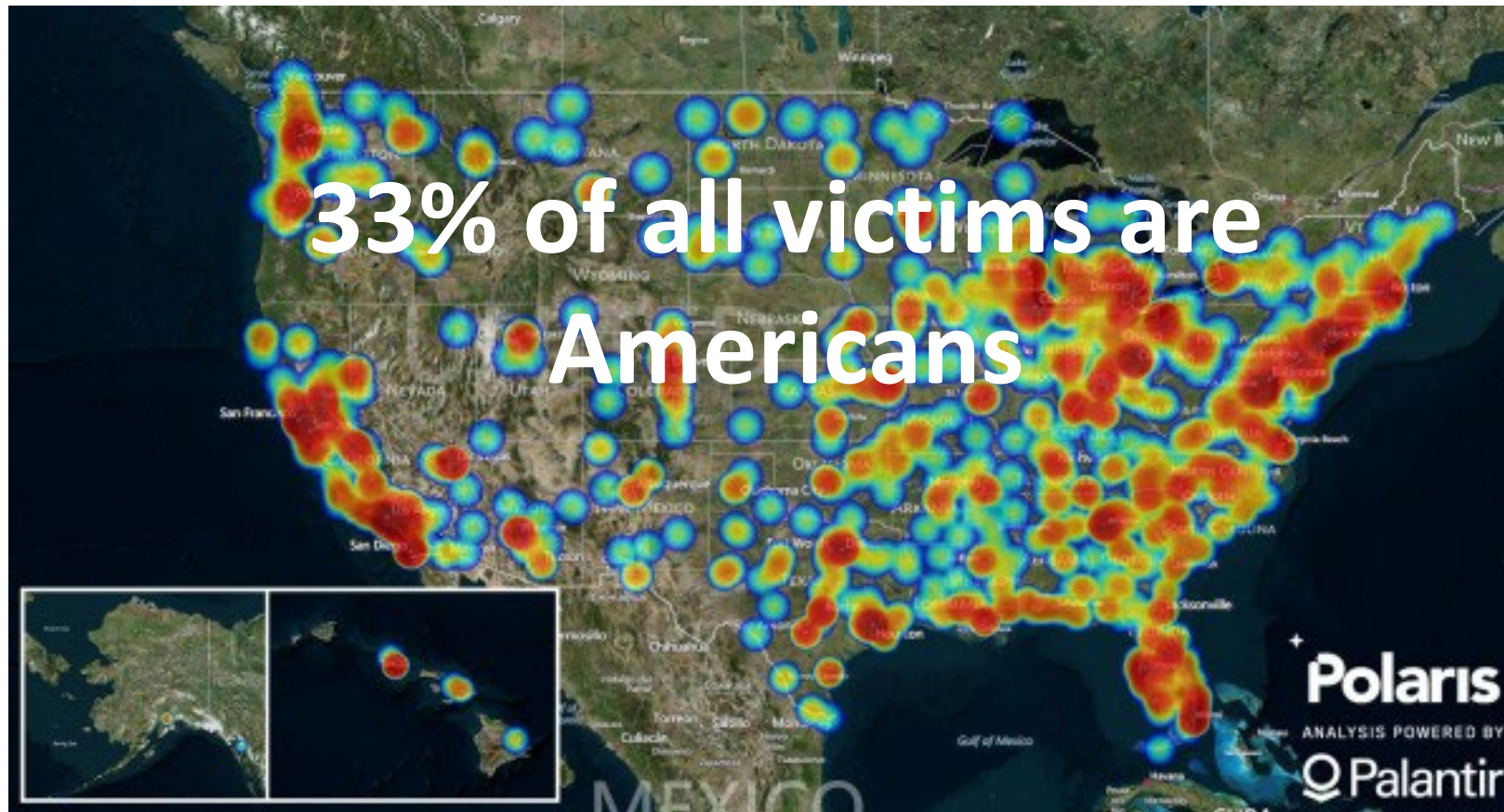
- Sharing information about each other's organizational **policies and procedures** can facilitate timely response to EFE reports.
- We can **provide insight** on banking and finance documents, processes and procedures that will assist law enforcement and APS with case investigations.
- **Participate** in your local networks.

Human Trafficking Overview



- Fastest growing crime and currently the second largest criminal industry in the world behind illegal drug trade.
- **Trafficking Victims Protection Act of 2000**
 - Established human trafficking as a criminal act, defined as labor trafficking and sex trafficking.

Closer Than You Think





Definition Differences

Human Smuggling

- Involves persons choosing to immigrate illegally.
- Limited to illegal migration or harboring of undocumented aliens.
- Involves foreign nationals.
- Involves illegal border crossing or harboring of someone that illegally crossed the border.

Human Trafficking

- Involves use of force or coercion and exploitation of victims.
- Includes involuntary servitude, forced labor, debt bondage, peonage and sexual exploitation.
- Anyone can be a victim.
- No need for a person to cross border to be trafficked; individuals can be trafficked within borders of a country.

Human Smuggling: How Payments Are Received

- Pay in Advance
- Partial Payment
- On Arrival



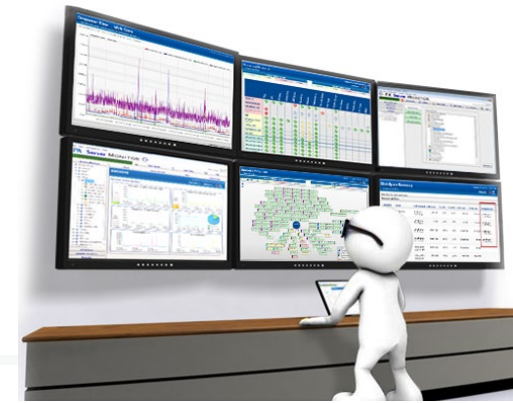


- Front Companies
- Exploitative Employment Practices
- Funnel Accounts
- Alternative Payment Methods

Other Money Laundering Methods

- Online financial systems
- Internet technologies
- Virtual currency
- Prepaid cards





Effective Monitoring

- Should review transactions at the account level, **AND** at the relationship level.
- Should include a method to track the purchase and use of **pre-paid cards**.

Several vendors now offer human trafficking rules and filters within their account monitoring systems to assist FIs in identifying these types of activities.

High-Risk Businesses

Some business types are commonly utilized as money-laundering fronts for human trafficking and human smuggling activities.

- Cash-intensive businesses
- Employers of domestic servants
- Massage parlors
- Agriculture companies
- Hospitality companies





Take-Away Toolkit

- Sample BSA/AML Quarterly Report
- BSA Acronyms

THANK YOU

Additional Questions?

**Thank you for the opportunity to speak
with you today!**

If you have any further questions,
please contact Dawn Kincaid at
dawn@brodeconsulting.com

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