



What Bank Directors Should Know about the Bank Secrecy Act

NACD Bank Director Workshop

March 29, 2007

Lauren E. Ware, AVP
Federal Reserve Bank of Richmond

Disclaimer

- The views and opinions expressed herein are mine and do not necessarily reflect the official opinions of the Federal Reserve Bank of Richmond, the Federal Reserve System or any other regulatory agency.

Agenda

- Bank Secrecy Act Overview
- Common Problems & Consequences
- Things Boards and Bankers Can Do
- New Areas of Concern
- Questions

BSA Overview

- Forms, forms, forms
- A Program
 - BSA Officer
 - Internal Controls
 - Training
 - Independent Review

Common Problems

- Compliance Officer
 - Too many hats
 - Lack of, or outdated, knowledge
 - Lack of support from the board or management
 - Fragmented responsibility

Common Problems

- Training
 - No or incomplete training for staff
 - Training only some employees
 - Giving all employees the same training
 - Only providing canned training from a vendor
 - Board not given appropriate training
 - Updates or refreshers not given

Common Problems

- Internal Controls (systemic problems)
 - Process used to identify reportable cash transactions is flawed or weak
 - Forms not filed, filed late, or not retained
 - Forms filed incorrectly or are incomplete
 - Customers improperly exempted from filing

Common Problems

- Internal controls (continued)
 - Policies and procedures weak or not reflective of actual practice
 - Policies are outdated or not board approved
 - Policies are not bank specific

Common Problems

- Internal controls (continued)
 - Weak process to identify, investigate and possibly report suspicious activity
 - Lack of an adequate risk assessment
 - No identification and monitoring of higher risk customers
 - Customer due diligence not performed

Common Problems

■ Independent Reviews

- Incomplete review, no transaction testing
- Review not conducted periodically
- Reviewer lacks sufficient knowledge
- Reviewer is not independent
- Focus on CTRs to exclusion of SAR process
- Review fails to evaluate overall integrity and effectiveness of the program

Potential Consequences

- Violations cited in exam reports
- Possible enforcement actions
- Possible Monetary Penalties
- A downgrade in the management component of CAMELS
- Delayed or denied applications
- Reputational risk

What Boards and Bankers Can Do to Avoid Problems

- Don't fall for BSA Myths
- Don't ignore the issue – be proactive
- Get regular training for yourselves and staff
- Appoint a BSA Officer who has the time, knowledge and authority to maintain an effective program
- Ensure that a comprehensive independent review is conducted and results reported to the board
- Eliminate repeat issues
- Learn from mistakes of others, ask questions, \$\$

New Areas of Concern

- Various New Forms of Fraud
 - Mortgage fraud
 - Identity Theft
 - ACH Fraud

Links for Additional Information

- www.fincen.gov
- www.ffiec.gov/bsa_aml_infobase/default.htm
- www.fatf-gafi.org
- www.bis.org
- www.wolfsberg-principles.com
- www.moneylaundering.com

Questions?

Lauren Ware, AVP
Banking Supervision and Regulation
Federal Reserve Bank of Richmond
804-697-8996
Lauren.ware@rich.frb.org