

How to Use This Manual

THE ANTI-MONEY LAUNDERING CHALLENGE

The financial services industry is coming under increased scrutiny from government agencies to take a leading role in the prevention of money laundering and potential terrorist funding. The ability to detect and report suspicious activity is essential in combating money laundering. Governments are enlisting the financial services industry (through new policy and law) to implement stringent new anti-money laundering (AML) programs to help maintain the integrity of our financial system and protect it against illicit use. By knowing their customers, financial institutions are in the unique position of recognizing transactional patterns and behavior.

Major events in the banking industry have caused the government to elevate its standards for anti-money laundering compliance programs. One event involved private banking activities and another involved international correspondent banking and wire transfer operations. Both of these situations led to hearings in Congress, with testimonies by the banks' chairmen and other bank officers. The USA PATRIOT Act (Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001) was passed in October of 2001, leading to even more anti-money laundering laws and regulations, which has substantially raised the bar. The USA PATRIOT Act also greatly expanded the definition of the term "financial institution" to include money service businesses, broker/dealers, and many other industries that have not been previously subject to anti-money laundering and terrorism compliance.

It might be said that the USA PATRIOT Act converted many aspects of a financial institution's AML responsibilities from "soft law" to "hard law." Many components of a successful AML program were in the form of guidance, but not hard regulation. In many instances, financial institutions were left to their own devices to implement an effective AML program. With the introduction of new specific rules and regulations along with deadlines for implementation or completion, financial institutions have felt and are still feeling the pressure to meet or exceed government AML and anti-terrorism compliance expectations.

The FFIEC BSA/AML Examination Manual

The Federal Financial Institutions Examination Council (FFIEC) issued its Bank Secrecy Act/Anti-Money Laundering (BSA/AML) Examination Manual in 2005 and updated it in 2006 and 2007. The manual was a collaborative effort of the Financial Crimes Enforcement Network (FinCEN) and the federal banking agencies: the Federal Reserve System, the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS).

The manual reinforced the need for sound BSA/AML risk management with the ultimate goal of safeguarding a financial institution's operations from money laundering or terrorist financing. The manual does not set new standards; it is a compilation of existing regulatory requirements.

A sound AML compliance program is a financial institution's best offense and defense against criminal activity. Financial institutions must be able to demonstrate to regulators that they have a rational anti-money laundering strategy, put into effect through efficient, documented, auditable, enterprise-wide processes. A financial institution will be in a much better position if it puts forth the necessary effort early on to build a model process.

Compliance program requirements fall into several categories. Financial institutions should have a plan in place that clearly demonstrates their progress in meeting their compliance objectives. Comprehensive policies and procedures, risk rating processes, strong due diligence and customer identification programs, monitoring tools and processes for identifying and reporting suspicious activity, and appropriate training programs are all components that must fit together like the pieces of a puzzle to fully meet program requirements. In addition, a financial institution's internal audit department is expected to play a much more active role in assessing AML programs than in the past.

AML compliance today is an arduous task that will only become more challenging. Clearly, the stakes have never been higher. It will require a close partnership between government, law enforcement, and financial institutions.

Required BSA/AML Training

One important aspect of BSA/AML compliance is appropriate, effective staff training. BSA/AML training should begin with new employee orientation and continue at regularly scheduled intervals. Participation should be mandatory, with attendance tracked to ensure an audit trail for the regulators. The audit and compliance areas should oversee the training process to guarantee the consistency of the program across lines of business and product offerings.

Any employees who handle currency transactions must know the reporting requirements. Bank staff who work in areas that pose a higher risk of money laundering, such as private banking or correspondent banking, must receive more extensive training that relates to their job functions. It is extremely important that employee training clearly demonstrate executive commitment to the program, ensuring that employees and associates clearly understand the risk to themselves and the institution for becoming wittingly or unwittingly involved in a money laundering or terrorist financing scheme.

Bank employees who complete *BSA/AML Training by Function* can show the bank's regulators that they have taken the BSA/AML requirements very seriously, that they are up-to-date on compliance.

ORGANIZATION

Your *BSA/AML Training by Function* manual is a self-paced study guide designed to improve skills in the critical area of money laundering and anti-terrorism compliance to fulfill the government requirements for training. It is specifically designed to allow you to customize your approach to learning. It has a basic course applicable to all employees, as well as courses designed for specific lines of business. Each course contains general BSA/AML training and customized content for the specific function.

The manual is divided into specific topics:

- Basic Bank Secrecy Act/anti-money laundering training (Course 1)

- Commercial banking services (Course 2)
- Retail banking services (Course 3)
- Private banking services (Course 4)
- Securities broker/dealer services (Course 5)
- Correspondent banking services (Course 6)
- Compliance and audit (Course 7) (This course is designed for auditors and compliance associates who will be performing audits or examinations. It is recommended that Course 1 be taken as well to gain basic information on money laundering and terrorism.)
- Board of directors and executive management (Course 8) (This course is designed to be given to the bank's board of directors either in a board meeting or for study at their own pace. It is not a basic BSA/AML course like the others, but rather covers the regulatory environment, regulatory expectations, the role of executive management and the board of directors, critical success factors, and what they must do to meet the challenge. Directors and executives who would like to learn more about the Bank Secrecy Act and money laundering are encouraged to take Course 1, Basic Anti-Money Laundering Training.)

Each course contains real-life scenarios, quizzes, and a final review where you can put your skills to work. The courses are designed to let you study and learn at your own pace. You should, however, finish a lesson once you have started it. This will help you digest the entirety of the material and enhance your learning experience. You should set aside at least an hour of time per training session.

The goal of this self-paced program is to learn the required anti-money laundering and terrorism requirements. By studying this manual, you will help prevent your institution from becoming a conduit for money laundering and terrorism financing activities, while gaining a clear understanding of the risks to you as an associate and to your institution for becoming wittingly or unwittingly involved in illegal activities.

This publication will be updated regularly to stay current with the latest regulations. The CD that accompanies this manual contains the complete text of the manual, as well as reference material that is provided only on the CD.