

How to Use This Manual

Customer Identification Programs: Compliance, Operations, and Audit represents a compilation of both research and hands-on experience. Insights gained through helping institutions to develop and implement integrated, detailed policy and procedures to address customer identification program (CIP) requirements were critical to the development of this manual.

OVERVIEW OF THE CIP REQUIREMENTS

On October 26, 2001, President Bush signed into law the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), Public Law 107-56, which added several new provisions to the Bank Secrecy Act (BSA) to facilitate the prevention, detection, and prosecution of international money laundering and the financing of terrorism.

To comply with CIP requirements, financial institutions must implement reasonable procedures for:

- Verifying the identity of any person seeking to open an account, to the extent reasonable and practicable
- Maintaining records of the information used to verify the person's identity, including name, address, and other identifying information
- Determining whether the person appears on any lists of known or suspected terrorists or terrorist organizations provided to the financial institution by any government agency

Originally scheduled for an October 25, 2002, effective date, the Treasury Department and the federal regulatory agencies took additional time to review, evaluate, and consider the approximately 500 comments received regarding the proposed rules. In response to a review of the comments received and in accordance with legislative mandates, the Treasury Department and the federal regulatory agencies drafted the final rule, which was announced April 30, 2003, in the *Federal Register*. Financial institutions had until October 1, 2003, to achieve full compliance with the final rules.

The Federal Banking Regulators Are Also Reviewed for CIP Compliance

The FDIC and OTS have been reviewed by the Office of Inspector General (IG) with generally supportive comments provided regarding examination efforts. Specific points were cited about positive efforts by each agency to ensure consistent application of examination procedures across the nation. However, significant areas for enhancement pertaining to CIP compliance were cited by the IG as follows:

- The November 27, 2007 IG report regarding 24 FDIC examinations reviewed, noted that there was at least 1 violation missed in each of the sample banks. Five of the sampled 24 institutions had been cited by the FDIC for CIP violations; however, the examiners missed or did not cite

other apparent CIP violations. Three institutions could have been, but were not cited for 5 or more apparent CIP violations. While the FDIC response indicated that other mitigating circumstances may have resulted in not citing these violations, the agency did indicate it would enhance training and further reinforce examination focus on CIP requirements.

- The May 2008 IG report regarding 95 sampled OTS examination reports, noted that 82 of the most recent examinations did not evaluate whether significant compliance program elements had been implemented. Specific lack of reviews by OTS examiners were cited for a wide range of areas including section 314(a) information sharing, CIP procedures and processes, customer due diligence, and other related AML controls/procedures. The OTS response concurred with the IG recommendations, specifically addressing the importance that BSA examiners adhere to adopted BSA examination procedures, and providing further guidance to examiners to ensure they consistently cite institutions with violations of law.

These two IG audit reports are a factual reminder that examiners are also reviewed and evaluated on their performance, and specifically, whether their findings are carried forward to the report of exam including citation of any noted violations. The OTS noted in their response that they are working with other federal banking regulatory agencies to issue interagency guidance on BSA violations with the intent to ensure additional consistency among the federal banking agencies when citing violations.

Putting this into a broader perspective, the more pressure applied to regulatory examination staff, the greater scrutiny they will apply in reviews of CIP compliance. Accordingly, it is incumbent upon the BSA officer and other staff with the support of senior management, to ensure proper implementation and maintenance of a viable CIP program.

CHAPTER SUMMARY

In developing *Customer Identification Programs: Compliance, Operations, and Audit*, specific consideration was given to what financial institution management and staff were seeking in resources to address CIP compliance. This manual provides the following:

Chapter 1, the Evolution of Anti-Money Laundering Legislation and Rulemaking. This chapter presents an overview of the ongoing efforts to fight money laundering. It discusses the role of the financial service industry in identifying and stopping money laundering and apprehending money launderers. It also discusses trends in money laundering and provides an overview of how CIP requirements fit with the Bank Secrecy Act, other anti-money laundering (AML) regulations, and Office of Foreign Assets Control (OFAC) requirements.

Chapter 2, Analysis of the Customer Identification Program Requirements. The regulation implementing section 326 of the USA PATRIOT Act, which deals with the CIP requirements, is analyzed in this chapter. Relevant definitions and CIP minimum requirements are also discussed.

Chapter 3, Implementation Guidance and Checklists. To address the regulatory requirements of the CIP, this chapter provides implementation checklists and a decision points analysis/review chart. It also contains regulatory guidance — the regulators’ answers to frequently asked questions about CIP — with additional comments and insights to assist management teams in the implementation and daily application of the CIP requirements.

Chapter 4, Sample CIP Policy. The sample CIP policy is a model of an in-depth policy approach to integrate the customer identification regulatory requirements into a bank's Bank Secrecy Act program. The policy is available as a Word file on the accompanying CD so that it may be customized for your institution.

Chapter 5, Sample CIP Procedures. Based upon the experience of other financial institutions that addressed technical policy statements as a part of broader policies, the sample CIP procedures have been developed as stand-alone procedures that will work within an institution's overall BSA program. The procedures are also on the accompanying CD so that they may be customized as well.

Chapter 6, Control Considerations and Internal Monitoring. In order to prepare a financial institution for compliance with CIP requirements, management should conduct a self-assessment of several areas that may require enhancements, including existing BSA/AML/OFAC compliance programs, staffing, training, identifying and reporting suspicious activity, record retention and retrieval, and responding to requests for information. A self-assessment checklist in this chapter focuses on the major areas affected by CIP requirements.

Chapter 7, Internal Audit. The importance of establishing an independent AML compliance program and developing internal audit procedures to test various elements is pretty clear. This chapter contains sample internal audit control procedures and an internal audit checklist that may be adapted for your institution.

Chapter 8, Regulatory Examination Procedures. Examiners will be specifically requesting CIP procedures, documentation, and supporting materials. This chapter contains portions of the BSA/AML compliance examination handbook issued by the Office of the Comptroller of the Currency, with additional areas where it is anticipated that examination procedures may be revised to incorporate a review for compliance with the final CIP rules.

Chapter 9, Regulation Violations Related to Customer Identification. This chapter provides an overview of common BSA/AML violations, recent regulatory enforcement actions, and synopses of money laundering situations that involve customer identification issues.

Chapter 10, Ongoing Guidance. Regulators will continue to revise CIP requirements, and your CIP will have to be modified to stay in compliance. The questionnaire in this chapter will help you periodically assess what you have accomplished and what still remains to be done.

Chapter 11, Training. Staff training serves as a critical tool to meet CIP compliance requirements. This chapter contains an in-depth training planning outline and a complete training program, including a PowerPoint presentation that may be adapted for your bank or converted into overhead slides, money laundering case studies, and a CIP quiz.

Appendices. For your reference, the manual contains a list of abbreviations, the joint final rule "Customer Identification Programs for Banks, Savings, Associations, Credit Unions, and Certain Non-Federally Regulated Banks," and regulatory issuances. Brief discussions of the rule and each issuance are linked to electronic files on the accompanying CD where you may view the complete text.

Commonly Sited CIP Problematic Areas

- There is no discussion of reliance on other financial institutions or other third parties to perform CIP procedures where applicable.
- Incomplete discussion of the procedures that should be used when the primary identification documents identified by the financial institution are not available (either the account cannot be opened or specified secondary forms of identification can be used).
- CIP procedures are not executed for customers added to an account after the account is opened.
- Incomplete information is obtained on secondary owners not present at account opening.
- Identification document information is not recorded.
- The resolution of discrepancies related to information obtained during the CIP is not documented.