

SRC Insights



FEDERAL RESERVE BANK OF PHILADELPHIA

Special Bank Secrecy Act/Anti-Money Laundering Issue

SVP Commentary on...

Effective Compliance Management and the Bank Secrecy Act

Public demand for better corporate governance and new regulatory requirements has resulted in a new way of thinking about compliance risk management. As a result, many organizations are driving compliance performance in an integrated manner, linking governance, risk, and compliance.

Compliance risk is the current and prospective risk to earnings or capital arising from violations of, or nonconformance with, laws, rules, regulations, internal policies and procedures, or ethical standards. Compliance risk can also exist when governing laws or rules related to specific bank products or activities may be ambiguous or untested.¹ Effectively managing compliance risk can help prevent damage to an institution's reputation and also reduce legal risk and the potential for fines and civil money penalties that could result from violations of laws and regulations.

In today's highly complex and competitive banking environment, there is ongoing concern raised by financial institutions regarding the time spent on regulatory compliance. The costs associated with implementing an effective compliance program can be significant, and the addition of new laws and regulations can seem overwhelming. For smaller institutions with limited resources, the impact may be felt to a greater degree. In addition, management's focus on the institution's strategic vision may be diverted at times in order to attend to compliance issues.

A financial institution's compliance program should be an integral part of its over-
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¹ OCC Bulletin No. 98-3 is available at <www.ffiec.gov/ffiecinfobase/resources/management/occ-bu98-3_technology_risk_management.pdf>.

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The New Bank Secrecy Act/ Anti-Money Laundering Examination Manual

by Jacqueline P. Fenton, Examiner

On June 30, 2005, the Federal Financial Institutions Examination Council (FFIEC) issued the new Interagency Bank Secrecy Act/Anti-Money Laundering (BSA/AML) Examination Manual. The manual is the result of a collaborative effort between the federal banking agencies and the U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN). The federal banking agencies are the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision. In addition, through the Conference of State Bank Supervisors, state banking agencies played a consultative role. The federal banking agencies also conferred with the Office of Foreign Asset Control (OFAC) in the development of examination procedures to test compliance with sanctions administered by OFAC.

Why Were These Procedures Developed?

While these procedures do not set new rules or offer new guidance, the manual is designed to clarify regulatory requirements and examination expectations in an effort to enhance consistency and to ensure that examiners use a single framework at all financial institutions. This interagency manual is a significant step toward consistency in the area of BSA/AML examination, and it promotes a shared understanding of the regulations and supervisory expectations surrounding BSA/AML compliance.

What Did Not Change with the New Examination Procedures?

As previously mentioned, the manual does not set new standards; instead, it is a compilation of existing regulatory requirements, supervisory expectations, and sound practices for BSA/AML compliance. To foster consistency, the manual includes examination procedures that will be used by each federal banking agency's examiners. In addition, all state banking agencies were invited to the outreach events announcing the release of these procedures, and these agencies have full access to the new manual. The states also commented during the drafting stage and participated in the field testing.

The requirement for banks to develop, administer, and maintain an effective BSA/AML compliance program remains the same. The program

should be documented, approved by the board of directors, and noted in the board minutes. Furthermore, the compliance program for state member banks must meet the following minimum requirements as required by Regulation H, Section 208.63(c):

- Maintain a system of internal controls to ensure ongoing compliance
- Require independent testing of BSA/AML compliance
- Designate an individual or individuals to be responsible for managing day-to-day compliance
- Provide training for all appropriate personnel

What Can Bankers Expect to See During an Examination?

To provide examiners with the ability to tailor each examination to the profile of a specific banking organization, the manual uses both “core” and “expanded” examination procedures. The core procedures are the foundation for all BSA/AML examinations. They cover all BSA and related regulatory requirements and include procedures for scoping and planning examinations, including an emphasis on a bank’s own risk assessment. These core procedures also include guidance on reviewing the components of the BSA compliance program and reviewing the policies and procedures to support compliance with sanctions administered by OFAC. The expanded procedures address specific lines of business, products, or entities that will present unique challenges for which the institution should establish appropriate policies, procedures, and processes. Not all core and expanded procedures will be applicable to every institution. At a minimum, bankers can expect the following during a BSA/AML examination:

- Examiners who are well trained in assessing the BSA/AML program

- An examination scope tailored to the specific risk profile and activities of the banking organization
- More detailed transaction testing, which may or may not require additional examination time
- An examination duration commensurate with the risk profile of the banking organization
- Consistency in the administration of BSA/AML examination procedures among the federal banking agencies

The expanded procedures address specific lines of business, products, or entities that will present unique challenges for which the institution should establish appropriate policies, procedures, and processes.

Summary

The new BSA/AML Examination Manual became effective as of the third quarter of 2005. A complete copy is posted on FFIEC’s website at <www.ffiec.gov/bsa_aml_infobase/pages_manual/manual_online.htm>. This site provides an automated search function to facilitate easy navigation of the manual’s 330 pages. In addition,

information is provided on related BSA/AML laws and regulations, guidance on preparing quality suspicious activity reports (SARs), common indicators and “red flags” for potentially suspicious activity, a comprehensive list of acronyms and abbreviations, and frequently asked questions. Any questions regarding the new manual may be directed to Examiner Jacqueline P. Fenton (jacqueline.p.fenton@phil.frb.org) at (215) 574-6234. □



An Examiner's Perspective on Understanding and Implementing BSA/AML Recommendations

by Ivy Washington, Assistant Examiner

Does this story sound familiar? A banking institution is preparing for an upcoming bank examination, which will include a review of its Bank Secrecy Act and Anti-Money Laundering (BSA/AML) compliance program. Management is fairly confident that the program will be deemed adequate because they have reviewed the BSA/AML laws and regulations and implemented a compliance program based on the necessary requirements. However, when the examination is complete and the examiner provides management with an assessment of the program, a list of recommendations for improvement is included.

Often, management wants to incorporate the examiners' recommendations into their existing program, but they may be unsure of where to begin or how to implement the recommendations, or they simply may not have a clear understanding of the recommendations. Understanding the qualities of an effective BSA/AML compliance program and implementing such a program can be challenging. Certain exam recommendations are common among many banking institutions. This article will highlight some of those areas that commonly receive regulatory scrutiny, discuss why they are important, and elaborate on why implementing these recommendations can make a BSA/AML program more effective and efficient.

Risk Assessments

At a minimum, a BSA/AML compliance program will include the following:

- A system of internal controls to ensure ongoing compliance
- An independent compliance testing program
- A designated individual responsible for coordinating and monitoring day-to-day compliance
- An ongoing training program for appropriate personnel

In addition, several elements can make a banking institution's BSA/AML program more efficient. One of these elements and a recognized best practice is the development of a BSA/AML risk assessment. Many

banking institutions know what risk assessments are and how they work but frequently do not implement one. A risk assessment can serve as a valuable tool for any banking institution that wants to manage its BSA/AML risk effectively. The key is to understand the bank's risk exposure and develop the necessary policies, procedures, systems, and controls to mitigate the risk.

A risk assessment should identify and measure risk across product and business lines, the customer base, and geographic locations. This will enable management to better target those activities that are considered to be of a higher risk and therefore require enhanced monitoring. The risk assessment is an evolving process and should grow as new products and services are introduced, existing products and services change, or the bank expands through acquisitions and mergers.

A reference tool for developing a risk assessment is the new FFIEC BSA/AML Examination Manual¹. The manual provides guidance on identifying and measuring BSA/AML risk using a risk scale of low, moderate, or high. Keep in mind that certain products, services, and customer relationships pose a higher risk to the banking institution than others do. The level and degree to which the institution understands and accepts that risk should be outlined in the risk assessment.

BSA/AML Audit Program—The Scope Process

The independent testing or audit of a banking institution's BSA/AML compliance program is one of the minimum requirements of a BSA/AML compliance program. An audit serves as the banking institution's first line of defense for mitigating risk associated with the program, because, by design, it identifies areas of weakness or areas that may require additional enhancements or stronger internal controls. Each audit should be conducted using a risk-based approach,

¹ The FFIEC BSA/AML Examination Manual is available online at www.ffiec.gov/bsa_aml_infobase/pages_manual/manual_online.htm.

which will vary depending on the banking institution's size, complexity, risk profile, and geographic location.

Banking institutions understand the importance of independently testing their BSA/AML program, but some continue to rely on internal audit to set the tone and scope of the BSA/AML audit. There is nothing functionally incorrect with this type of independent testing process if the audit includes a risk-based evaluation of all banking operations, departments, and subsidiaries subject to BSA laws and regulations. Management should have input into the audit scoping process. Giving the independent tester sole responsibility for the scope of the audit may not be effective in ensuring compliance.

A breakdown in the testing process can occur if the scope of the audit is limited and focused only on particular aspects of the BSA program. For example, it is beneficial for a banking institution to assess regulatory compliance of its customer identification program (CIP). For many institutions, this review equates to testing the account opening process where most of the account relationships are formed, which is usually at the branch level. However, other areas of operations, such as trust, lending, or e-banking, are also affected by CIP requirements, and these areas often are not subject to a BSA/AML audit. This exclusion can increase a banking institution's risk exposure.

At a minimum, an audit should include the following:

- An evaluation of the overall integrity and effectiveness of the banking institution's BSA/AML compliance program, including policies, procedures, and processes
- A review of the risk assessment, if one is established
- An appropriate level of transaction testing to verify adherence to BSA requirements
- A review of the staff training program
- An assessment of the banking institution's moni-

toring and reporting systems

- An evaluation of management's efforts to resolve deficiencies noted in prior audit reports and regulatory examinations
- A review of any other areas that management considers to be significant

Designation of the BSA Officer and Related Responsibilities

The designation of the BSA officer is one of the most important decisions a banking institution can make

The BSA officer is primarily responsible for coordinating and monitoring day-to-day BSA/AML compliance, managing all aspects of the BSA/AML program, and ensuring the banking institution's adherence to BSA and other regulatory requirements.

for its BSA/AML compliance program. The BSA officer is responsible for the bank's overall compliance with BSA laws and regulations. Therefore, the individual selected should be dedicated to the compliance process and possess the necessary skills required for the position. Approved by the board of directors, the BSA officer is primarily responsible for coordinating and monitoring day-to-day BSA/AML compliance, managing all aspects of the BSA/AML program, and ensuring the

banking institution's adherence to BSA and other regulatory requirements.

Ideally, the individual selected to perform the BSA duties should be someone who is knowledgeable of BSA laws and regulations; understands the institution's products and business lines, customers, geographic locations, and the risks associated with these activities; and is completely dedicated to the program. Realistically, however, this does not always occur. For some institutions, a limitation in staffing creates a situation where the individual selected to serve as the BSA officer is also involved in other day-to-day operational duties of the banking institution. For other institutions, the BSA functions are delegated to various employees, and no one individual is specifically designated as the BSA officer. Both situations can be problematic.

Suspicious Activity Reports (SARs): The Narratives

All banking institutions are required to file SARs that are complete, thorough, and timely. The information

provided in these reports enables banking institutions to combat terrorism, terrorist financing, money laundering, and other financial crimes by providing valuable information on emerging trends and patterns to the Financial Crimes Enforcement Network (FinCEN) and other law enforcement agencies.

Unfortunately, many banking institutions file SARs that contain limited, incorrect, or disordered information, making any further investigative analysis somewhat difficult to perform. The care a banking institution takes in writing its SAR narratives is crucial in giving law enforcement the necessary information to determine whether the described conduct is criminal in nature. If the SAR narratives are not clear, nothing can be done.

The golden rule for writing a complete SAR narrative is to incorporate the five elements of information gathering: who, what, when, where, and why.²

- Who is conducting the suspicious activity? The SAR narrative should contain information describing the suspect or suspects and, if known, their occupation, position, or title within the business; the nature of the business; and any other related information.
- What was used to facilitate the suspicious activity? The SAR narrative should list the instruments used to conduct the suspicious activity. If the banking institution describes a flow of funds, the SAR narrative should include all related information to track the transactions from the origination point to the final destination.
- When did the suspicious activity take place? The SAR narrative should detail the periods of when the suspicious activity was first noticed and how long the activity lasted. Whenever possible, the individual dates and the amounts of each transaction should be detailed in the form rather than totaled.

² Additional guidance on preparing SAR narratives can be found in the FFIEC BSA/AML Examination Manual, available online at <www.ffiec.gov/bsa_aml_infobase/pages_manual/manual_online.htm>.

- Where did the suspicious activity occur? The SAR narrative should indicate whether the transaction occurred at one location or multiple locations. If the transaction involved a foreign jurisdiction, that information should also be included in the narrative.
- Why is the activity considered suspicious? The SAR narrative should describe why the activity is unusual to the customer. An analysis of what is normal for that particular customer should be compared to similar customers of the banking institution to support the bank's suspicion of the subject.

The golden rule for writing a complete SAR narrative is to incorporate the five elements of information gathering: who, what, when, where, and why.

Additionally, how the activity was conducted is equally as important and should be indicated on the SAR form. One thing to note is that SAR forms should not be accompanied by any supporting documentation and should not reference the term "see attached" in the narrative section. When a banking institution submits the form to the IRS Detroit

Computing Center, the only information entered into the database is the information documented in the narrative section of the SAR. Any supplemental information submitted in conjunction with the SAR form will not be tracked in the system. The documentation used by the banking institution to support the SAR filing should be maintained by the bank for a period of no less than five years and should be readily accessible to law enforcement and regulatory agencies for review.

BSA Policies and Procedures

No BSA/AML program would be complete without the implementation of a formal, documented BSA/AML policy. The policy assists a banking institution in establishing the compliance culture, as set forth by its board of directors. It is a living document that should provide guidance on bank and regulatory requirements and should illustrate the parameters for staff adherence. Processes and related procedures conducted in conjunction with the BSA/AML program also should be documented within the bank's BSA policy.

Too often, however, banking institutions either neglect

to formalize their processes and procedures, or they devise a policy but fail to implement amendments as laws and regulations change. This failure can potentially compromise a banking institution's ability to comply with BSA laws and regulations, as well as bank-approved practices. It is important that all functions tied to a bank's BSA/AML program be detailed and documented in the policy. Management should review the policy and have it approved by the board of directors annually or as amendments are made.

Summary

Assessing a banking institution's BSA/AML compli-

ance program is an integral part of the supervisory process and is of high supervisory concern. Ultimately, banking regulatory agencies strive to ensure that the institutions they supervise understand the importance of an effective BSA/AML compliance program. Therefore, it is in the best interest of any banking institution to proactively implement reasonable and prudent measures to minimize the risk associated with its BSA/AML program. The timely implementation of recommendations together with a forward-thinking approach will establish a program that continues to comply with BSA laws and regulations while adhering to the risk appetite of the banking institution. □

Bank Secrecy Act Regulation...A Coordinated Effort

The Bank Secrecy Act was passed in 1970 to combat money laundering and other financial crimes.¹ Over the past several decades, additional anti-money laundering legislation has been passed to reinforce and expand on the original law. Several government agencies play a role in implementing the Bank Secrecy Act (BSA), and each has responsibility for a variety of activities. Together they work to ensure compliance with the BSA and to fight financial crimes.

The BSA authorizes the Secretary of the Treasury to require financial institutions, as defined under the act, to establish anti-money laundering programs, file certain reports, and keep records of transactions. A bureau within the U.S. Treasury, the Financial Crimes Enforcement Network (FinCEN), is the delegated administrator of the BSA.

FinCEN issues regulations and interpretive guidance, provides outreach, and has responsibility for civil enforcement of the BSA. In addition, FinCEN provides support to law enforcement, fosters cooperation with its international counterparts, and reports on trends and patterns of financial crimes.

The federal banking agencies (the agencies) have the responsibility for regulating and supervising financial institutions. In their supervisory role, the agencies are required to review an institution's BSA/AML compliance program at every examination, and they have authority to enforce compliance

with the BSA and related anti-money laundering regulations.

The Office of Foreign Assets Control (OFAC) has requirements that are separate and distinct from the BSA. OFAC is an office of the U.S. Treasury, and it administers and enforces economic and trade sanctions based on U.S. foreign policy and national security goals. However, the goals of the BSA and OFAC overlap in certain areas, and therefore there is a strong connection between supervision of an institution's compliance with OFAC and BSA requirements.

How do all of these government agencies collaborate effectively to achieve the goals of the BSA? Currently, there are various information sharing agreements in place. The first is an agreement between FinCEN and the federal banking agencies to share BSA related examination data. Aggregate data is submitted to FinCEN on a quarterly basis, and FinCEN then provides periodic updates to the Secretary of the Treasury.

FinCEN also has information sharing agreements with the individual state banking authorities to share BSA related examination data. As of September 2005, FinCEN had finalized agreements with 33 state banking authorities. In addition to the information sharing agreements, FinCEN has created an Office of Compliance within its Regulatory Division to provide ongoing monitoring of its BSA Regulatory Program.

These and other ongoing process improvements help to promote clear and consistent regulations. All of the government agencies continue to fulfill their BSA responsibilities and to strive to improve their implementation and effectiveness.

¹ The Currency and Foreign Transactions Reporting Act is commonly known as the Bank Secrecy Act.

Technology and BSA: Perfect Together

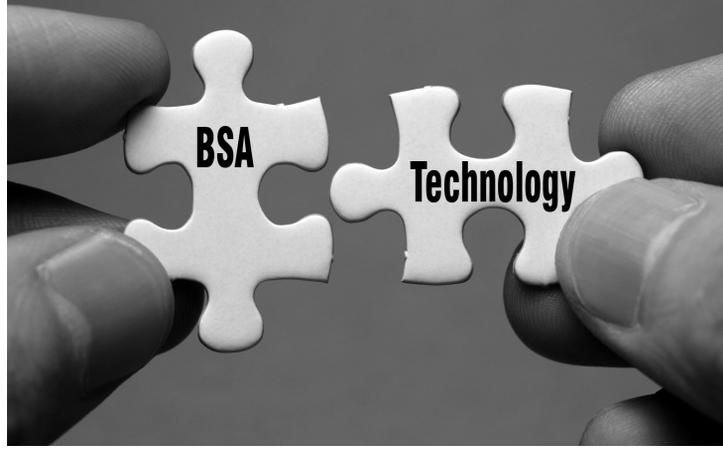
by William J. Brown, Senior Examiner, and
Amy Armstrong, Staff Assistant

The Bank Secrecy Act and the corresponding interagency examination manual are two documents that all compliance and business line personnel should review carefully to ensure that banking institutions are properly addressing BSA/AML compliance and risk management issues. With the additional provisions implemented by the USA PATRIOT Act, it has become imperative for banking institutions to monitor their transactions more rigorously and identify and report any unusual or suspicious behavior.

The recent release of the FFIEC Bank Secrecy Act/Anti-Money Laundering Examination Manual in June should further promote compliance in this area.¹ The manual does not set forth any new policies, but it is a compilation of existing regulatory requirements, supervisory expectations, and sound practices in the BSA/AML area. It was developed jointly by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision, in collaboration with the Financial Crimes Enforcement Network.

BSA/AML Monitoring

Banking institutions have instituted various BSA/AML monitoring systems, but they all generally fall into one of two categories: manual transaction monitoring and automated account monitoring. Commonly, banks that are small to mid-size use manual systems, while larger institutions use automated systems. A manual transaction system consists of a review of reports that are provided by the bank's management information system (MIS) or vendor systems. Examples of some of the reports provided by a manual transaction monitoring system include, but are not limited to, currency activity reports, monetary instrument sales reports,



large item reports, and nonsufficient funds (NSF) reports. Management is responsible for reviewing these reports to identify and report suspicious activity and take action, as appropriate. During an examination, examiners will review management's processes and the adequacy of the reports to ensure that they are commensurate with the bank's BSA/AML risk profile and appropriately cover its high risk products, services, customers, and geographic locations.

Banks that are large, operate in multiple locations, or have a higher-risk customer base primarily rely on automated account monitoring systems. These systems can capture a wide range of account activities, including, but not limited to, deposits, withdrawals, funds transfers, and automated teller machine (ATM) transactions. Such systems are typically computer-program driven and are either developed in-house or purchased from vendors. Automated systems can be either rule-based systems or intelligent systems. Rule-based systems detect suspicious transactions that are outside of management-established rules. Such systems can consist of a few or many rules and can apply complex or multiple filters as necessary. Intelligent systems are adaptive systems that can change their analysis over time based on many factors, such as activity patterns, recent trends, and changes in the customer base. During an examination at an institution that uses an automated account monitoring system, examiners will also review management's processes and the adequacy of reporting, paying particular attention to the rules and assumptions underlying the filtering process.

The Technology Solution

Properly implementing an effective monitoring system is crucial to successfully complying with established BSA/AML regulations. Following the establishment

¹ The FFIEC BSA/AML Examination Manual is available online at www.ffiec.gov/bsa_aml_infobase/pages_manual/manual_online.htm.

of stricter compliance regulations, many institutions' supervisory agencies have found that monitoring systems are inadequate or inappropriate for the institution's purposes. So what technological steps can banks take to ensure BSA/AML compliance? The variety of products and emerging technologies does not make that question easy to answer, and the Federal Reserve does not endorse any particular vendor or product. However, when assessing MIS, bank management should first assess the present systems. Management should determine whether the bank's systems for monitoring and reporting suspicious activities are adequate, given the bank's size, complexity, location, products, type of customer served, and staff resources. Management should then assess the systems in light of updated regulations.

Any deficiencies may very well be caused by both changes to regulations and outdated technology. Bankers need not look very far for technological solutions. Vendors of monitoring systems are providing ubiquitous access to their products and services. Some of the technological advances that are becoming popular and necessary in today's compliance atmosphere are more advanced client risk assessments and transaction risk measurements. Ultimately, it is up to bank management to review the many offerings and choose what will best suit the bank's compliance needs. Implementing a technological fix to a monitoring problem is not enough. Management should also ensure that staff are competent in their understanding and use of the system.

With the many risks associated with noncompliance with BSA/AML regulations, including enforcement actions and damage to an institution's reputation, it is vital for both bankers and regulators to adjust to the changing landscape of BSA/AML technology.

With all the possibilities for improved compliance that these systems provide, they also come with a larger price tag. The high cost of some automated filtering products makes acquiring them much harder for small to mid-tier banks. This conclusion has increased concerns that criminal activity could filter down to these smaller institutions. However, regardless of institution size, automated monitoring tools are not a panacea. There is no substitute for knowing your customer, and examiners will review all BSA-related processes to ensure that "know-your-customer red flags" will be recognized when they present themselves.

A Final Thought

The theory is that with an improved means of collecting information comes improved compliance. As banks continue to find more effective ways of collecting, processing, and reporting BSA/AML data, it is important for regulators to remain informed about these new monitoring systems. Ultimately, the success of the BSA/AML exam procedures and the promulgating regulations resides in the knowledge and experience of both bankers and examiners, fused with the continuing advancements and proper use of BSA/AML technology. □

However, regardless of institution size, automated monitoring tools are not a panacea.

The guidance and procedures contained in the FFIEC BSA/AML Examination Manual can help banking institutions understand relevant laws and regulations, including:

- BSA/AML and Office of Foreign Assets Control compliance obligations placed on banking organizations
- Supervisory expectations in this area
- Guidance on identifying and controlling risks

The manual is available at www.ffiec.gov/bsa_aml_infobase/pages_manual/manual_online.htm.

The manual will be revised and updated as necessary as new regulations and guidance are issued, technology advances, and money laundering risks evolve. For more information, please contact your institution's central point of contact or assigned manager at the Reserve Bank.

Effective Compliance Management and the Bank Secrecy Act

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all risk-management process. The compliance function plays a very important role in identifying, evaluating, and addressing legal and reputational risks. In 2004, COSO released its enterprise risk management integrated framework, and some financial institutions have implemented enterprisewide risk management programs.²

The COSO framework is structured to identify potential events that may affect an organization, and it establishes how an organization will manage compliance risk based on its strategic plan and risk appetite. Effective compliance management is one of the objectives of an enterprisewide risk management program.

As part of an enterprisewide risk management program, the compliance function should look at all business lines and activities on an entitywide basis to identify the potential effect of the legal and reputational risks of individual business lines on each other and the organization as a whole. Management should evaluate all of the risks associated with both current and planned business activities.

Regarding compliance with the Bank Secrecy Act (BSA) and related Anti-Money Laundering (AML) regulations specifically, this is an area of significant concern for financial institutions. With the passage of the USA PATRIOT Act in 2001, the Bank Secrecy Act was significantly amended, and as a result, the compliance process in this area became more complex. Concern is centered on the level of compliance burden associated with BSA/AML regulatory requirements.

² The Committee of Sponsoring Organizations of the Treadway Commission (COSO), *Enterprise Risk Management – Integrated Framework*, released September 2004, is available online at <www.coso.org/publications.htm>.

The Benefits of Effective Compliance Management

An effective compliance program can impact an organization's bottom line by reducing legal and reputational costs. Therefore, management should strive to not focus solely on compliance as a generator of costs and should identify the benefits it can add to financial performance.

In addition to reduced legal and reputational risk, there can be additional benefits to effectively managing compliance risk. An effective compliance program can also identify operational weaknesses. This can be useful in improving an institution's overall internal controls. In addition, effective compliance management sets a positive tone from the top of the organization and establishes a strong compliance culture.

Implementing an enterprisewide compliance program can help with managing risk across business lines. Process improvements can result, thereby enhancing operational efficiency and improving financial performance. Achieving greater efficiency may also help an institution implement its strategic plans.

The Importance of BSA/AML Compliance

As collectors of financial information, banks are in a unique position in the payments system to be able to identify questionable or suspicious payments or activities. The filing of Suspicious Activity Reports (SARs) alerts law enforcement and federal bank regulators to known or suspected violations of a law or suspicious activity being conducted at a financial institution.

A coordinated effort among financial institutions, federal regulators, and law enforcement helps to implement BSA/AML requirements. Compliance with the regulations is critical to ensure effective use of reported information in combating financial crimes, in-

As collectors of financial information, banks are in a unique position in the payments system to be able to identify questionable or suspicious payments or activities.

cluding money laundering and financing of terrorists and other illicit undertakings.

While there is no foolproof method for detecting fraud or money laundering activity, financial institutions are expected to have a sound BSA/AML compliance program. Processes and procedures should be established to identify suspicious activity, and they should be tailored to the risk and complexity of individual business lines. There should be adequate training on the processes and procedures at all staff levels, and adequate controls should exist in order to ensure ongoing compliance.

For all areas of regulatory compliance, there must be an effective cost-benefit balance. For compliance with BSA/AML requirements, the cost of compliance must be balanced with the benefit received from the reported information in fighting financial crimes. Regulators are continually looking for ways to ease the burden on financial institutions, increase the coordination among the different regulatory agencies, and improve communication efficiencies while ensuring that law enforcement receives useful information.

To that end, on June 30, 2005, the Federal Financial Institutions Examination Council (FFIEC) released a new BSA/AML examination manual. The manual is the product of a collaborative effort among federal banking regulators and the U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN). It does not set new standards, but rather it is a compilation of existing regulatory requirements, supervisory expectations, and sound practices in the BSA/AML compliance area. To promote consistency among regulators, the manual also includes the examination procedures that will be used by each agency's examiners and provided to state banking agencies.

Business goals and effective compliance with laws and regulations can both be achieved. Compliance with the Bank Secrecy Act and all laws and regulations has a significant impact on an organization's overall performance. Managing an effective compliance program can provide many benefits to improve overall performance and to facilitate the achievement of business goals. □

CTRs and SARs Made Easier

Did FinCEN receive the CTR that I filed by mail? How about the SAR?

Financial institutions that file CTRs by mail may call the IRS Detroit Computing Center (IRS DCC) at 1-800-800-CTRS (1-800-800-2877) to determine whether a CTR has been received.

The IRS DCC cannot verify over the phone whether a SAR has been filed, since it would have no way of verifying whether the person calling was the subject of a possible insider SAR filing. The IRS DCC will confirm that a SAR has been filed in response to a mailing sent to:

IRS Detroit Computing Center
Compliance Review Group
P.O. Box 32063
Detroit, MI 48232-0063

Additional information about the SAR filing verification process, including fees, is available on FinCEN's Regulatory/FAQs webpage at <www.fincen.gov/reg_faqs.html>. You can also call the IRS DCC at 1-800-800-CTRS for further information.

Do I have to file CTRs and SARs by mail?

No, CTRs and SARs can be filed electronically. You can visit the BSA Direct E-Filing System at <bsaefiling.fincen.treas.gov/index.jsp> for additional information and an enrollment guide.



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