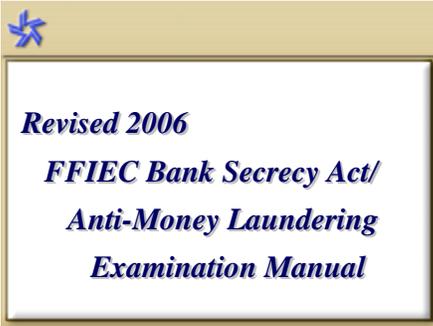


Revised 2006 FFIEC BSA/AML Examination Manual Presentation Script

Visual	Narrative
<p>1.</p>  <p style="text-align: center;"><i>Revised 2006 FFIEC Bank Secrecy Act/ Anti-Money Laundering Examination Manual</i></p>	
<p>2.</p>  <p style="text-align: center;"><i>Federal Financial Institutions Examination Council</i></p> <p style="text-align: center;">FFIEC Federal Financial Institutions Examination Council</p>	<p>The Federal Financial Institutions Examination Council, or FFIEC, is a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions.</p>
<p>3.</p>  <p style="text-align: center;"><i>Federal Financial Institutions Examination Council</i></p> <ul style="list-style-type: none"> ▪ Board of Governors of the Federal Reserve System ▪ Federal Deposit Insurance Corporation ▪ National Credit Union Administration ▪ Office of the Comptroller of the Currency ▪ Office of Thrift Supervision 	<p>Agency members are:</p> <ul style="list-style-type: none"> ▪ The Board of Governors of the Federal Reserve System—FRB, ▪ 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.
<p>4.</p>  <p style="text-align: center;"><i>Development Group</i></p> <ul style="list-style-type: none"> ▪ Five FFIEC agencies ▪ Financial Crimes Enforcement Network ▪ Office of Foreign Assets Control ▪ Conference of State Bank Supervisors 	<p>Representatives from the five member agencies, the Financial Crimes Enforcement Network, or FinCEN, the Office of Foreign Assets Control, or OFAC, and Conference of State Bank Supervisors, or CSBS worked cooperatively to develop the Bank Secrecy Act /Anti-Money Laundering (BSA/AML) Examination Manual that was released in June 2005.</p>

Visual

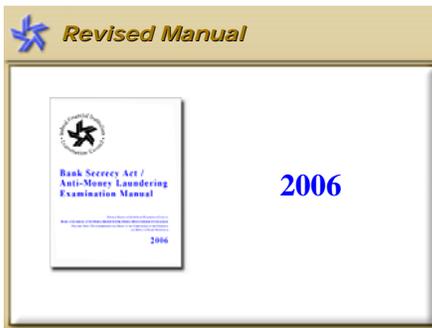
Narrative

5.



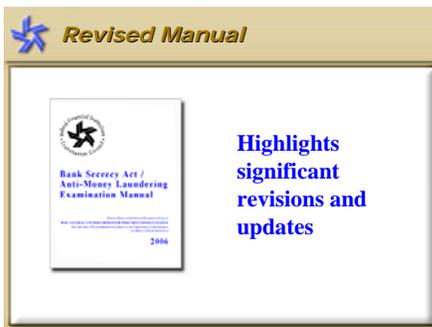
In 2006, these federal agencies reconvened to review feedback from the banking industry and examination staffs, to further clarify supervisory expectations, and to include regulatory changes that had taken place since the BSA/AML Examination Manual was first released.

6.



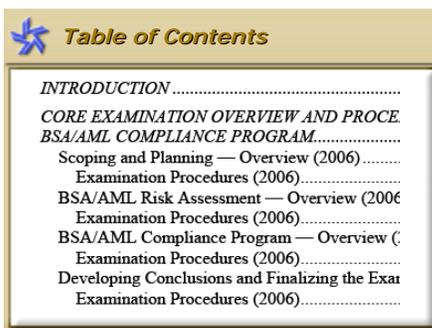
As a result of the federal banking agencies' ongoing commitment to provide current and consistent guidance on risk-based policies, procedures, and processes to ensure BSA compliance, a revised version of the manual was released on July 28, 2006.

7.



This presentation highlights the significant revisions and updates in the new release.

8.



New and significantly modified sections are identified in the manual's table of contents by a 2006 revision date.

Visual

Narrative

9.

 **Significant Revisions/Updates**

- **New sections**
 - BSA/AML Risk Assessment
 - Automated Clearing House (ACH) Transactions
- **Revisions**
 - Trade Finance Activities
- **Updates**
 - Regulations and supervisory guidance
 - Emerging money laundering risks
 - U.S. Money Laundering Threat Assessment
- **Reformatting**

Significant revisions include:

- A new section covering the BSA/AML risk assessment process,
- A new section discussing Automated Clearing House (ACH) Transactions,
- Revisions to the Trade Finance Activities section,
- Updates to several sections to incorporate changes in regulations and supervisory guidance,
- Updates for emerging risks as described in the first government-wide analysis of money-laundering, the U.S. Money Laundering Threat Assessment, and
- Changes in the manual's format.

10.

 **Significant Revisions/Updates**

- **New sections**
 - BSA/AML Risk Assessment
 - Automated Clearing House (ACH) Transactions



Let's take a look at major areas of revision, starting with the new section on the BSA/AML risk assessment process.

While not a new concept, BSA/AML Risk Assessments elicited the most comments, questions, and requests for guidance from both examiners and industry.

11.

 **BSA/AML Risk Assessment**

- **Emphasize importance**
- **Bring together existing guidance**
- **Provide additional instruction**



To promote consistency in this area, federal agencies crafted a new BSA/AML Risk Assessment section to emphasize the importance of the topic, bring together existing guidance from the 2005 manual, and provide additional instruction and support.

12.

 **Objective**

- **Assess BSA/AML risk profile**
- **Evaluate adequacy of the BSA/AML risk assessment process**



The objective of this new section is to assess the BSA/AML risk profile of the bank and evaluate the adequacy of the bank's BSA/AML risk assessment process.

Visual

Narrative

13.

 **Two Step Process**

- *Identify specific risk categories*
- *Conduct detailed analysis*

The development of a BSA/AML risk assessment generally involves two steps:

- First - identify specific risk categories, such as products, services, customers, entities, or geographic locations, that are unique to a particular bank; and
- Second - conduct a detailed analysis of the data identified, in order to better assess the risks within these categories.

14.

 **BSA/AML Risk Assessment**



- *Institution's risk profile*
- *BSA/AML examination scope*

By reviewing a bank's BSA/AML risk assessment, the examiner can better determine the institution's risk profile. The risk profile will provide the examiner with the basis for the BSA/AML examination scope.

15.

 **Updating the Risk Assessment**

- *New products or services introduced*
- *Changes in products or services*
- *High-risk customer activity changes*
- *Expansions through mergers and acquisitions*
- *Every 12 to 18 months*



Management should update its risk assessment to identify changes in the bank's risk profile, as necessary, for example, when new products or services are introduced, existing products or services are changed, high-risk customers open or close accounts, or the bank expands through mergers or acquisitions.

Even in the absence of such changes, it is a sound practice for banks to reassess their BSA/AML risks periodically, at least every 12 to 18 months.

16.

 **Management Responsibilities**

- *Understand bank's BSA/AML risk exposure*
- *Develop appropriate policies, procedures, and processes*
- *Structure BSA/AML compliance program adequately*



Management should:

- Understand the bank's BSA/AML risk exposure, as identified and measured by the risk assessment,
- Develop appropriate policies, procedures, and processes to monitor and control the institution's specific BSA/AML risks, and
- Structure the bank's BSA/AML compliance program to adequately mitigate BSA/AML risks.

Visual

Narrative

17.

Examiner Duty



...sufficient knowledge of the institution's specific BSA/AML risks

In order to determine whether the BSA/AML compliance program is adequate, the examiner must have sufficient knowledge of the institution's specific BSA/AML risks to effectively review the bank's BSA/AML compliance program.

18.

Significant Revisions/Updates

- **New sections**
 - BSA/AML Risk Assessment
 - Automated Clearing House (ACH) Transactions
 - Batch-processed
 - Value-dated
 - Electronic funds transfer

The new Automated Clearing House (ACH) Transactions section was added at the request of examiners and industry. In general, an ACH transaction is a batch-processed, value-dated, electronic funds transfer between an originating and a receiving bank.

19.

ACH Transactions

- High volume of transactions
- Cross-border capability
- Potential for masking inappropriate transactions



While not typically regarded as a higher risk banking service, the increase in volume of ACH transactions, the ability to conduct cross-border transactions, and the potential of masking inappropriate ACH transactions, indicated that this was an area needing additional guidance and review.

20.

Objective

- Adequacy of systems to manage risks
- Effectiveness of monitoring and reporting systems



The objective of this new section is to assess the adequacy of a bank's systems to manage the risks associated with ACH transactions, and management's ability to implement effective monitoring and reporting systems.

Visual

Narrative

21.

 ***Roles in ACH System***

- *Originators*
- *Originating Depository Financial Institutions*
- *ACH Operators*
- *Receiving Depository Financial Institutions*
- *Receivers*

The section discusses the ACH payment system and the various roles of its participants, including Originators, Originating Depository Financial Institutions, ACH Operators, Receiving Depository Financial Institutions, and Receivers.

22.

 ***Additional ACH Guidance***

- *Third-party service providers*
- *OFAC rules for domestic and cross-border ACH transactions*

The section also looks at roles and risks associated in bank relationships with third-party service providers.

In addition, parallel updates related to ACH transactions are also included in the OFAC section of the manual to clarify the application of OFAC's rules for domestic and cross-border ACH transactions.

23.

 ***Significant Revisions/Updates***

- *New sections*
- *Revisions*
 - *Trade Finance Activities*



Revisions in the Trade Finance Activities section reflect suggestions and comments received from examiners and industry after the original release of the manual in 2005.

24.

 ***Trade Finance Activities***

- *Role of the bank*
- *Due diligence*



Revisions include an expanded discussion of the various roles banks may accept within the trade finance process and guidance on the due diligence required by those roles.

Visual

Narrative

25.

Trade Finance Activities

- Customer due diligence
- Letter of credit due diligence
- Comprehensive knowledge of customer activities



Other key points include:

- Sound customer due diligence procedures, or CDD, are needed to gain a thorough understanding of the customer’s underlying business and locations served;
- The banks in the letter of credit process need to undertake varying degrees of due diligence depending upon their role in the transaction; and
- Banks with robust CDD programs may find less need to focus on individual transactions as a result of comprehensive knowledge of the customer activities.

26.

Significant Revisions/Updates

- New sections
- Revisions
- Updates
 - Changes in regulations and supervisory guidance

The federal agencies updated the manual to reflect new regulations, such as the final rules implementing Section 312 of the Patriot Act.

27.

Regulatory Changes

- Section 312 of the Patriot Act
- Insurance
- Federal Reserve Regulation K
- Suspicious Activity Report (SAR) Sharing Guidance

Sections specifically updated for Section 312 include:

- Private Banking Due Diligence Program for Non-U.S. Persons,
- Foreign Correspondent Account Recordkeeping and Due Diligence, and
- Politically Exposed Persons.

The updated Insurance section incorporates the new anti-money laundering program and suspicious activity reporting requirements for insurance companies.

The manual reflects amendments to the Federal Reserve’s Regulation K, including BSA compliance program requirements for Edge and agreement corporations and U.S. branches, agencies, and other offices of foreign banks.

Updates also include new interagency guidance on issues such as sharing Suspicious Activity Reports (SARs) within a banking organization.

Visual

Narrative

28.

Significant Revisions/Updates

- New sections
- Revisions
- Updates
 - U.S. Money Laundering Threat Assessment

Emerging information on risk, from the *U.S. Money Laundering Threat Assessment*, discussing nominee incorporation services and stored value cards, has been included in the manual.

29.

Significant Revisions/Updates

- New sections
- Revisions
- Updates
- Reformatting
 - Overview Section
 - Examination Procedures Section

Formatting changes combine each overview section with the corresponding examination procedures section, while stylistic changes include more distinctive headings.

30.

Banking Organization's Responsibilities



- Policies
- Procedures
- Processes

In closing, the revised manual continues to emphasize a banking organization's responsibility to establish and implement risk-based policies, procedures, and processes to comply with the BSA and safeguard the bank's operations from money laundering and terrorist financing.

31.

InfoBase Updates



All updated materials are available online at the FFIEC BSA/AML Examination Manual InfoBase.

Questions should be directed to your primary federal regulator.