

Statement of
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Comptroller of the Currency
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Committee on Banking, Housing, and Urban Affairs
United States Senate
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Chairman Shelby, Ranking Member Sarbanes, and members of the Committee, I appreciate this opportunity to discuss the work of the Office of the Comptroller of the Currency (OCC) in combating money laundering and in enforcing compliance with U.S. laws designed to prevent our financial institutions from falling victim to criminals and terrorists.

For the past 30 years, the OCC has placed great importance on developing policies and procedures designed to ensure that financial institutions have the necessary controls in place – and provide the requisite notices to law enforcement – to make certain that they do not become vehicles for money laundering. Our examiners are dedicated, our BSA/anti-money laundering examination techniques are highly regarded, we have strived to keep our exam techniques current and responsive to new developments, and we work cooperatively and successfully with law enforcement. For all these reasons, the situation that we have confronted with Riggs Bank, N.A. is deeply troubling, and this Committee's keen interest in Riggs is entirely appropriate.

For this reason I will rely today on my written testimony for a detailed discussion of the components of the OCC's extensive BSA and anti-money laundering program and devote my oral testimony to the Riggs situation.

As I review the record of our oversight of Riggs' BSA/AML compliance during this period, it is clear to me that there was a failure of supervision. We should have been more aggressive in our insistence on remedial steps at a much earlier time. The types of strong formal enforcement actions that we ultimately took should have been taken sooner. We should have done more extensive probing and transaction testing of accounts. Indeed, our own BSA exam procedures called for transactional reviews in the case of high-risk accounts, yet until recently, that was not done. We failed to appreciate the risks inherent in Riggs' embassy banking business and in certain of the accounts handled by the bank, as well as the significance of the deficiencies in the bank's systems and controls in relation to those risks.

This is not a case where the deficiencies in these systems and controls were not recognized, nor was there an absence of OCC supervisory attention to those deficiencies. But in failing to promptly recognize the high-risk nature of the bank's business in this regard, we did not probe as soon or as deeply as we should have. We gave the bank too much time, based on its apparent efforts to fix the problems we had repeatedly noted, before we demanded specific solutions, by specific dates, pursuant to formal enforcement actions.

With this context, allow me to provide a brief review of our recent supervision of Riggs. The specific shortcomings in Riggs's BSA/AML compliance program were known to us as early as 1997. In our regular and frequent examinations, we repeatedly identified the need for improvements in Riggs' BSA internal audit coverage, its information systems, its internal monitoring processes, its staff training, and its customer due diligence requirements, and we brought these deficiencies to the attention of Riggs

management. Each time, we found management to be apparently cooperative and responsive. And because of this attitude, we concluded that Riggs' compliance program was either "satisfactory" or "generally adequate," which led us to continue to rely on various informal supervisory remedies in dealing with Riggs management.

In the aftermath of the September 11, 2001 tragedies, the OCC conducted a series of anti-terrorist financing reviews at our large and high-risk banks. Riggs was included in these targeted exams. A subsequent Riggs exam ran from January to May 2003 and involved extensive cooperation with law enforcement agencies. It focused on certain suspicious transactions involving the Saudi embassy relationship, and culminated in a July 2003 cease and desist order, directing Riggs to undertake a long list of corrective measures.

Yet when we returned to the Bank in October 2003, the same pattern surfaced. While progress had been made toward complying with the July C&D order, a new set of problems had become evident, this time relating to the bank's relationship with Equatorial Guinea. Our reaction this time was fundamentally different than before, and ultimately led to the assessment of a record \$25 million civil money penalty against the Bank. We also continue to evaluate whether additional actions are warranted.

Against this background, there are at least three important questions that might be asked:

- Why was there a failure of supervision in the Riggs case?
- Is our record with regard to Riggs symptomatic of shortcomings in our BSA/AML supervision of other national banks? And

- What is the OCC doing to assure that there will be no recurrence of situations like Riggs?

To address the first two questions, I have directed our Quality Management Division, which reports directly to me, to conduct a complete, no-holds-barred, top-to-bottom review of our handling of the Riggs situation and to report their findings and recommendations back to me in 90 days. I have also directed QMD to make a more general assessment of the quality of our BSA/AML supervision and to determine whether there are other banks as to which our compliance oversight reflects similar shortcomings. I will be happy to share the QMD report with this Committee when it is completed.

In order to assure that there is no recurrence of the shortcomings evidenced in the Riggs case, I have directed a number of other actions, which are described in my written testimony, to improve our practices and policies, and to develop new risk-screening systems. I also instructed our Committee on Bank Supervision, which is comprised of the OCC's senior supervision officials, to communicate with all OCC examination staff to raise their level of alert for suspicious or high-risk accounts and to reemphasize the need for deeper investigation and transaction testing where such circumstances exist. This communication reemphasizes the critical importance of our BSA/AML compliance program and the role that program plays in helping to assure that national banks will not be used to facilitate any improper transactions.

The Riggs episode reminds us that Bank Secrecy Act and money laundering issues are not only of extreme importance to national security. They also have huge reputation implications for the banking industry. This heightened awareness, coupled with the many technical and other improvements in the approach to BSA/AML

supervision already adopted or contemplated by the OCC and its sister financial regulatory agencies, should strengthen the ability of our financial system to resist those who would use it for hostile purposes.

Notwithstanding the Riggs situation, Mr. Chairman, the OCC is committed to doing its part to assure that national banks scrupulously perform their responsibilities under the laws relating to money laundering. We stand ready to work with Congress, law enforcement, the other financial regulatory agencies, and the banking industry to continue to develop and implement a coordinated and comprehensive response to the threat posed to the nation's financial system by money launderers and terrorists.