

Bank Secrecy Act

Examiners should evaluate the above-captioned function against the following control and performance standards. The Standards represent control and performance objectives that should be implemented to help ensure the bank operates in a safe and sound manner, and that the entity's objectives are carried out. Associated Risks represent potential threats to the bank if the standards are not achieved and maintained. The Standards are intended to assist examiners in analyzing important functions that may warrant additional review. All of the following Standards may NOT need to be considered at every bank. Conversely, these do NOT represent all of the control and performance standards needed for every bank. Examiners should continue to use their judgement when assessing risk.

Standards	Associated Risks
MANAGEMENT AND CONTROL	
The board establishes adequate policies and procedures in accordance with anti-money laundering laws and regulations.	Inadequate anti-money laundering policies and procedures could involve the bank and senior management in criminal activity, and result in possible regulatory action.
The board establishes 'Know Your Customer' procedures in accordance with sound banking practices.	The bank faces possible damage to its reputation if its name is associated with money laundering.
Internal reviews and audits are sufficient to identify deficiencies in the BSA program, and reports are provided directly to senior management and the board.	Management may inadequately identify, communicate, and correct deficiencies. Failure to detect existing or emerging problems could result in non-compliance with internal policies and applicable rules and regulations.
Management develops a system to identify large currency deposits, including numerous small deposits that, when aggregated, exceed the reporting threshold.	Management's detection of possible money laundering and suspicious activities may be impeded by a weak identification system.
Management identifies, investigates, and reports suspicious transactions.	A weak identification system may result in inadequate reporting to the board and regulatory authorities.
The board assigns responsibility for ongoing compliance with the BSA and financial recordkeeping regulations (31 CFR 103) to a qualified and knowledgeable staff.	An inadequate or poorly trained staff could result in non-compliance with policies and regulations and the possible use of bank services for money laundering activities.
PERFORMANCE	
Employees comply with written guidelines and policies.	Regulatory violations and money laundering may occur if procedures are not followed.
Management addresses previously identified criticisms, which include implementing procedures to correct apparent violations and to ensure adherence to the mandatory compliance program.	Continuing deficiencies or violations can lead to enforcement action.
Management files required reports, including CTRs and SARs, accurately and timely.	Violations can result in monetary fines and penalties. Possible money laundering activities may not be detected.

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Core Analysis Decision Factors

Examiners should evaluate Core Analysis in this section for significance and to determine if an Expanded Analysis is necessary. Negative responses to Core Analysis Decision Factors may not require proceeding to the Expanded Analysis. Conversely, positive responses to Core Analysis Decision factors do not preclude examiners from proceeding to the Expanded Analysis if deemed appropriate.

Do Core Analysis and Decision Factors indicate that risks are adequately identified, measured, monitored, and controlled?

Core Answer: General Comment:(If any)

Core Analysis Decision Factors

C.1. Are anti-money laundering policies and procedures adequate to promote compliance with applicable rules and regulations?

C.2. Are internal controls adequate?

C.3. Is the internal audit or independent review function appropriate, and does it include testing for compliance with required laws, regulations, and policies?

C.4. Are information and communication systems adequate and accurate?

C.5. Are personnel sufficiently trained to adhere to regulatory requirements?

C.6. Do the board and senior management effectively supervise this area?

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Expanded Analysis Decision Factors

This section evaluates the significance and materiality of deficiencies or other specific concerns identified in the Core and Expanded Analyses.

Do Expanded Analysis and Decision Factors indicate that risks are adequately identified, measured, monitored and controlled?

Expanded Answer: General Comment:(If any)

Expanded Analysis Decision Factors

E.1. Are the deficiencies immaterial to the supervision of the anti-money laundering program?

E.2. Are the deficiencies noted immaterial to the bank's overall condition?

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Consider the following procedures at each examination. Examiners are encouraged to exclude items deemed unnecessary. This procedural analysis does not represent every possible action to be taken during an examination. The references are not intended to be all-inclusive and additional guidance may exist. Many of these procedures will address more than one of the Standards and Associated Risks. For the examination process to be successful, examiners must maintain open communication with bank management and discuss relevant concerns as they arise.

PRELIMINARY REVIEW

- 1 Review the prior examination report and written correspondence to identify previously noted violations, deficiencies, and weaknesses. If the institution is under a supervisory action, review the requirements of the action. Review correspondence concerning management's corrective actions.
- 2 Review internal and external audit reports and assess their adequacy regarding BSA matters. Review management's response to audit findings.
- 3 Review the Suspicious Activity Report (SAR) database for SARs related to money laundering.
- 4 Review a listing of the Currency Transaction Reports (CTRs) from the IRS database to determine if the institution or any branches had significant changes in the volume of CTRs filed.

(Note: The FDIC Regional representative or Reserve Bank BSA contact should be able to provide the information relating to SARs and CTRs noted above.)

- 5 Review cash flow reports, if available, from the local Federal Reserve Bank for unusual trends in the volume or composition of cash shipments.
- 6 Review the Office of Foreign Assets Control's (OFAC) listing of prohibited entities in order to identify potential violations of OFAC regulations.
- 7 Analyze the institution's size, location, market, and services, including new services or products, to identify higher risk areas.
- 8 Determine if the bank engages in other activities that could expose the institution to potential money laundering activities, such as the following:
 - 8A Private banking.
 - 8B Payable through accounts.
 - 8C Electronic Banking.
 - 8D Wire transfer activity.
 - 8E Non-bank financial institution relationships.
 - 8F Deposit broker activity.

(Note: If the bank is engaged in any of these other activities, the examiner should consider conducting the expanded analysis for "Anti-Money Laundering Policies, Procedures, and Programs" and the applicable sections for other activities.)

ANTI-MONEY LAUNDERING POLICIES, PROCEDURES, AND PROGRAMS

- 9 Determine if the board has adopted a written anti-money laundering compliance program. (Note: This program is required by Subpart B of Part 326 of the FDIC's Rules and Regulations or Section 208.14 of the Federal Reserve's Regulation H.)

10 Determine if the written anti-money laundering compliance program contains the following required elements:

10A A system of internal controls to ensure ongoing compliance.

10B Independent testing for compliance conducted by either bank personnel or an outside party.

10C Designation of a qualified individual(s) responsible for coordinating and monitoring day-to-day compliance.

10D Training for appropriate personnel.

11 Determine if anti-money laundering policies, procedures, and programs address the following areas:

11A The definition and examples of money laundering in its various forms (e.g. placement, layering, integration, etc.).

11B Compliance with the BSA and related anti-money laundering laws and regulations.

11C Establishment of "Know Your Customer" guidelines.

11D Identification of higher risk activities, businesses, and countries.

11E Development of a system for detecting and reporting suspicious activity.

11F Compliance with OFAC regulations.

12 Determine if anti-money laundering policies, procedures, and programs cover all areas of the bank, including the following:

12A Retail operations.

12B Loan department.

12C Teller and currency operations.

12D Wire transfer function.

12E Trust department.

12F Safe deposit box rental.

12G Correspondent banking.

12H Private banking operations.

12I International department.

12J Monetary instrument sales.

12K Discount brokerage operations.

12L Deposit broker relationships.

13 Determine if management has established "Know Your Customer" (KYC) guidelines that are appropriate for the bank's size, location, products, customers, and strategic focus. An effective KYC program should include reasonable due diligence procedures for:

13A Verifying the identity of customers who are requesting bank services and documenting their source of funds, as deemed necessary.

13B Determining a customer's expected transactions at or through the bank.

13C Identifying unusual transactions or activity that are disproportionate to the customer's known business.

13D Reporting suspicious activity.

INTERNAL ROUTINE AND CONTROLS

14 Determine if management has implemented internal controls to minimize the risk of money laundering, including procedures to:

14A Identify possible money laundering.

14B Identify and monitor non-bank financial institution account relationships. (i.e. companies that engage in a high volume of cash activity, such as money transmitters, currency exchangers, check cashers, etc.).

14C Identify, investigate, and report suspicious transactions.

15 Determine if the written compliance program includes procedural guidelines for meeting the following recordkeeping and reporting requirements of BSA regulations:

15A Filing of CTRs (IRS Form 4789) for currency transactions greater than \$10,000.

15B Filing of CMIRs (U.S. Customs Form 4790) for currency shipments of greater than \$10,000 out of or into the U.S. on behalf of the institution, except via common carrier.

15C Filing of an annual report, Report of Foreign Bank Financial Accounts (Treasury Form 90-22.1), of each person who has a financial interest in, or signature authority over, bank, securities, or other financial accounts in a foreign country.

15D Maintaining records to document the bank's compliance with rules relating to exemptions from currency reporting. (Refer to the section on entitled Exemptions in the Expanded Analysis section for detail.)

15E Maintaining records for each monetary instrument purchased or sold for currency in amounts between \$3,000 and \$10,000.

15F Maintaining records for each funds transfer greater than \$10,000.

15G Retaining records required by 31 CFR 103.34 for deposit accounts, payment orders, loans, and account holders.

INTERNAL AUDIT / INDEPENDENT REVIEW

16 Determine if the review verifies compliance with the bank's anti-money laundering policies and procedures and tests internal controls designed to prevent money-laundering activity.

17 Determine if the scope of the review is adequate and addresses the following items for applicable functions of the bank:

17A BSA reporting requirements, such as Currency Transaction Reports (CTRs).

17B Customer identification procedures.

17C Identifying and reporting suspicious activities.

17D BSA recordkeeping requirements for deposits, loans, funds transfers, and sales of monetary instruments.

17E Wire transfer operations.

17F On-going training of appropriate personnel.

17G Office of Foreign Asset Control (OFAC) compliance.

17H Compliance with exemption rules and requirements.

18 Determine if the review procedures confirm the integrity and accuracy of management information reports used in the anti-money laundering compliance program. (Note: Such as reports used to identify large currency transactions and aggregate daily cash transactions by customer or account.)

19 Determine if management adequately addresses deficiencies and violations in a timely manner.

INFORMATION AND COMMUNICATION SYSTEMS

20 Determine if the bank's information systems adequately and accurately identify reportable cash transactions.

21 Determine if deficiencies in the bank's information systems relative to BSA reporting are reported to senior management and the board.

TRAINING

22 Determine if the following elements are adequately addressed in the training program:

22A The importance management places on ongoing education and training.

22B Documenting the appropriateness of the scope and frequency of training.

22C The inclusion of personnel from all functional areas of the bank.

22D Coverage of bank policies and procedures.

22E Coverage of new rules and requirements.

22F Enhanced procedures to address previously cited violations and deficiencies.

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Generally, procedures used in the Expanded Analysis should target concerns identified in the Core Analysis and Decision Factors. Expanded procedures associated with Core Analysis and Decision Factors of no concern need not be used. The flexible guidelines specified for the Core Analysis also apply here.

ANTI-MONEY LAUNDERING POLICIES, PROCEDURES, AND PROGRAMS

- 1 Investigate why the policy, procedure, or program deficiencies identified in the Core Analysis exist. Possible reasons for policy deficiencies may include the following circumstances:
 - 1A Management overlooked these issues.
 - 1B Management is unfamiliar with effective anti-money laundering issues.
 - 1C Management is unwilling to create or enhance policies and procedures.
- 2 If poor compliance with policies, procedures, or programs exists, determine the reason. Possible reasons are detailed below.
 - 2A Lack of awareness of policies' existence.
 - 2B Disregard for established policies.
 - 2C Misunderstanding the intent of policy guidelines.
 - 2D Poor internal communication of subsequent revisions to policies, procedures, or programs.
- 3 Determine if management commits to and supports proper controls and monitoring to ensure policy guidelines are followed in the future.

BSA REPORTING REQUIREMENTS

- 4 If an automated system is used to capture and provide information on cash transactions, determine the following:
 - 4A Whether the reports show all transactions (individual and multiple transactions) in excess of \$10,000 on the same business day by or on behalf of the same individual, or account.
 - 4B Whether the internal audit/independent review has adequately tested the accuracy and validity of the automated large transaction identification system.
 - 4C Whether the system includes all points of cash entry and exit.
 - 4D Whether the discount brokerage, private banking, trust, or any other departments within the bank engage in currency transactions subject to the regulations, and, if so, that aggregations systems cover such activities.
- 5 If an automated large transaction identification or aggregation system is not used, assess whether the internal audit program or other independent review includes a sample test check of tellers' cash proof sheets or tapes to determine if large cash transactions are being reported.
- 6 Review a sample of completed CTRs, whether hard copy or from computer generated filings, to determine that:

6A CTRs are completed in accordance with Internal Revenue Service instructions.

6B Transaction amounts are consistent with the type and nature of business or occupation of the customer.

6C CTRs are filed for large cash transactions identified by tellers' cash proof sheets, automated large currency transaction system, or other type of aggregation system, unless an exemption exists for the customer.

6D CTRs are filed within 15 calendar days after the date of the transaction (25 days if magnetically filed).

7 Review any correspondence received from the Internal Revenue Service relating to incorrect or incomplete CTRs and determine if management has taken appropriate corrective action.

8 If the review of the information and areas outlined above indicates significant weaknesses in handling, identifying and reporting of large currency transactions, or if money laundering activity is suspected, conduct the following steps:

8A Review tellers' cash proof sheets for nonreporting of large currency transactions for periods of time of suspected violations.

8B Review automated systems reports for the following indicators of possible money laundering:

8B1 1. Evidence of structured transactions.

8B2 2. Evidence of "concentration" accounts.

8B3 3. Customers with frequent cash transactions that have provided either a foreign address or post office box as an address or have requested that the bank hold monthly statements.

8B4 4. Other suspicious or unusual activities.

8C If available, review copies of the following internally generated reports to identify and verify that large cash transactions are being reported:

8C1 1. Suspected Kiting Reports - The account profile of an account used for money laundering can be similar to the profile of an account used for kiting.

8C2 2. Demand Deposit Activity Report - These reports show daily balances and accumulated deposits and withdrawals over a 30 day period and can show accounts that have significant changes in the average balance or number of transactions.

8C3 3. Incoming and Outgoing Wire Transfer Logs - These logs can help identify transfers out of the country, transfers funded by cash or monetary instruments, transfers for non-customers, and unusual patterns of activity.

8C4 4. Loans Listed by Collateral - These reports can identify significant loans secured by cash (e.g., CDs, bank accounts), which should be reviewed for purpose and consistency with customer's business and resources.

8D Review copies of major correspondent bank statements for at least two months, together with reconciliation sheets and general ledger sheets covering the same period. Investigate large transactions reflected on either the institution's or the correspondent's records to

determine their nature, as indicated by copies of credit or debit advices, or general ledger tickets. Note any cash shipments made on behalf of individual customers to a correspondent bank for credit to the customer's account at the correspondent bank.

8E Review correspondent account statements, customer account records, or telex records for large deposits into accounts controlled by the same person of cashier's checks, money orders, or similar instruments drawn on other institutions in amounts under \$10,000. These funds may possibly be transferred elsewhere in bulk amounts. Note whether the instruments under \$10,000 are sequentially numbered.

8F Review incoming mail of the institution to determine if currency deposits are received via mail, courier services, or internal deliveries, and whether CTRs are properly filed.

8G Review SARs to determine whether any accounts or functional areas of the bank require further investigation. Determine if a SAR should be filed for suspicious activity noted during the examination.

BSA RECORDKEEPING REQUIREMENTS

RECORDS REQUIRED BY 31 CFR 103

9 Determine if procedural guidelines provide for the retention for a period of at least five years of either the original, microfilm, copy, or other reproduction of the items listed below:

9A Currency Transaction Reports.

9B For each loan greater than \$10,000 (except those secured by real estate) the borrower's name and address, date of loan, amount, and purpose.

9C Each advice, request, or instruction received regarding a transaction which results in the transfer of funds, currency, checks, investment securities, other monetary instruments or credit of more than \$10,000 to a person, account, or place outside of the U.S.

9D Each advice, request, or instruction given to another financial institution or other person located within or outside the U.S., regarding a transaction intended to result in a transfer of funds, currency, checks, investment securities, other monetary instruments or credit, of more than \$10,000 to a person, account or place outside the U.S.

9E Each payment order that a financial institution accepts as an originator's, intermediary, or beneficiary's bank with respect to a funds transfer of \$3,000 or more.

9F A list of each individual, including the name, address, and account number, who holds a deposit account for which the bank has been unable to secure a taxpayer identification number (TIN) from that person after making a reasonable effort to obtain the number.

9G Each document granting signature authority over each deposit account.

9H Each statement, ledger card, or other record of each deposit account showing each transaction involving the account, except those items listed in 31 CFR 103.34(b)(3).

9I Each document relating to a transaction of more than \$10,000 remitted or transferred to a person, account, or place outside the U.S.

9J Each check or draft in excess of \$10,000 drawn on or issued by a foreign bank which the domestic bank, has paid or presented to a nonbank drawee for payment.

9K Each item relating to any transaction of more than \$10,000 received on any one occasion directly and not through a domestic financial institution from a bank, broker, or dealer in foreign exchange outside the U.S.

9L Records prepared or received by a bank in the ordinary course of business which would be needed to reconstruct a demand deposit account and to trace a check in excess of \$100 deposited in such demand deposit account.

9M A record containing the name, address, and taxpayer identification number, if available, of any person presenting a certificate of deposit for payment, as well as a description of the instrument and the date of the transaction.

9N Each deposit slip or credit ticket reflecting a transaction in excess of \$100 or the equivalent record for direct deposits or other wire transfer deposit transactions.

RECORDKEEPING FOR FUNDS TRANSFERS

10 For funds transfer originations of \$3,000 or more, ascertain if the following records are retained (which may be with the payment order in the bank's files if the originator has an established relationship with the bank):

10A The name and address of the originator.

10B The amount of the funds transfer.

10C The date of the funds transfer.

10D Any payment instructions received from the originator with the payment order.

10E The identity of the beneficiary's bank.

10F As many of the following items as are received with the payment order:

10F1 1. The name and address of the beneficiary.

10F2 2. The account number of the beneficiary.

10F3 3. Any other specific identifier of the beneficiary.

11 For funds transfers of \$3,000 or more for originators that do not have an established relationship with the bank, ascertain if the information listed in procedure 10 is retained, plus the following:

11A If the payment order is made in person, the identity of the non-customer should be verified and documented.

11B If the bank has knowledge that the person placing the payment order is not the originator, the bank should obtain and retain a record of the originator's taxpayer identification number (e.g., social security number) or, if none, alien identification number or passport number and country of issuance (if known by the person placing the order). The bank should also note the lack of this information.

11C If the payment order is not made in person, the bank should obtain and retain a record of the name and address of the person placing the payment order, as well as the person's taxpayer identification number (e.g., social security number) or, if none, alien identification

number or passport number and country of issuance. The bank should also note the lack of this information. A copy or record of the method of payment (e.g., check or credit card) should also be retained.

12 For funds transfers of \$3,000 or more for which the bank is acting as the intermediary, determine that either the original or a microfilm, other copy, or electronic record of the payment order is retained.

13 For each payment order accepted by a beneficiary's bank, determine that either the original or a microfilm, other copy, or electronic record of the payment order is retained.

14 For each payment order accepted by a beneficiary's bank, if the beneficiary does not have an established relationship with the originating bank, determine that the beneficiary bank retains the following information:

14A If the proceeds are delivered in person to the beneficiary or its representative or agent, the bank must verify the identity of the person receiving the proceeds and retain a record of that information.

14B If the bank has knowledge that the person receiving the proceeds is not the beneficiary, the bank must obtain and retain a record of the beneficiary's name and address, as well as the beneficiary's taxpayer identification number (e.g., social security number or employer identification number) or, if none, alien identification number or passport number and country of issuance, if known by the person receiving the proceeds, or a notation of the lack of this information.

14C If the proceeds are delivered other than in person, a copy of the check or other instrument used to effect payment, or the information contained thereon, as well as the name and address of the person to whom it was sent must be retained.

15 Determine that the information retained for funds transfers greater than \$3,000 is retrievable by the name of the originator or beneficiary. If the originator or beneficiary is an established customer of the bank, the information must also be retrievable by account number.

PURCHASES AND SALES OF MONETARY INSTRUMENTS

16 For sales in currency in amounts between \$3,000 and \$10,000, inclusive, of bank checks, bank drafts, cashier's checks, money orders, or traveler's checks, determine that the following records are maintained for purchasers that have deposit accounts with the bank:

16A The name of the purchaser.

16B Date of purchase.

16C The type(s) of instrument(s) purchased.

16D The serial number(s) of each of the instrument(s) purchased in currency.

16E The dollar amount(s) of each of the instrument(s) purchased in currency.

16F Method of verifying identity (either at the time of purchase or when deposit account opened).

17 For purchasers who do not have deposit accounts with the bank, the following information for cash purchases of monetary instruments in amounts of \$3,000 to \$10,000, inclusive, should be retained:

17A The name and address of the purchaser.

17B The social security or alien identification number of the purchaser.

17C The date of birth of the purchaser.

17D The date of purchase.

17E The type(s) of instrument(s) purchased.

17F The serial number(s) of each of the instrument(s) purchased.

17G The dollar amount(s) of each of the instrument(s) purchased.

17H Method of verifying the identity of purchaser and specific identifying information (e.g., state of issuance and driver's license number).

18 Assess whether management can respond to requests from the Treasury Department within a reasonable amount of time.

19 Assess whether the bank has a system for capturing multiple cash sales of monetary instruments in one day in amounts totaling \$3,000 or more.

20 If an automated system is used for identifying cash sales of monetary instruments, assess whether the internal audit or independent review adequately tests the accuracy and validity of the system with regard to all points of purchase/sale.

21 If a manual system is used for identifying cash sales of monetary instruments, assess whether the internal audit or independent review verifies that required information is obtained and retained.

EXEMPTIONS("PHASE I")

22 Determine if Treasury Form TD F 90-22.53 (Designation of Exempt Person) has been filed with the Internal Revenue Service for each "exempt person" as defined in 31 CFR 103.22(h)(2) (e.g. a bank's domestic operations, governmental agencies, "listed entities" and their subsidiaries, etc).

23 Assess whether ongoing and reasonable due diligence is performed, including required annual reviews, to determine if a customer remains eligible for designation as an "exempt person" under Phase I Rules. Management should properly document exemption determinations (e.g., stock quotes from newspapers, consolidated returns, etc.).

24 Determine that "exempt person" accounts are reviewed for unusual or suspicious activity.

EXEMPTIONS("PHASE II")

(Note: Under the "Phase II" Rules, the definition of exempt persons includes "non-listed businesses" and "payroll customers" as defined in 31CFR 103.22. However, there are several businesses that remain ineligible for exemption purposes (please refer to 31 CFR 103.22(d)(6)(viii) for additional detail).

25 Determine if Treasury Form TD F 90-22.53 has been filed with the Internal Revenue Service for each "exempt person" identified by bank management.

26 Assess whether ongoing and reasonable due diligence is performed, including required annual reviews, to determine if a customer is eligible for designation as an "exempt person." Customers must meet the following requirements to be eligible for exemption under Phase II:

26A Verify that the biennial filing includes both a notification of any change in control relative to the "exempt persons" and a certification by the bank as to its maintenance of a system for reporting suspicious activity.

26B Have frequent currency transactions in excess of \$10,000 (withdrawals to pay domestic employees in cash in the case of a payroll customer), and

26C Conduct Business in the United States.

26D Maintain a transaction account at the bank for at least 12 months.

27 Determine if form TD F 90-22.53 is filed on March 15 of the second year from the date of the original filing and biennially thereafter (Phase II exemptions only).

28 Verify that the biennial filing includes both a notification of any change in control relative to the "exempt persons" and a certification by the bank as to its maintenance of a system for reporting suspicious activity.

OFFICE OF FOREIGN ASSETS CONTROL (OFAC)

GENERAL

(Note: The Department of the Treasury's OFAC administers the laws that impose economic sanctions against foreign countries to further U.S. foreign policy and national security objectives. OFAC also is responsible for regulations restricting transactions by banks with certain foreign countries, their nationals, or "specially designated nationals." Information relating to OFAC and "restricted" transactions can be found on their Web site.)

29 Determine if the board and senior management have developed policies and procedures that comply with OFAC laws and regulations, including:

29A Maintaining a list of prohibited countries, entities, and individuals.

29B Comparing new accounts to the OFAC listings.

29C Monitoring transactions for possible prohibited activity, including transactions through non-bank financial institutions, if applicable.

OTHER ACTIVITIES

PRIVATE BANKING

(Note: Private banking consists of comprehensive financial services offered to high net worth individuals. Because private banking activities expose banks to greater reputational and legal risks, supervisors must make sure that banks have the necessary risk management controls in place. (Note: For additional information on private banking, please refer to the Federal Reserve's SR 97-19 (SUP) dated June 30, 1997 on Private Banking Activities.)

30 Determine if management completes due diligence on private banking customers and transactions, which may include the following:

30A Obtaining information on the clients' source of income and line of business.

30B Corroborating sources of wealth.

- 30C Obtaining references from known third parties.
- 30D Verifying the good standing of business customers, which may include searching available data sources to ensure that a business has been legally established.
- 30E Requiring written contact/visitation reports documenting visits to places of business.
- 30F Establishing guidelines for loans secured by highly liquid collateral.
- 30G Monitoring transaction activity and reporting suspicious transactions.

PAYABLE THROUGH ACCOUNTS (PTA)

(Note: Payable through accounts are demand deposit accounts or correspondent accounts through which the bank extends check writing privileges to the customers of a foreign bank. A master account is opened in the name of a foreign bank, and the master account is subsequently divided into sub-accounts, each in the name of one of the foreign bank's customers.

(Note: For additional information on PTAs, please refer to the Federal Reserve's Supervisory Letter SR 95-1 or FDIC FIL 30-95.)

31 Review the contract with the foreign bank for the PTA to determine if it addresses the following areas:

- 31A Procedures for opening sub-accounts.
- 31B Requirements to provide the U.S. bank with the true identity of sub-account holders.
- 31C Cash transactions by sub-account holders.
- 31D Investigating and reporting of suspicious transactions.
- 31E Auditing of the foreign bank's operations by the U.S. bank.

32 Determine if the U.S. bank has an effective system of internal controls for opening and monitoring PTAs, addressing the following areas:

- 32A Operating procedures.
- 32B Staff responsibilities.
- 32C Training.
- 32D Audit.
- 32E Identifying and reporting suspicious transactions.

33 Assess if the U.S. bank:

- 33A Has determined if the home country supervisor of the foreign bank requires banks in its jurisdiction to monitor transactions of its own customers consistent with U.S. requirement.
- 33B Is able to obtain adequate information about the ultimate users of the PTA.
- 33C Can ensure that its PTA is not being used for money laundering or other illicit purposes.

(Note: If the U.S. bank has failed to accomplish any of these three steps, the PTA arrangement with the foreign bank should be terminated as expeditiously as possible.)

ELECTRONIC BANKING

(Note: Electronic banking consists of electronic access through direct PC connection, the Internet, or other means to bank services, including opening of deposit accounts, applying for loans, and conducting various transactions.)

34 Review procedures used to conduct due diligence on customers opening accounts (loan or deposit) through electronic means to determine if management obtains proper verification of customer identity and source of funds used to open deposit accounts.

35 Determine if management has established procedures to review transaction activity through electronic banking products for possible money laundering and suspicious activity.

WIRE TRANSFER ACTIVITY

36 If wire transfers are sent to or received from financial institutions in other countries, especially countries with strict privacy and secrecy laws, determine if amounts, frequency, and countries are consistent with the nature of the business or occupation of the customer.

37 Assess whether the bank has procedures to monitor accounts with frequent cash deposits and subsequent wire transfers of funds to a larger institution or out of the country.

38 If cash is accepted for wire transfers, assess whether the bank requires proper identification, maintains documentation and records, and files CTRs, if applicable.

39 Determine if adequate separation of duties or compensating controls exist which require proper authorization for sending and receiving transfers, correct posting to accounts, and an audit trail of activities.

40 Determine if the volume of wire transfer activity is appropriate given the bank's size, location, and nature of customer account relationships.

NON-BANK FINANCIAL INSTITUTIONS

(Note: Non-Bank Financial Institutions (NBFI) are broadly defined as institutions that offer financial services. Banks that maintain account relationships with these entities are exposed to higher risk for potential money laundering because these entities are less regulated and may have limited or no documentation on customers. Additionally, a bank may be exposed to possible OFAC violations for unknowingly engaging in prohibited transactions through a NBFI account relationship.

Money services businesses are a subset of NBFIs and consist of non-banks offering financial type services, such as check cashing, money transmittals, sales of monetary instruments, or currency exchange. These businesses may be licensed by the state or local government.)

41 Determine if management conducts proper due diligence on customers offering currency exchange, check cashing, money transmittals, sale of monetary instruments, etc.. Determine if management's analysis includes the following:

41A Whether the business is in compliance with all state laws requiring licensing and approval.

41B Whether the business has procedures to comply with applicable Bank Secrecy Act requirements, including retention of records.

41C The types and amounts of currencies or instruments handled, and whether any additional services are offered.

41D The targeted customer base.

41E Whether international transfers are anticipated in the normal course of business, and what countries may be involved.

41F Whether the business has proper controls to monitor for suspicious activity, including patterns of transmittals over time.

41G Whether the business has procedures to ensure compliance with OFAC regulations.

42 Determine if the account activity of money services businesses are monitored to ensure that activity is consistent with expectations and that suspicious activity is properly reported.

DEPOSIT BROKER ACTIVITIES

43 Determine if adequate policies and procedures have been developed relative to deposit broker

43A Verifying the legitimacy of the broker (e.g. obtaining corporate or similar documentation, requesting references, or conducting independent database searches).

43B Performing independent reviews to verify the accuracy of information that the broker provides regarding deposit customers.

43C Determining whether deposits will be accepted from outside the United States. If so, management should establish procedures for verifying the source of funds and identity of such depositors.

43D Obtaining periodic financial information from the broker.

43E Determining if the broker is listed with the FDIC pursuant to Section 337.6 of the FDIC's Rules and Regulations.

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Impact Analysis reviews the impact that deficiencies identified in the Core and Expanded Analysis and Decision Factors have on the bank's overall condition. Impact Analysis also directs the examiner to consider possible supervisory options.

- 1 Are violations and weaknesses serious, and do they indicate that civil money penalties should be considered?
- 2 Are referrals to law enforcement agencies or the Department of Treasury necessary?
- 3 Is the appropriate district or regional office recommending a cease and desist order for violations relating to the mandatory BSA compliance program?
- 4 Is the safety and soundness of the institution effected by supervisory concerns regarding compliance with the Bank Secrecy Act and financial recordkeeping requirements?