



# Bank Secrecy Act

## Key Concepts:

- FFIEC AML/BSA Examination Manual
- AIREB BSA Questionnaire

# [ FFIEC BSA/AML Manual ]

- Key Sections of the Core Overview:
  - Scoping and Planning
  - Suspicious Activity Reporting
  - Currency Transaction Reporting
  - Funds Transfers

# [ Scoping and Planning ]

- Review credit union's:
  - Risk Assessment
  - Written BSA/AML Policy
  - Independent Testing
  - Compliance Officer
  - Training
  - Record Retention

# [ Risk Assessment ]

---

$$\begin{aligned} & \text{Inherent Risk Exposure} \\ & \quad - \text{Mitigation} \\ & \quad = \\ & \text{Remaining Risk Exposure} \end{aligned}$$

# [ Risk Assessment ]

---

- Process of evaluating:
  - Inherent risk
  - Decisions made to offset risk (mitigation)
    - Avoidance
    - Transfer of risk
    - Reduction of risk
      - Internal controls
  - Residual (remaining) risk

# [ Risk Assessment ]

- Examiners will look at:
  - Identification of inherent risk
    - Is identification of risk reasonable?
    - Factors to consider:
      - Geography (area served)
      - Field of Membership (high risk)
      - Products and Services offered

# [ Risk Assessment ]

- Examiners will look at:
  - Decisions made to reduce risk (mitigation)
    - Are reasonable resources devoted to mitigation?
      - Dollars and staff time vs. complexity and exposure
    - Factors to consider:
      - Level of exposure to risk (likelihood)
      - Potential impact of risk

# [ Risk Assessment ]

- Examiners will look at:
  - Remaining risk (residual)
    - Does remaining risk exposure correspond to credit union's risk profile?
      - Consider quantifiable (monetary) risk and qualitative risk (reputation)
    - Were key products and services excluded from the assessment?



# [ Risk Assessment ]

---

- Sophistication of risk assessment process and analysis should match credit union's complexity
  - Basic share and loan credit union may document risk assessment in board minutes
  - Complex full service credit union may have measurement mechanisms and multiple binders of supporting information

# Written BSA/AML Policy

- Establishes:
  - Internal Controls
    - Steps taken to mitigate risk
  - Customer Identification Program
  - Standards for staff performance
  - Benchmarks for examiner testing

# [ Independent Testing ]

- Examiners may look at:
  - Independence
  - Sufficiency of test process
  - Reliability of test results
  - Management response to test findings
    - Are necessary changes made?
    - Is report provided to BOD or related committee?

# [ Compliance Officer ]

---

- Examiners may look at:
  - Level of knowledge and training commensurate with complexity of credit union
  - Access to officials or senior management not involved with BSA controls
  - Resources sufficient to perform function

# [ Training ]

---

- Examiners may look at:
  - Staff receiving training
    - Training should match job assignments
  - Sufficiency and pertinence of training
    - Overview for BOD
    - Specifics for front-line staff
  - Frequency of training

# [ Other key Sections ]

---

- Detailed guidance concerning:
  - Suspicious Activity Reporting
  - Currency Transaction Reporting
  - Funds Transfers

# [ FFIEC BSA/AML Manual ]

## ■ Key Appendices:

- F - Money Laundering and Terrorist Financing Red Flags
- G - Structuring
- I - Risk Assessment Link to the BSA/AML Compliance Program
- J - Quantity of Risk Matrix
- O - Examiner Tools for Transaction Testing
- P - BSA Record Retention Requirements

# [ AIRES BSA Questionnaire ]

- New questionnaire concepts:
  - Risk Assessment
    - Previously discussed
  - Transaction Testing
    - Standard part of existing exam process
    - Confirmation that policies and procedures function as intended



# [ Transaction Testing ]

- Performance of a test to validate or disprove the effectiveness of a specified control.
  - Minimum of 10 transactions must be tested.
  - The extent and type of further tests conducted is based on the examiner's assessment of an acceptable level of detection risk.

# [ Transaction Test ]

- What is a transaction?
  - For purposes of the AIREES questionnaire, an account level transaction is a transaction that can be traced from member statements (or other records of the credit union) back to source level documents.

# [ Transaction Testing ]

- How many transactions must be tested?
  - Minimum of 10 transactions must be tested.
  - The extent and type of further tests conducted is based on the examiner's assessment of an acceptable level of detection risk.

# [ Transaction Testing: Example ]

- Risk:
  - CTR is not completed
- Control:
  - CU generates a report of cash transactions greater than \$10,000 and checks for completed CTRs
- Vulnerability of Control:
  - Transaction is not coded as “cash” when conducted. Thus, it is not included in the report.

# [ Transaction Testing: Example ]

- Test:

- Examiner asks CU to generate a list of all non-cash deposits during prior three months.
- From the list of 200 transactions, examiner selects 10 transactions. Confirms these transactions posted to member accounts. Reviews copies of deposited checks and/or teller daily work to determine how funds were deposited.

# Transaction Testing: Example

- Finding:
  - After reviewing the 10 deposits, examiner determines 1 deposit was cash, which was improperly coded as a check.
- AIREs Questionnaire:
  - Notes 10 transactions were tested in 19.0.a because test related to reporting.
  - Types brief description of text in comment box.
    - Confirmed transactions were properly coded as cash by reviewing check deposits for exceptions.

# [ Transaction Testing: Example ]

## ■ Result:

- Expand sample or otherwise determine whether weakness in control is significant
  - Other controls could offset this weakness
  - Limited check deposits may have been received
- Note finding on Compliance Violation form
- Gain agreement to train staff or take other measure to strengthen control, through Examiner's Finding or Document of Resolution (as appropriate).

# **RESOURCE LIST**

- Part 748 of the NCUA Rules and Regulations
- NCUA Instruction #5001.06, dated November 23, 2004 (and FAQs)
- NCUA Letters to Credit Unions:
  - 01-CU-18
  - 02-CU-14
  - 03-CU-16
  - 04-CU-03
- NCUA Regulatory Alerts:
  - 02-RA-02
  - 03-RA-03
  - 03-RA-07
  - 04-RA-01
  - 04-RA-04
  - 04-RA-06



# RESOURCE LIST

- FinCEN's Preparation Guidelines for SARs
- NCUA's website – [www.ncua.gov](http://www.ncua.gov)
- FinCEN's website – [www.fincen.gov](http://www.fincen.gov)
- Patriot Act-  
[www.epic.org/privacy/terrorism/hr3162.pdf](http://www.epic.org/privacy/terrorism/hr3162.pdf)
- OFAC-  
[www.ustreas.gov/offices/enforcement/ofac](http://www.ustreas.gov/offices/enforcement/ofac)
- [www.ffiec.gov](http://www.ffiec.gov)

# Questions

- SHEILA PAROCAI
- PRINCIPAL EXAMINER
  - CAPITAL REGION
- [sparocai@ncua.gov](mailto:sparocai@ncua.gov)