



**AML Mid-Year Review  
for the  
2016 BSA Coalition Anti-Money Laundering Conference  
June 21, 2016**

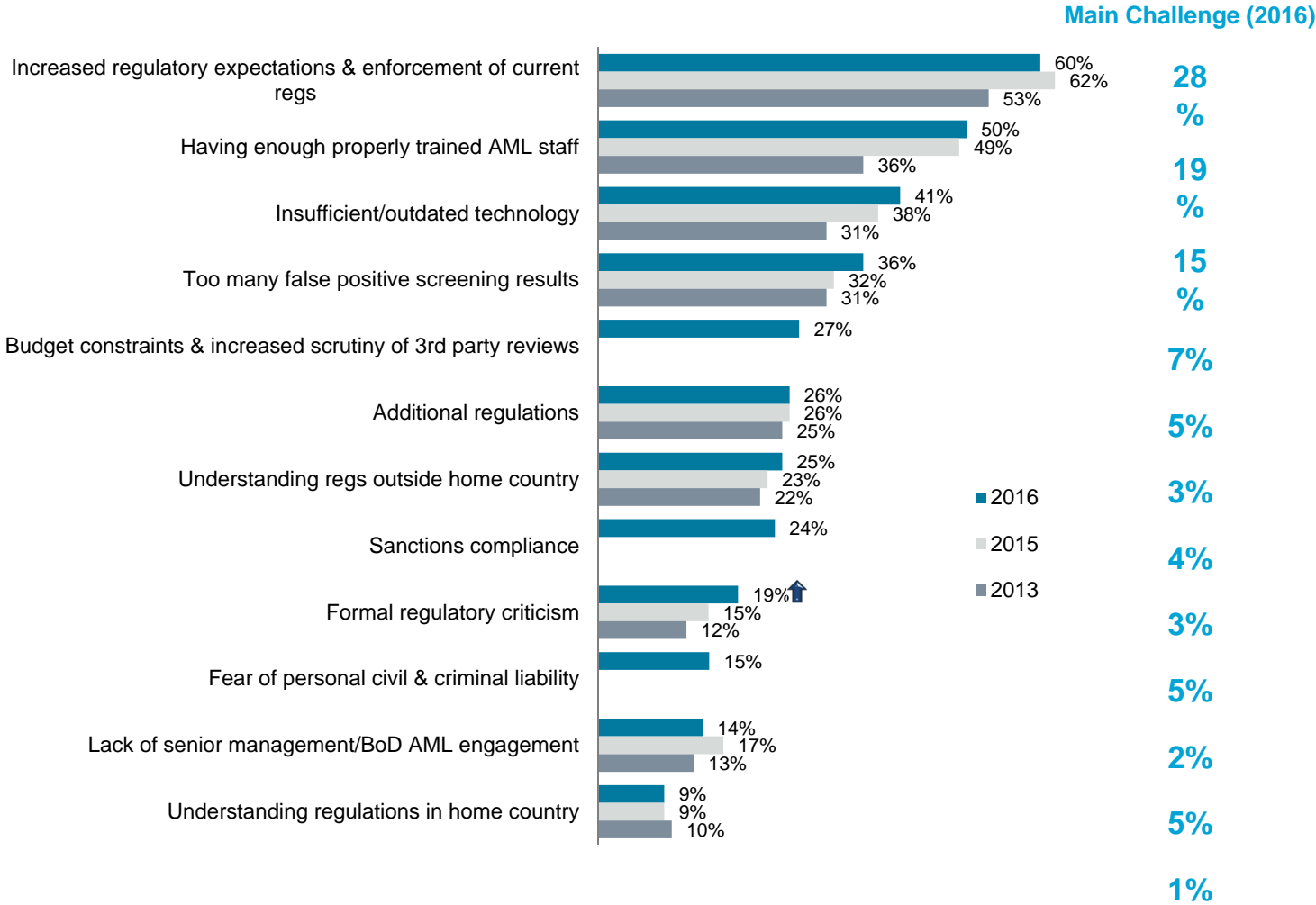
**John J. Byrne  
ACAMS EVP**

# Key Issues/Challenges

- Panama Papers/Shell Companies/CDD
- Enforcement Action Themes
- De-risking and Financial Inclusion
- Expansion of BSA Coverage to Gaming, FinTech and Others
- FATF and Direct Relationship to All Banks
- Human Trafficking, Terrorist Financing and Continuing Challenges
- AML----Time to Revisit Mission, Goals and Why

# AML Compliance Challenges Faced by Organizations

Increased regulatory expectations continue to represent the greatest AML compliance challenge, cited by 60% of respondents, followed by concerns regarding shortages of trained staff. Formal regulatory criticism is mentioned more often in 2016 compared with 2015.



# Panama Papers

- 11.5 million documents
- Panamanian Law Firm created 250,000 shell companies
- But really nothing new (e.g. NY condos, London housing market..)
- Tax evasion continues to thrive (need for ML predicate)
- Real hurdle is corporate formation
- FinCEN CDD Rule and the Creation of a Fifth Pillar
- We all have room to improve

# Enforcement Action Themes

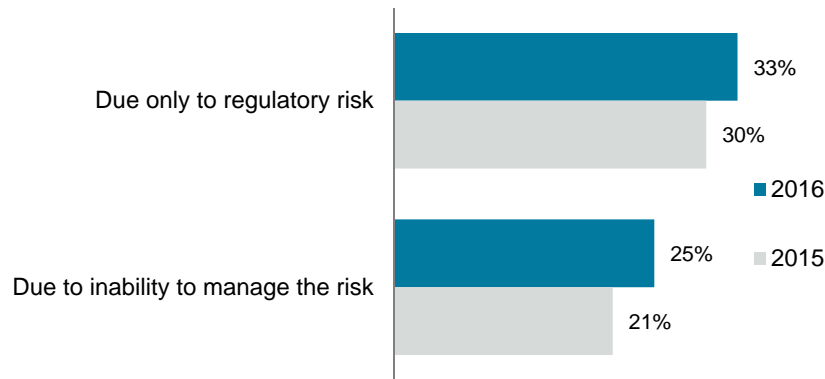
Actions impact small banks as well as large in areas such as:

- Corporate governance
- Qualifications and training
- Prompt response processes to audit
- Performance appraisal for FI's executives
- Risk rating of customer's entire relationship with the FI
- Independent Testing improvement
- Internal controls

# Exiting Business Lines & Customer Segments

In 2016, 40% of respondents report their companies have exited a full business line or segment of business in the past 12 months due to perceived regulatory risk and/or the organization's inability to manage the risk, an increase from 2015. About one-third of respondents claim their companies are planning to exit and/or are investigating the possibility of exiting a business line or segment in the next 12 months due to regulatory risk.

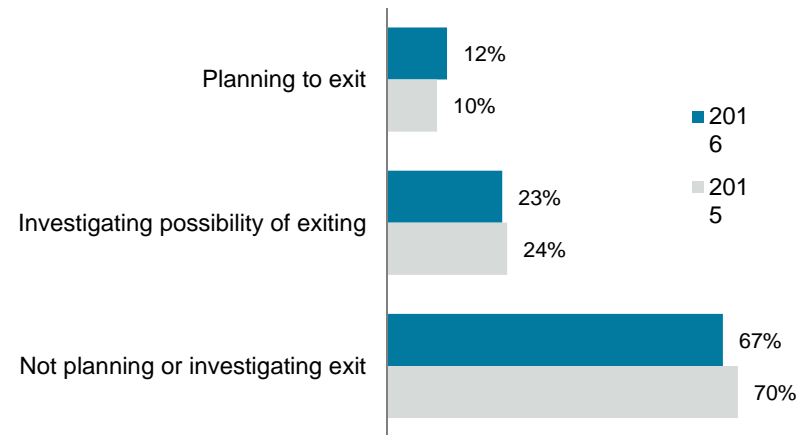
Have Exited Business Line/Segment or Customer Segment in Past 12 Months...



Net: Have exited for either reason

<u>20</u>	<u>20</u>
<u>15</u>	<u>16</u> ↑
35%	40%

Possibility of Exiting Business Line/Segment in Next 12 Months Due to Regulatory Risk



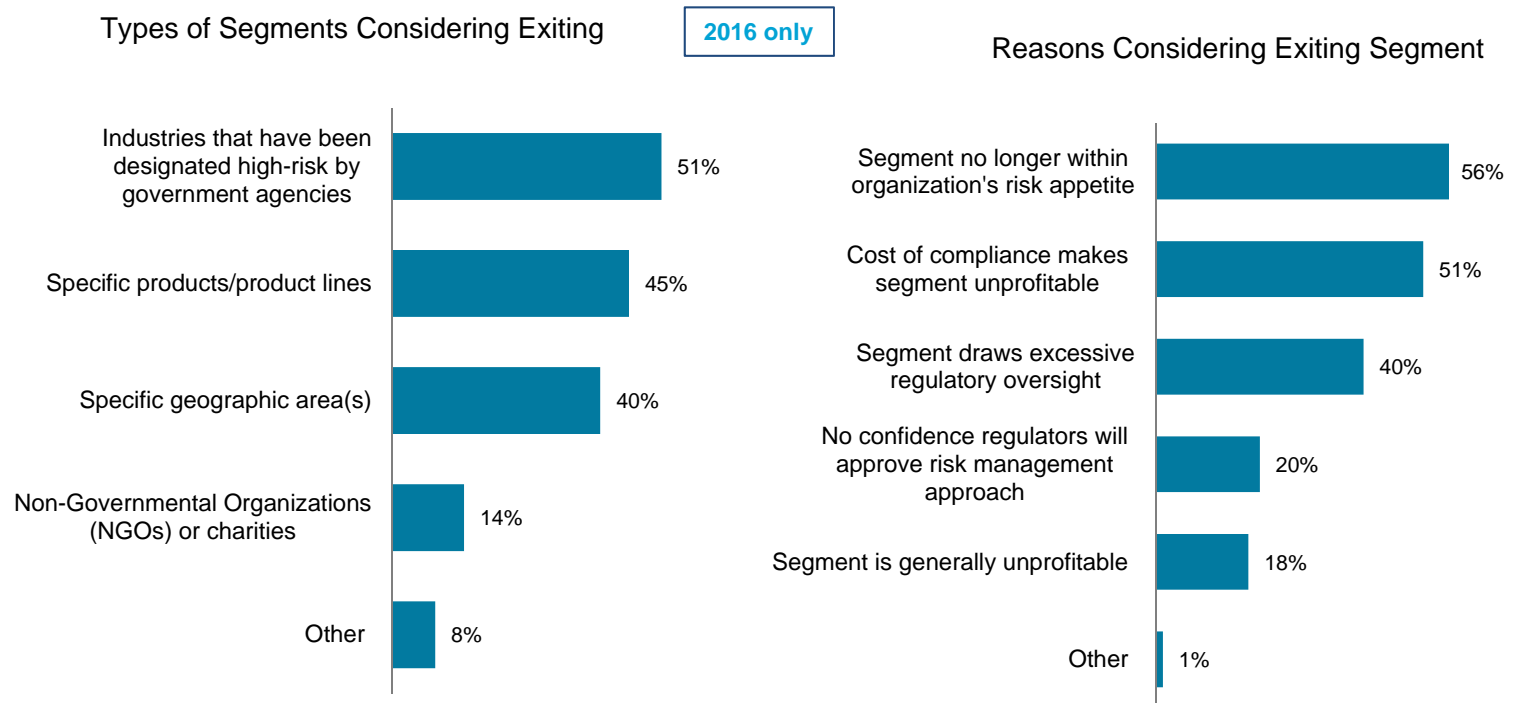
Net: Planning and/or investigating possibility of exiting

<u>20</u>	<u>20</u>
<u>15</u>	<u>16</u>
30%	33%

# Types of Business Segments & Reasons for Exiting

More than half of respondents whose companies are considering exiting business segments mention leaving industries designated as high-risk by government agencies. At least 40% also cite leaving specific product lines or geographic areas. The main reasons for leaving involve the organization no longer willing to assume the segment risk and the cost of compliance making the segment unprofitable.

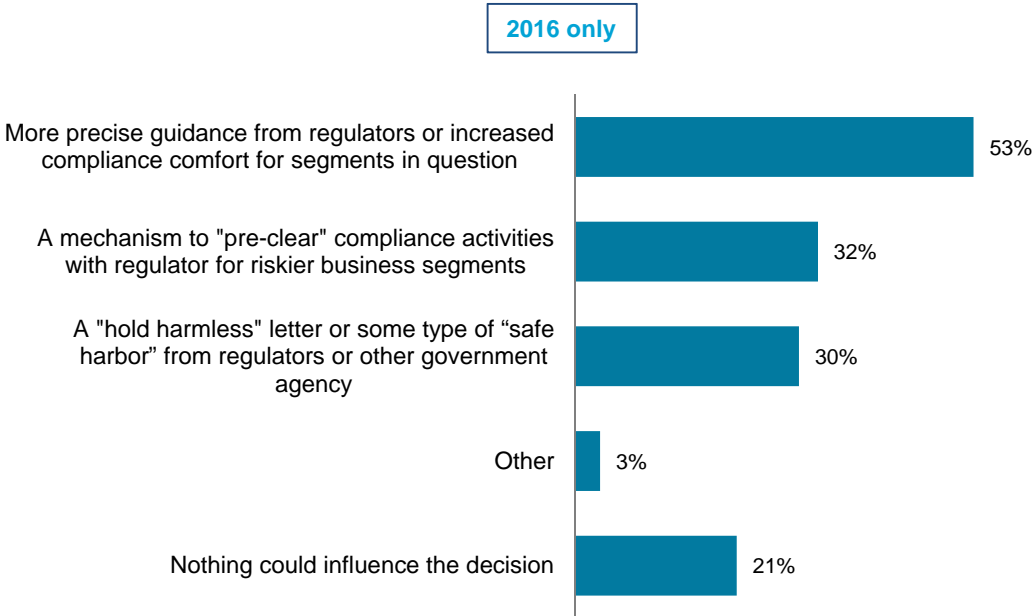
[Among Those Planning and/or Investigating Possibility of Exiting ]



# Factors That Could Make Firm Re-Evaluate Exit Decision

More than half of respondents whose companies are considering exiting business segments claim that better guidance from regulators could keep them from leaving. However, over 20% believe nothing can influence the decision to exit.

[Among Those Planning and/or Investigating Possibility of Exiting ]





# De-risking and Financial Inclusion

## Causes?

- Financial institutions exiting whole lines of business due to lack of profit potential
- Lack of clarity from regulators on what constitutes proper due diligence or risk management
- Financial institutions exiting account relationships with certain entities due to perceived inability to manage the risk associated with the account or pressure from examiners
- Financial institutions performing a cost/benefit analysis factoring in revenue, risk and reputation

## Solutions?

- Incentives for financial institutions to retain certain accounts
- Third party validation or certification
- Creation of “greenlists”
- Standard licensing regime
- Safe harbor
- Standard audit for affected entities

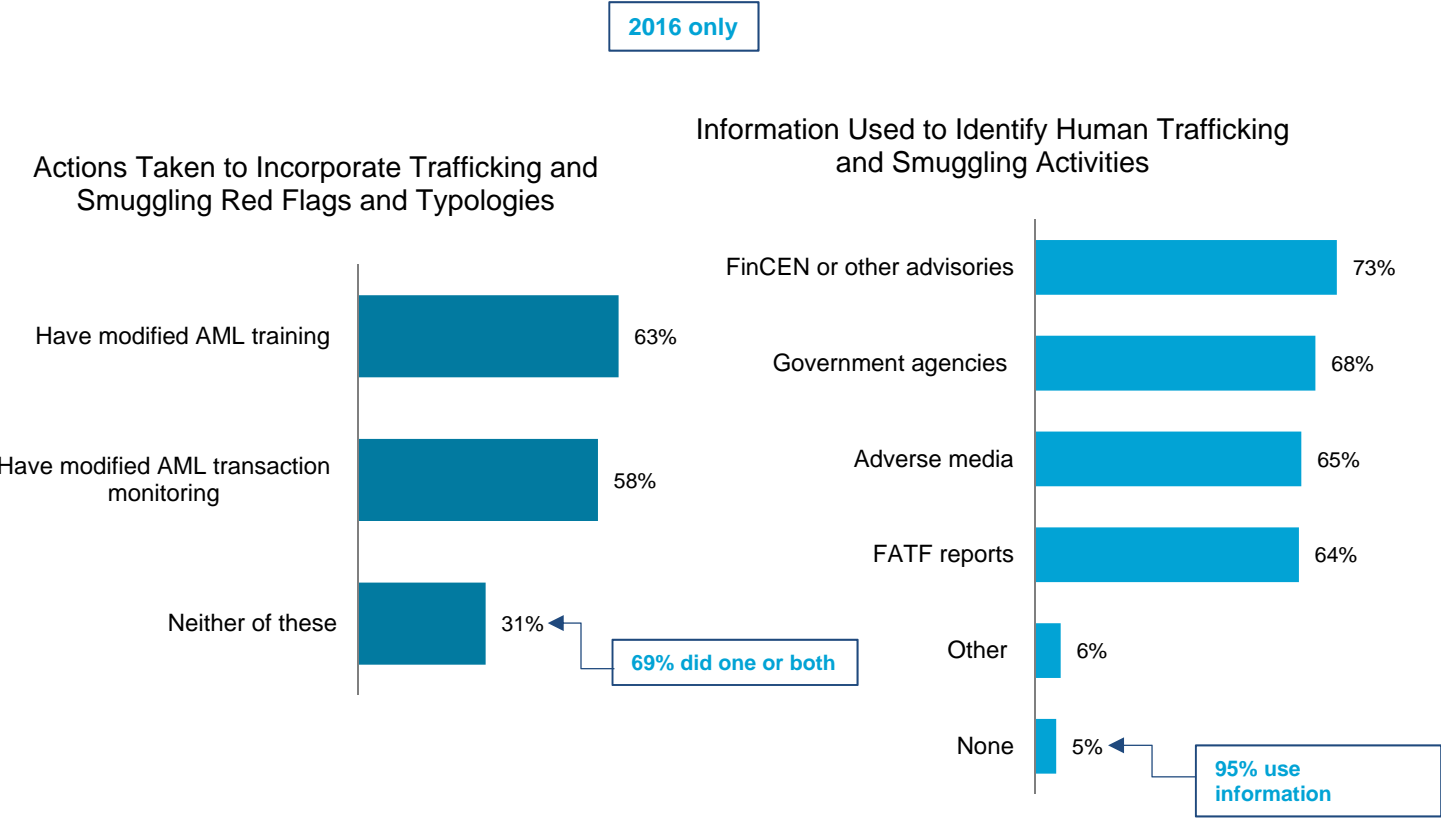
# Expansion of BSA Coverage to Gaming, FinTech and Others

# FATF June Plenary

- **Global response to terrorist financing.** Delegates will discuss progress in implementing the consolidated strategy agreed in February and the report on this to the G20 meeting in July. As part of this, delegates are expected to finalise a handbook on requesting freezing action from FATF countries and risk indicators to help the private sector to detect terrorist financing.
- **Transparency and beneficial ownership.** Delegates will discuss proposals for action to improve countries' effective implementation of measures to improve access to beneficial ownership information. The 'Panama papers' were a timely reminder of the scale of abuse of companies and trusts for a range of illicit purposes. Improving transparency has become a global priority, and FATF will make proposals for improving implementation of the FATF standards to the G20 in October.
- **Non-Profit Organisations.** Delegates will discuss the FATF Standard concerning non-profit organisations (Recommendation 8), to protect the sector from abuse and support its activities, in line with effective implementation of the FATF's risk-based approach.
- **The outcomes of the mutual evaluation reports of Austria, Canada and Singapore.** These reports assess each country's measures to combat money laundering and terrorist financing, and make recommendations to further strengthen these measures. These reports are expected to be published within two months of the plenary meeting, subject to the discussion in Busan.

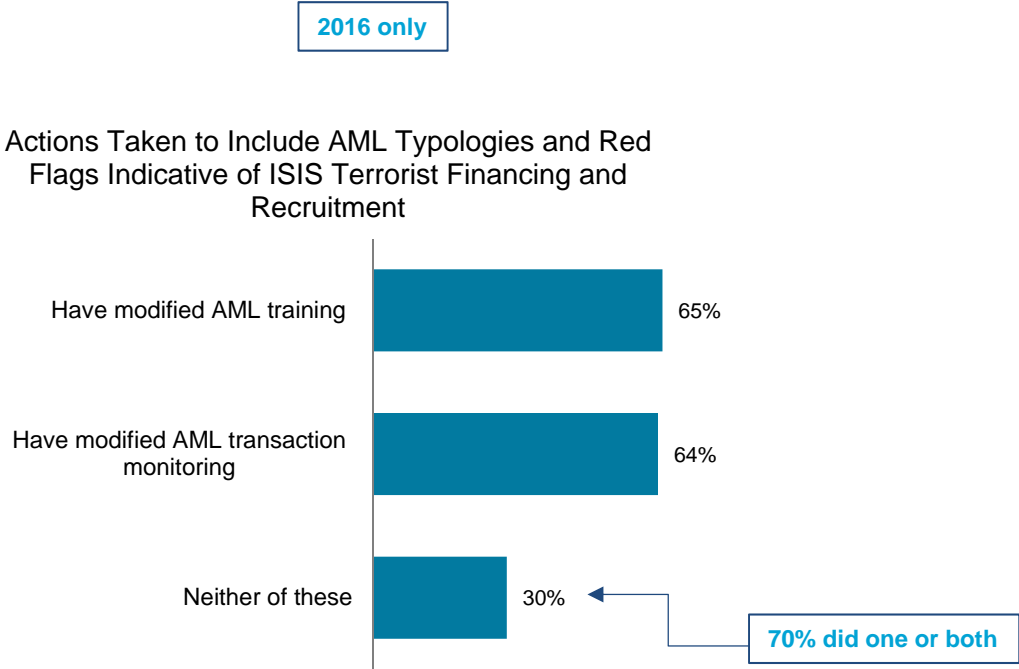
# Human Trafficking Information and Actions

Nearly 70% of respondents report their organizations have modified AML training and/or transaction monitoring to incorporate human trafficking and smuggling red flags and typologies (organizations typically have done both or neither). Nearly all respondents work in organizations that use information, usually multiple sources, to identify human trafficking and smuggling activities.



# Terrorism-Related Actions

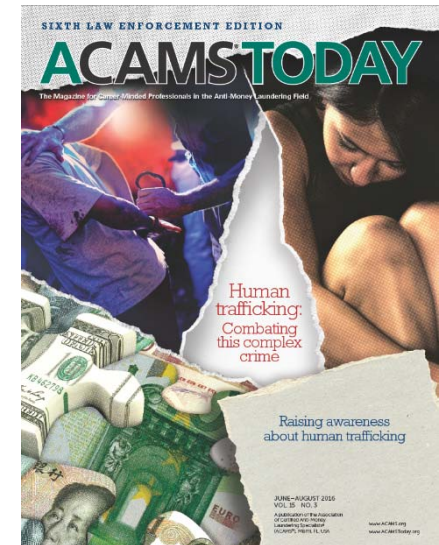
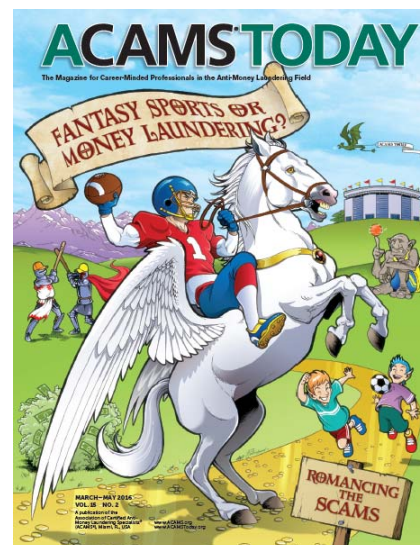
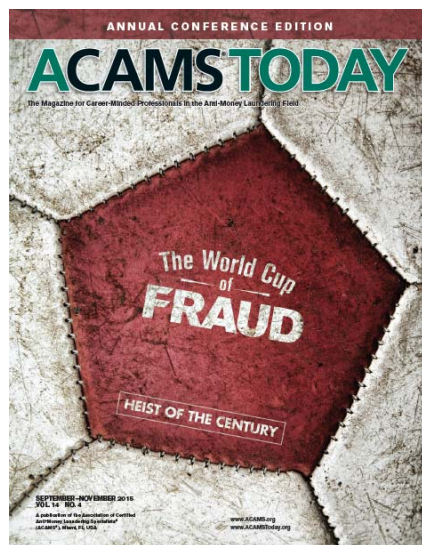
70% of respondents report their organizations have modified AML training and/or transaction monitoring to include red flags and typologies indicative of ISIS terrorist financing and recruitment (organizations typically have done both or neither).



## Going Forward

- Continuing Commitment to Society
- Respond to Overstatements and Understatements (i.e. recent WSJ piece)
- Work together
- Law Enforcement is essential to ALL debates
- Time to consider a change in laws, regulations and guidance?

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# Anatomy of a Banking Scandal

## The Keystone Bank Failure--Harbinger of the 2008 Financial Crisis

by US Capital Chapter Communications Chair Robert S. Pasley

### The story behind one of the largest banking scandals

First National Bank of Keystone, named the most profitable community bank in the country for three to four years, grew from a \$17 million bank to eventually a \$1.1 billion bank—all from fraudulent activity. In this book, Pasley explains how this was made possible for a small community bank in West Virginia and how bank examiners realized something was wrong.

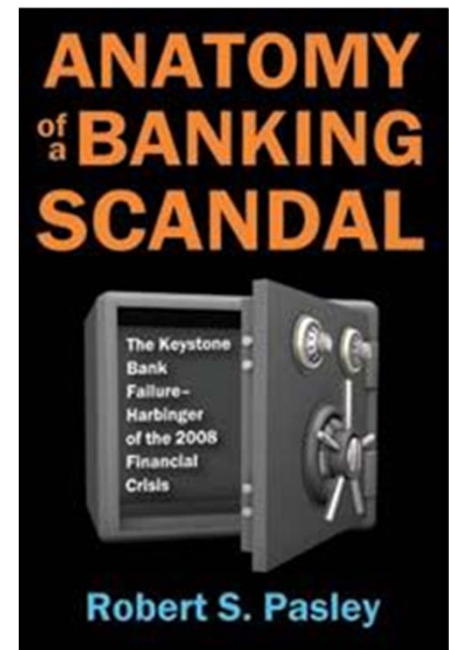
**Robert S. Pasley** worked at the Office of the Comptroller of the Currency for thirty years, as an attorney, a senior attorney, and an assistant director of the Enforcement and Compliance Division. He is now an attorney and consultant handling bank regulatory matters and anti-money laundering cases.

Mr. Pasley may be reached for interviews by phone (703) 683-4346 or e-mail [bob@pasleyconsulting.net](mailto:bob@pasleyconsulting.net).

#### Ordering Information:

To order a copy of [\*Anatomy of a Banking Scandal\*](#), visit [www.transactionpub.com](http://www.transactionpub.com)

\*eBook is available from eBook vendors worldwide.






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