

## GROUP 3



# Bank

America's Most Convenient Bank®

## Operational Risk Management Case Study (2024)

**\$3 BILLION FINE REVEALING THE SHORTCOMINGS OF THE  
BANKING SECTOR'S ANTI-MONEY LAUNDERING SAFEGUARDS**

“There is nothing wrong with a bank that tries to make its services convenient for its honest customers. But there is something terribly wrong with a bank that knowingly makes its services convenient for criminals.”

- DOJ Announcement Video, Oct 10, 2024



# TEAM

Jeff Mathew Sam

Melda Akan

Oluwatobi Ige

Rakesh Jayswal

Salmah Animashaun

# CONTENT

**01**

Case Overview

**02**

About TD Bank

**03**

Operational Risk Management  
& AML Investigations

**04**

Case History & Evidence of  
Ignored Risks

**05**

Risk Management Failure in  
TD Bank

**06**

Quantitative Analysis

**07**

Implications

**08**

Portfolio Impact - TD Bank'

**09**

Potential Risk and Similar  
Past Experiences

**10**

Recommendations

**11**

Conclusion

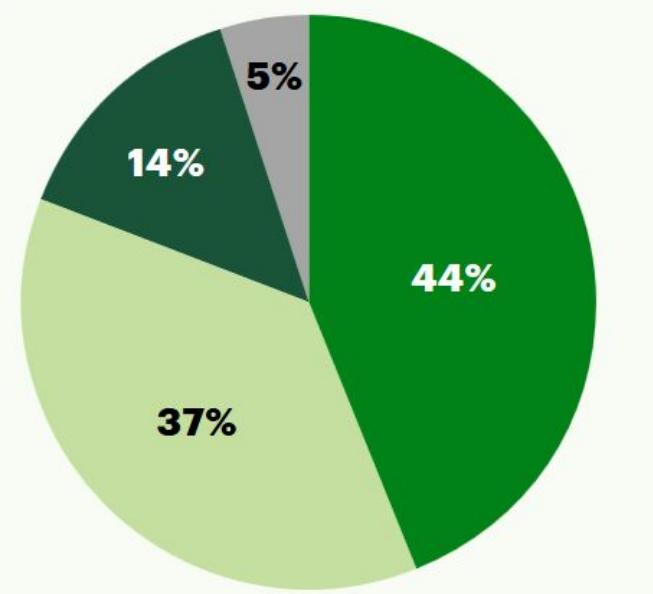
# Overview of Toronto-Dominion Bank

## TD Bank Overview

- Founded in 1852
- CEO: Bharat Masrani
- 10th largest U.S. bank; Canada's 2nd largest bank
- Serves more than 27 million customers worldwide
- 1,100 convenient locations throughout the Northeast, Mid-Atlantic, Metro D.C., the Carolinas and Florida

## Business Segments

- Canadian Personal and Commercial Banking
- U.S. Retail
- Wealth Management and Insurance
- Wholesale Banking



TD'S PREMIUM RETAIL  
EARNINGS MIX<sup>2</sup>

■ Canadian Personal & Commercial Banking  
■ U.S. Retail  
■ Wealth Management & Insurance  
■ Wholesale Banking

**95%** Retail\*  
**5%** Wholesale Banking

\* Retail = Canadian Personal & Commercial Banking, U.S. Retail, Wealth Management & Insurance

## TD Bank Anti-Money Laundering Investigation

- In October 2024, TD Bank became the largest U.S. bank to plead guilty to conspiring to fail to maintain an anti-money laundering (AML) program that complies with the Bank Secrecy Act (BSA)
- The bank facilitated over \$400M in transactions related to fentanyl and illegal drug sales and has agreed to pay over \$3B in penalties

# TD Bank AML Investigation

## Key Elements

- Bank employees laundered fentanyl sales proceeds through TD branches in NY and NJ
- Over two dozen individuals charged across schemes
- \$120 million through high-risk jewelry business
- \$1.4 billion fine to Department of Justice
- \$1.3 billion to Treasury Department's FinCEN
- \$450 million to Office of the Comptroller of the Currency
- \$123.5 million to Federal Reserve

## Organizational Context

- Maintain an effective AML compliance program
- Report suspicious transactions
- Implement customer due diligence procedures
- File Currency Transaction Reports (CTRs)

## Specific Failures

- Failed to file thousands of SARs for suspicious transactions
- Failed to properly monitor billions in suspicious wire transfers
- Allowed high-risk customers to conduct suspicious transactions
- Inadequate staffing and resources for AML compliance
- Deficient transaction monitoring systems

## A Few key Players

- Bank leadership and management
- BSA/AML compliance officers
- Bank employees
- Board of Directors
- Risk management teams
- U.S. Department of Justice
- U.S. Attorney's Office, SDNY
- FBI Miami Field Office
- Shareholders
- Bank customers
- FBI Criminal Investigative Division
- IRS Criminal Investigation
- U.S. Postal Inspection Service

# Case History

**“Our anti-money laundering laws dictate that a bank that willfully fails to protect against criminal schemes is also a criminal.”**

*- (Dept of Justice, Oct 10 2024, Video)*

## What ?

- TD bank's inadequate anti-money laundering program enabled three money laundering networks to transfer over \$670 million through TD Banks accounts.

## Why?

- chose profits over compliance in order to keep its costs down.
- weaknesses in TD Bank's risk management and controls that failed to monitor, identify, and prevent money-laundering activity,

## How?

- Between January 2014 and October 2023 failed to maintain an adequate anti-money laundering program
- Over a six year period failed to monitor \$18.3 trillion in customer activity
- Banks employees were involved and facilitated money laundering schemes
- Banks AML system “was willfully deficient”
  - Awareness of issue at the C-level and higher management levels, but failed to correct them.

# Evidence of Ignored Risks and their consequences

- Pervasive and Systemic Deficiencies of AML program (*DOJ Oct 2024 Video*):
- “**wilfully deficient**” Transaction Monitoring system:
  - “TD Bank intentionally excluded common types of financial transactions from its automated Transaction monitoring system” (*DOJ Oct 2024 Video*)
  - TMS Stagnant for 10 Years
  - No New Scenarios Added between 2014 to 2022 (8 yrs)
    - **consequence:** new types of money laundering go undetected
  - Key Transactions Excluded
- **Compliance Failures**
  - Implemented and maintained a fundamentally flawed and Outdated AML Program –
    - **consequence:** allowed for staggering money laundering and other criminal activity to thrive at the bank
  - Inadequate Due Diligence
  - Ignored Regulatory outlined ‘Red Flags’
    - **consequence:** Failed Regulatory Obligations
  - Trillions Unmonitored - approximately \$18.3 trillion of transaction activity



## APPENDICES

APPENDIX F: MONEY LAUNDERING AND TERRORIST FINANCING "RED FLAGS"

### FFIEC "Red Flags"

- Customers who provide insufficient or suspicious information
- Efforts to Avoid Reporting or Recordkeeping Requirement
- Funds Transfers
- Activity Inconsistent with the Customer’s Business
- Cross Border Financial Institution Transactions
- Employees behavior

# Evidence of Ignored Risks

- **Permissive policies and procedures**
- Lacked in maintaining a **culture of compliance**. And developing a culture of non-compliance
  - A nominal compliance program from January 2018 to April 2024: failed to monitor approximately 92% of its total transactions,
  - “The bank starved its compliance program of the resources it needed to obey the law. Time and time again, TD Bank failed to meet its obligations day after day, year after year” (*DOJ*)
  - Example of one money laundering scheme
- **Weak Ethical Corporate Culture** reflects HR's leadership failure
  - TD Bank employees facilitated money laundering networks
  - Bank employees at many levels understood and acknowledged the likely illegality of David's activity
  - David bribed TD Bank employees with gift cards for more than \$57,000 in exchange for filing false or misleading reports on these transactions
- **New Digital product** amidst a broken compliance program - Zelle in April 2017

# Other immediate Consequences

- Guilty plea leads to a **record \$1.8 billion penalty to FinCEN** - \$500,000 daily \*360\*10 ( 10yrs from 2014 to 2023)
- At least **24 individuals prosecuted** for moving over \$670 million in illicit funds through TD Bank accounts
- Clawed back bonuses for its CEO and other executives
- Restructure its corporate compliance program. retain independent compliance monitor
- **Additional compliance enforced on Bank by FinCEN (additional Challenges):**
  - Imposition of 3-year monitorship and 5-year probation to enhance anti-money laundering compliance for lawful and safe bank operations.
  - Will monitor and oversee banks extensive remedial measures, including end to end review of its AML program. for 4 years
  - Bank to provide missing SARs for past years
  - Bank to perform additional accountability and data governance reviews to provide recommendations for changing bank's culture of compliance

- **Indirect Consequences:**
  - Enabled Money Laundering
  - Facilitated Criminal Activity
  - **Led to the development of a network of interconnected risks, each one triggering and amplifying the next**

# Operational Risk Management

## Basel II Loss Event Types

- 1** Internal Fraud
- 2** External Fraud
- 3** Employment Practices
- 4** Client, Products, Business Practices
- 5** Damage to Physical Assets
- 6** Business Disruptions

## TD Bank Supplemental Regulatory Disclosure

For Third Quarter Ended July 31, 2024

“The Standardized Approach for Operational Risk consists of two main components – a Business Indicator Component (BIC) (a measure of a bank’s income) and a Loss Component (LC), from which an Internal Loss Multiplier (ILM) is derived (a measure of a bank’s historical losses).

Operational risk capital is the product of the BIC and the ILM, with risk-weighted assets for operational risk being this capital requirement multiplied by 12.5.”

## Standardized Approach (SMA)

Minimum Operational Risk Capital (ORC):

$$ORC = BIC \times ILM$$

$$BIC = ILDC + SC + FC$$

ILDC - Interest, Leases, Dividend

SC - Services Component

FC - Financial Component

$$ILM = \log[e - 1 + (LC/BIC)^{0.087}]$$

LC - Loss Component, 15 times average annual operational risk losses incurred over the previous 10 years.

# Operational Risk Management

## Flow Statement for Risk-Weighted Assets - Operational Risk (\$ millions)

**Disclosure for Operational Risk Risk-Weighted Assets Movement by Key Driver RWA, balance at beginning of period**

Business growth

Methodology and policy

Acquisitions and disposals

Movement in risk level

Revenue generation

**RWA, balance at end of period**

| LINE # | 2024              |                  |                  | 2023             |                  |  |
|--------|-------------------|------------------|------------------|------------------|------------------|--|
|        | Q3                | Q2               | Q1               | Q4               | Q3               |  |
| 1      | \$ 91,802         | \$ 89,205        | \$ 87,077        | \$ 85,703        | \$ 83,938        |  |
| 2      | 5,133             | 2,476            | 1,413            | 2,267            | 1,765            |  |
| 3      | -                 | -                | -                | -                | -                |  |
| 4      | -                 | -                | -                | -                | -                |  |
| 5      | 3,341             | 121              | 715              | (893)            | -                |  |
| 6      | n/a               | n/a              | n/a              | n/a              | n/a              |  |
| 7      | <b>\$ 100,276</b> | <b>\$ 91,802</b> | <b>\$ 89,205</b> | <b>\$ 87,077</b> | <b>\$ 85,703</b> |  |

1 - The Business growth category reflects changes in the three-year average Business Indicator (BI); a financial proxy measure for operational risk exposure used in Basel III Standardized Approach (SA).

2 - The Methodology and policy category reflects newly adopted methodology changes to the calculations driven by regulatory policy changes.

3 - The Acquisitions and disposals category reflects changes due to business acquisitions or disposals.

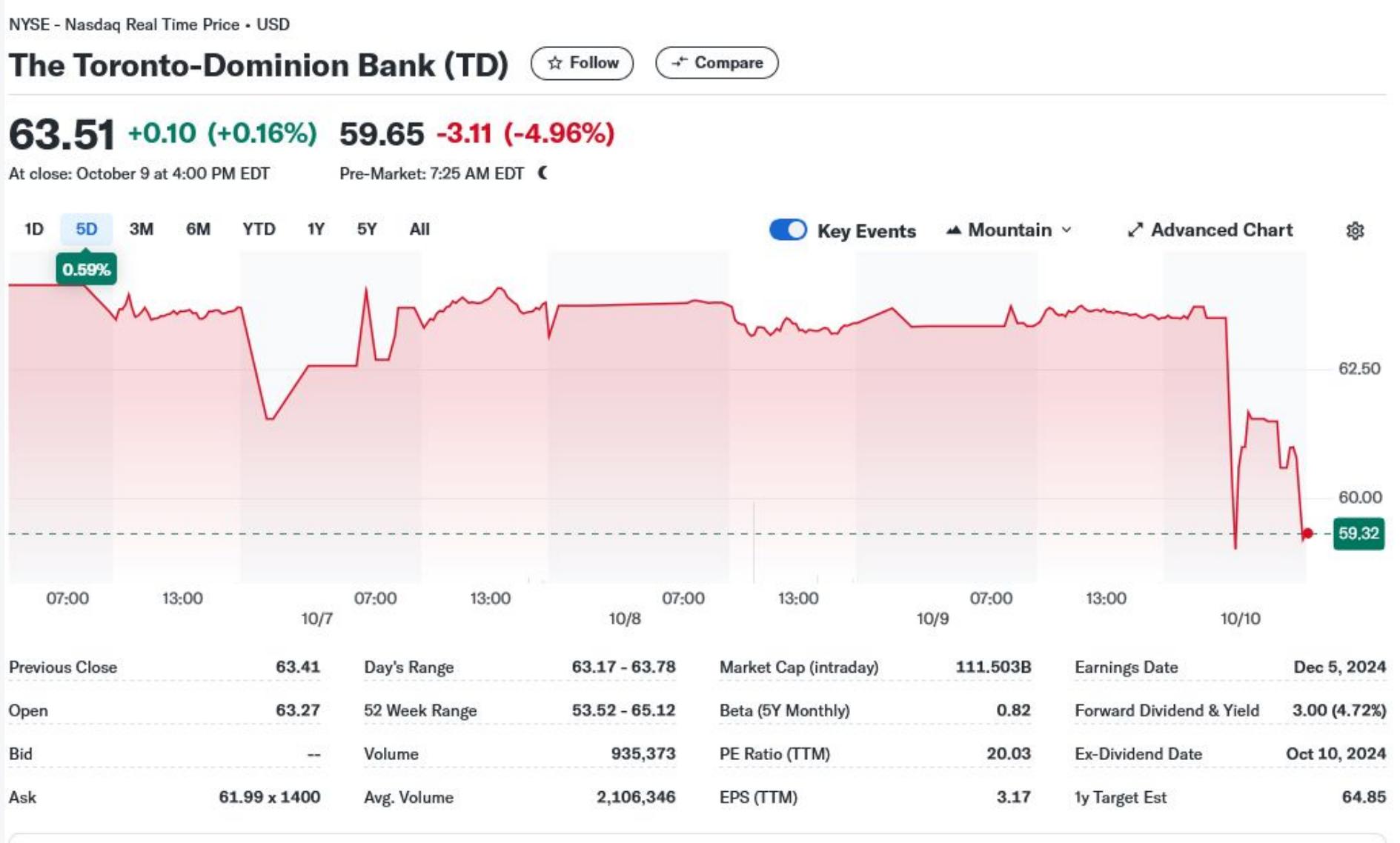
4 - The Movement in risk level category reflects changes in the ten-year average operational loss experience (reported on a one-quarter lag) relative to BI.

5 - The movement in Revenue generation category is due to a change in the three-year average of annual gross income used in The Standardized Approach.

6 - TD adopted the Basel III SA for Operational Risk RWA in Q2 2023 as per OSFI Requirements

- \$3 billion operational loss impacts capital calculations under Basel III's SMA
- The fine factors into loss data used to calculate operational risk capital
- Drives increase in capital requirements given the size and severity of the penalty
- Key driver for TD Bank's AML failures is the movement in risk level
- Higher future operational risk capital calculations through "Movement in risk level" would be incorporated into the bank's ten-year average operational loss experience.

# The Impact of the Incident on TD Bank's Share Price



Source: Yahoo finance. and Money Check.

The \$3 billion fine imposed on TD Bank for anti-money laundering violations significantly affected the company's share price and exposed the bank to more risk.

- Following the announcement on October 10, 2024, TD Bank's stock experienced immediate volatility and declining trends, with reports indicating a nearly 5% drop on the announcement day and a total decline of almost 10% in the following two days.
- Pre-incident, stock price closed at \$63.51 compared to yesterday stock price closing at \$56.25.
- Overall, we have seen a lot of volatility in the market compared to pre-incident levels.

The decline in TD Bank's stock performance was mainly due to investor concerns over the long-term impact of penalties, including the asset cap that restricts the bank U.S. market expansion, a key revenue source. Beyond financial losses, the guilty plea has raised concerns about the bank's compliance culture and operational integrity, damaging its reputation and investor confidence.

# The Implications of TD Bank's Fine for Customers and the General Public

1

**Customers**

**Increased Scrutiny on Transactions**

**Delays in transaction processing**

**Higher Costs**

2

**Both**

**Erosion of Trust**

**Weakend Brand Reputation**

**Decline in public trust in banks**

3

**General Public**

**Increased awareness**

**Improved Banking Practices**

**Legislative and Regulatory Changes**

# New Risks To Be Faced By TD Bank

## 1. Operational Constraints:

- An asset cap on TD Bank's U.S. operations limiting growth opportunities.

## 2. Increased Regulatory Scrutiny:

- Heightened oversight, including the appointment of independent compliance monitors
- A higher likelihood of detecting additional compliance issues and risks to Accommodate Post-Enforcement Actions:
- Must Enhanced Compliance Obligations to implement comprehensive reforms to its AML practices.

## 3. Financial Impact:

- penalties, coupled with the costs associated enhancements.
- financial strain on the bank affecting profitability and reduced shareholder returns.

## Historical Precedents and Associated Risks:

- **Wells Fargo (2018):** Faced a \$1 billion fine for consumer abuses, resulting in an asset cap that restricted growth and necessitated extensive internal reforms from April 20 2018 to March 2025 .

## Recommendations

### STRENGTHENING OPERATIONAL RISK CONTROLS

Risk Mitigation Strategies (KYC)  
Monitoring Effectiveness

### COMPLIANCE RISK MANAGEMENT

Conducting Risk Assessments  
Developing a Risk Framework

### SCENARIO ANALYSIS AND EMERGING RISKS

Stress Testing  
Monitoring Emerging Risks

### FOSTERING A RISK-AWARE CULTURE

Promoting Risk Awareness  
Facilitating Communication

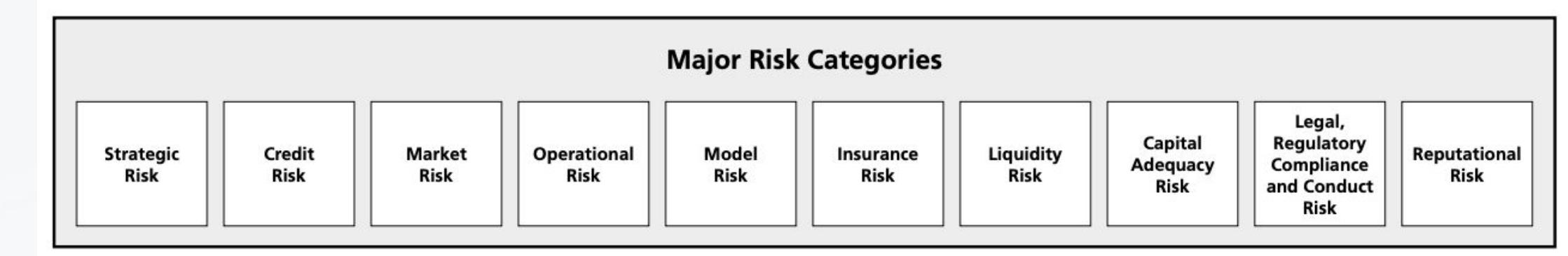
## Conclusion:

- Strategic Risk, 'Operational Risk', 'Compliance Risk', Reputational Risk,
- S&P Global downgraded rating in May and Oct 2024
- These fines would likely impact future operational risk capital incorporated into the bank's ten-year average operational loss experience.
- Proactive Risk Management is essential
- Reputation Takes Years to Build but Moments to lose
- Impact on their share price
- Implications for Customers and the general public
- New Risks faced by TD Bank and those they will face in the future based on similar past events.

**Should all banks allocate higher risk capital for Operational Risk or any other risk after TD Bank's guilty plea?**

**S&P Global**

Management failed to live up to standards expected of one of the world's highest rated banks. The bank has taken several steps to address the deficiencies identified at its U.S. subsidiary banks, but we think it will take time to improve the risk management culture across the group, overhaul its practices, strengthen the organizational structure, and demonstrate the effectiveness of these measures.



# References

1. Associated Press. "TD Bank's \$3 Billion Fine: Lessons for Financial Institutions." *AP News*. Accessed November 25, 2024. <https://apnews.com/article/75426a569d40174fd61fa7bc83026176>.
2. Regulatory Disclosure By Anon URL: <https://www.td.com/content/dam/tdcom/canada/about-td/pdf/quarterly-results/2024/q1/2024-q1-supp-regulatory-disc-en.pdf>
3. Office of Public Affairs. "TD Bank Pleads Guilty to Bank Secrecy Act and Money Laundering Conspiracy Violations in \$1.8B Resolution." *Justice.gov*, 10 Oct. 2024, [www.justice.gov/opa/pr/td-bank-pleads-guilty-bank-secrecy-act-and-money-laundering-conspiracy-violations-18b](https://www.justice.gov/opa/pr/td-bank-pleads-guilty-bank-secrecy-act-and-money-laundering-conspiracy-violations-18b).
4. The Justice Department. (2024, October 10). *TD Bank's Guilty Plea for Bank Secrecy Act & Money Laundering Conspiracy Violations \$1.8B Resolution*. YouTube. <https://www.youtube.com/watch?v=p0RKLNV-New>
5. FinCEN Assesses Record \$1.3 Billion Penalty against TD Bank | FinCEN.gov. (2024, October 10). Fincen.gov <https://www.fincen.gov/news/news-releases/fincen-assesses-record-13-billion-penalty-against-td-bank>
6. internationalbanker. (2024, November 20). TD Bank's \$3 Billion Fine Reveals the Shortcomings of the Banking Sector's Anti-Money-Laundering Safeguards. International Banker. <https://internationalbanker.com/banking/td-banks-3-billion-fine-reveals-the-shortcomings-of-the-banking-sectors-anti-money-laundering-safeguards/>
7. Balu, Nivedita, et al. "TD Bank to Pay \$3 Billion, Face Asset Cap to Resolve US Money-Laundering Probe." Reuters, 10 Oct. 2024, [www.reuters.com/business/finance/canadas-td-bank-plead-guilty-us-charges-it FAILED PROPERLY MONITOR MONEY 2024-10-10/](https://www.reuters.com/business/finance/canadas-td-bank-plead-guilty-us-charges-it FAILED PROPERLY MONITOR MONEY 2024-10-10/) . Accessed 20 Oct. 2024.
8. <https://www.reuters.com/business/finance/us-regulators-impose-penalties-resolve-money-laundering-probes-2024>
9. <https://www.reuters.com/business/finance/canadas-td-bank-plead-guilty-us-charges-it FAILED PROPERLY MONITOR MONEY 2024-10-10>
10. <https://www.reuters.com/business/finance/senator-warren-urges-fed-keep-wells-fargo-asset-cap-2024-11-20>
11. <https://www.wellsfargomedia.com/assets/pdf/about/investor-relations/annual-reports/2019-annual-report.pdf>
12. Money Check, <https://moneycheck.com/td-bank-td-stock-slump-faces-3-billion-penalty-u-s-growth-restrictions-over-aml-concerns/>



THANK YOU