

# BSA/AML Compliance in Acquisitions

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Don't Make Someone Else's Mistakes Your Own

Thank you for joining us!

The webinar will begin at 1 PM Central

September 14, 2017  
PRESENTED BY MARK  
STETLER & LORI MOORE



Please note that there is no dial in for this presentation.  
You will need to connect through your computer's speakers.

# Downloads and Links

## Under Downloads, you will find:

- A copy of today's slides
- Your certificate of attendance
- Webinar Troubleshooting Information

## Under Links, you will find:

- Banker's Toolbox website
- Contact Us
- BSA M&A Checklist
- Registration for October's webinar



# October Webinar

SAVE  
the DATE

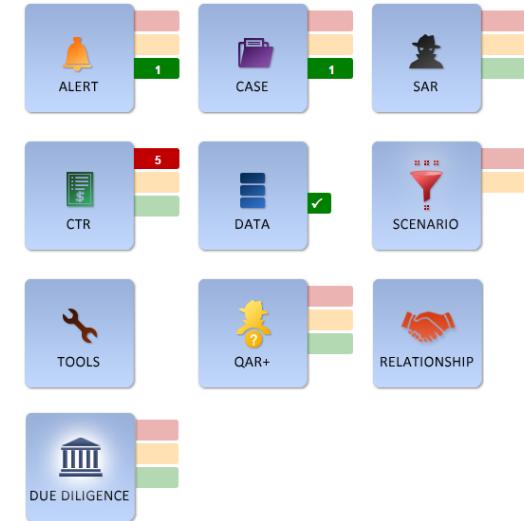
## 5 Tips for Superior Risk-Based AML Compliance

Tuesday, October 24<sup>th</sup>, 2017 at 1 PM CST

This webinar will define what a “risk-based approach to AML compliance” means for your institution. We will address the need for a strong customer risk assessment (Know Your Customer), monitoring of transactions, monitoring and reviews of business relationships on an ongoing basis and the need for awareness of higher risk factors with business customers. You will leave this webinar with the resources necessary to kick start a risk based compliance initiative in your institution.

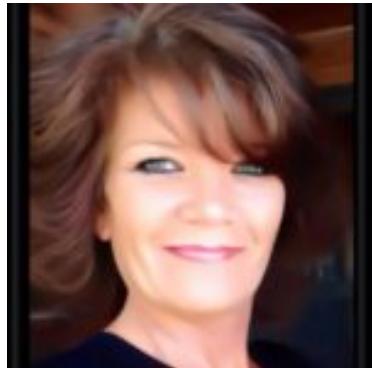
# Banker's Toolbox Solutions

- BSA/ AML Solution
- Automated Fraud Detection and Prevention
- Customer Due Diligence
- OFAC Scanning Software
- Secure and Efficient Wire Transfer Automation
- Consulting Services
- Banking Data Analytics and Business Intelligence



Email [experts@bankerstoolbox.com](mailto:experts@bankerstoolbox.com) for more information

# About the Presenters



**Lori Moore, CRCM  
Vice President of Compliance, RegSmart**

Lori has over 30 years of experience working with community banks. Throughout her career, Lori has served as BSA Officer, Chief Operations Officer, Senior Vice President of Compliance and Audit, and Vice President of IT/Network Administration. Lori's experience includes more than 10 years in the RegTech industry serving as Vice President of Regulatory Intelligence at Continuity and Director of Compliance at CSI.



**Mark Stetler, JD, CAMS  
CEO, RegSmart**

Mark graduated with honors from Baylor University with a BBA in Finance and the University of Texas Law School. He practiced at the financial services subsidiary of the nation's largest homebuilder. Mark served as general counsel for a multi-state title agent and a loan quality assurance company. In 2001, he joined NIA Consulting, where he became senior partner. NIA grew to become one of the largest financial fraud auditing firms. In 2007, Mark was instrumental in arranging the sale of NIA to Interthinx (a subsidiary of Verisk—NASDAQ: VRSK). Mark co-founded RegSmart in 2015. His vision is to solve mission-critical compliance issues for financial institutions with effective and efficient technology.

# RegSmart



RegSmart is founded on the principle that risk assessment and governance (matching resources to business mission) are crucial to effective, efficient risk management, RegSmart delivers subject matter expert-supported SaaS to address the highest risks financial institutions face.

# BSA/AML in Acquisitions

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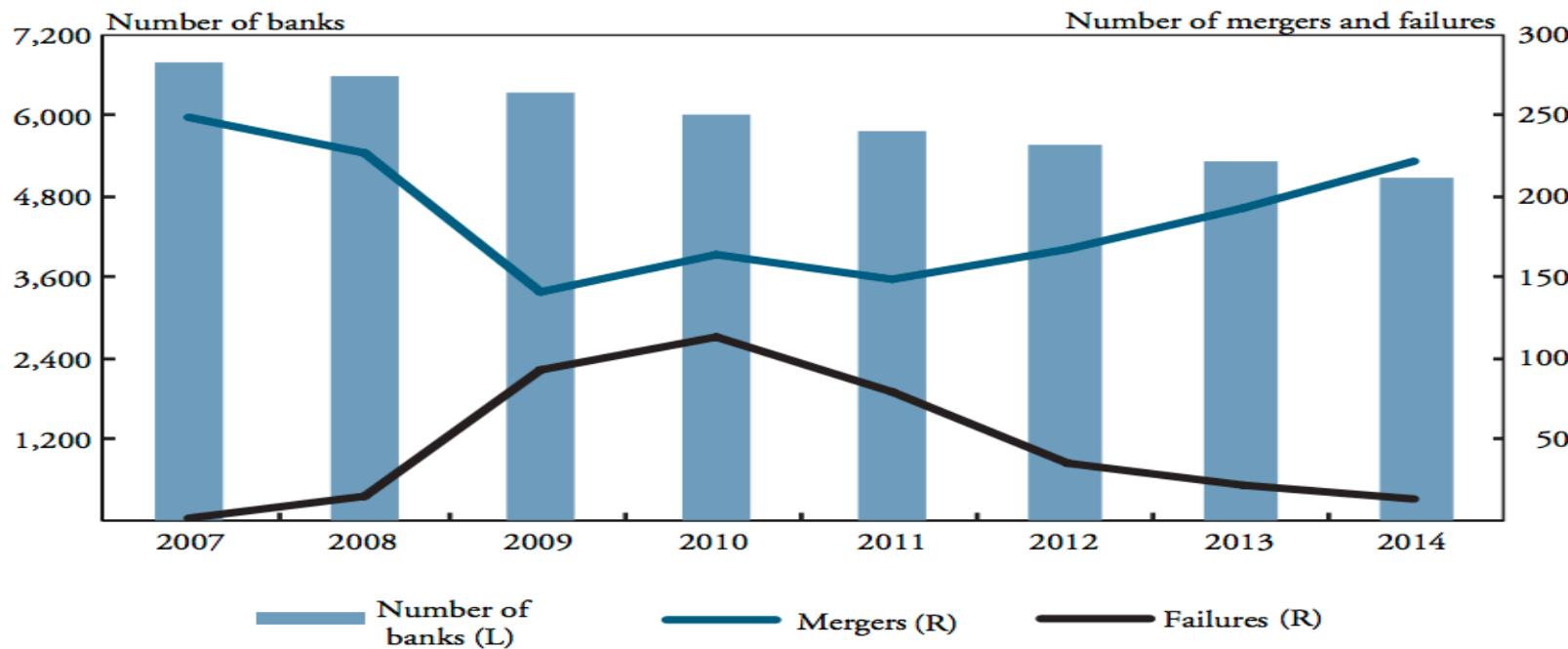
# Business and Regulatory Environment

# Washington quagmire spurs more banks to consider selling

American Banker, August 21, 2017

Chart 1

## Change in the Number of Community Banks since 2008



Note: Community banks are defined as banks with assets of \$1 billion or less.

Source: Federal Reserve change-in-control data.

# FinCEN Increases CMPs 8/1/2016



Recordkeeping violations for funds transfers increased from \$10,000 to \$19,787.



Violation of certain due diligence requirements from \$1,000,000 to \$1,338,420.



Willful violations of BSA requirements, increased from \$25,000–\$100,000 to \$53,907–\$215,628.

TABLE 1 OF § 1010.821—PENALTY ADJUSTMENT AND TABLE

U.S. Code citation	Civil monetary penalty description	Statutory penalties as last amended by statute (\$)	New maximum penalty amounts or range of minimum and maximum penalty amounts for penalties assessed after 8/1/2016 (\$)
12 U.S.C. 1829b(j) 12 U.S.C. 1955 31 U.S.C. 5318(k)(3)(C)	Relating to Recordkeeping Violations For Funds Transfers ..... Willful or Grossly Negligent Recordkeeping Violations ..... Failure to Terminate Correspondent Relationship with Foreign Bank.	10,000 10,000 10,000	19,787 19,787 13,384
31 U.S.C. 5321(a)(1)	General Civil Penalty Provision for Willful Violations of Bank Secrecy Act Requirements.	25,000–\$100,000	53,907–\$215,628
31 U.S.C. 5321(a)(5)(B)(i).	Foreign Financial Agency Transaction—Non-Willful Violation of Transaction.	10,000	12,459
31 U.S.C. 5321(a)(5)(C)	Foreign Financial Agency Transaction—Willful Violation of Transaction.	100,000	124,588
31 U.S.C. 5321(a)(6)(A)	Negligent Violation by Financial Institution or Non-Financial Trade or Business.	500	1,078
31 U.S.C. 5321(a)(6)(B)	Pattern of Negligent Activity by Financial Institution or Non-Financial Trade or Business.	50,000	83,864
31 U.S.C. 5321(a)(7)	Violation of Certain Due Diligence Requirements, Prohibition on Correspondent Accounts for Shell Banks, and Special Measures.	1,000,000	1,338,420
31 U.S.C. 5330(e)	Civil Penalty for Failure to Register as Money Transmitting Business.	5,000	7,954

# “Effective Internal Controls/Compliance”



Lesser intent (such as “should have known” a/k/a “willful blindness”) can be demonstrated if...  
**management could have learned with with reasonable inquiry**



**Internal controls systems are so lacking as to permit the violation or deficiency to occur and remain undetected should be accorded the most severe score**



Internal control systems or compliance programs that identified the violation or deficiency, which allowed the bank to initiate timely corrective measures, may receive a lower score

# Section 327 of USA PATRIOT Act

## Federal Reserve Guidance of BSA/AML Compliance in Mergers

“Section 327 also requires the Federal Reserve...to consider the *effectiveness of an insured depository institution in combating money laundering activities*...in connection with any application filed under the Bank Merger Act.”

Board of Governors of the FED, SR 02-8

# Four Steps to Success

Step 1: Analyze Compliance/Risk Culture

# *The single most important thing to understand about BSA/AML in an acquisition?*

In 2014, FinCEN said that regardless of its size and business model, an FI with a poor **COMPLIANCE CULTURE** is likely to have shortcomings in its BSA/AML program

Leadership

Capital Allocations & Resources

Personnel & Expertise

Testing

Overall Commitment

AND RISK CULTURE

# Culture Questions



How different is the Target's culture from ours?  
E.g., MSBs, International FTs, PEPs, etc.



Above a certain standard, there's no right or wrong...  
there's risk tolerance and risk mitigation.



Key = Understand the Target's Risk Culture.  
How will we strategically integrate Target's risk...  
Or De-Risk

# What's the goal of due diligence?



Identify deficiencies in the Target's BSA program



Identify differences in risk profile and start to understand how integration will occur



Assign a level of criticality of deficiencies and differences



Develop a plan as to when and how you will address deficiencies and differences

# Four Steps to Success

Step 2: Understand Target's Risk Assessment

# The Target's Risk Assessment

Assets (Size and Growth Rate)

Reporting - SARs and CTRs

All locations

All products

All services

All customer profiles

Personnel & Training

BSA program administration

OFAC (not technically a BSA, but close enough)



# Is Risk Assessment complete, compliant?



*Inherent Risks* by Operational Area, Location, Product, Service, Customer Profile, Personnel, Training, BSA Program



(1) Sound *mitigating controls* (2) supported by P&P  
(3) independently tested



*Reasonable justification for Residual Risk*—Includes Target's volume in a certain transaction/customer



Accurately determined, explained, reported institutional risk

# Customer Profile Example



## BSA/AML Risk Management and Audit Tool for First Austin National Bank



Mark Stetler

Dashboard

FANB Q3 2017

Effective Date: 09/30/17 (change)

Related Audit:

FANB

About Your RegSmart Risk Assessment

Operational & Historical Data

Geography

Products & Services

Customer Base

OFAC

Personnel & Training

BSA Compliance Administration

Customer Base

Category Risk Rating

Composite Risk

Add Customer

Customer	Inherent Risk	Residual Risk	
<b>+ Dealerships</b>	High	Moderate	
000000: Charitable Organizations - Government Sponsored [CB-16]	Moderate	Low	
000000: Politically Exposed Persons (PEPs) [CB-26]	High	Moderate	
423990: Gun Dealers [CB-30]	High	Moderate	
522298: Pawn Shops [CB-41]	High	Moderate	
451110: Sporting Goods Stores [CB-47]	High	Low	
445120: Convenience Stores [CB-05]	High	Moderate	
442299: All Other Home Furnishings Stores [CB-52]	High	Moderate	
445310: Liquor Stores [CB-09]	High	Moderate	

# Establish Category and Institutional Risk



<a href="#">Dashboard</a>
<a href="#">FANB Q3 2017</a>
Effective Date: <b>09/30/17</b> ( <a href="#">change</a> )
Related Audit: <a href="#">FANB</a>
<a href="#">About Your RegSmart Risk Assessment</a>
<a href="#">Operational &amp; Historical Data</a>
<a href="#">Geography</a>
<b>Products &amp; Services</b>
<a href="#">Customer Base</a>
<a href="#">OFAC</a>
<a href="#">Personnel &amp; Training</a>
<a href="#">BSA Compliance Administration</a>

Products & Services		Category Risk Rating	Composite Risk
Add Product/Service			
Product/Service	Inherent Risk	Residual Risk	
DP-01: Demand Deposit Accounts	Moderate	Low	<a href="#"></a> <a href="#"></a>
LP-01: CD secured loans	Moderate	Moderate	<a href="#"></a> <a href="#"></a>
+ Electronic Funds Payment	Your Category Risk Rating is: <b>Low</b>		<a href="#"></a> <a href="#"></a>
LP-11: Consumer - Closed-End	Moderate	Low	<a href="#"></a> <a href="#"></a>
LP-12: Consumer - Open-End Line of Credit	Moderate	Moderate	<a href="#"></a> <a href="#"></a>
DP-12: Embassy and Consulate Banking	High	High	<a href="#"></a> <a href="#"></a>
DP-02: Employee Accounts	Moderate	Low	<a href="#"></a> <a href="#"></a>
LP-19: Loans to Closely Held Corporations	Moderate	Low	<a href="#"></a> <a href="#"></a>
DP-03: Money Market and Savings Accounts	Moderate	Low	<a href="#"></a> <a href="#"></a>
DP-04: Domestic Private Banking	High	Moderate	<a href="#"></a> <a href="#"></a>
DP-06: Certificates of Deposit	Moderate	Low	<a href="#"></a> <a href="#"></a>

# Understand, Report & Explain

Composite BSA/AML Risk Rating:



## Categorical Risk Ratings

The RegSmartSM Risk Assessment consists of approximately 40 questions broken down to the categories listed below. These questions collect information about BSA/AML risks and the actions you take to mitigate these risks. RegSmart rates your answer to each question on a scale of one to ten (one representing the least risk) then compiles, weights, and converts ratings to a categorical rating of Low, Moderate, or High. These compilations are reflected below.

Category	Category Risk
Historical & Operational Data	Moderate
Geographical Data	Low
Products & Services	Low
Customer Base	Moderate
Personnel & Training	Moderate
BSA Compliance Administration	Low

# High Risk Job Aid

## BSA in Acquisitions: Example BSA Risk Evaluation Job Aid

Identity and Controls for High-Risk Products & Services*	Do you provide or serve the following?	Does Target provide or serve the following?	Has Target identified the Inherent Risks associated with this item?	Has Target documented and implemented mitigating controls?	Has Target determined and documented the BSA "residual risk"?	Rate Target's risk model from 1 (lowest risk & integration concern) to 10 (highest)
ACH--Domestic						
ACH--Foreign/Cross Border						
Bank Drafts--International						
Blockchain Services						
Brokered Deposits						
Bulk Shipments of Currency						
Cash Management Services/Accounts						
Concentration Accounts						
Correspondent Accounts--Domestic						
Correspondent Accounts-Foreign						
Custodial Accounts						
Crypto Currency Accounts/Services						
Electronic Banking (including accounts opened over telephone/Internet)						
Forex						
Funds Transfers-Domestic						
Funds Transfers-Foreign						
Funds Transfers--Domestic PUPID						
Funds Transfers--Foreign PUPID						
International Bank Drafts						
Letters of Credit--Domestic						
Letters of Credit--Foreign						
Letters of Credit--Standby						
Loans Secured by Cash Collateral						
Loans to Closely Held Corporations						
Monetary Instruments (Traveler's Checks, Bank Checks, Money Orders)						
Non-Deposit Investment Products						
Payable Through Accounts						
Payroll Accounts						
Pouch Services						
Prepaid Access/Stored Value/Payroll Cards						
Remote Deposit Capture--Consumer						
Remote Deposit Capture--Merchant						
Trade Finance Activities						
U.S. Dollar Drafts						
Identity and Controls for High-Risk Customer Profiles*	Do you provide or serve the following?	Does Target provide or serve the following?	Has Target identified the Inherent Risks associated with this item?	Has Target documented and implemented mitigating controls?	Has Target determined and documented the BSA "residual risk"?	Rate Target's risk model from 1 (lowest risk & integration concern) to 10 (highest)
Brokerage Customers						

# What is the Target's Program *and Practice*?

P&P and BSA and OFAC Program Documents

Governance Documents: BOD approvals of BSA, CIP

Audits & Reports of Examination

Regulator and Auditor correspondence

SAR records (pre-close numbers for trend analysis)

CIP/CDD Exceptions (pre-close numbers for trend analysis)



# “BSA Practice” Evaluation



- [Dashboard](#)
- [Display Options](#)
- [Assessments](#)
- [Welcome](#)
- [Compliance Program](#)
- [Risk Assessment](#)
- [CIP](#)
- [CDD & EDD](#)
- [Information Sharing](#)
- [Training](#)
- [CTR & CMIR](#)
- [Suspicious Activity Monitoring](#)
- [Monetary Instruments Sales](#)
- [Funds Transfers](#)
- [E-Banking Services](#)
- [OFAC Compliance](#)
- [Special Measures](#)

**ⓘ Your CIP requires you to COLLECT identifying information on all DEPOSIT accounts (including safe deposit boxes) when?**

- Before you open any new account.
- Within a reasonable time after you open any new account.

Please select a document and provide a reference to the relevant section:

-Select One-

Enter Reference

Show Notes

**ⓘ Your CIP requires that you COLLECT identifying information on all credit related (i.e., loan) accounts when?**

- Before you open any new credit-related account.
- Within a reasonable time after you open any new credit-related account.

Please select a document and provide a reference to the relevant section:

CIP.pdf

CIP.pdf

Section 1.10

Show Notes

**ⓘ Your CIP requires you to VERIFY identifying information on all DEPOSIT accounts when?**

- Before you open any new account.

# Four Steps to Success

Step 3: Find Direct Key Risk Indicators

# The Concept of Key Risk Indicators

**“You can’t do everything, so do what matters”**

## Risk-Based Due Diligence

Key Risk Indicators are data (often indirectly derived) that point to presence or absence of BSA/AML risk

# KRIs: SARs, CTRs, OFAC



Absolute number of SARs—Trend analysis



SAR filings vs. investigations—Comparison



Absolute number of CTRs—Trend analysis



OFAC matches—Trend analysis



Cleared OFAC Matches/False Positives—Comparison

# Data Analysis and Trending



[Dashboard](#)

[FANB Q3 2017](#)

Effective Date: [09/30/17 \(change\)](#)

Related Audit: [FANB](#)

[About Your RegSmart Risk Assessment](#)

**→ Operational & Historical Data**

[Geography](#)

[Products & Services](#)

[Customer Base](#)

[OFAC](#)

[Personnel & Training](#)

[BSA Compliance Administration](#)

### Operational & Historical Data

Category Risk Rating      Composite Risk

Enter the following information for the previous quarters ending with the Effective Date. **09/30/17**

	Q3 / 2016	Q4 / 2016	Q1 / 2017	Q2 / 2017	Q3 / 2017
<b>Asset Size (in Millions)</b>	1200	1248	1252	1300	1300
<b>Number of Deposit Accounts</b>	52369	53987	54278	55641	67158
<b>Average Size of Deposit Accounts</b>	12700	13150	14000	14600	14200
<b>Number of Loans</b>	24500	26000	32000	32600	33100
<b>Number of CTRs</b>	62	63	58	42	65
<b>Number of SARs</b>	32	32	25	24	28

	Change	Inherent Risk	Residual Risk	Edit
<b>Growth Rate</b>	8.33%	High	Moderate	<a href="#"></a>
<b>CTRs</b>	4.84%	Low	Low	<a href="#"></a>
<b>SARs</b>	-12.50%	Moderate	Moderate	<a href="#"></a>

# Apply Controls and Assign Residual Risk

Information for the previous quarters ending with the Effective Date. **09/30/17**

High

## Inherent Risk Level

Have you implemented any controls to mitigate the risk of this item?

- Yes  
 No

Add a new Mitigating control, or choose from existing list

Enter new Mitigating Control

Add New

Select a document that describes the controls you have put in place.

Search for a file...

✓ AML Program P&P.pdf

CDD & EDD P&P.pdf

CIP.pdf

FANB Board Minutes 06-30-17.pdf

Please adjust the risk of this item in accordance with your mitigating procedures/controls.

Low

Moderate

High

Please include a reference to the specific policy or procedure.

Section 4, Pg 2

Show Notes



# KRIs: CIP, CDD, EDD, Beneficial Ownership



How many customers don't have TINs?



Exceptions: Accounts opened without obtaining all required ID or resolving discrepancies?



What do CDD systems collect: Is what you call CDD materially similar to what we do?



When is EDD applied and what does it look like? Does Target perform ongoing EDD appropriately?



How far along is Target in the adoption of Beneficial Ownership applied if existing customer opens a new account?



Does system have capacity to tie relationship of Beneficial Ownership for CTR aggregation purposes?

# Four Steps to Success

Step 4: Find Indirect Key Risk Indicators

# **“Indirect” KRIs: BSA Systems**

**Aggregation Systems:** What's aggregation method?  
TIN, CIF?

**SAR Case Management:** Track/document SAR non-filing decisions, track continuing SARs?

**Transaction Monitoring:** Filtering criteria?

**Wire Transfer Systems:** Suspicious Activity? Volume and velocity of FTs? Record keeping?

**Error Resolution Systems:** Reg E—View error resolution logs?

# BSA Systems Job Aid

## Evaluation of BSA-Critical Systems

Fraud Detection		OFAC Interdiction		Online Banking	Merchant ACH Origination
Does target conduct searches manually or using automated solution?		Does target conduct searches manually or using automated solution?			
If Manual	If Automated	If Manual	If Automated	Automated Only	Automated Only
Vendor Due Diligence, ROE, Independent Audit, Transaction Testing, Model Validation	Vendor Due Diligence, ROE, Independent Audit, Transaction Testing, Model Validation	ROE, Independent Audit, Transaction Testing	Vendor Due Diligence, ROE, Independent Audit, Transaction Testing, Model Validation	Vendor Due Diligence, ROE, Independent Audit, Transaction Testing, Model Validation	Vendor Due Diligence, ROE, Independent Audit, Transaction Testing, Model Validation
Do the reports used cover all LOBs and transaction channels (i.e., OTC, ATM, OLB, RDC, etc.)?	When and where is automated Fraud Detection applied (i.e., to CIP at account opening, payments/funds transfer transactions, mobile banking, online banking, ACH, wire, etc.)?	How does Target assure it is using the most current OFAC list is used. How does Target process misspelling and similar names? How does Target conduct ongoing search when OFAC list is updated?	How and when does software update to current OFAC list?	Does Target permit online account opening?	Review account contracts. Has Target performed due diligence on Merchants and Trained on OFAC obligations? Do Merchants process IATs?
			What threshold has Target used to produce matches? Can system process "glued" or concatenated names?	Do Fraud Detection and/or BSA Transaction Monitoring Systems capture these transactions?	Do Fraud Detection and/or BSA Transaction Monitoring Systems capture these transactions?
					Does ACH software include OFAC Interdiction software? Is the information properly formatted?

# Questions and Contact Information

# Contact

For information on how to access RegSmart's suite of BSA SaaS applications through Banker's Toolbox, please contact: Your Relationship Manager or [experts@bankerstoolbox.com](mailto:experts@bankerstoolbox.com).