



# **Evolving Your Anti-Money Laundering Program**

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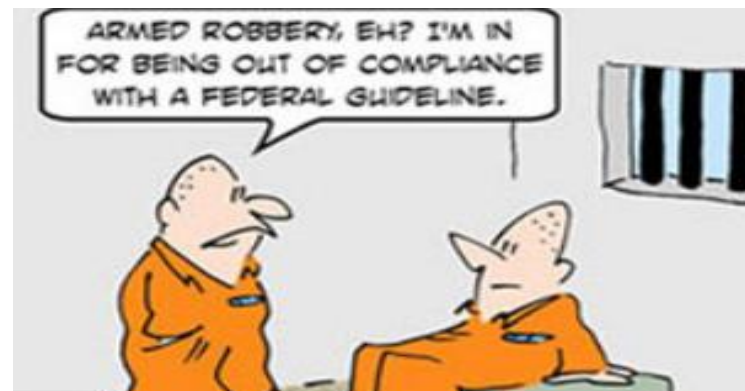
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**What is Money Laundering?** - Money laundering is the process of making illegally-gained proceeds (i.e. "dirty money") appear legal (i.e. "clean"). Examples of illegal activity include:

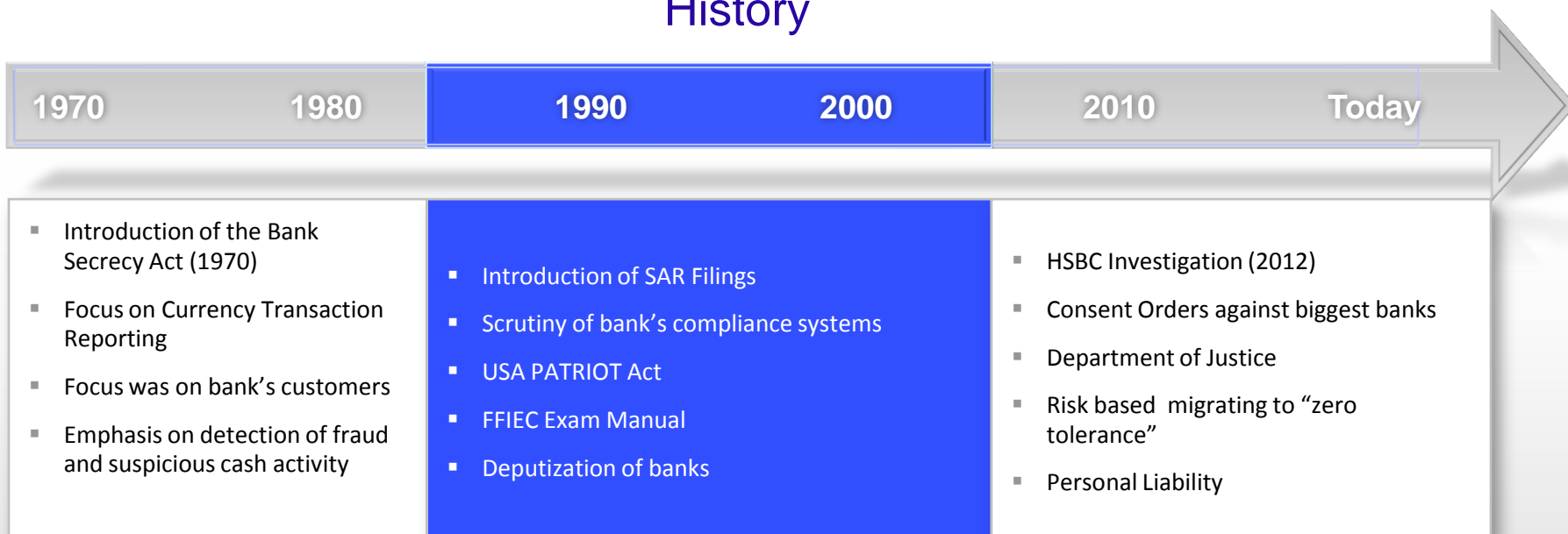
- Drug Trafficking
- Organized Crime
- Bribery/Corruption
- Fraud
- Terrorist Financing
- Human Smuggling
- Illegal Gambling
- Tax Evasion

## AML Program Pillars

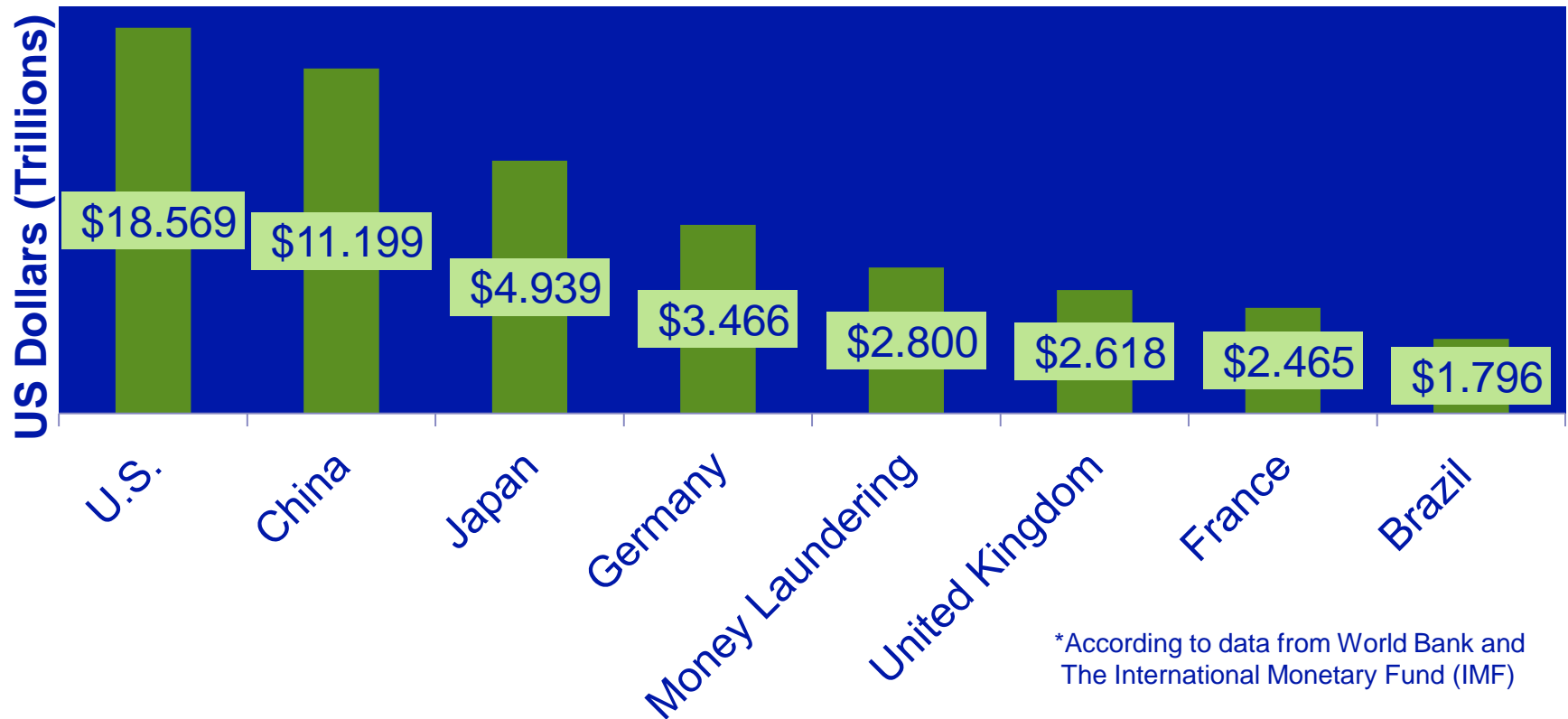
- Designated AML Officer
- Appropriate Controls
- Training
- Independent Testing
- Customer Due Diligence



## History



# The Impact of Money Laundering on Financial Institutions



According to BAE systems, if it were an economy, Money Laundering would be the fifth largest economy in the world. Smaller than the U.S., China, Japan, and Germany, but larger than the U.K., Brazil, and France.

# Customer Due Diligence

- Assessing Customer Risk
  - ☐ On-Boarding Assessment
  - ☐ On-Going, Dynamic Risk Calculation
  - ☐ Assessment Considerations (Customer Type, Products, Geography, and Internal Intelligence)
  - ☐ Risk Levels
  - ☐ Connectivity to Transaction Monitoring and Periodic Reviews
  
- Due Diligence
  - ☐ Basic Due Diligence
  - ☐ Enhanced Due Diligence
  - ☐ Private Bank Customer – Additional expectations
  
- Periodic Reviews
  - ☐ Update Due Diligence Files
  - ☐ Proactive Activity Reviews

# Beneficial Ownership Rule



**New Requirement:** Financial Institutions are required to identify and verify the natural persons behind legal entity customers (beneficial owners), subject to certain exemptions.

- ☐ Effective Date = May 11, 2018
- ☐ Required to identify beneficial owners and a control person
- ☐ A legal entity is defined as “a corporation, a limited liability company or other entity that is created by the filing of a public document with a Secretary of State or similar office, a general partnership, and any similar entity formed under the laws of a foreign jurisdiction that opens an account.”
- ☐ Captured at the account level
- ☐ Need to understand the nature and purpose of customer relationship

## Beneficial Ownership Prong

- ☐ 25% ownership “directly or indirectly”
- ☐ FinCEN “does not expect financial institutions or customers to undertake analyses to determine whether an individual is a beneficial owner under the definition”
- ☐ If no one meets the 25% ownership level, no beneficial owners will need to be identified
- ☐ Trustee is considered “owner” if trust owns 25% or more of equity interest

# Beneficial Ownership Rule



## Control Person

- ☐ One person at sufficient level, “significant management responsibility”
- ☐ Managerial control, not administrative control (e.g. President, CEO, General Partner, Treasurer, or other individual who regularly performs similar functions).
- ☐ Even if no one meets the 25% ownership level, you must still identify a control person

## Identification Requirements

- ☐ 4 CIP elements for individuals meeting the beneficial ownership and control prongs

## Verification of beneficial owners and control person

- ☐ Verify the identity of the individual as a person, not their status as the owner
- ☐ Accomplished by viewing or obtaining government issue id's
- ☐ Non-Documentary is acceptable
- ☐ Verification must be completed within a reasonable time period after the account is opened
- ☐ Procedures must address circumstances where the financial institution cannot form a reasonable belief that it knows the true identity of the beneficial owner(s)
- ☐ Banks are not required to maintain copies of IDs, only a description of the document

# Beneficial Ownership Rule

## Trusts:

- ☐ Trusts are exempt
- ☐ New rule does not supersede existing obligations and practices regarding trusts
- ☐ Need to identify beneficial owners on trusts created by a filing with a Secretary of State or similar

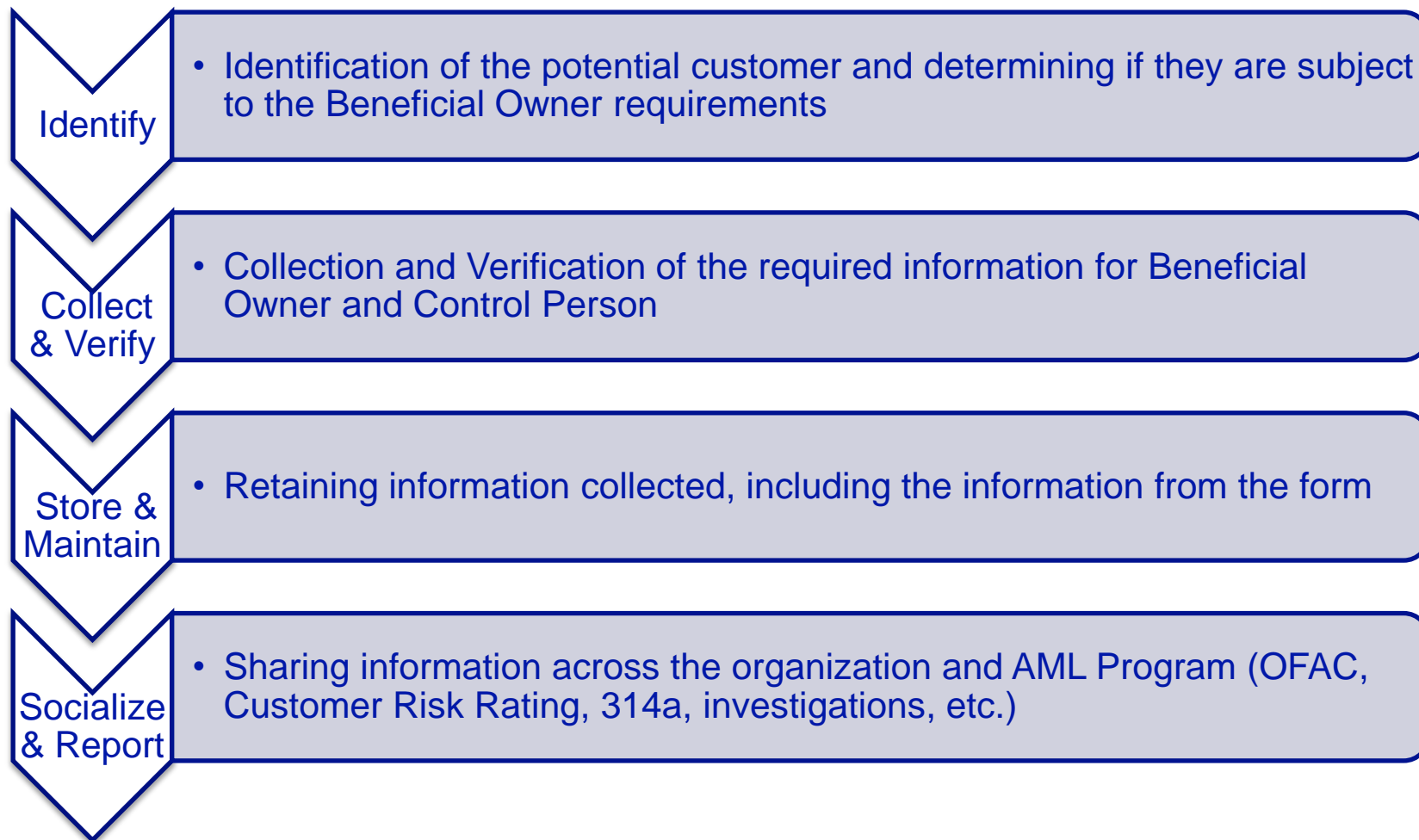
## Additional Exemptions:

- ☐ ERISA
- ☐ Sole Proprietorships
- ☐ Unincorporated Associations
- ☐ US Publically Traded Companies
- ☐ Charities and Non-Profit entities (control person needed)
- ☐ Certain foreign entities

## On-Going

- ☐ Recertification

# Beneficial Ownership Rule





# Key Controls – Transaction Monitoring

## Trust Red Flags

- ☐ Trust appears to have been established to obscure identify of related or unrelated parties.
- ☐ Trusts Investment activity does not have a logical purpose.
- ☐ Trustees do not appear concerned about fees or losses in trust.
- ☐ Trustee appears to be acting at the direction of undisclosed parties or beneficiaries to the trust.
- ☐ Unusual changes or modifications to trust documentation (beneficiaries, trustees etc).
- ☐ Assets in trust are well beyond the known income of settlor or source of wealth cannot be established.
- ☐ Trust assets are withdrawn immediately after being settled into the trust with no logical reason.

## Consolidation of Activity

- ☐ Time, Product, Geography

## Scenario Effectiveness

- ☐ Below the line testing

## Robotics and Machine Learning

- ☐ Automated tier 1 reviews
- ☐ Scenario Tuning

## Fraud and Information Security Connections