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Investing in citizenship 24



SAR – By Committee 42

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When I was in Italy a few years ago I met a nice couple at a café who was on their way back from a year-long world tour. My first thought was: how can they afford to take a year off of work to travel the world? I figured that they must be people of means. After chatting with them for a while and doing my due diligence, I learned that they had quit their successful jobs in New York and had decided to use their savings to travel the world. So I was partially correct in my assumption. It reinforced the notion that money travels.

In the compliance field we are taught to perform due diligence on potential clients, and unlike the couple I met in Italy sometimes individuals traveling to different countries have other things than sightseeing in mind. They might be seeking citizenship through citizenship investment programs and may have obtained their high net worth through criminal activities. The headline article *Investing in citizenship* explores the opportunities given to high net worth individuals to obtain residency or citizenship in other countries through investment programs. The article deals with recent international trends, challenges in the customer identification program (CIP) and the risks posed to national governments when proper investigative due diligence is not conducted on possible candidates.

The second cover article *SAR-By Committee* discusses the steps a financial institution should take when forming a proper SAR committee, such as the composition and the appropriate decision-making process of the committee.

This issue contains articles about training, ranging from how-to balance your career and education to embracing conflict. The article *The AML working group* highlights the importance of cooperation and communication in the compliance field and how key stakeholders within the organization should be part of the working group. *Target training* discusses the importance of BSA/AML reviews and the testing of your employees to better gauge their comprehension of BSA/AML job functions. The article further explains that target training will help you identify gaps that you may have in your departments or with individuals and explains the type of training you should be providing for your employees.

ACAMS Today had the opportunity to interview Attorney General Catherine Cortez Masto of Nevada, USA and discuss steps the state of Nevada has taken against elder and drug abuse and how Nevada has created important partnerships with rural communities. Another important interview was conducted with Seehanat Prayoonrat, the secretary-general of the anti-money laundering office in Thailand's FIU. Prayoonrat discusses the critical AML challenges facing Asia and more specifically his vision for AML development in Thailand. This issue also contains an in-depth interview with ACAMS 15,000 member, Kim Garner from MoneyGram.

We hope to see you in March at the *18th Annual International AML & Financial Crime Conference* in Hollywood, Florida. Bon Voyage! 🌍

Karla Monterrosa-Yancey, CAMS
editor-in-chief

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Congratulations to Kim Garner, ACAMS 15,000 member!

A *CAMS Today* had the opportunity to chat with our 15,000 member Kim Garner, senior vice president of Global Security and Investigations for MoneyGram. MoneyGram recently participated in the new ACAMS' enterprise membership. Visit ACAMS.org for more information.

Garner joined MoneyGram International in April 2010 as senior vice president of Global Security and Investigations. She oversees the coordination of MoneyGram's global physical security, as well as providing leadership on both internal and external investigations. In partnership with the Global Compliance team, she also works closely with law enforcement and key state and federal regulators. Garner's security leadership includes serving as a special agent in the U.S. Secret Service, where she protected the President, the Vice President and foreign heads of state. In this role, she also coordinated and conducted criminal investigations, including financial and electronic crimes. She also worked as a special agent in the U.S. Food and Drug Administration's Office of Criminal Investigation, where she conducted and coordinated criminal investigations related to FDA regulated products. Most recently, Garner served as senior vice president of

Corporate Security at First Data Corporation. She has a bachelor's of Business Administration from Clemson University.

ACAMS Today: What prompted you to join ACAMS?

Kim Garner: I wanted to stay current and up-to-date with the regulatory and compliance environments. ACAMS is a great source for information and it keeps me informed with the ever-changing compliance field.

AT: How did you first become involved in the compliance field?

KG: I became much more involved when I joined MoneyGram, especially when I was responsible for the due diligence and the Know Your Agent (KYA) programs.

One of my primary functions at MoneyGram is as a liaison between law enforcement and our compliance department. I work closely with the compliance team on any cases they uncover, as well as assist law enforcement in their investigations.


In addition, I work closely with the Financial Intelligence Unit (FIU) to identify AML issues, consumer fraud, and other illegal activity such as human smuggling, drug trafficking, etc. Also, when law enforcement comes to me

with questions I generally turn to the FIU as a resource of information to help law enforcement professionals with their cases.

AT: What is the best advice you have received when conducting an internal or external investigation?

KG: Always validate people's comments when starting an investigation. Many times there are assumptions that are made and it is important to go back and start with the basics. Starting at the beginning helps people focus on how things began. This is critical because once we comprehend what happened we have a clearer understanding of what we need to do going forward.

AT: What type of compliance training would you like to receive in 2013?

KG: I would like to have more case studies available to review in-depth. In addition, I would like to study what led up to the situations discussed in the case studies and to analyze what people could have done differently to prevent a financial crime from going unchecked. 

Interviewed by Karla Monterrosa-Yancey, CAMS, editor-in-chief, ACAMS, Miami, Florida, USA, editor@acams.org



**Alpaslan Çakir, CAMS
Istanbul, Turkey**

Alpaslan Çakir's career in AML has spanned various roles and countries. Çakir is a global anti-money laundering manager and MLRO at Turkish Bank Financial Group which has four banks in Turkey, England and Northern Cyprus and also three subsidiaries in investment, factoring and leasing sectors.

Since 2004, he has been the head of the AML Training Group for The Bank Association of Turkey (Association), which is the representative body of the Turkish Banking Sector in domestic and

international areas regarding AML and CFT matters. The group has prepared AML handbooks, guidances, face-to-face mutual trainings and e-learning modules for the use of the Turkish banking sector. In 2012, the Association honored him with the best training group head reward and he received his plaque from the Turkish Finance Minister at the Annual Banking Sector meeting.

Prior to AML management, Çakir worked in the internal audit, loans and operations control departments in the banking sector. He has had several articles about AML and CFT compliance published in the Turkish Bankers Magazine and has been referenced in academic prints.

In 2005, Çakir was selected to join the Electronic Advisory Group (EAG) which was formed under the direction of FATF. The EAG was tasked with the responsibility to develop and finalize the FATF Guidance on *The Risk Based Approach to Combatting Money Laundering and Terrorist Financing*, which was adapted by FATF in June 2007.

Çakir has joined several private and formal training events both domestic and internationally as a trainer, panelist, expert or delegate in the banking sector. He is an active member of ACAMS and is an avid supporter of ACAMS' seminars in Turkey.



Idris Fidela Clarke, CAMS
St. Kitts and Nevis, West Indies

Idris Fidela Clarke is the director of the Financial Services Regulatory Commission and the regulator for St. Kitts. She has held these positions since 2005. In 2009, she was appointed as the registrar of companies, trusts, limited partnerships and foundations, and also serves as the registrar of non-governmental organizations. She also currently serves as secretary of the Financial Services Regulatory Commission which is the ultimate authority for ensuring AML/CFT compliance in St. Kitts and Nevis, and she is the chief compliance officer for St. Kitts.

As a civil servant, Clarke has served in the government of St. Kitts and Nevis as both a budget analyst (where she gained extensive experience in public sector finance) and as a financial inspector, where she assisted in ensuring proper AML/CFT regulation of the international financial sector as well as the non-bank financial sector in St. Kitts. In addition, Clarke has worked in the private sector in Barbados as an accountant and as an account manager in the offshore banking industry.

Clarke was trained by the Caribbean Financial Action Task Force (CFATF) as a financial examiner and has participated in conducting Mutual Evaluation Assessments of other English speaking member territories to assess compliance with FATF's 40 plus 9 (now 40 revised) recommendations. She has served on the CFATF's Expert Review Group (ERG) to review country reports for completeness and consistency. She has also served as head of delegation as well as prime contact for St. Kitts and Nevis to the CFATF.

Clarke was trained by the OECD Global Forum as an assessor and has participated in conducting Phase 1 and Phase 2 Peer Reviews

of two countries to assess their regime for the exchange of information for tax purposes.

Clarke has co-authored the chapter on St. Kitts and Nevis in the book *Anti-Money Laundering: International Law and Practice*, which was published in 2007.

Clarke completed a Bachelors Degree of Science in Accounting and a Masters of Business Administration with a concentration in Finance. She is a Certified Anti-Money Laundering Specialist and a Certified Public Accountant. In addition, Clarke attended the Said Business School of the University of Oxford in England and obtained a certificate in the Small Countries Financial Management Program.



Dave Dekkers
Roosendaal Noord-
Brabant, Netherlands

Dave Dekkers has more than 10 years of experience in fighting financial crime in different positions, working for either financial institutions or vendors who deliver solutions to the finance industry. Dekkers' interest and passion for fighting financial crime started when one of his employers received complaints about why certain monthly figures were not in line with expectations. After conducting numerous investigations, Dekkers worked for a number of financial crime solutions providers in various roles.

Currently, he is self-employed and focuses on delivering services and solutions in assisting the fight against financial crime. His duties include setting up or improving compliance and/or fraud teams, auditing procedures, revamping sanctions, AML & fraud controls and programs at financial institutions. Dekkers also assists in startups where he brings new groundbreaking methodologies/tools to market and helps institutions to proof the value of such. In addition, Dekkers also

finds new tools to fight financial crime in a more efficient and effective way and finds this as one of the most exciting and fulfilling activities in which he is engaged.


Dekkers is happy and proud to work in this challenging, exciting and rewarding industry that financial crime fighting has become and to be involved with such a great community.



Jeannette van Geest
Curacao

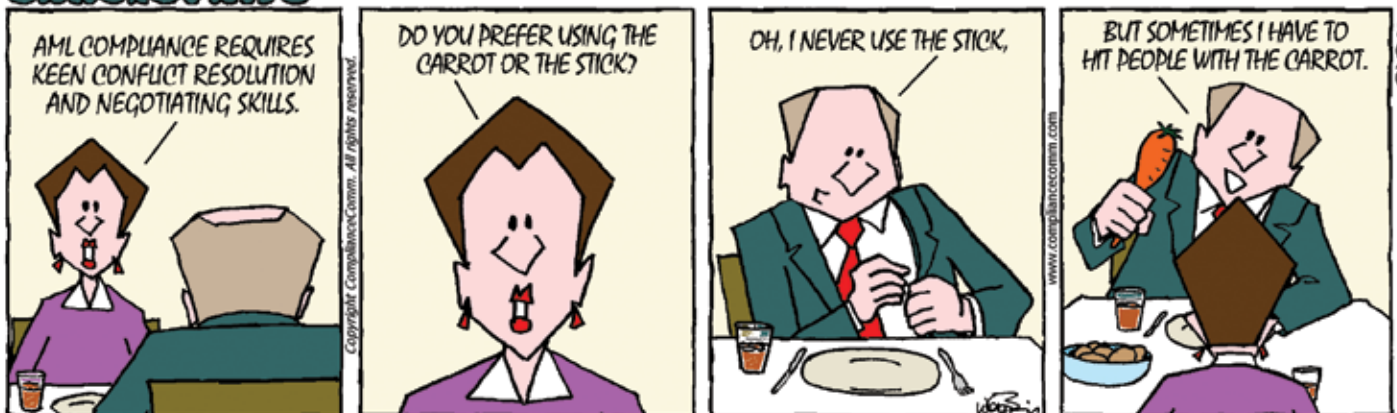
Jeannette van Geest has been working in compliance for over 14 years. First as the compliance officer for Citco Fund Services in Curaçao, where she was eventually promoted to global compliance officer responsible for compliance in the Fund Services Division in 12 countries. Currently, she is the senior compliance consultant at Compliance/Forensic Services Caribbean with offices in Curaçao and Aruba and active in the (Dutch) Caribbean region and Surinam. In her current role, she conducts training sessions relating to compliance for companies in various sectors, spanning from gaming, banks, trust service providers etc., as well as assist companies in the design, development and implementation of their compliance framework.

One of the first activities she undertook upon starting her job at Compliance/Forensic Services Caribbean was the start of a study group to assist people in obtaining their CAMS-certification, which provides the opportunity to spread and promote compliance knowledge and expertise.

Van Geest has also been involved in starting the local association of compliance officers: ACCUR. She has been the chairwoman for two years and has filled various roles on the board of ACCUR. 

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ACAMS Update

I have just completed my third year as executive vice president of this tremendous organization and I remain constantly amazed on the vast array of experts within the membership. You have been generous with your time, whether it is for conferences, seminars or drafting articles for *ACAMS Today*. The value you bring to your peers and colleagues cannot be overstated so, once again, thanks for your commitment to improving the AML community.

Initial CAMS-Audit class a great success!

In late January, the first of the two inaugural classes for the CAMS-Audit advanced certification was held outside of Washington D.C. The students, CAMS-certified members of ACAMS with many years of experience in the AML field, were extremely interactive with our tremendous faculty and as they begin the process of producing white papers to attain their certification, I know our membership will benefit from their insight and expertise.

ACAMS commitment to Europe

In keeping with our development of additional membership benefits throughout the world, ACAMS is excited to bring on Grahame White as head of ACAMS for Europe. As we were able to do with Hue Dang, head of ACAMS for Asia, Grahame will give us the local contact and AML/Financial Crime subject-matter expertise for the ever growing membership in this important region. More importantly, Grahame's career experience with an important constituency of ACAMS — law enforcement — will enhance our outreach and support of this essential part of the membership. For those who weren't aware, Grahame is a recognized expert in counter-terrorist financing and has financially investigated

every major AQ cell in the United Kingdom since 2002. He previously served with the National Terrorist Financing Investigation Unit at New Scotland Yard and was head of the NTFIU International Training Team. As you can see, Grahame's background will be invaluable in keeping ACAMS up-to-date with government and private sector challenges.

Please make it a point to reach out to Grahame (gwhite@acams.org) and, of course, Hue (hdang@acams.org) for information and assistance on ACAMS regional issues.


Chapter membership dramatically increasing

It is particularly rewarding to see the growth of ACAMS membership during the past several years. As we approach mid-year of 2013, chapters throughout the ACAMS community have created frequent learning events, networking for information sharing and an ongoing forum for private-public sector partnerships. Please go to the web site for more information on chapter activities and how to join or form your own chapter. Mike Rodriguez is your primary contact for chapter activities and he

can put you in touch with existing chapters for ideas on best practices and various ways of connecting with other ACAMS members. He can be reached at mrodriguez@acams.org.

Use of social media and new technologies to stay current

Similar to many other trade associations, ACAMS continues to expand our ability to reach out to you on key issues impacting the AML professional. For example, we have started a podcast series called *Compliance Studio* which is found on ACAMSToday.org, increased our use of Twitter and made *ACAMS Today* available via a mobile application. At the date of publication, the *ACAMS Today* app has been downloaded by over 2,000 members in 71 countries.

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Attorney General Catherine Cortez Masto: The importance of partnerships



In January 2007, Catherine Cortez Masto began serving her first term as Nevada's Attorney General. In February of 2007 she advocated for the creation of a state-wide Methamphetamine Working Group to combat the use and distribution of methamphetamines in Nevada. General Masto fought for a new state law that restricts the sale of materials used to manufacture meth and added new criminal penalties for engaging in certain activities related to the manufacture of meth. She sponsored a bill to create a permanent Working Group to fight all substance abuse including prescription and synthetic drugs. General Masto helped secure funding for the Drug Endangered Children Alliance. She is currently the chair of the Substance Abuse Working Group.

General Masto also created a senior protection unit in her office ensuring for the first time that her investigators and prosecutors would have the necessary tools to pursue those who abuse, neglect or exploit seniors in our communities. She sponsored a bill to include additional civil penalties for crimes against the elderly including assault, battery, larceny and mortgage fraud.

A lifelong advocate for women and children, General Masto created an advisory committee on victims of crime to address funding, resource and enforcement issues. The advisory committee successfully fought for state laws to authorize victims

of sexual assault to seek a protective order, and to provide for felony penalties for the crime of domestic violence strangulation. General Masto introduced a bill to organize a multi-disciplinary team to review the deaths of domestic violence victims, called the Domestic Violence Fatality Review State-wide Team, which she chairs.

General Masto's dedication to children in our communities has resulted in new laws strengthening the registration and notification requirements of convicted sex offenders and offenders against children; prohibiting an individual from using the Internet to access child pornography; preventing a person from luring someone believed to be a child; and strengthening child custody laws.

Prior to her service at the Attorney General's Office, she worked as an assistant county manager for Clark County, Nevada. She also served as a federal criminal prosecutor for the United States Attorney's Office in Washington, D.C. and was chief of staff to Governor Bob Miller.

General Masto, a native Nevadan, attended the University of Nevada Reno, graduating with a Bachelor of Science Degree in 1986 with a major in Finance. She graduated Cum Laude from Gonzaga University School of Law, in Spokane, Washington in 1990. She is married to Paul Masto a retired U.S. Secret Service Agent.

ACAMS Today: You have developed and implemented various initiatives, including protections for seniors. What were some of the challenges facing Nevada that led to the creation of the senior protection unit?

Catherine Masto: I was born and raised in Nevada. Growing up I saw seniors being exploited. I also saw my grandparents constantly being bombarded with fraud scams. In addition, when I became the Attorney General we had quite a few retirees coming to live in Nevada. My office is responsible for the consumer protection component and I wanted to make sure we were doing everything we could to protect seniors. In order to accomplish this goal I introduced a bill to allow my office for the first time to investigate and prosecute for elder abuse neglect and exploitation. My office has secondary jurisdiction to the DEA's office who has primary jurisdiction, but it was important to us because it goes hand-in-hand with the outreach and prevention component and the follow-up on the investigation/prosecution. Unfortunately, we were not given the resources to staff it, so we have had to use existing resources within the office. The internal focus in the office was to change and take some of our resources and gear them toward the senior protection.

AT: Have you seen a reduction in elder abuse since you have taken office?

CM: Unfortunately, we have not seen a reduction in elder abuse. The downturn of the economy and an increase in mortgage fraud has only increased the types of scams and crimes affecting the senior community. The other piece of elder abuse that is sometimes overlooked is the exploitation of seniors from family members or friends. Unfortunately, this type of exploitation does not ever go away.

For the past four years Nevada has faced an increase in scams and schemes due to the struggling economy. My focus has been on prevention of these scams and schemes. My office has accomplished this by bringing awareness to the senior community. We have been going to senior groups, centers and advocacy groups around the state and talking about the latest scams and schemes that exist. This awareness will help seniors avoid becoming victims. We have educated and informed the senior community as to whom they can contact if they need additional information or if they become a victim of a scam or scheme.

AT: How can financial institutions help fight elder abuse?

CM: Financial institutions are great partners, particularly in rural communities. My office was able to reach out to these FIs and partner with them to assist seniors. In rural areas, seniors will rely on their local FI for their retirement funds, bank accounts, etc. and community bankers get to know the seniors in their respective communities. When it comes to investigating elder abuse, we rely heavily on complaints so it is very important for us to have the local financial institutions as our partners. Investigations are complaint driven and if we do not have the local bankers referring the seniors to the Attorney General's office, we are not able to help them.

AT: Methamphetamine manufacture and use is a problem for many states. How has Nevada combatted the financial component of these criminal acts?

CM: In 2007, when I came into office the methamphetamine use in Nevada was extremely high. My office tackled it from various sides: treatment, education and prevention, law enforcement and legislative. We were able to raise awareness of meth abuse; in fact the prevalent drug abuse in Nevada was one of the reasons why I wanted to be in the attorney general's office—to help combat the drug problem the state was facing and to raise awareness. My office

raised enough awareness that when it was time to pass legislation we had the support of all the legislatures. Legislation was key, because it gave law enforcement more tools to tackle this problem, but it also took some of the precursor drugs off shelf and it made it harder for the traffickers to get it and harder for the abusers to get the final product. The key to all of this was that we were able to receive funding for drug prevention. What we did with this funding is that we set up a state committee that I chair and there are various stakeholders that sit on that committee that are from different specialty areas (i.e., treatment, law enforcement, community coalition centers). Underneath the statewide structure we have 13 community coalitions who address the problems locally. This allows us to have a collaborative effort between the state level and local community. The money for prevention that came into the state from the legislature goes directly to these community coalitions to support their advocacy for addressing the methamphetamine use and all areas of substance abuse.

AT: What financial crime dangers are faced by rural populations?

CM: They face the same challenges that larger populations face, the difference is the rural populations lack the resources to address these challenges. In Nevada the rural communities are not located near urban areas and there is a lot of desert where criminal activity can occur, particularly drug trafficking. The key is collaboration between the AG office and these rural communities. In doing so the AG office works to bring resources to the rural communities to assist them in the fight against financial crimes. An example of how the AG's office was able to bring resources to the local community was by funding a prosecutor for the tri-county (Ely, Eureka and White Pine) area. The funding helped this prosecutor prosecute domestic crimes. This collaboration was so successful that we have duplicated this model in another part of the state.

Another partnership the AG's office has established is with the Native Americans in the state. We have built those partnerships by bringing awareness to the reservations and resources to fight the rural crimes.

The role of the AG is collaboration with our partners within the state. Particularly recognizing that the rural communities need the support of the AG office and they also need the resources to fight financial crime.

AT: What unique challenges are faced by law enforcement and compliance professionals in these areas?

CM: From a law enforcement perspective, when you have the smaller communities everyone knows everybody and it is difficult to come into these communities as an outsider and look for the bad guy. Everyone knows you are coming and from an LE perspective how do you get the bad guy without them knowing in advance that you are coming.

AT: As chair of CWAG how do you see your role regarding CWAG's current initiative on AML?

CM: In the past six years that I have been in office, I have noticed that any type of crime we have dealt with has an AML component. As chair of CWAG, I felt this was a good time to have a conference focusing on Transnational Crime and the Money Laundering. The important thing about having this conference would be to not only bring in law enforcement but to also bring in our private partners for a productive dialogue not only about transnational crime, but what we are seeing out there and the money laundering associated with it and how do we tackle it as partners.

AT: What holes, if any, so you see in the current AML regime and what, in your view, is the best way to address these deficiencies?

CM: Bureaucracy makes it difficult for the private sector to comply. There is a strong need for collaboration between private sector, compliance specialists and law enforcement in order to avoid silos. We need an increase in collaboration across states' borders and globally. We need to think globally and work together to come up with solutions to stop financial crimes.

AT: What lessons can you share from your involvement with CWAG for the compliance professional?

CM: Collaboration and coordination between public and private sectors across agencies, communities and networking is key. Also, sharing our expertise and addressing crimes is important.

CWAG came about because states had common issues and in working together we could take it to the next level and find solutions to financial crimes. **▲**

Interviewed by: Karla Monterrosa-Yancey, CAMS, editor-in-chief, ACAMS, Miami, FL, USA, editor@acams.org

requirements. It is not clear as yet how the regulating authorities in various regions will regard social media or aspects of the data for valid identity sources. Due to varying regulations and AML requirements globally, a universal guideline is not likely. However, some generalizations can be made by looking at a cross section of data requirements across the globe, focusing on countries that are known to have well-defined requirements.

| Country | AML supported data should be from qualified sources representing the following requirements ... |
|----------------|---|
| United States | obtained from consumer reporting agency, public database, or other source |
| United Kingdom | sufficiently <i>extensive, reliable</i> and <i>accurate</i> |
| Australia | <i>reliable</i> and <i>independent</i> electronic data |
| Netherlands | <i>independent</i> source. |
| Singapore | <i>reliable, independent</i> sources |

Global Sample of AML Data Requirements table: Requirement language sourced from governments' relevant AML legislations

This global sample of AML data requirements table shows key descriptive language from several countries' AML/KYC legislation around the requirements of data suitable for identity verification. The data descriptors provide a framework for discussing the use of social media data for risk management processes. Specifically, is social media data:

- Public?
- Independent?
- Extensive?
- Reliable?
- Accurate?

While language is largely open to interpretation, social media data generally appears to meet the requirements.

Public, independent, and extensive

Social media data is public by nature, which will be discussed in more detail further in this article. In addition, social media data is clearly independent as it is not generally derived from another source. The volume of data is extensive and growing at a staggering rate — Facebook reported 1.01 billion users as of September 30, 2012, a 26 percent

Social media creates ways for businesses and people to connect in a manner and to a degree unlike any previous communication channel

increase over the previous year.⁴ In the six months ending in January 2012, Google+ amassed over 90 million registered users. While estimates of the total number of users on social media vary widely and are subject to daily revision, it can safely be stated that a sizeable percentage of the world's population of 7 billion⁵ are active on social media sites. Hence, social media data is arguably the most extensive and global consumer source in the world, as it has few barriers to growth and no geographical boundaries. While the above-mentioned traits of social media data are certainly necessary for its use in identity verification, the most interesting debate

⁴ Drew Olanoff, 'Facebook Announces Monthly Active Users Were At 1.01 Billion As Of September 30th, An Increase Of 26% Year-Over-Year', in *techcrunch.com* <<http://techcrunch.com/2012/10/23/facebook-announces-monthly-active-users-were-at-1-01-billion-as-of-september-30th/>>
⁵ United States Census Bureau < <http://www.census.gov/population/international/data/idb/worldpopinfo.php>>



regarding social media data suitability for AML/KYC use is likely to focus on the accuracy of social media data.

The accuracy debate

Although many social media sites prohibit posting of false information, there is little independent verification of the information submitted or posted by users. Researchers studying the accuracy questions are finding mixed results. A University of Texas study⁶ revealed that, essentially, who you are on Facebook is who you are in real life, at least in terms of personality traits and observable characteristics such as gender and race. A rather intriguing piece of evidence regarding accuracy of social site information can be gleaned from the increase in identity fraud perpetrated through finding valid identity information on social sites. Identity fraud increased 13 percent in 2011, and consumer use of social media has been found to be a contributing factor.⁷

Other evidence, however, suggests that the accuracy of user information is declining. Danah Boyd is a senior researcher at Microsoft Research⁸ and sees a trend of users asserting control of their social media profiles through making and destroying Facebook accounts. Microsoft released data from a survey where 91 percent of respondents reporting doing something to manage their overall profile, with 14 percent reporting that they have experienced negative consequences, such as being fired from a job or losing their health insurance, as a result of information on social sites. It is no wonder that, as reported by Pew Internet,⁹ more people are moving to unfriending, deleting comments, and untagging photos. This trend on the part of users toward managing their personal information may increase the relevancy and reliability of the data, while also decreasing the availability of information. Undoubtedly, further studies and discussion of this topic will continue as social media expands, and while there is debate about level of accuracy, it is clear that some percentage of social media data provides accurate information about the user.

Social media and privacy

Assuming that social media data meets risk mitigation parameters, and potentially approaches the ability to fit also AML/KYC legislation parameters in that it is public, independent, extensive, and somewhat accurate and reliable, the next question is whether its use is prohibited by privacy legislation. The logical conclusion on this topic may be surprising to many. A well written and exhaustively cited summary of the facts surrounding privacy and social media has been written by Lothar Determann for the Stanford Technology Law Review,¹⁰ with Determann covering 12 myths concerning privacy and social media. To summarize this work, there are limited privacy protections and Determann generally concludes that based on the growing number of users, people prefer the benefits of free media over the protection of their personal information. While this may not always be the case, as many experts in the field predict the enactment of additional regulation, very few specific privacy concerns exist surrounding the use of public social media data for identity verification.

Availability of social media data

At this point in the discussion, it can be reasonably concluded that social media data may be suitable for identity verification based on requirements, standards, and the apparent lack of privacy restraints. However, two additional questions remain unanswered: Is social media data available and why use it over traditional sources?

Most social media sites do not sell their information, and many are increasingly providing assurances to users that their private information will be protected. Information that is in public profiles, however, is open for use and companies are using sophisticated web scraping and data mining technologies to harvest social media data. Clearly, social media data is now available; companies have it and the technology used to obtain it is growing in maturity and capabilities.

Social media data may be the key that provides the ability to verify the identities of many individuals

Some argue that, despite the legality and increasing feasibility of using social media data for identity verification, there is no reason to use it. This may be true in countries such as the United States or Australia where ample public and government data sources exist to support technology services that require identity verification; however, it may not be true in many other parts of the world that lack such verification sources. Social media data may be the key that provides the ability to verify the identities of many individuals, providing access to the world of technology services to people in regions where technology is emerging such as APAC, South America and Eastern Europe. Social media data may also provide a verification alternative for low-risk consumer transactions worldwide.

The next frontier for identity verification?

The bottom line is that verification is best when different types of sources are used, a fact leading an increasing number of countries to require at least two separate sources for verification. Social media data appears to be a strong candidate for augmenting current processes and could be leveraged in conjunction with traditional sources. Incorporating social media data into verification processes with well-defined source disclosures may be the next frontier for verification providers. **TA**

Colleen Howell, managing director, Global Data Company, Bozeman, Montana, USA, chowell@globaldatacompany.com

⁶ Tony Fish, 'Sorry there is no difference — You really are the same physically and digitally!', in *My Digital Footprint* <<http://www.mydigitalfootprint.com/sorry-there-is-no-difference-you-really-are-t>> [accessed January 2013]

⁷ Jennifer Waters, 'Why ID Thieves Love Social Media', in *The Wall Street Journal* <<http://online.wsj.com/article/SB10001424052702304636404577293851428596744.html>>

⁸ Quentin Hardy, 'Rethinking Privacy in an Era of Big Data', in *Bits* <<http://bits.blogs.nytimes.com/2012/06/04/rethinking-privacy-in-an-era-of-big-data/>> [accessed January 2013]

⁹ Mary Madden, 'Privacy management on social media sites', in *Pew Internet & American Life Project* <<http://www.networkworld.com/community/blog/data-privacy-day-social-media-private-data-fair-game-e-discovery-court>> [accessed January 2013]

¹⁰ Lothar Determann, 'Social Media Privacy: A Dozen Myths and Facts', *Stanford Technology Law Review*, 7 (2012), 1-14.



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A roll of the dice

AML is craps, blackjack, poker and roulette too. The odds are that when you take a closer look at most money laundering cases — gambling will have been an element, issue or excuse. Although millions visit casino resorts yearly, including those attending ACAMS conferences, most people have little more than a cursory knowledge of what is happening on the casino floor, or that casinos themselves fall under BSA/AML regulations. This naivety to the intricacies of casino gambling may not be as detrimental to your AML prowess as you might think.

Although currency still remains a criminal favorite, between technology, added awareness and scrutiny on BSA and AML compliance, bulk currency continues to go out of fashion in the legitimate world. Those thick wads of cash that used to bring smiles and

service now draw suspicions almost everywhere — except casinos. Shows, meals and luxury rooms are just some of the comps and perks offered to you depending on how much cash you are willing to hand over to the dealers.

Never underestimate the emotional energy connected to criminal proceeds and the need of an outlet for it. Combine these emotionally charged ill-gotten gains with the electrically charged atmosphere inside a casino and you have a money launderer's magnet. It is easy to see that combining the "work" of laundering money with the "play" of gambling has made this a top attraction in the money laundering world.

Often it may start as just an emotional outlet. Take for example the actual story of the finance clerk who embezzled around \$20,000.00 from her employer. Gambling

with a small part of her embezzled proceeds she suddenly hits a slot machine jackpot netting her \$80,000.00. Unfortunately for her the crime was simultaneously being discovered and she was arrested not long after returning home. She also still had most of the \$20,000.00 she had stolen. An interesting question outside the purview of this article is what should happen to her jackpot?

The wins, losses and shuffling of money around the casino floor can provide even an amateur money launderer enough confusion and cover to distract or mislead an AML investigation. Rest assured had our embezzler's crime not been discovered she certainly would have had a viable cover story or explanation for her sudden prosperity. So, what are the essentials that AML professionals need to know when it comes to casino gambling?





The attraction to money launderers is based on the fact that in the short term people do win money at casinos



Any sudden start of or noticeable increase in casino activities, especially with other AML indicators, is worthy of enhanced scrutiny. There are far more nefarious reasons for changing to a casino centric life than legitimate ones. Although you need to consider any potential exculpatory indicators, you may find a hard time conceiving many when casino gambling is becoming prominent. A decent into degenerate gambling, might be one, but that also might call for some investigative scrutiny.

No dynamic personality, lucky charm, potion, nor star alignment can change the fact that in the long run casino gambling is a losing proposition. If anyone tells you they “always win” they are lying to you and probably themselves. If your investigation tends to reflect that someone seems to always be winning, they are very likely laundering money. The more sincere, passion or emotion someone puts into trying to convince you otherwise, the more suspicious you need to be.

The attraction to money launderers is based on the fact that in the short term people do win money at casinos. Money launderers and degenerate gamblers will exploit, exaggerate and over emphasize these wins to mask the true nature of their activity. Artificially creating the perception of such wins like our embezzler’s is the goal of a money launderer at the casino. Although this can be accomplished at nearly every game in the casino some games are definitely more conducive than others.

Our embezzler started out at the casino for the “fun and games” aspect more than for a deliberate money laundering scheme. Slot machine jackpots (such as she won) offer the chance of a highly visible and easily verifiable payoff but a lot of money can be lost trying to get that to happen. Table games are a more widely used choice for money laundering schemes. Generally, they offer a slowed down win-lose pace and can reduce the expense of the money launderer’s scheme

to the much lower casino advantage in these games. That advantage can be down to just a couple percent and with the added comps and perks casinos offer this can be both a fun and economical way to launder money.

It is not essential to learn the intricacies of the table games for AML purposes. All you need to understand is that the money launderer’s goal is not to gamble but to give the appearance of gambling. The most commonly reported scheme by casinos is patrons who purchase substantial amounts of gaming chips at a table and cashing them in after little or no playing. Although there are a plethora of other schemes that actually include gaming, consistently leaving a casino even or seemingly ahead should be an AML focus. That truly is against the odds.

Somewhat of a paradox, knowing the intricacies of the game play can even be detrimental to the AML investigation. Getting into debates about win/loss patterns, game strategies and fluctuations are part of the distractions these money laundering schemes have planned for. There are enough truths in the actual gaming, like that of our embezzling winner, to deflect away from the main issue of what prompted this newly found casino centricity. By design there will be ample evidence of casino gaming in this type of money laundering scheme. Investigators should take notice when proof of winnings is available long before any other financial document. The wins are the first line of defense.

In another actual case, a contractor, previously convicted for fraud, was all too willing to prove that a lucky streak at blackjack was the source of the cash in a series of structured cash deposits that agents were investigating. He even assisted the agents in contacting his casino host who eagerly confirmed this lucky weekend during which over \$100,000 was won. This might have deflected the agents’ inquiry until one agent stopped to notice this winning weekend was actually a week after the questionable deposits had all been made.

One underestimated issue casinos present for successful AML investigations is often in the logistical, venue and jurisdictional considerations. Travel distances of a couple hours or more between home and the casino, which is very common, can seriously impact whether a committed investigation is undertaken. Even if a casino SAR might reflect a strong lead for an investigation, those with jurisdiction of the casino’s location may rightly consider that as an issue for the subject’s residential location. The investigators in the residential jurisdiction of the subject in turn often find it hard to embrace or undertake an investigation where the initiating tip or allegation happened elsewhere.

The Internet is loaded with videos and articles that can give you useful information on casino gambling—in general or specific game playing. You can even learn and practice many of the games with free downloads and apps. The casinos themselves have literature and even free lessons on learning some of the games. In the end you do not need to “know when to hold them and know when to fold them” to successfully explore, examine or investigate the gambling components of AML. If the nuances of “splitting eights,” “hard ways,” and “big blinds” are confusing you, you are playing the money launderer’s game not yours.

The gambling element is like many other elements found in an AML case. You need to simply establish what normal looks like and define where your case leaves normal. Even though it may be completely normal to occasionally visit a casino and occasionally win, when things morph beyond that an investigation is warranted. You can bet on that. **FA**

Steve Gurdak, CAMS, supervisor; Washington Baltimore High Intensity Drug Trafficking Area (HIDTA) Northern Virginia Financial Initiative (NVFI) Annandale, Virginia, USA, sgurdak@wb.hidta.org

New Bitcoin of the realm?

Bitcoin (BTC) is an emerging payments mechanism that many, if not most, readers of *ACAMS Today* are unfamiliar with. Yet, it is popular enough, and well-known enough, to not only have its own Wikipedia page¹ and a wiki², but there are also online³ and print versions of *Bitcoin Magazine*, as well as two conferences, one in California and one in Vienna, planned for 2013 covering topics of interest to the Bitcoin community. In addition, this year Bitcoin Central, a European Bitcoin exchange, became a registered payments system provider (PSP) in Europe.

So, what is Bitcoin and, as compliance professionals, does it create another viable channel through which financial crime can occur?

What's a Bitcoin?

Bitcoin has been described variously as a digital currency, a virtual currency and a cryptocurrency, all of which are accurate. Bitcoins do exist primarily in the digital realm as transaction records denoting who

has sent or received what amount of BTCs. As the only way to transact in BTC is through the network of computers with Bitcoin wallets, the currency is considered a virtual currency, similar in that regard to Linden dollars (available in the Second Life virtual world) and Ven (available in Hub Culture). The transactions denominated in Bitcoin are all encrypted, although the records are freely available in the block chain, which is the digital historical record of all transactions on each Bitcoin-enabled device.

What sets Bitcoin apart is the fact there is no central bank or regulatory authority. The Bitcoin network is a distributed peer-to-peer network where all devices have equal access to the network and the block chain that contains the information of which holders have access to how much currency. The network controls and the data architecture maintain the integrity of accounts. Transactions are considered final on completion and cannot be reversed.

The Bitcoin network prides itself on its anonymity features. The block chain records which addresses, (the Bitcoin equivalent of accounts), are involved in each transaction, but no personal identifying information is stored.

The other really notable difference between Bitcoin and other currencies is that the creation of additional currency is controlled by a strict algorithm rather than political or the socioeconomic needs of a nation-state or society. There is, in fact, a hard limit of just under 21 million Bitcoins that will be produced, through a process called mining, with the last expected to be minted in 2140. This limit is somewhat mitigated by the divisibility of each coin, which can be subdivided into 10 million *satoshis*, which were named after the pseudonym of the software's creator. It is envisioned that, as time passes and the Bitcoin becomes more valuable, transactions will be denominated in smaller and smaller subdivisions of one BTC. The value of the currency is driven

¹ "Bitcoin," *Wikipedia*, 31 January 2013, 31 January 2013 <<http://en.wikipedia.org/wiki/Bitcoin>>

² "Bitcoin," *Bitcoin wiki*, 19 January 2013, 31 January 2013 <https://en.bitcoin.it/wiki/Main_Page>

³ "Bitcoin Magazine," *Bitcoin Magazine*, n.d., 31 January 2013 <<http://bitcoinmagazine.com/>>



almost exclusively by supply and demand; in fact, some have claimed that it is hard to distinguish its value from that of a possible speculative bubble.

There are a number of exchange and payment processor services which will convert Bitcoins to traditional currencies and vice versa. The largest exchange, Mt. Gox, allows customers to exchange funds in U.S., Canadian and Australian Dollars, Euros, Swiss Francs, Japanese Yen, British Pounds Sterling, and Russian Rubles. The payment processor BitPay — which recently secured \$510 thousand in an angel investment — also deals in Mexican New Pesos, which raises the specter of proceeds from narcotics trafficking being converted to BTC. And Coinabul⁴ permits the conversion of BTC to gold coins or bullion.

Bitcoins are used for both peer-to-peer payments and for purchase and sale of virtual and real-world goods and services. While the anonymity of the currency has proved to be fertile ground for sale of illegal items, such

as the illicit drugs sold by the Silk Road black market, and proscribed services like online gambling sites, mainstream vendors, such as the WordPress blogging platform, accept payments in Bitcoin as well. There are even traditional brick-and-mortar venues, like the Just Sweet Dessert House in New York, that accept payment in Bitcoin.

While there have been wild swings in the value of a Bitcoin, it generally has appreciated over time. Over the past year, the value of the currency has more than doubled, rising from about US\$6 to over US\$15 at the current time.

Does Bitcoin pose a financial crime risk?

From a purely technical standpoint, Bitcoin is a compliance officer's worst nightmare. Anonymous Bitcoin addresses are the perfect petri dish for both smurfing and the layering stage of money laundering. There is even a service called Bitcoin Fog⁵ that further anonymizes the currency by pooling deposited coins and processes withdrawals by creating multiple transactions

of randomized size from the pool, breaking the chain between the coins received by the customer and the ones ultimately used for future transactions.

Scams denominated in Bitcoin are essentially consequence-free due to the irreversibility of transactions. In addition, there is evidence, documented in Max Raskin's November 29, 2012 article in *Bloomberg Businessweek*⁶ that Iranian citizens are using the virtual currency to skirt the economic sanctions imposed on the country; they are both buying goods and services normally prohibited to them by the sanctions and are using Bitcoin to get their depreciating rials offshore and into safer, more stable currencies.

Consider this excerpt from the bitcoinme.com informational web site:

- *As anonymous as you want it to be.* Just like with cash, transactions can be totally anonymous. Transactions are only identified by your Bitcoin address, and you can have as many Bitcoin addresses as

⁴ "Coinabul," *Coinabul: Bitcoin to Gold Marketplace*, n.d., 31 January 2013 <<http://www.coinabul.com>>

⁵ "Bitcoin Fog," *Bitcoin Fog*, n.d., 31 January 2013 <<http://www.bitcoinfog.com/>>

⁶ Max Raskin, "Dollar-Less Iranians Discover Virtual Currency," *Bloomberg Businessweek*, 29 November 2012, 31 January 2013 <<http://www.businessweek.com/articles/2012-11-29/dollar-less-iranians-discover-virtual-currency>>

you want. You create another new Bitcoin address with one click any time you want to. Bitcoin transactions can be made to be: anonymous***

- *Financial privacy.* Gone are the days of “identity theft.” In the old days, credit cards required merchants to have proof positive of your identity in order to shop there. Because a Bitcoin address can only be used to receive money, and it cannot be used to extract money with Bitcoin, the merchant only needs to know two things: Did you pay? and, Where do you want your stuff sent to? Isn't that the way it should be? Does your banker really need to know what you buy online?
- *Your account cannot be frozen.* No one can freeze your account and keep your money (As long as you keep control of your Bitcoins yourself and don't keep your Bitcoins in an online bank or wallet service. See the Security tab for recommendations).
- *No big brother.* Third parties can't prevent or control your transactions. Transfer money easily through the Internet, without having to trust middlemen; no central bank, nor central authority.
- *No censorship of who you're allowed to send money to.* No more blocking who you can make payments or donations to... just because someone doesn't agree.

What prevents Bitcoin from being a viable money-laundering channel in any appreciable volume of hard currency is its scarcity. Approximately half of the eventual number of Bitcoins have been mined, each currently worth about US\$15. In addition, according to Dan Goodin's October 17, 2012 report in *Ars Technica*,⁷ about 78 percent of all Bitcoins are not being actively used, but are being held as investment vehicles. The rapid rise in the value of the currency further fuels that behavior. Therefore there are really only about US\$33 million in the Bitcoin money supply.

While the value of each Bitcoin will undoubtedly continue to increase over time, until the total value of all BTC is in the trillions of dollars, euros or pounds sterling, attempts to

place significant amounts of hard currency into the Bitcoin network will bump up against the harsh realities of supply and demand. Either the price of a Bitcoin will rise, due to the increased demand, or the money launderer will be unable to acquire sufficient BTC to cover the hard currency being laundered.

That being said, using Bitcoin as part of a larger money laundering scheme will allow money flows elsewhere to look less unusual and therefore be harder to detect. And smaller, pettier frauds, scams and schemes can find a safe haven in the Bitcoin network as they do in traditional economies.

Can the risk be mitigated?

Once money is denominated in Bitcoin, control over the asset flows within the network is lost irrevocably. The best way to control the risk is to make the network a walled city; while there may be safety within the walls, leaving town will leave the financial criminal on his or her own, without their cloak of invisibility. The radical way of doing this is to choke off Bitcoin's oxygen by denying it access in the foreign exchange market. The equivalent of economic sanctions (e.g., the sanctions under Section 311 of the USA PATRIOT Act) that for the Bitcoin currency would force exchange houses underground and likely greatly devalue BTC. The downside of this scorched earth policy is that it hurts consumers who want easy, secure, cheap transactions for digital or real-world goods.

The kinder, gentler way of controlling the borders of the Bitcoin world is to ensure, through regulation, that exchange houses and all entities doing Bitcoin-denominated transactions have the same financial crime identification and reporting requirements as other entities. In this model, the casual user of BTC would have little or no impact on their use of the currency.

This being said, the need for such measures is very much determined by the value flowing through the system. With 10 million or so current Bitcoins valued around \$150 million US, but only about \$33 million in active circulation, the risks of significant financial crime is extremely low. Even when all 21

million Bitcoins have been mined, and if the hoarding factor drops significantly, the value of the BTC economy would have to rise by a significant amount in order for a large money laundering effort to use the Bitcoin without distorting the value of the currency in a significant way.

There is also the distinct possibility that the hoarders of Bitcoins may abandon the currency if the rise in its value is arrested, or even dips. If their investments leave the system in a significant way, the virtual currency's value may drop significantly, further reducing its utility as a financial crime vehicle.

There is one caveat, however, while the Bitcoin network may *never* become a good vehicle for money laundering, the same is not true for people and companies trying to skirt economic sanctions, or trying to perform other illicit transactions. While regular transfer of large sums of BTC is probably not feasible for the same reasons that it is not a viable environment for money laundering, individual transactions of small to medium size will probably proliferate over time, until controls such as mentioned above are put in place at the gateways that do the currency conversions.

The U.S. Federal Bureau of Investigation (FBI) has reached similar conclusions in its April 24, 2012 unclassified intelligence assessment “Bitcoin Virtual Currency: Unique Features Present Distinct Challenges for Detering Illicit Activity.”⁸

The bottom line

Bitcoin, at the current time, presents more problems for law enforcement involved in sales of controlled items than it does for large-scale fraud and AML professionals. It is already being used as a medium to bypass economic sanctions, however; for those reasons, it would behoove governments to formulate a regulatory response to limit the attractiveness of a currency custom-built to prevent the prying eyes of the law. **A**

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⁷ Dan Goodin, “78 percent of Bitcoin currency stashed under digital mattress, study finds,” *Ars Technica*, 17 October 2012, 31 January 2013 <<http://arstechnica.com/tech-policy/2012/10/78-percent-of-bitcoin-currency-stashed-under-digital-mattress-study-finds/>>

⁸ “Bitcoin Virtual Currency: Unique Features Present Distinct Challenges for Detering Illicit Activity,” *Wired*, 24 April 2012, 31 January 2013, <http://www.wired.com/images_blogs/threatlevel/2012/05/Bitcoin-FBI.pdf>

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Investing in citizenship

Citizenship by Investment Programs (CIP), also known as Immigrant Investor Programs, grant citizenship to high net worth individuals who meet eligibility requirements and make significant capital investments toward stimulating a nation's economic development. Under eligibility requirements, applicants must pass criminal and security checks, and establish that no portion of their investment capital and net worth was obtained through criminal activities. Applicants deemed as high risk based on the nature or location of their business activities and country of origin, may undergo more in-depth due diligence investigations (IDD) in accordance with international anti-money laundering (AML) and counter-terrorist financing (CTF) policies and procedures.

The following article deals with recent international trends and challenges in the customer identification program (CIP). A review of these issues may lead to a better understanding of the risks posed to national governments and the need for investigative due diligence professionals with deeper international expertise.

Background

Citizenship by investment programs have been around since the 1980s when countries began offering residential and citizenship opportunities to high net worth (HNW) individuals. Early participating countries included Canada and St. Kitts and Nevis. Today, there are many more countries such as the U.K., U.S., Switzerland, Dominica, Belgium, Austria, Antigua and Barbados offering a wide range of investment and citizenship options to HNW applicants. The variance in the investment requirements range between US\$100,000

and US\$16,000,000. In addition, several other countries are in the process of developing and launching similar CIP offerings.

Over the last eight years, there has been considerable growth in the industry. This has been driven by a number of factors including:

- The need for increased government revenues in both developed and developing countries
- Increasing levels of wealth in emerging economies including China, Russia, Nigeria and India
- Political and economic uncertainty in the Middle East and other parts of the world
- An increase in demand for passports that allow more visa-free global movement
- Tax regimes that are considered by some to be draconian

Furthermore, recent trends in the structure and management of CIP, along with increased global AML and CTF regulations, highlight the need for investigators with longstanding expertise conducting international AML and IDD assignments.

Recent trends

Over the last few years there has been a noticeable spike in the number of applicants in most of the programs being offered. There continues to be strong interest from Russia and China, which is mostly driven by a desire for travel without the hassle of applying for visas. There has also been a dramatic increase in applicants from the Middle East where civil strife is wide spread and showing little likelihood of changing anytime soon. Lastly, the nouveau riche are interested for a host of reasons including education, residence, safe haven and wealth diversification.

Aspects of the industry are now being regulated because of the large dollar amounts involved, with said funds being transferred between countries and held in escrow accounts. Due to increased regulation, bank policies and other factors, participants in the industry have come to realize how imperative it is to conduct proper Know Your Customer (KYC) due diligence on applicants.

Application process

All of the countries offering programs have procedures that require applicants to complete numerous forms, provide supporting documentation and adhere to a rigorous due diligence process. An initial "front end" desk top due diligence is conducted during which the applicant provides basic information which allows the offering country an opportunity to screen out anyone who is unlikely to make it through the process. The next steps include interviewing the applicant and reviewing all information and documents provided. The applicant is required to complete a consent form waiving their right to privacy.

Historically, most of the vetting procedures were completed by government agencies, however, the current trend is to outsource reputational due diligence aspects of the procedure. The outsourcing of due diligence by authorized firms is due to increased multi-jurisdictional regulations, along with the realization by many countries that there is a responsibility to ensure the reputation of the industry is protected and the value of the passport is not diminished.

When conducting CIP due diligence assignments, an investigator may oversee the screening process on hundreds of engagements and for the most part, the applicants are acceptable. However, when an opportunity is

being offered at a global level to HNW subjects, some nefarious characters will attempt to take advantage of the system. While the due diligence service provider is not normally asked to opine on the findings, the research, if completed thoroughly and reported in an effective manner, will support sound decision making critical to the CIP process.

Lessons learned from past case studies

The following case studies provide insight into the challenges encountered and expertise required to successfully conduct CIP IDD:

1. Lack of Public Information — This case study involved an applicant who was a Japanese national, living and residing in Tokyo. Japan is a challenging jurisdiction to conduct due diligence because of a lack of critical public information. In Japan, it is not possible to perform random searches in the criminal courts and third parties cannot access the national criminal record database. Finding information on the applicant was only possible by way of a proprietary database search to determine if the applicant had been previously convicted and incarcerated on a fraud offense which he had not disclosed. This case study underscores the importance of access to alternative information sources when conducting research while at the same time, ensuring local laws are not violated.

2. Inconsistent Information — The following case study involved a number of red flags, not from information that was located but rather from inconsistent and unverifiable information. Part of the due diligence process involves verifying certain information such as schools attended, addresses, employment and business history. While conducting the due diligence it became clear that the applicant had provided erroneous information in numerous categories. Also, it could not be determined where the applicant had acquired his wealth. It became clear this applicant was a “straw person” for someone behind the scenes who had acquired wealth through unlawful means and/or had a checkered past. This case demonstrates that when confronted with a pattern of inconsistent information it is imperative to use deductive methods to access available information which, in this case, led to an obvious decision.

3. Politically Exposed Persons — The third case study covers an area of focus by FATF for the past 10 years and affirmed in 2012, specifically, the identification and risk assessment of Politically Exposed Persons (PEP). In this instance, a PEP who did not want to be transparent for obvious reasons put forward a family member as the CIP applicant. The PEP’s family members are often a daughter/son or spouse but to avoid detection someone with a different surname is preferred. This way an immediate connection to the PEP is not made and allows for a better opportunity to get through the screening process. In this case, the use of in-country sources familiar with the local political scene proved instrumental in exposing the connection between the CIP applicant and the PEP. It is important to note that proprietary database searches will often not make this type of link.

4. Citizenship History — This case involved screening an applicant from the United Arab Emirates where there was a high probability that the applicant was not indigenous to the country as 85 percent of the population in the UAE originates from elsewhere. For this reason the applicant was compelled to disclose at least a 10 year history on where they have resided and left a footprint. It is critical for countries offering investment and residence opportunities to have set standards as to how far back the research will include. As itinerant criminals are always looking for a new place to park themselves and their illicit funds, the 10 year record of the applicant’s citizenship history allowed researchers to drill down far enough to detect an undesirable person who may have otherwise gotten through the CIP application process.

5. Sanctioned Country — The final case study involves an applicant who originated from a sanctioned country. As part of the application process he indicated degrees were obtained from a university located in Canada. While no record of the person attending this institution could be located, everything else about the applicant came back positive. However, this one deception from an applicant residing in a high risk, sanctioned country was a big red flag that could not be ignored.

Challenges


CIP applicants from emerging economies represent numerous challenges that must be overcome when conducting background

checks and investigative due diligence. Often there is little or no open source information available in emerging economies and therefore a local source is required to obtain any meaningful information. If a local source is used, it is imperative to engage someone who has the appropriate background, is licensed (if required) and can be discreet when necessary. To expose your client to any third party who is not competent, consistent, professional and trustworthy brings tremendous risks to all parties involved.

When conducting thorough due diligence on a subject residing in an emerging economy, the use of proprietary databases only is not feasible. It is estimated that in 20 percent of cases, critical information is missed when solely relying on this type of information. Local sources are essential to the process. Also, some jurisdictions are notoriously corrupt by allowing convictions to be expunged; political interference in criminal, civic and judicial matters; the dissemination of unreliable media reports; and a host of other equally challenging obstacles.

Conclusions

Over the past 10 years, the global economy has undergone several major changes which have resulted in more stringent regulation of AML and CTF, which have in turn contributed to increases in regulatory and due diligence requirements for CIP. Today, governments offering citizenships to HNW individuals understand that conducting due diligence in emerging, high risk and sanctioned countries involves a myriad of challenges which require advanced solutions carried out by senior investigators with proven expertise and methodologies.

Governments offering CIPs must ensure citizenship status is awarded to worthy applicants so as to preserve their country’s standing in the international community, maintain the value of their passports and mitigate risks associated with opening their borders to HNW individuals. IDD conducted by experienced professionals with in-country expertise, multiple language research capabilities and access to a large network of international resources is one of the most critical components of any immigrant investor program. 

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A person wearing a dark suit and a patterned tie is holding a white rectangular sign. The sign has the text "Embracing conflict" written in red. In the foreground, two red boxing gloves are visible, one on the left and one on the right, partially overlapping the sign. The background is dark, making the white sign and red gloves stand out.

Embracing conflict

Conflict is part of life at any level where there are two parties that interact. We know conflict exists, but we seldom know how to best deal with it other than by instinct. In life there are numerous situations that arise that can develop into a conflict among colleagues, teams, departments and even among parties from external organizations. As is often the case, a compliance professional can find themselves directly or indirectly in the middle of a conflict. Compliance professionals are engaged in almost every aspect of the development, implementation, testing and improvement of a risk management program. Whether the organization is large or small, the compliance professional is the link between the stakeholders and the compliance programs. Therefore, the compliance professional is in the position of influencing — for better or for worse — the pressures and distractions of growing conflicts that can sour partnerships, delay efforts and even derail the success of important initiatives.

In the AML field, parties working toward the same goals frequently find themselves caught up in conflicting positions, especially when there is no clear solution to an issue. Applying conflict resolution techniques to manage complex situations can be an advantage in improving the risk management processes. The intent of this article is not to make you a conflict expert, but to increase your awareness about conflict, recognize the skills you already possess, and give you some communication tools that can help enhance the way you handle your next conflict scenario.

Conflict is an ugly word. If you look up conflict in the dictionary the definitions and examples provided go from bad to worse. Just reading the definitions makes you feel uncomfortable. It is no wonder that we try to ignore conflict to see if it will go away on its own. Although, conflict can be destructive at its worse, it can also be an opportunity to improve conditions and promote movement toward a viable resolution. There are various academic definitions of conflict, but a basic definition is that “conflict is a belief that if one party gets what it wants, the other (or others) will not be able to do so.”¹ In compliance, conflict is inherited on opposing needs, limited resources and competing priorities.

Let us run through a typical and frequent scenario for anybody involved in risk management. Let us say that there are new regulations in place and an institution needs

to assess how to comply with the new requirements. The compliance representative will most likely be involved in reviewing existing program elements to identify those that already meet the new requirements or that can be leveraged to incorporate those new requirements; then, identify additional information and new controls needed. There will be a need for analysis of how certain requirements could be met following a risk-based approach, and there might be questions on what is the appropriate risk-based analysis. Finally, before any new programs can be implemented, there might be a need for additional resources from technology or training, or even the development of centralized units to handle the higher risk clients. In each of those three situations, the compliance representative is sure to encounter conflicts deriving from differences of opinions, business priorities and limited

Communication is the key to opening the channels of collaboration

resources. To resolve the issues between the various stakeholders and manage the conflict that arises along the way, you will need to apply conflict resolution techniques. As a successful compliance officer, you are probably using these techniques now, even if you are not aware you are doing so. For example, you might act as a facilitator driving group discussions among stakeholders from different functions in order to assess the impact of new regulations and define the plan of action to meet new requirements. During the group meetings it is likely that differences of opinions will arise on what is the right risk approach to follow based on business priorities, risk tolerance and current conditions. You may need to act as a mediator to bring parties together to find common ground on the reasoning behind a certain business decision compared to the

potential exposure. Finally, the recommendations coming out of the meetings may require additional funding, which puts the compliance representative in the position of negotiating with senior management to secure resources.

Facilitation, mediation and negotiation are the cornerstone methodologies used by conflict resolution experts. They study each technique and its variances to build their tools of the trade to be expert facilitators, mediators and negotiators that are brought in to help handle escalating conflicts in search of resolution. In your case, you have to assume the role of a facilitator, mediator and negotiator on a regular basis without the benefit of specialized training. Here lies the importance of becoming familiar with conflict foundations and techniques that may give you an edge when dealing with conflict. You will not become a conflict expert overnight, but you can be more deliberate on recognizing the situations that require conflict management before they escalate out of control. A starting point to understanding conflict is acknowledging its existence, and not rejecting it. Use conflict as an opportunity to leverage the perspective of the opposing parties. Start by focusing on communication. Communication is the key to opening the channels of collaboration. All the conflict resolution methods previously mentioned rely on conflict resolution communication skills to reach individuals. By engaging parties to talk and listen to each other conflict resolution practitioners help build trust and get at the heart of the issues as illustrated by Neil Katz, John Lawyer, and Marcia Koppelman Sweedler in their 2011 book *Communication And Conflict Resolution Skills*.

In their book, Katz et al. provide an excellent resource to improve your communication skills related to conflict. The book discusses many fundamental skills necessary for improved communication. One of these skills is reflective listening. In reflective listening you first collect data and then you repeat it as a reflection of what was said. This is active listening by focusing the attention on the other party to assimilate the verbal and non-verbal information provided.² Then, you repeat what you heard using your own words. This is critical because it is the very act of paying attention to the other person that helps you read cues of the issues and emotions being expressed. Reflective

¹ Pruitt, D. & Kim, S. H. (2003) *Social Conflict: Escalation, Stalemate, and Settlement* (3rd ed.). New York: McGraw-hill.

² Katz, N. H., Lawyer, J. W. & Koppelman Sweedler, M., (2011) *Communication And Conflict Resolution Skills* (2nd ed.) Kendall/Hunt Publishing Company.

listening lets the other person know that you are interested in what they are saying. More importantly, by repeating what you heard the other person feels that you understand the issues. Keep in mind that sometimes you may need to clarify what you heard to help avoid miscommunication, but in general confirming what the person said and meant without judging, arguing or agreeing with the message opens communication and fosters cooperation. As an example, a compliance officer may face push back from a frustrated account officer who is being asked to complete another remedial project on due diligence of a group of clients that have been deemed high risk under new regulatory guidelines. The account officer may express his complaint saying in a tense tone “How many times do I have to update these files? It is not as if I do not know my clients. I need to be bringing new business, and not be wasting my time filling out forms.” By using reflective listening, you can perceive his frustration and acknowledge it. You may say: “This update of the client’s information is time consuming. You know your clients. You feel this impacts your productivity, and it upsets you.” At this point, you are not agreeing with him nor are you exempting him from having to update his files, but you have let him know that he has been heard. Sometimes just letting the other person know that you understand helps diffuse animosity. The conversation has a better chance of taking a turn toward finding a way to expedite the review. The same skill can be used across the board during negotiations, staff meetings and individual discussions. Keep in mind that during reflective listening you are not providing your opinions. This is not where you work out a solution. This is just a first step to breakthrough conflict toward an open discussion of issues to find a potential resolution. Of course there is the added bonus of truly hearing the perspective of the other person or group that the new regulation is impacting. You may discover that you have more in common than you originally thought. Reflective listening is an art, and it requires practice. Katz et al. suggest that one key element is to avoid toxic words. These are words that would immediately sour any discussion and shatter cooperation. Imagine the response of the account officer to your request should you have answered his statements by saying “there is


Keep in mind that sometimes you may need to clarify what you heard to help avoid miscommunication

no room for laziness.” You have a choice on how to deal with conflict. I have given just a glimpse of this skill.

Another tool used by conflict practitioners is reframing. Reframing as the word indicates changes the frame of the conflict. Conflict frames are related to the perception and interaction toward conflict based in previous experiences. In other words, it is the different ways a person may see and respond to conflict, as outlined in Joseph Folger, Marshall Poole, and Randall Stutman’s 2001 book *Working Through Conflict*.³ The same situation can be viewed inversely by two individuals depending on many factors including predisposition to situations they have experienced in the past. Let us imagine that two teammates find themselves at odds over who should lead a new project that overlaps the lines of business that they support. Competition for leadership will be a factor. If one of the people involved has been passed over for a promotion before, that person might be on the offensive from the moment the project was announced. On the other hand, the other person might feel insecure about leading the project due to a lack of experience compared to their counterpart. This person might then be on the defensive even before any interaction takes place. When the manager names the lead, one of the two will feel wronged, and may react based on his or her frame of thought about the issue. The manager would need to address the escalating problem by reframing the conflict. Ultimately, the manager might have picked the lead based on the line of business the person supports and not based on the individual. In fact, it could have been a strategic decision depending on what line of business is funding the project or what group has the higher risk. Reframing will be accomplished by focusing on the team rather than the individual, and the external factors

influencing the decision process rather than the team members’ perceived circumstances. Reframing goes beyond communication to the analysis of the underlying issues and sentiments shaping the conflict.

Clearly, communication is just a beginning. Conflict is a complex phenomenon with its own dynamics. Beware that people handle conflict in different ways depending on multiple factors from their personal conflict styles, to cultural differences and personal experiences. For example, some people are ready to face conflict situations head-on while others prefer to avoid conflict at all costs. Avoidance can lead to conceding without trying to find the best solution. Depending on cultural patterns individuals may find confrontation offensive while others may see it as a sign of strength and leadership.⁴ Personal experiences shape our view of the world and predispose individuals to react to conflict differently.⁵ In addition, conflict is impacted by factors beyond the parties involved in the conflict. External and internal factors influence parties and the conflict itself. Only two parties might be at the table, but they bring with them a baggage of issues and their decisions may impact many beyond their direct control. In fact, conflicts have a cycle of escalation and de-escalation that can be triggered unintentionally. For example, conflict between two teams can escalate to a departmental show of force for control and power if senior managers feel their positions are threatened. All these factors are at play at any scale, and they are particularly heightened under pressure in high-risk conditions.

Although this article referenced conflict from a compliance professional’s perspective, an increased awareness about conflict management is a valuable skill for any professional regardless of their expertise. Some people have a natural inclination to be peacekeepers. They have the ability to bring sides together, and not hush away the problems. You may not have that natural inclination, but conflict analysis and resolution techniques are as valid for you as for the person that was born to lead a diplomatic mission abroad because whether you choose to deal with conflict or not, conflict will find you. Embrace it! 

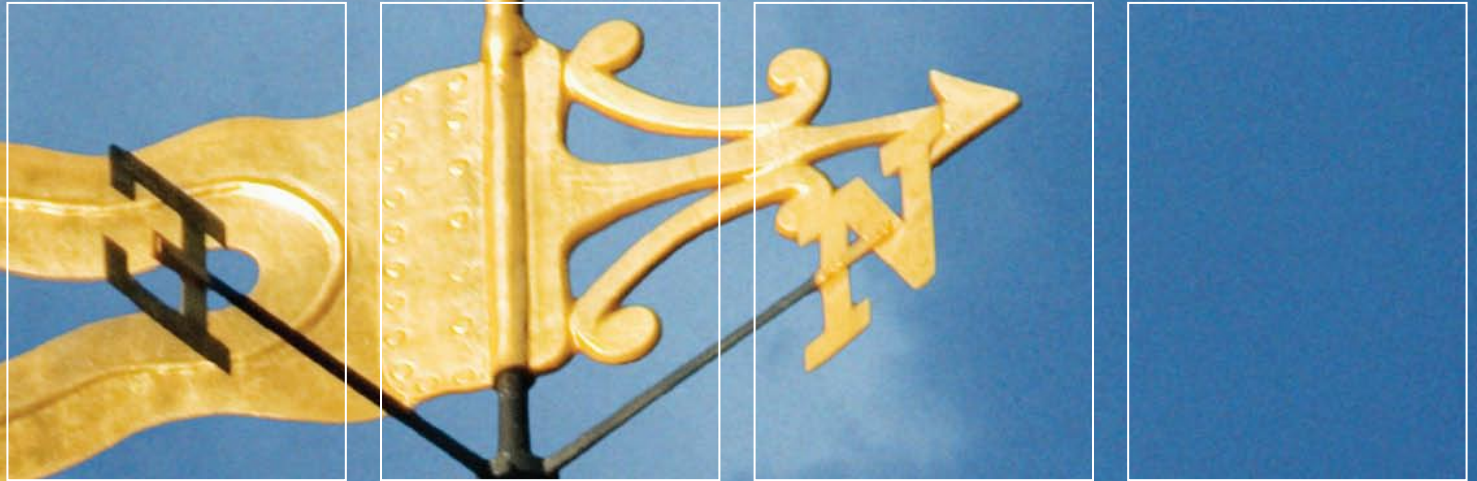
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³ Folger, J. P., Poole, M. S. & Stutman, R.K., (2001). *Working Through Conflict*. (7th ed). New York: Longman.

⁴ Augsburger, D. (1992). *Conflict Mediation across Cultures*. Louisville, Ky: John Know Press.

⁵ Byrne, S. and Carter, N. (1996, December). *Social Cubism*. *Journal of Peace & Conflict Studies* 3(2): 52-71

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Balancing your career and education

—A professional's guide to CAMS exam preparation

One of the most daunting challenges ACAMS members find is studying for the CAMS exam. For many of us, it has been years since we last picked up a textbook with the intent of learning it well enough to take an exam. In addition, since we are no longer in the academic life, we no longer enjoy the luxury of time that academics often offers — at least not compared to the professional life, where the demands seem even more pressing than in school. So how can one fit in the time to study and how can one learn effectively?

I have taught unofficial CAMS prep seminars on and off for several years. Besides imparting the overall knowledge to the candidates, I tried to provide them with a few tips on how to study for the exam. So far, it has worked quite well. What follows are some of the tips I've passed along over the years.

Memory formation basics

Before we go much further, it might be helpful to have a little basic information on the formation of memory. After all, the goal of studying is to form memories that you can use when you need them. Memory is formed by associations between specialized cells called neurons in the brain. Neurons will make connections with each other as they are stimulated in certain ways. In terms of forming memory, they will take sensory input (like sight, sound or motion) and build connections with other neurons. Each of these sensory inputs comes from different areas of your brain. The more different ways you can bring the sensory input in,

the more connections are made between neurons. The more connections means the more readily you can get access to the underlying memory. The more often you use the memory, the better the connection itself. As an analogy, think of the connections as being roads between places (memories). The more roads you have, the easier it is to get to a place; the more demand you have for the road — that is, the more often you use the memory — the better the road will be. Also, the more roads you have to take to get to a place, the better you can get to the memory from any other location in your brain. Thus, if there is a roadblock in one connection (test anxiety for example), by having a number of connections, you can still get to the memory. Also, the more often you travel these roads, the more familiar they become to you. At this point, you start to approach mastery.

In addition, sleep appears to have a key role in memory formation. Thus, it is important that as you study, you get sufficient rest. Many studies suggest that you should study

shortly before you go to sleep to help reinforce your memory and free it from other distractions. However, this does not indicate you should study until you fall asleep. When you study, you should be fully awake and have as few distractions as possible. Distractions include not only the typical distractions like phone calls, emails, barking dogs and coworker/family interruptions, but also other memories being formed; hence why studies indicate sleep is the best way to cement those connections. To continue the road analogy, there is a limited capacity to develop connections between neurons, so you should try to divert as much of this capacity to making the connections you want to keep. To further the analogy, there is only so much that the connection developing capacity can handle, which is why it is better to break your studying into smaller time chunks than to try to study for a long period. Generally, the material studied at the beginning and the end are best retained, while the material in the middle is most often forgotten. Thus,



studying for three 30 minute periods may be more effective than studying for an hour and a half at a time.

Lastly, another tip I learned in college was that you often are able to recall information best in the same type of setting in which you learned it. Thus, it is important that you try to learn your material in a manner similar to the way you will put it into practice. That is to say, it is probably best not to study in a crowded bar or in front of the television; since you are likely to be taking the exam in a proctored setting and applying your knowledge in a work setting. This is not advocating that you study instead of doing your work; that could cause a distraction that may seriously impair your ability to study.

Objectives

When studying, one of the first questions you should ask is why are you studying? What do you intend to do with the material? For the candidate taking the CAMS exam, the

ultimate goal is likely to obtain the CAMS designation. However, if you are only studying for the certification, you are likely missing out on one of the most important aspects of studying. Most candidates for the exam are likely involved in a field where advanced AML knowledge is useful if not essential. Rather than thinking of the learning as merely a path to the certification, think of the learning as a way to make yourself better at your profession. This way, you get more than just the certification — not that it is “just” a certification, it is definitely worth pursuing for its own sake — you get a deeper understanding of AML, which can lead you to becoming a better AML professional. Deeper knowledge and mastery — the process by which learning becomes integrated to the point that it can be applied — can lead to greater professional satisfaction, increased pay and greater job security. Think of the certification as a formal recognition of your increased knowledge rather than the sole goal. After all, I use the

knowledge acquired during my studies for the CAMS designation far more than the certificate that hangs in my office.

However, regardless of what you are studying for, find some reason for which you are studying so that you can tailor your approach to achieve your objectives.

Motivation

One of the most powerful tools we can have for learning is a desire to learn the subject material. If you really are not that interested in the material, it will be a tedious chore to learn it. I recall looking at some textbooks (especially physics and statistics) where the material was mostly written in formulas and involved complicated mathematical concepts that I found hard to get interested in (this was back in the days when you had to calculate your own statistics, not when you could just use a computer program). This is why I didn't end up as a math major; neither

the interest nor the aptitude (there likely is some correlation, but I can't remember how to calculate that) was there.

There are many studies that support the concept that learning interesting material is easier, but you probably already know this. Think about your favorite magazines or sections of the newspaper. You probably know the subject matter quite well and find the time to further your interest in the material. Consider too the rabid sports fan who can rattle off almost encyclopedic knowledge of statistics about his favorite team and its players but has a hard time getting out the basics on something he's not familiar with at all. This guy loves his team and just cannot get enough information about them. Interestingly, the sports fan does not consider himself to be studying, but rather it is a matter of him satisfying a hunger for information about his team. Not that you need to become a rabid AML nut (although you might want to be able to rattle off some FATF and USA PATRIOT Act stats), but having a passion to learn AML will definitely make it much easier to study.

Study techniques

Now that you've decided what you want to get out of studying and you are all motivated to do it, how do you go about doing it? First, it is helpful to find the material you'll need to study. For the CAMS candidate, there is a

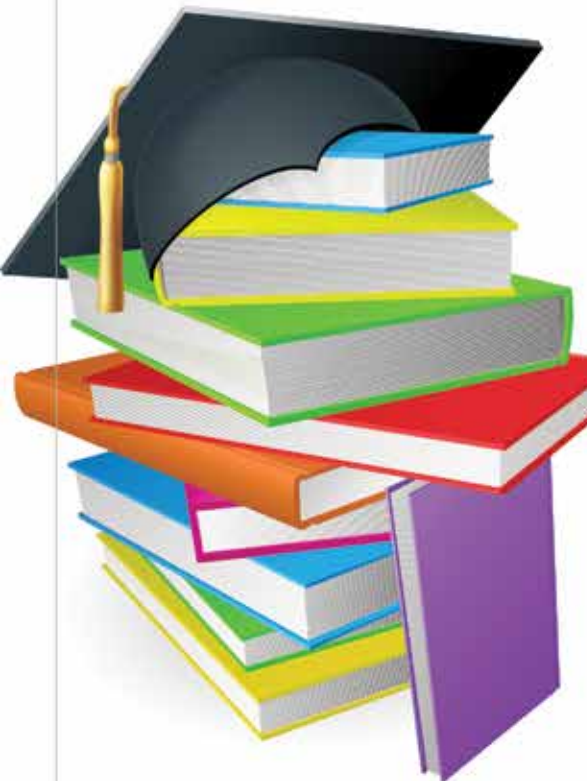
CAMS Study Guide that contains the material you'll need for the exam, for our sports fan, there are plenty of radio and TV shows, as well as magazines, internet sites and fellow fans to provide a wealth of information.

Second, once you find the materials you need to study, you need to start to study. This often is a matter of reading the material. While you can easily sit and read the entire CAMS Study Guide in a month's time, this is probably not the best way to go about learning the material. Studies on learning show that you retain about 10 percent of what you read; yes, you will forget far more than you remember if you just read it (I know enough stats to be able to figure that out). Instead of re-reading the material ten times in the hope of retaining all the material, there are a few other study habits that may be helpful. One is to read the material to get a general understanding of the big concepts in the material. Since you are only retaining a little bit, this way, you will begin to form a basic skeletal outline of the material you need to learn. In the next reading of the material, you should be able to fill in more information around the basic skeleton. Further readings can continue to fill in the material.

However, rather than just reading and re-reading only, you should apply additional strategies, particularly the act of doing something while studying. No, I'm not referring

to doodling in your Study Guide, rather, this refers to transferring some of the key concepts or items you want to review in greater detail (or just remember for later use) into a separate sheet of notes. The very act of transferring will greatly increase your retention of the material — up to 90 percent. Transferring material — not a verbatim copying — to notes will become very useful as you get a greater understanding of the material and it will enable you to test your knowledge and determine which aspects require additional work. Here, it is key to rephrase the material in your own words rather than to just copy the exact text from the Study Guide. When I took the CAMS exam, I had a set of handwritten notes covering 44 pages. When it came time for last minute preparations, it was far easier to review 44 pages than the hundreds of pages in the Study Guide. I could review my rather skeletal notes and fill in the gaps well enough — which indicated to me that I'd gotten fairly close to mastering the material.

Additional study tips you may want to consider are to read your notes out loud — speaking the material as well as thinking about it increases retention to about 70 percent of the material. Take the material you've written in your notes and re-organize it in different ways. Create flash cards for those areas you feel you need more practice;



Basic things to do and not to do when studying

| Do | Do not |
|---|---|
| Study in small blocks of time | Try to learn everything at once; there is just too much information to do it effectively |
| Review the material frequently | Forget to go back over the material to reinforce the connections you have made by learning it |
| Practice the material frequently in ways other than just reading the material | Just read the material; you only retain about 10 percent of what you read |
| Study in a quiet environment with everything you need to study | Study where there are lots of distractions where you need to take frequent breaks |
| Determine your motivation and objectives for studying | Get frustrated that you do not understand everything; get help from someone |
| Set a schedule and stick to it | Fail to prepare a study schedule; those who fail to prepare themselves, prepare themselves to fail |
| Be creative when studying the material | Just copy the material; rephrasing it into different words will develop more connections to foster greater recollection |
| Study when you are awake and receptive to learning | Study when tired or not able to concentrate on the subject matter |

this requires you to rephrase the material and come at the material as though you were an instructor rather than just a student. Create mnemonics for the more complicated sections, like HOMES for the Great Lakes, where “H” stands for Huron, “O” for Ontario, “M” for Michigan and so on. These additional strategies will significantly increase your retention of the material. The varied means of studying the material will get you to understand the material in different ways, removing it from simple rote learning to a more active learning. This will also create significantly more connections with the material, meaning you are likely to remember it — both at exam time and afterwards in your professional capacities — when you need it.

Persistence and pacing

As was indicated above, repetition is a key to effective retention and recollection of material. You likely will find trying to remember the key concepts contained in the Study Guide will not happen overnight or in just a week. Thus, it is important to start early. One of the questions I have heard a lot in prep courses is “how long should I study for the exam?” I cannot give a straightforward answer to this, as everyone learns at their own pace. I personally studied for over 50 hours over three months. But I knew the information cold going into the exam.

As noted with the study tips above, a lot of the learning occurs when you review the material and reprocess it in different ways. Repetition and variety are critical to successful learning. Given that the memory formation process generally works best in small chunks with frequent review and repetition in different means, and that the Study Guide is quite long, it makes sense to set out a plan that will allow you to schedule sufficient time to read the material, re-read, practice and practice some more as well as review the material. As many students learn, cramming is not an effective means of studying; trying to “learn” a several hundred page Study Guide in a short period of time is not likely to produce good results. Rather, the better solution is to take a much longer period, gradually building the base of your knowledge and finding new ways to connect the information together. As an example, in the Study Guide, many of the vulnerabilities of certain products or AML risks associated with certain customers are included in some of the international standards. Thus, the correspondent banking and Politically Exposed Persons topic will come up in both the vulnerabilities section as well as the international standards section. As you

continue your studies, you will likely notice that the risk mitigation concepts included in the international standards often show up in the AML compliance program section. If you can start making these kinds of connections, you will be going a long way to mastering the material.

Another helpful tip is to develop a schedule for studying and, like a successful diet — stick to it. For those times when you cannot necessarily dedicate yourself to a time slot, make sure you are able to make it up so that you do not find yourself behind schedule. It may help to record your notes, perhaps by making a video, taping yourself dictating notes or putting them on a computer you can take with you so that you can study when you have a short break, such as while commuting (if you’re driving, please only use the audio options) or waiting for an appointment.

A few additional tips


In terms of how to prepare yourself to study, there are a few basics to consider. Make sure you have the materials you will need close by, such as the Study Guide, paper, pens/pencils, highlighters or other ways of taking notes (e.g., computer); you will find your studies significantly impacted if you need to get up to get materials throughout your study sessions. You should study in a well lit place that is free from distractions; if you are studying at home, this might mean letting family/roommates know that you are not to be disturbed while you study. In some cases, it may be helpful to put on some quiet music (e.g., classical or jazz) that will help remove some distractions.

A great motivator and study aid is to have a support group. This can involve both telling family/roommates that you are studying for the exam, as well as finding others who are taking the exam and studying with them. The former option can help motivate you to study harder, as others will be waiting to hear the good news that you passed the exam, as well as motivate you to succeed the first time. The second option will have these same effects as well as the ability to consult with others who are in the same situation as you. Also, you can bounce ideas off each other and help each other when you encounter difficult sections. This level of interaction will foster more of those connections that form memories.

Perhaps the best tip is to incorporate the learning into practice. After all, why are you doing all this learning if not to be able to understand the material and use it in your job

as an AML professional. If you are involved in conducting investigations for a financial institution, you probably already are familiar with what you do to conduct an investigation, but think about what happens once you file that suspicious activity report. The investigations aspect of the Study Guide will help you to learn what law enforcement does with these reports and how they freeze funds. If you are a regulator, consider some of the risks involved in certain products or associated with certain customer types and come up with ways that an institution can mitigate or control the risks posed by the relationship. The AML program section will cover a great deal of the controls that are available. If you are examining an institution, which ones are they using and which ones are they not — and if they are not using some of the controls, how else might they be controlling the risk. Perhaps there are controls that are not included in the Study Guide yet, but can help you connect the dots on how institutions can control risk. These are just a few ways to approach this, but it is this type of creative thinking that will help you become a better AML professional once you understand how the products and services offered by financial institutions are misused by money launderers, how financial institutions set up controls to mitigate these risks (and how the institution assesses the risks, both inherent and residual), how they identify and report suspicious activity to law enforcement and what law enforcement does with this. The international standards, often thought of as the hardest part, as most people do not have sufficient exposure to these rules, tie all these aspects together.

Conclusion

Studying is not always easy. However, if you apply the principles set forth in this article, you will find that studying can be managed. While there is a lot of material to cover in the Study Guide, by breaking it into manageable pieces and practicing the material, you will be able to master the material. You will reap the rewards of the effort you put into studying. By realizing the interactions between all the components in the Study Guide and developing a fuller understanding of AML, you can develop strong connections that will help you not only succeed on the exam, but also succeed in your career as an AML professional. 

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The AML working group: Cooperation and communication that benefits compliance

Anti-money laundering (AML) professionals have been pouring over the recent cases involving significant actions against financial institutions and money services businesses (MSBs) trying to decipher the intricacies of the core issues and weaknesses of various AML programs. The next activity is some level of corporate introspection to determine if “that could happen to us.” The answer is “Yes, it can.”

Somewhere in this process far too many people came to the uncomfortable realization that no one seems to have all the information necessary to make fully informed decisions or accurate appraisals. It is that realization that speaks to a core problem in almost every single case — there was a critical communication breakdown that led to poor decision making or loss of procedural control. The real tragedy in those cases is that often those communication breakdowns were often easy to eliminate or dramatically reduced.

Reading those cases, one or all of the following actions occurred: Somebody did not communicate (say/write) some key information, somebody was left out of the communications loop or somebody either did not understand, or chose to ignore the message. The majority of these situations were due to a failure of intercultural communications. This is not referring to communication involving different nations, ethnicities or languages. It means that cultures within

an organization were not on the same page. Because of this business challenge, hundreds, if not thousands, of managerial and business consultants worldwide have very gainful employment. That is because when the first human business partnership was formed before recorded history, mid-management, marketing, sales and the C suite (or their Stone Age equivalent) all had different agendas and different approaches to achieve individual perceptions of success. Then along came the first compliance officer and things got even more challenging. Yet even then the problem was that there was that classic “failure to communicate.”

Obviously there is no limit of available resources geared to solving these communication conundrums. Yet perhaps the best tool available to all of us is one that was available to our pre-historic forbearers — the working group. Let us be clear that this is not a committee or a team or any of the countless other conglomeration of business personnel that have deserved and undeserved reputations for ineffectiveness. After



all the classic saying is that the platypus — duck billed, web-footed, beaver tailed, was an animal designed by a committee. The difference is that a working group in this context is there to share information, insight and solutions, not complete a project or invent a product or plan an event. Its sole purpose is to facilitate the free exchange of information and enable all relevant stakeholders to be exposed to what they need to know to make those decisions and assessments that were mentioned earlier.

A working group has certain required elements that determine the level of its success. These are the knowledgeable and committed members, a good method of operation about which everyone can agree and a willingness to share thoughts and data without the crippling information

hoarding and political actions that are often the precursors to a compliance action and possible legal consequences.

The members of the working group are an important key to success. To be the most effective, members should represent a broad range of relevant stakeholders. Each organization is different and the composition and manageability of a working group needs to be determined on a case-by-case basis. The key is to ensure that all groups that have a direct impact on the compliance function are represented in some way. If it is too cumbersome to include all of your product managers, then perhaps some products groups can be combined in one group member. The important point is to make sure that the compliance group has all the input it needs to make viable, informed decisions and recommendations.

The members of the working group should be seasoned enough to know their work environment and how it fits into a compliance culture. They should also be active and respected members within their peer group so that the insight they bring to the group is truly indicative of the part of the organization they represent. Finally, they should be supportive of the compliance function. For example, an optimum working group in a large financial institution would consist of high level representatives from:

- both AML and anti-fraud teams,
- Information Technology (IT) as so much compliance work relies on efficient, effective technology,
- marketing/sales as it is the products and services of a company that are at the core of compliance issues,
- legal department/general counsel because a clear, concise, accurate and timely legal opinion is a rare commodity, but so important in staying in compliance with the law
- senior management and business group leaders who are participating as much to bring information back to his or her peers

as providing insight on how company leaders will view a compliance decision or effort, and

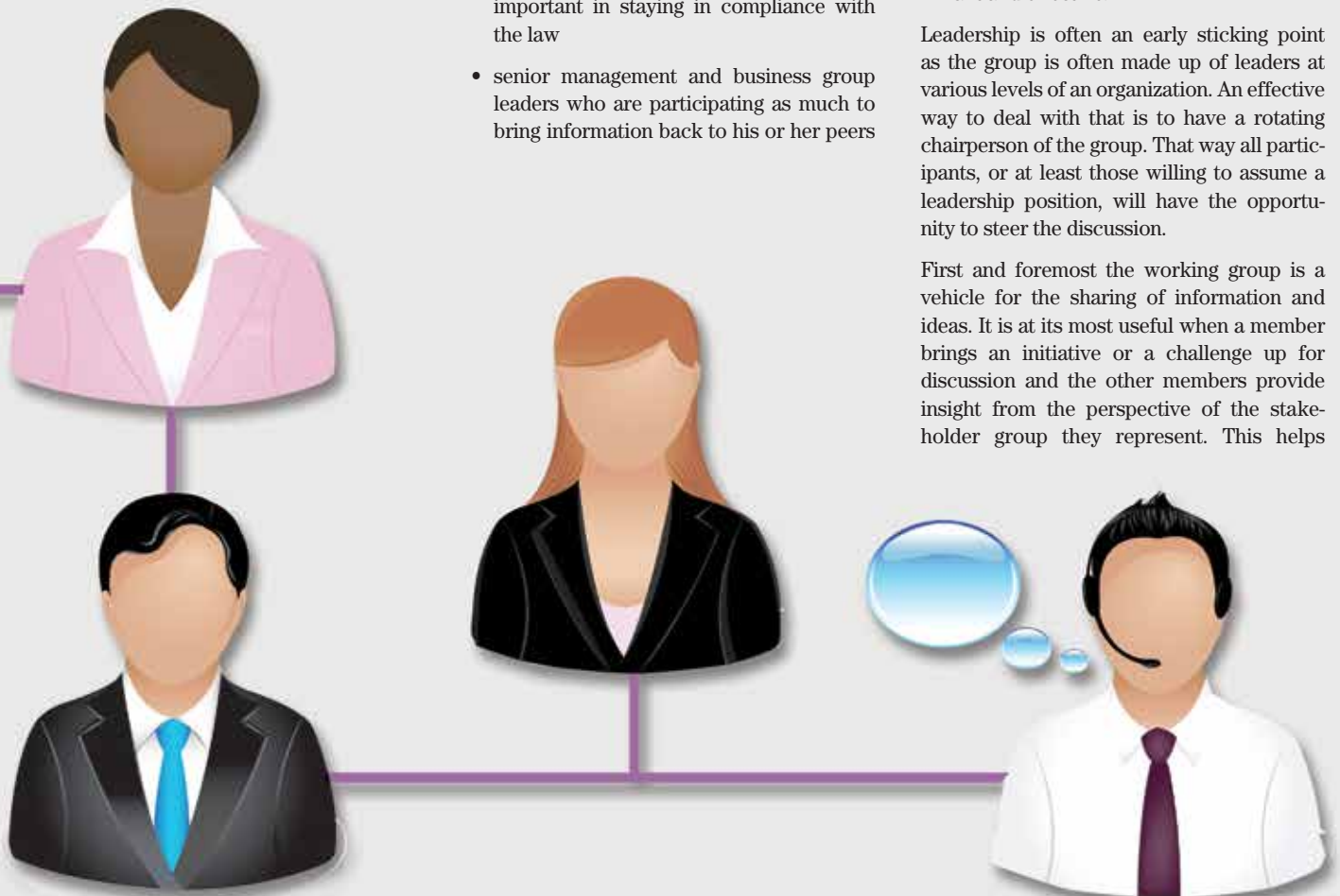
- middle management and/or frontline personnel who will often have to implement many of the AML and anti-fraud policies and procedures (Note: This group may not be a permanent member of the working group because of the level of discussions. However, they are invaluable when the group is exploring the implementation of certain compliance policies and procedures).

Successful operational attributes of a successful compliance working group include:

- regular meetings that are as close to mandatory as possible,
- organization that results in the effective use of the information shared within the meeting, and
- good leadership that keeps the group relevant and effective.

Leadership is often an early sticking point as the group is often made up of leaders at various levels of an organization. An effective way to deal with that is to have a rotating chairperson of the group. That way all participants, or at least those willing to assume a leadership position, will have the opportunity to steer the discussion.

First and foremost the working group is a vehicle for the sharing of information and ideas. It is at its most useful when a member brings an initiative or a challenge up for discussion and the other members provide insight from the perspective of the stakeholder group they represent. This helps



reduce one of the most frequent problems in a compliance environment and that is an uninformed decision. Even a cursory review of recent regulatory actions shows evidence of unilateral or isolated decisions that either directly or indirectly led to the reason for the action.

What is discussed in a working group is usually determined by the business and compliance environment in which the organization operates. While specific issues unique to the company are frequent topics, the group also needs to consider the bigger picture. That means discussions should also include topics such as:

- Recent postings on regulator web sites including:
 - New regulations
 - Advanced Notices of Proposed Rule Making (ANPRM)
 - Comments
 - Guidance
 - Administrative Rulings
 - News Releases
- Recent law enforcement prosecution cases and recent Department of Justice actions such as DPAs or guilty pleas to explore how funds were laundered
- Recent regulatory actions including state bank examiners especially those regulatory actions related to MSBs or MSB products (money remittances and money orders, etc.).

In addition, outside experts are very valuable to a working group's mission. Not only do they provide external viewpoints and insights but they also help keep the working groups agenda timely and interesting. For example invite law enforcement and other outside speakers to discuss current money laundering trends and techniques or perhaps a federal prosecutor to discuss certain aspects of past prosecution that could reveal internal issues that may require attention.

The core premise of a compliance working group is that communication is a two way street — develop relationships both internally and externally. Earning the trust and respect of your peers will enhance communications. For example, once a financial institution's senior staff becomes comfortable

working with and communicating with the BSA/AML or anti-fraud team, they will reach out for assistance and advice. In many cases, the activities of a working group can encourage business units to contact compliance officers directly when they feel that they have detected potentially suspicious customer activity.

Given the internal politics, egos and hidden agendas that are present in almost any organization the creation, maintenance and effective output of a compliance working group might seem problematic. Here are a few tips for the various stakeholder participants in such a group that will likely help break down barriers and allow for the free-flow of information that is critical for success.

Compliance officers: When seeking to create a working group, build an effective business case for each stakeholder group. Frontline representatives, market people and top executives often do not share the same concerns or motivation. Be able to demonstrate how participating in such a group will benefit them and their peers, especially when developing the crucial tone from the top. Within the working group make sure you listen to the concerns of the other stakeholders. Yes, compliance is driven by the cold hand of the law, but your fellow group members have pressures of their own. Learn to make the most of the insight you glean to build not only an effective AML or anti-fraud program, but one that can be implemented with the least amount of pain.

IT representatives: Your world is very different than your group mates, yet the success of the organization relies on an effective partnership. You need to understand their requirements to do your job and the need to know what technology can and cannot do for them. Be prepared to break down language barriers that exist between management and technical people. Simplicity is the key.

Senior management: You may never have a better opportunity to see what is happening in your organization than participating in a compliance working group. Your role is primarily two-fold. One is to act as a problem solver and provide big picture insight that can support the compliance effort. The second is to use the knowledge and insight you gain from the compliance professionals to help your peers and the board of directors to establish the critical "tone from the top."

Earning the trust and respect of your peers will enhance communications

Mid-management and frontline representatives: You may feel a little out of place at first, but remember your input is critical to building a successful compliance environment. Often top management is not aware of the daily challenges of the outward facing personnel of the company. Your role is to educate them and to help your peers understand why some top level decisions are made concerning compliance policies and procedures. This is a time to share knowledge and solve problems, not take advantage of an opportunity to air grievances.

Legal counsel: Compliance is centered on fully understanding the intricacies and interpretations of laws and regulations. This requires clear opinions and clear recommendations. It also requires a very clear picture of the consequences of non-compliance. In a working group, it is critical that everyone can take back an accurate picture of the pitfalls of non-compliance to their peers. Your role in making that happen is critical.

Remember a compliance working group is just one tool at a compliance officer's disposal to communicate effectively. However, it is the most inclusive and can potentially be the most valuable if managed well. In the compliance arena, the companies that communicate well on the inside fare the best. The proof is often in the court records. **A**

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Target training: Utilizing testing and reviews to target your training on key BSA/AML items

Training is an extremely important part of the BSA/AML program for financial institutions. Sometimes staff training itself can be challenging, but making sure the training is understood is even more difficult. By implementing a target training system, to go along with your normal annual training, you may be able to help your institution analyze and review what type of training is being given, to whom the training is given, if the training is being practiced in the field and if employees are adhering to the institution's policies and procedures.

Target training can also help to risk rate the departments in the institution to know where there may be possible weaknesses in BSA/AML compliance or where issues could arise. The program can also look at the employees of the institution to gauge their comprehension of BSA/AML compliance — for example in creating a Know Your Employee (KYE) program — to show where employees may need assistance with their comprehension of BSA/AML compliance. The program may also fix any discrepancies in the training and/or seeing any possible issues in the institution's current policies and procedures. Utilizing the target training process may also help you show examiners/auditors that the training you provide to staff is being understood and followed appropriately.

The target training process should go along with any current testing and reviews that are performed within the institution. The testing and reviews can come from any key aspect of BSA/AML requirements (i.e., Customer Identification Program (CIP) tracking), and in using those tests and reviews you will be able to rate areas of the institution on how they are performing with their BSA/AML compliance.

How it works

The testing and reporting to management is broken down into two parts the BSA/AML review report and the Know Your Employee (KYE) report.

In the first part the department or branch is rated on the aspect of BSA/AML they completed. In the second part, employees are rated on the aspect of BSA/AML they completed. This rating can help to create accountability in individuals to ensure they understand the importance of following the regulations.

By the end of the review you should be able to risk rate the department and/or branch as well as the individuals in their performance of their BSA/AML duties.

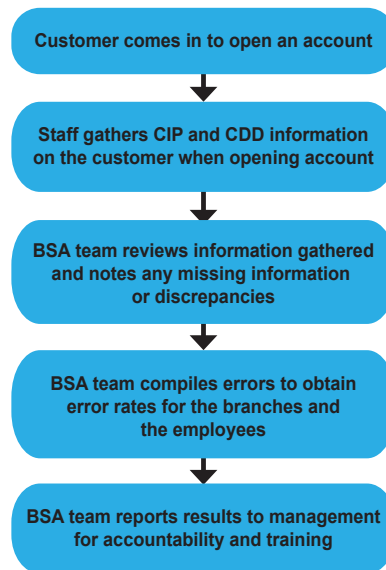
The BSA review

When testing and reviewing key BSA/AML requirements it is important to break down the review into small categories and take samples of the items to review.

Based on your institution's policies and procedures you would determine what and how each aspect may be tracked in the report. Obtaining an error rate and giving a point value to that rate is a factor in determining the rating for the department.

There are numerous aspects of BSA/AML to test and many ways to test them. Chart 1 gives an example of the flow process.

Chart 1



Examples of the reviews and test for BSA

Customer Identification Review (CIP): This review is based on a review of customer identification that front line staff obtains per the bank's CIP policy and procedure. The review analyzes the number of exceptions found in the review and is broken down into critical exceptions. Critical errors are defined as missing any of the following: Name, Physical Address, Date of Birth, and TIN (EIN, SSN, or ITIN etc.).

Customer Due Diligence Review: The new account CDD review is based on a review of all new customers (CIS records) opened for that month.

Currency Transaction Reporting (CTR): The CTR review is a review of completed CTRs filed by staff for accuracy and completeness.

Negotiable Instruments Review: The NIL review tests to ensure proper information was placed in the teller system for the purchase of negotiable items.

Data Validity Review: The data validity review tests to ensure proper information was in place in the bank's systems. Items to be included in the review can be from transactions completed by tellers to customer information placed into the system.

Training Review: The training review is completed to ensure all staff completed required online courses prior to the six month and one year deadline for completion of said courses. This review is mostly to notify management of staff that have not taken their required BSA/AML training for the year and against whom accountability needs to be enforced.

Suspicious Activity Review: The suspicious activity review looks at the referrals that staff has sent the BSA team. Also, the review looks at cases the BSA team has uncovered and if the branch should have notified the BSA team of the activity when it occurred. This review looks to see if red flag training may be needed by particular departments or individuals to help them understand what to look for in regards to customer activity that may be atypical and unusual.

Fraud: This is a review of the branches that have sent risk management fraud cases. The review assesses how the branch did in handling the case and if there were missed red flags that should have been caught to minimize the loss or exposure.

Chart 2

| BRANCH / Business Line | CIP Errors | # of accounts | Error Rate | Points |
|------------------------|------------|---------------|------------|--------|
| Richmond 1 | 7 | 100 | 7% | 1 |
| Northern Neck 2 | 4 | 120 | 3% | 1 |
| Hampton 3 | 0 | 140 | | 0 |
| Broad Street 4 | 2 | 160 | 1% | 1 |
| James Center 5 | 4 | 100 | 4% | 1 |
| Fredericksburg 6 | 9 | 130 | 7% | 1 |
| Rappahannock 7 | 1 | 150 | 1% | 1 |
| Charlottesville 8 | 2 | 160 | 1% | 1 |
| Operations | 0 | 0 | | 0 |
| Private Banking | 2 | 250 | 1% | 1 |
| Trust | 4 | 20 | 20% | 2 |
| Loans | 4 | 120 | 3% | 1 |

Missing Signature Cards: The review can be a part of the CIP review. In particular the review shows what documents are missing and which branches are guilty of missing the information.

Example of calculating the points:

Once all the reviews are completed it is time to calculate points so a rating can be determined for the department. Calculating points can be done in the following manner. You take the total number of errors divided by total number of items reviewed to give you the error rate, based on that rate you give the points that the rate falls into. An example of this is given in Chart 2.

Once you have completed all of your reviews you total up the points and divide by the number of reviews you performed, that will give you the rating for the department (see Chart 3).

The final rating is then given to the branch/business line and action items are documented for them to follow (see Chart 4).

Know Your Employee (KYE):

In the second part, the KYE report, employees are rated on the aspect of BSA/AML they completed, this can help create accountability for individuals to ensure they understand the importance of following the regulations.

Accountability:

The KYE review breaks down errors noted in the BSA reviews to associate them with the employees that make the errors. Employees with high error rates would need to review items and the part of BSA in which the error occurred and re-train on that section of BSA to gain a better understanding of the process.

Chart 4

| Final Rating | |
|------------------------------|---|
| 0-99 — Satisfactory | Branch has few errors and should continue required training |
| 1.0-1.99 — Needs Improvement | Branch should review items for which the error rates are high |
| 2.0 — Unsatisfactory | Branch must review items that have a high error rate |

Chart 3

| BRANCH / Business Line | CIP Test | New Acct. | CDD | CTR | NIL | OFAC | Total Points | Rating | Final Rating | Action Items |
|------------------------|----------|-----------|------|------|-----|------|--------------|--------|-------------------|---|
| Richmond 1 | 2,00 | 1,00 | 0,00 | | 0 | 1 | 4,00 | 0,67 | Satisfactory | None |
| Northern Neck 2 | 1,00 | 2,00 | 3,00 | | 0 | 1 | 7,00 | 1,17 | Needs Improvement | Have branch train on Customer Due Diligence, Customer Identification procedure is needed |
| Hampton 3 | 0,00 | 0,00 | 0,00 | | 0 | 0 | 0,00 | 0,00 | Satisfactory | None |
| Broad Street 4 | 0,00 | 0,00 | 0,00 | | 0 | 1 | 1,00 | 0,17 | Satisfactory | None |
| James Center 5 | 1,00 | 0,00 | 0,00 | 1,00 | 0 | 1 | 3,00 | 0,50 | Satisfactory | None |
| Fredericksburg 6 | 1,00 | 0,00 | 0,00 | | 0 | 0 | 1,00 | 0,17 | Satisfactory | None |
| Rappahannock 7 | 2,00 | 3,00 | 2,00 | 5,00 | 0 | 1 | 13,00 | 2,17 | Unsatisfactory | Have branch train on Customer Due Diligence, Customer Identification and OFAC procedure, Have branch train on Currency Transaction Reporting. |
| Charlottesville 8 | 0,00 | 0,00 | 0,00 | | 0 | 0 | 0,00 | 0,00 | Satisfactory | None |
| Operations | 0,00 | 0,00 | 0,00 | 0,00 | 0 | 3 | 3,00 | 0,50 | Satisfactory | None |
| Private Banking | 1,00 | 0,00 | 0,00 | | 0 | 1 | 2,00 | 0,33 | Satisfactory | None |
| Trust | 0,00 | 0,00 | 0,00 | | 0 | 0 | 0,00 | 0,00 | Satisfactory | None |
| Loans | 0,00 | 0,00 | 0,00 | | 0 | 1 | 1,00 | 0,17 | Satisfactory | None |
| | 8,00 | 6,00 | 5,00 | 6,00 | 0 | 10 | 35,00 | 0,49 | | |

The following factors are taken into account when reviewing the KYE report.

- Associating the customer with the transactions they perform.
- Performing OFAC and ID verification checks on NEW customers.
- Gathering proper CIP for new customers.
- Updating customer information when existing customers open new accounts.
- Completing Currency Transaction Reports (CTR) accurately and completely.
- Completing cash purchases of negotiable items accurately and completely.

In knowing your employee you can assess risk factors by looking at the employee's performance errors and assessing the individual's and department's risk based on certain pre-set factors of the company's choice. Some examples of possible risk factors are stated below.


Example for tellers and platform: Along with reviewing the tellers and platform employees you would take their BSA/AML performance (gathering CIP, CDD, completing CTRs, etc.) you could also assess the number of their customers that are rated as high risk in your BSA/AML customer risk assessments. Include in the review if you have had any investigations on their customers for possible filing of reports. For branch personnel you can also risk rate the branch based on numbers of accounts opened, CTRs filed, high-risk customers etc.

Example Private Banking/Commercial Officer: For a private banking/commercial officer employee you would take their BSA/AML performance (gathering CIP, CDD, etc.) you could then also assess the number of their customers that are rated as high risk in your BSA/AML customer risk assessments. As before include if you have had any investigations on their customers for possible filing of reports.

Looking at trends

In doing the review you can also show trends of how the institution is performing in their BSA/AML duties and if the institution is showing improvement or having issues with certain areas of BSA. Sample Trending analysis is in Chart 5.

Conclusion

In doing BSA/AML reviews and testing it helps to better know your employees and their comprehension of BSA/AML job functions. It allows you to, along with regular required training, target train certain departments or individuals to help alleviate any issues or gaps there may be or may arise from a lack of BSA/AML comprehension. 

R. Joseph Soniat, CAM, CFE, bank secrecy act officer, Union First Market Bank, Richmond, VA, USA, robert.soniat@bankatunio.com

Chart 5

| Item Tested or Reviewed | Possible Impact to the Institution | 2011 Total Errors | 2012 Total Errors | % Change from 2011-2012 | Trending | Average Errors Per Month | Error Rate for 2012 |
|--|------------------------------------|-------------------|-------------------|-------------------------|------------|--------------------------|---------------------|
| CTR | High | 206 | 185 | -10% | Decreasing | 17 | 4% |
| CIP | High | 2751 | 2601 | -5% | Increasing | 236 | 8% |
| CDD | Moderate | 32 | 539 | 1584% | Increasing | 49 | 27% |
| OFAC | High | 141 | 172 | 22% | Stable | 16 | 14% |
| Data Integrity | High | 2045 | 761 | -63% | Decreasing | 69 | 5% |
| NIL | Moderate | 8 | 1 | -8% | Decreasing | 0 | 0% |
| Missing NAICS Codes | Moderate | NA | 123 | NA | NA | 11 | 12% |
| Missing Documents | High | NA | 9656 | NA | NA | 878 | 25% |
| Suspicious Activity Monitoring (Errors / Missed Items) | High | 0 | 0 | 0% | No Change | 0 | 0% |
| Fraud Documentation Errors | High | NA | 7 | NA | NA | 1 | 2% |
| Color Key | | | | | | | |
| | Unsatisfactory | | | | | | |
| | Needs Improvement | | | | | | |
| | Satisfactory | | | | | | |

New directions in alert management: Winning the quality-quantity war

As the number and complexity of sanctions increase, regulators worldwide continue to step up their scrutiny of banks and other financial institutions to ensure compliance. Considered the initial line of defense against money laundering and terrorist financing, financial institutions have witnessed the intensified focus on sanctions compliance firsthand. Recent enforcement actions and punitive fines bear this out. While regulatory requirements are the same regardless of size of the organization, a large customer base and multiple jurisdictions elevate certain risks.

Compliance professionals face an evolving environment where sanctions are increasing, lists are expanding and watch list screening is more complex. With reputational and financial risk ever present, compliance departments are under intense pressure from internal mandates to mitigate risk. At the same time, they are expected to reduce costs, presenting a double-edged challenge. In a recent white paper, SWIFT indicates that growing watch lists and transaction volume will cause the operational costs of sanctions compliance to double every four years. Add to that the cost of Politically Exposed Persons (PEPs), other high-risk individuals or accounts, and negative media screening for customer due diligence, and operational efficiency becomes a priority.

Meeting the dual challenge of balancing risk mitigation and cost is easier said than done. Much has been written about effectively

addressing the large number of alerts generated by most AML software that is used for customer screening and transaction monitoring, yet alert management remains one of the most challenging and expensive problems for institutions to overcome. Industry experts advise that it is critical to have efficient systems and processes in place to meet this challenge. Financial institutions have responded by re-evaluating their anti-money laundering (AML) programs, systems, processes and controls. Companies most successful will be those whose compliance strategies take into account four key factors:

- *Culture* — create a strong, company-wide culture of awareness and accountability for compliance that comes from the top down.
- *Risk Management* — a major role in compliance with risk assessments as a best practice.
- *Technology* — an essential component for effective compliance programs.
- *Globalization* — well-defined compliance programs that are consistent across a company's locations.

From system deployment to system effectiveness

The Federal Financial Institutions Examination Council (FFIEC) provides guidelines for selecting AML software that satisfies

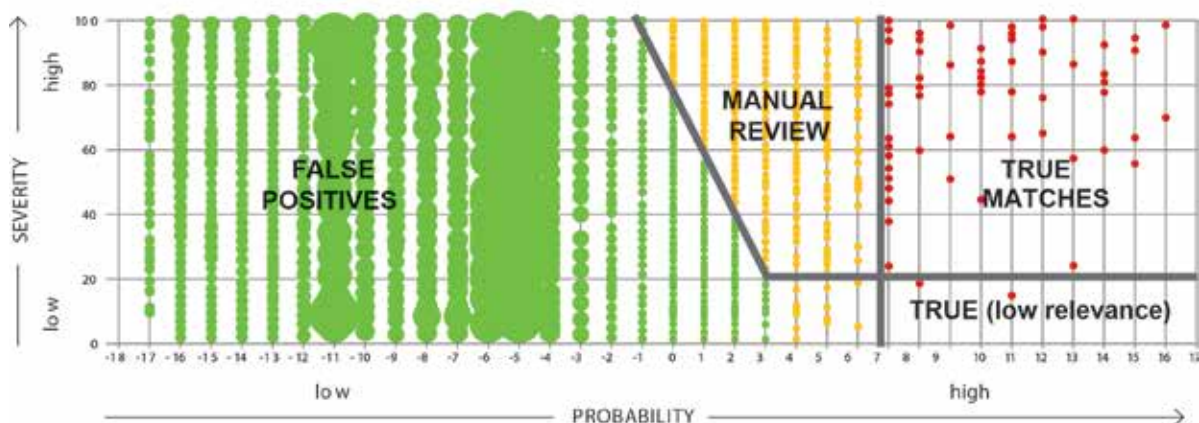
regulatory compliance and addresses all the risks inherent in an organization's customers, geographic imprint and products and services. These guidelines are proof that industry focus has shifted from solution deployment to solution effectiveness. Implementing AML systems is no longer enough. Bank examiners expect complete transparency and evidence that knowledgeable, well-trained compliance professionals can not only speak to filtering performance and understand how system changes will impact that performance, but also are regularly testing processes for effectiveness.

Institutions have come to realize that an inefficient system can impose excessive compliance costs. Faced with an uphill battle to comply with regulations and identify changing risk, compliance departments will calibrate system parameters to cast a wider net, only adding to the mounting sea of alerts, many of which are irrelevant or false. To address the volume of work involved in screening, financial institutions must exploit technology further. As a result, they are raising the technology bar by demanding more from their AML solutions providers.

The role of technology

Identifying and monitoring high-risk customers and transactions can only be addressed with an effective model for managing risk across the enterprise. The inherent complexity of the screening process

DATA VISUALIZATION OF PRIORITIZED ALERTS



poses a big problem for most rules-based systems in the market today. An algorithm compares individuals and entities to any number of lists with varying qualities and data while fuzzy logic must be employed to allow for spelling inconsistencies and other variations. These variables work in unison to deliver result sets that yield more quantity than quality.

A common problem with rules-based solutions is that they produce large, unmanageable volumes of false alerts. And while a vendor's default values are based on generic industry trends, they can fall short of a bank's unique risk profile. A cost-effective, manageable filtering process must be tailored to produce a reasonable number of highly relevant alerts based upon a defensible methodology. But what approach should institutions take?

Recommendations in industry white papers, articles and blogs suggest improving data quality at the source, understanding your screening environment, incrementally improving system performance and implementing analytics for AML. While these are all valid points for

consideration, the basic underlying screening technology that is used still relies on the set up and maintenance of hundreds, if not thousands, of rules. Many institutions struggle to win the screening battle of out-of-control hit rates and false positives by playing with the tuning parameters. Others are beginning to consider an alternative approach to the traditional, rules-based systems that have flooded the market for years or were built in-house.

The trues and nothing but the trues

On the opposite end of the rules spectrum, a principles-based model lends simplicity to the screening system. In principles or knowledge-based models, various problem solving methods such as classification and qualitative reasoning can be viewed in a uniform fashion. Classification of alerts is an important aspect of the screening process and one that is lacking in typical screening solutions. There are three types of potential matches: the really good ones to keep, the really bad ones to discard and those in the middle to either review or not to review. A principles-based model is more effective in quantifying, qualifying and prioritizing risk than a rules-based

approach because the focus is not just on eliminating false positives. It will also quickly deliver alerts with the highest risk and greatest relevance first, enabling institutions to establish a meaningful risk threshold that effectively separates alerts for review from those to be discarded. Where to draw this threshold is determined by an institution's requirements, risk appetite and a thorough analysis using below the line testing. Institutions plagued by an overabundance of false positives that drain time and resources for manual review will appreciate the fewer but higher quality results a principles-based AML screening solution delivers.

While the goal is to identify and monitor relationship risk across the enterprise, efficient alert management is crucial to the process. Principles-based technology solutions enable institutions to achieve greater operational efficiency and reduce the overall costs of alert remediation. **A**

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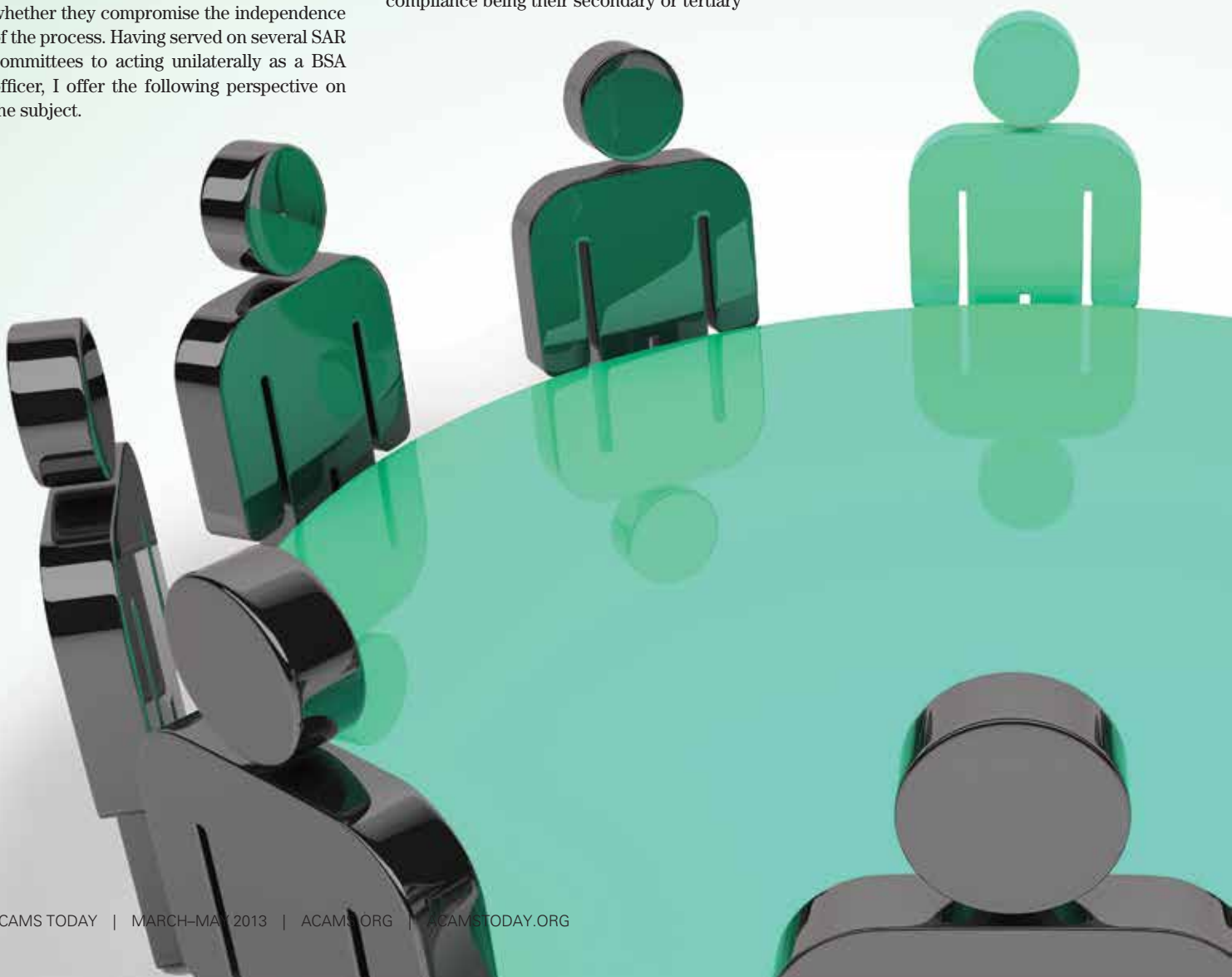
SAR – By Committee

Most people generally understand the definition of a committee to mean a group of individuals organized to oversee, investigate and report on an activity; independent from the main body authorizing its formation but ultimately responsible to that body. In sports, the term is often used to describe multiple players who combine to execute a task where each player alone would have limited success. Over the last decade much discussion has taken place regarding suspicious activity report (SAR) committees, not that every other practice stemming from the Bank Secrecy Act (BSA) and anti-money laundering (AML) laws has not raised the same never-ending dialogue. SAR committee discussions run the gamut from the make-up of the committee to whether they compromise the independence of the process. Having served on several SAR committees to acting unilaterally as a BSA officer, I offer the following perspective on the subject.

To committee or not to committee

Whether you choose to have a SAR committee is generally predicated on several factors, the most predominant of which is the size of the institution. The size of the institution will normally dictate the number of product lines offered and the size of the workforce. In turn, this creates a symbiotic relationship to the structure needed for effective BSA compliance and the likely number of SARs that will eventually be filed. This, however, may all be trumped by the philosophy of the president and board of directors, philosophy ranging from micromanaging to a laissez-faire attitude about the BSA. The extremely small institution may have a BSA officer who wears multiple hats, with BSA compliance being their secondary or tertiary

responsibility and priority. The BSA officer of these smaller institutions may report directly to the president. For the few SARs they file per year, less than 10 (including supplemental filings), a SAR meeting as opposed to a committee may be satisfactory. A large institution, one that files north of 150 SARs per year, may have several BSA/AML analysts on staff in addition to the BSA officer. There may also be further layers of management for review and sign-off authority. At a certain point, no institution wants its personnel spending more time at SAR meetings than their normal job functions. We as BSA/AML professionals sometimes lose sight of the fact that the financial institution we work for needs to earn a profit and compliance is



a cost of doing business. It is the mid-sized community bank and credit union, one that files 50 to 100 SARs per year, which is the most likely candidate for a committee.

Independence

One of the recurring questions I read from compliance professionals around the world asks if a committee compromises the independence of the individual investigating the suspicious activity. In the financial services industry a system of checks and balances is the cornerstone of limiting economic crime, and while institutions waver from time-to-time, such as keeping staff levels low to maintain targeted capital requirements, BSA compliance is no different. Having one individual as judge, jury and executioner is the antithesis of internal controls. Everyone reports to someone. Ask yourself, should a junior AML analyst be filing a SAR without the knowledge of management? While the degree of trust increases with job performance and experience, unilateral sign-off

authority is rare, and may only be the unintentional by-product of a financial institutions size and/or economic difficulties.

Independence, of course, can be obstructed or influenced by one manager, or a small cabal of individuals, no matter what safeguards you employ (see the Retaliation Factor, *ACAMS Today*, December 2010–February 2011 issue). Independence, however, should not be confused with a robust discussion among colleagues of like minds. One could counter argue that in some respects a SAR committee can act as a safety net to allow an investigator to be independent since the committee would not subject the investigator to the control of one individual. A committee, by nature, is additionally designed to police itself because of the differing personalities and expertise of its members.

Composition of the committee

If your institution decides to go forward with a committee, the optimum make up of the committee should be at least three, but no more than five participants. The BSA officer is a given, and depending on the number of additional analysts the most senior analyst may be another logical participant. In many

institutions the BSA officer is also an analyst or is assisted by one or more analysts. In the case of multiple analysts, you may wish to restrict their attendance to only the cases that pertain to them; or simply have each analyst readily available for further insight.

Candidates for the other seats should be managers drawn from deposit operations, lending, security, branch administration and compliance, with at least one being on the senior level and chairing the committee. Selecting the facilities or IT manager, for example, may not be a wise choice. The participants should be career-banking professionals, experts in their own field, yet with a rudimentary understanding of the other areas. In other words the longer they have been in banking the better. An experienced collection manager is another possible choice, since much of their job function revolves around negative behavior and people avoiding the truth.

One group that should not be included is directors or individuals on supervisory committees or advisory boards. Directors of community banks and credit unions may be well known in the community and politically connected, becoming emotional and irrational regarding an investigation of someone they know. Many may take the Pollyanna view that by interceding, which can range from an angry tongue-lashing to some fatherly advice, will resolve the situation to everyone's satisfaction, notwithstanding that their motive may be more sinister instead.

Despite all the training, those not exposed to the BSA on a daily basis may see their action as nothing more than a harmless common sense solution to a problem, rationalizing that the safe harbor provision was not really meant for this particular situation. A director on a committee is also the ultimate irony. In one respect you are reporting SARs to the board with no identifying information so as to protect the integrity of the process, while on the other hand that same director is sitting at the board meeting fully aware of the facts surrounding the filing.

Decision of the committee

The last thing you want is for the committee to work like the court system and cause an endless stream of delays and extra work because people are reluctant to make a decision. This goes back to the members you choose for the committee. The single most difficult concept to drive home to some is that a SAR is not a criminal complaint, nor should the activity be viewed in a cavalier or reticent



manner. Much of it is common sense. The activity will either be so blatantly criminal or suspicious that the decision to file is thoughtless; or so gray that more work and further monitoring may be needed. A preponderance of the votes should be unanimous one way or the other. People on the committee should understand that while not the objective of the BSA there are no penalties for filing endless, dumb or inconsequential SARs. Closing an account or deciding under what circumstances a letter soliciting further information is warranted will additionally become part of the review process, devolving into a further decision by the committee.

Protection against a false SAR

In the final analysis, after all is said and done, preventing a false SAR from being filed may be the single most overriding reason to have a committee. I am only aware of one instance in which a false SAR was filed, which is filing a false government document. Why someone would file a false SAR is like asking why someone would commit any crime, the reason often locked in the deep recesses of the suspect's mind. While a committee is no guarantee that a false filing can be prevented it certainly eliminates the unilateral filing. And while one layer of sign-off authority can be manipulated, multiple individuals raising multiple questions with documents in front

of them definitely makes navigation much more difficult. Abandoning any contemplated nefarious action increases when the road is tougher. For the institution, the negative publicity, legal and potential monetary fallout for a fraudulent SAR can be extremely deleterious.

Exposing other flaws

What I find is a major benefit of a SAR committee is that a by-product of AML/economic crime investigations is the exposure of other weaknesses in your institution. Because much of banking is interrelated and since the BSA encompasses every area of banking an internal avenue exists to expose training, policy and procedural flaws and/or violations. Some of the examples of such flaws are employees failing to follow account opening procedures; the discovery of custodial accounts where the minor is now 30 years old because the bank has no procedure to flag them; an inconsistent or non-existent cash-exchange policy; negligent collection activity on past due safe deposit box rents; improper check holds and loans paid years in advance — the result of something not thought of years earlier when processing rules for loans were established. The committee provides a regular forum for these problems to be discussed and addressed, since the committee may include some of the

department heads directly responsible for the errors raised, management that has the authority to correct them.

Need to know basis

Everyone is aware of the safe harbor provision and the fact that the target(s) of a SAR is not to be told under any circumstances about the filing. Only those on a need to know basis should be privy to a filing. Reports that law enforcement will sometimes tell a suspect that a SAR was filed against them or just the fact that someone may infer a SAR was filed against them is out of the control of the financial institution. We have all heard the story of the guy who is being investigated and his bank transactions become part of the investigation. Since he only banks in one place it is not very difficult for him to deduce that law enforcement obtained the information from his bank. Every now and then a question will arise that the formation of a SAR committee expands the number of people who know, and the more people that know, expands the chance of a slip of the tongue. While true for anything secretive, if you construct your committee the proper way the chance of something happening is probably the same as if you had no committee to begin with — or maybe, even worse. **FA**

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Effective AML model risk management for financial institutions:

The six critical components

Many banks and other financial institutions are struggling to stay current with anti-money-laundering (AML) regulations. Regulators have assessed several high-profile enforcement actions, fines, and penalties against financial organizations with lax controls over money laundering. Some of these actions were the result of an institution's failure to appropriately apply the concepts of a model risk management framework to design, execute, and maintain the models it deployed to manage AML risk.

As the financial institutions industry has evolved — offering new high-risk products, acquiring new types of customers, and adapting to frequently changing money laundering requirements — banks increasingly rely on complex models to meet the challenges of AML compliance.

The Office of the Comptroller of the Currency (OCC) and the Federal Reserve Board issued important regulatory guidance, “Supervisory Guidance on Model Risk Management,” on April 4, 2011. According to the guidance, the term “model” refers to “a quantitative method, system, or approach that applies statistical, economic, financial, or mathematical theories, techniques, and assumptions to process input data into quantitative estimates.”¹

Financial institutions relying on bank-specific models should use what regulators refer to as a “model risk management framework” for developing, implementing, and using these models. This framework enables banks to predict and identify risk more accurately and, therefore, make better top-level and line-of-business decisions based on model results.

To truly reduce risks inherent in AML models, a comprehensive and sustainable AML program should include the following critical components:

1. Model inventory and assessment;
2. Model development, implementation, and use;
3. Model validation;
4. Model tuning and optimization;
5. Model governance; and
6. Model foundation.

In this article, each of these six components is discussed in turn.

Meeting business needs and regulatory expectations

Initially, banks interpreted the broad multi-agency guidance to apply only to their credit and financial risk modeling. Subsequently, however, regulators have made it clear that the guidance applies to AML compliance. Hence AML models, such as transaction monitoring systems, customer risk-rating programs, and watch-list filtering systems, are being held to the same standard.

The guidance provides banks with a basic framework for deploying an enterprise-wide model risk management program. Examiners expect banks to use the framework when designing, implementing, and improving all models, including operating models used for AML compliance. Examiners are looking for a formalized, prescriptive methodology dictating the three basic components of the model risk management framework that the guidance identifies and requires:

1. Model development, implementation, and use;
2. Model validation; and
3. Model governance.

These expectations obligate banks to modify their approach to AML compliance in order to comply with the new industry standard.

In addition, regulators expect organizations that use AML models to provide evidence that the model risk management framework in place effectively identifies and manages the risk arising from the bank's reliance on models. Evidence might include, for example, documentation that the bank has identified where its data resides and who is responsible for the quality of that data meeting model governance requirements.

Financial institutions are struggling with how to adapt existing AML compliance programs to a model risk management framework. Many already have enterprise-wide policies and procedures for financial models but might not have extended a similar approach to AML-specific compliance components. Some banks are finding that reworking or enhancing existing AML model risk management processes to comply with supervisory guidance can be complicated and costly. Finally, in many cases, banks are realizing they have in place few of the model risk management components necessary for an effective AML program.

Defining a model risk management framework

Banks should build their AML models using the three requirements in the guidance but also with three additional critical components of effective model risk management (Exhibit 1): a model inventory, model tuning and optimization, and a model foundation. The model foundation components — business and regulatory alignment, supporting documentation, enabling technology, and project management — are supporting elements that further the effectiveness of AML models overall.

The determination that these particular components are critical to AML model risk management is based on an informal analysis by Crowe Horwath LLP of regulatory

¹ Board of Governors of the Federal Reserve System and Office of the Comptroller of the Currency, “Supervisory Guidance on Model Risk Management” (OCC 2011-12 and SR 11-7), April 4, 2011, <http://www.occ.gov/newsissuances/bulletins/2011/bulletin-2011-12.html> and <http://www.federalreserve.gov/bankinforeg/srletters/sr1107.htm>.

guidance, examination findings, dialogues with regulators, and client insights. Institutions that implement and optimize the six components explained here can more effectively build a comprehensive AML program that meets business and regulatory needs.



Exhibit 1 Source: Crowe analysis

1. Model Inventory

A model inventory takes stock of the implementing components — primarily the people, processes, and technology — that support AML models (Exhibit 2). The inventory of existing models for AML compliance at any single financial institution may be large and can include both manual and automated processes and technology. Once an inventory is completed, the organization should assess the enterprise risk of each item in the inventory in order to manage operational risks commensurate with the perceived risks in the model.



Exhibit 2

Completing an AML model inventory requires taking the following three steps:

- A. *Enterprise identification.* Existing models that support AML compliance in the organization are identified.
- B. *Model risk assessment.* The model’s enterprise risk is assessed. The results of the assessment then drive the level and scope of the model risk management activities applied to each model.
- C. *Accountability.* The organization clarifies who is ultimately accountable for controls, compliance, and oversight of the models identified in the inventory.

2. Model Development, Implementation, and Use

An AML model must be well documented and tailored to the unique risk profile of the organization (Exhibit 3). Due to the varying risk profiles and business requirements of different financial institutions, each AML model must be customized to meet the specific needs of the institution. When banks design models for AML programs, relevant stakeholders — including AML executives, IT personnel, and affected line-of-business leaders — should assess the design structure, implementation approach, and use of output from the AML model for efficacy and regulatory compliance.

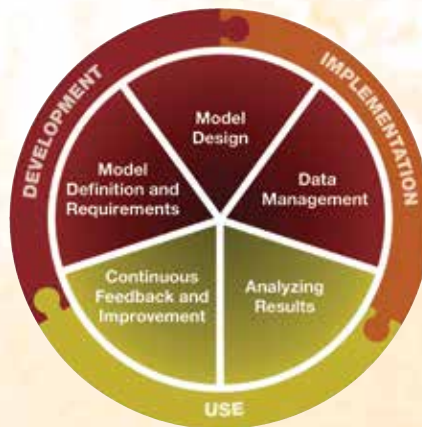


Exhibit 3

- A. *Model Development and Implementation: Model definition and requirements.* According to the joint guidance, “An effective development process begins with a clear statement of purpose to ensure that model development is

aligned with the intended use.” Banks must document model definitions and requirements for meeting business and regulatory needs. This development process involves the bank’s identification of the various sources of its functional data. The process also includes defining and documenting performance and technical requirements, and the result serves as the baseline justification for the model.

- B. *Model Development and Implementation: Model design.* An AML model must be designed based on the documented objectives of the model and functional and technical requirements. Any limitations or merits of the model must be documented and considered as the model is developed. Model limitations — which could be tied to model inputs, the processing component of the model, or the way the model output is created — will be an important consideration when model risk is assessed.
- C. *Model Development and Implementation: Data management.* AML compliance relies heavily on data quality, and data is never perfect. Efforts must be made to assess the completeness, accuracy, and relevance of input data for the model.
- D. *Model Use: Analysis of results.* According to the guidance, “An understanding of model uncertainty and inaccuracy and a demonstration that the bank is accounting for them appropriately are important outcomes of effective model development, implementation, and use.” AML executives must analyze model results relative to limitations and design assumptions in order to assess the potential performance of a model before other stakeholders use the results.
- E. *Model Use: Continuous feedback and improvement.* To verify that the AML model is being used in a manner consistent with business and regulatory needs, institutions should implement a feedback mechanism to learn from and improve the process during the development, implementation, and post-implementation of the model. For a process of continuous improvement, management must empower users of AML models to provide input and feedback to the model designers and managers.

3. Model Validation

Ongoing evaluation of models is required to confirm that results are accurate and controls are adequate. The “*Supervisory Guidance on Model Risk Management*” defines model validation as “the set of processes and activities intended to verify that models are performing as expected, in line with their design objectives and business uses. It also identifies potential limitations and assumptions, and assesses their possible impact.”

While the concept of validation is not new, the guidance expands the expectations for an effective validation review. The guidance states, “All model components, including input, processing, and reporting, should be subject to validation; this applies equally to models developed in-house and to those purchased from or developed by vendors or consultants.”

Model validation confirms that an institution’s AML model is aligned with business and regulatory expectations and is properly executing on underlying risks. The approach to validation focuses on the following four components related to the conceptual design, system, data, and process for AML models:

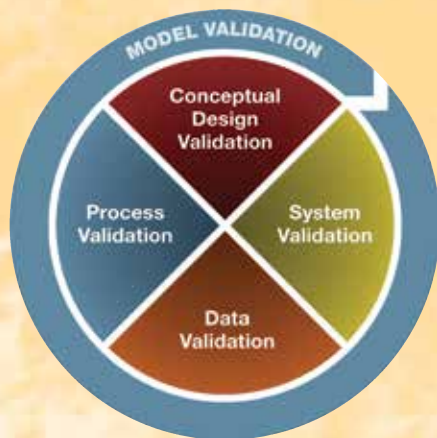


Exhibit 4

- A. *Conceptual design validation.* Do the conceptual design and capabilities of the AML model meet the identified business and regulatory needs? In assessing the conceptual soundness of a model, AML executives should consider key metrics and evidence supporting the ability of the model to accurately predict AML risks.
- B. *System validation.* All AML technology and automated systems implemented to support an AML model have inherent limitations. System validation

independently confirms that the development, implementation, and ongoing use of AML technology are properly designed and integrated enterprise-wide to support the model.

- C. *Data validation.* Is the AML model capturing accurate and complete information? Data errors or irregularities impair results and might lead to the organization’s failure to identify and respond to elevated AML risks.
- D. *Process validation.* Verify that the design and ongoing sustainability of the AML model’s processes are resulting in output that is accurate, managed effectively, and subject to appropriate controls.

AML model validation is often complex and resource-intensive. Testing is generally done by individuals who have not previously provided input on either the design or implementation of the model.

4. Model Tuning and Optimization

Tuning and optimization is the ongoing process of testing and enhancing the AML model. Model tuning is an important aspect of developing and implementing an AML model as well as its ongoing management and sustainability. Following are the three primary elements of a comprehensive model-tuning program:



Exhibit 5

- A. *Gap analysis.* Gap analysis helps ensure that all of the risks the bank faces are being monitored at an appropriate level for AML purposes. For example, gap testing might identify new products or services that pose significant risk but are not part of the overall monitoring program, or the testing might identify

specific high-risk customer types that are being incorrectly stratified. To confirm that an organization’s AML risks are being covered appropriately, the organization or third-party vendor must remediate any gaps or limitations identified during this analysis. Furthermore, the organization should put into place a process for assessing gaps periodically.

- B. *Prescriptive methodology.* Optimizing AML models requires a consistent methodology founded in quantitative analysis. Prescriptive methodology is a formal documentation of the comprehensive approach the bank is using to optimize the model. The methodology must also define change-control procedures and the initiating events that require subsequent tuning. Examiners now call not only for the periodic assessment of model parameters but also for the definition of specific events — such as a change to an organization’s risk profile due to an acquisition — that warrant tuning.
- C. *Documentary evidence.* Examiner and auditor expectations call for an audit trail of changes in the AML model’s parameters during the tuning process. Documentary evidence is used to demonstrate to regulators and auditors that the AML system is aligned to the prescriptive methodology for managing AML activities. Without supporting documentation, the prescriptive methodology might not stand up to a regulatory examination. The bank must maintain the documentary evidence for the life of the AML model.

5. Model Governance

All financial institutions that rely on models for AML compliance should implement an appropriate governance program. According to the guidance, “Even if model development, implementation, use, and validation are satisfactory, a weak governance function will reduce the effectiveness of overall model risk management.”

An organization’s governance policies, procedures, and processes should support controls and oversight to manage an effective and sustainable AML program. AML models should be implemented from end-to-end, starting with the board of directors and senior management, who design and oversee operating models; and including the line-of-business managers, who are responsible for implementation; third-party vendors or IT specialists, who implement technology

components; and compliance risk managers, who must manage the risk inherent in the model. Effective model governance requires the following elements:



Exhibit 6

- A. *Senior management and board involvement.* Senior management and the boards of directors must set the direction and oversee the policies of a model risk management framework. AML models that are managed at the leadership level are more likely to be supported by well-thought-out policy and procedures as well as comprehensive methodologies that are executed consistently throughout the enterprise and managed through continuous improvements.
- B. *Policies and procedures.* At a minimum, the cornerstones of the guidance — development, implementation, and use; validation; and governance — must be addressed in formalized and enterprise-wide policies. Implementing procedures should dictate the organization's prescriptive methodology for managing the risks of models relied upon for AML compliance.
- C. *Roles and responsibilities.* Clear lines of reporting identify who owns model risk management processes and affirms the control structure that supports compliant AML procedures. When the bank lacks the knowledge to manage these functions, an individual should be responsible for augmenting the organization's expertise in order to meet the bank's model risk management standards.
- D. *Enterprise risk management and reporting.* Organizations with an enterprise risk management function should

define risks, events, or changes in the organization that could affect business processes. An effective model risk management framework promptly identifies such risks and assesses their potential impact on bank models. Clear lines of authority and reporting should be established to oversee how a model's performance might change as a result of changes in the organization.

- E. *Independent audit and testing.* Auditing and self-testing effectively should challenge the model's conceptual design, data reliability, and risk management controls. The role of auditing and self-testing is not to duplicate model risk management activities but rather to assess the effectiveness of a model risk management framework in meeting AML business and regulatory needs.

6. Model Foundation

The model foundation is the final component critical to an effective AML model risk management program. A strong foundation adds structure, consistency, and efficiency to support program compliance. Following are the four elements of a robust model foundation:

- A. *Business and regulatory alignment.* Regulators may deem a model risk management program to be ineffective if business needs are not aligned to regulatory standards. Misalignment could result in a bank's failure to appropriately manage the risks inherent in AML models and thus lead to poor decision-making and even regulatory fines and penalties.
- B. *Supporting documentation.* Detailed document management and retention are necessary for all areas of model risk management, including but not limited to policies and procedures, periodic model validation results, detailed tuning and optimization analysis, and model inventory and risk assessment.
- C. *Enabling technology.* Technology helps AML executives to manage the breadth of requirements for an effective model risk management program. Banks must define their approach to using technology based on their size, regulatory standards, and their model risks. From simple spreadsheet maintenance systems to an enterprise-wide model risk management

software solution purchased from a third-party vendor, technology use varies by institution.

- D. *Project management.* Various internal and external stakeholders and third-party vendors often come together to develop and implement AML models. Experienced project management personnel are critical to effective resource management and successful model implementation.

Conclusion

Minimizing AML compliance risk in an era of mandated model risk management standards requires a financial institution to design, implement, test, and improve its AML models on an ongoing basis. The framework outlined here is designed to lead banks through the critical components of building an effective and compliant AML model risk management program.

Institutions that do not adopt a documented, consistent model risk management framework for AML programs risk incurring regulatory actions, fines, and other penalties. All aspects of model risk management require banks to provide robust supporting documentation that demonstrates to regulators and auditors that their AML models are effective and aligned to business and regulatory needs. Using a project management structure overseen by senior management contributes to consistency within the organization and the integrity of its AML models.

Additional tools and strategies are available to help institutions with the daunting requirements of the guidance. Given the complexities of model risk management, many banks are turning to technology available in the marketplace that can help them deploy a systematic and consistent approach. Using technology also helps with the documentation, quantitative analysis, and tuning procedures that federal examiners have come to expect. **A**

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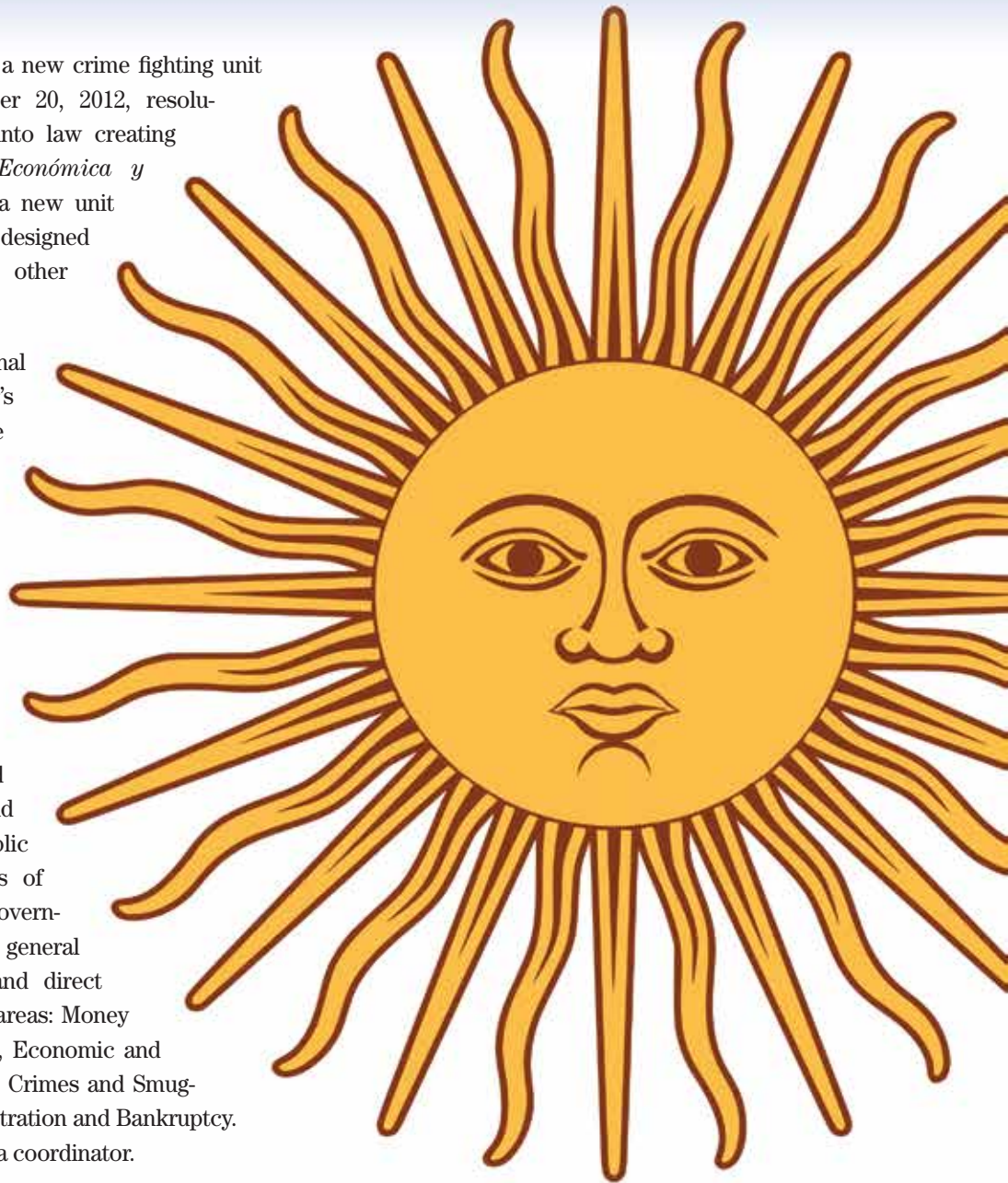
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New unit in Argentina to help fight financial crime

As the year came to an end, a new crime fighting unit came to life. On December 20, 2012, resolution 914/2012 was signed into law creating *Procuraduría de Criminalidad Económica y Lavado de Activos (PROCELAC)* a new unit within the attorney general's office designed to combat money laundering and other economic crimes.

PROCELAC replaced three internal units of the Argentine Prosecutor's Office: the Prosecuting Unit for the Investigation of Tax and Smuggling Crimes (UFITCO) for tax and customs crimes, illegal trafficking of cultural assets, brands, patents, and intellectual property; the Prosecuting Unit for the Investigation of Money Laundering and Terrorist Financing Crimes (UFILAVDINTER) for money laundering and terrorist financing crimes, and the Office for the Coordination and Monitoring of Offenses against Public Administration (OCDAP) for cases of corruption and fraud against the government. PROCELAC will be led by a general prosecutor who will coordinate and direct the performance of six operational areas: Money Laundering and Terrorist Financing, Economic and Banking Fraud, Capital Market, Tax Crimes and Smuggling, Crimes against Public Administration and Bankruptcy. Each operational area will be led by a coordinator.



PROCELAC will also be equipped with an administrative area, which will be responsible for the registry of evidence, reception desk and documental files. And finally the technical support area will include: assets recovery, technical investigations, technical consultancy and computer support.

It has to be stressed that both general prosecutor and the six coordinators of the operational areas, with the exception of the field of bankruptcy, will work full time in the roles to which they were appointed.

The general prosecutor in charge of PROCELAC is responsible for coordinating the operational areas, acting as the primary or contributory attorney in relevant cases, intervening when the administration requests and performing acts that require judicial authorization as appropriate, receiving complaints, and carrying out together with the coordinator of the corresponding operational area and preliminary investigations. The general prosecutor is also tasked with prioritizing interventions of ad hoc attorneys in cases where it is appropriate to strengthen the representation of the attorney general's office (i.e., cases with institutional importance and socioeconomic impact). In addition, the general prosecutor is responsible for proposing to the attorney general's office training programs, legislative reform projects, protocols, cooperation agreements with agencies of the federal, provincial or municipal government or international organizations, as well as any other initiatives deemed necessary for the performance of their duties.

Coordinators to operational areas will:

- Intervene as ad hoc prosecutors in cases that deal with facts of the specialty of their operational areas
- Maintain complete and updated records of the different manifestations of economic crime, for which they must request the necessary information to the relevant sites of attorney general's office;

- Develop a database on the cases of reference, in order to detect common patterns to anticipate areas of institutional risk and guide further researches;
- Prepare periodic reports on the status of processes, progress and constraints encountered;
- Design research strategies to clarify events of economic crime and recovery of assets involved;
- Monitor and perform continuous studies of national and international case law that may have an impact on the processing of these cases;
- Provide technical advice and the necessary assistance to prosecutors involved in the investigation;
- Provide links and interagency actions with specialized agencies in the field, in order to improve investigations and prosecution of cases of their specialty; the technical support area is in charge of providing technical support to the general prosecutor and the coordinators of the areas. This area is in charge of:
 - The overall registration and systematization of information resulting from the activity of each operational area,
 - Analysis, development, and implementation of policies of general application and specific measures to the recovery of assets of illicit origin
 - Perform expert tasks that were assigned, subject to the dictates of their art, science or technique;
 - Advise the general prosecutor and the coordinators by providing specific knowledge;
 - Aid PROCELAC in the tasks of database query, incorporation, organization and intelligible communication of information of an economic nature;
 - Aid in the recovery of assets linked to acts of economic crime;
 - Develop and implement strategies and methodologies for the investigation of complex facts of economic crime;
 - Detect recurring patterns on the use of special techniques or devices applied in their area of expertise for the commission of economic crimes;
 - Design and manage a system of computer record of the activities of the PROCELAC.

The administrative area will be responsible for the public's attention, the management of the reception and delivery desk, the registration system of the evidence and documental files. In other words, their work will be circumscribed to the organization and implementation of the tasks related to the structural support and administrative management of the unit.

This new unit has the backing of various civil society organizations such as the Institute for Comparative Studies in Criminal and Social Sciences (INECIP), the Penal Thinking Association, the Center for Research and Prevention of Economic Crimes (CIPCE) and Compliance Monitoring Committee of the Inter-American Convention against Corruption.¹ The INECIP, institution chaired by renowned specialist David Baigún, noted that PROCELAC “will adjust, within the limitations that retains the current procedure code, the criminal investigation to a modern justice system efficient and less selective, they also provide a basis to begin to discuss a comprehensive reform.”²

In summary, this new organization is a step forward in the fight against economic crime and money laundering and this new unit it is expected to revert the low impact on prosecutions of complex cases of economic crimes, and eventually obtain effective judicial responses in a reasonable time. With that said, compliance professionals will have to be more alert and attentive as PROCELAC will have more resources, organization, coordination inter-areas and dynamism to follow the money trail in order to recover assets, make confiscations and convictions.

The need to adopt new strategies, developments, and institutional arrangements to boost the investigative capacity and efficacy of the criminal prosecution on the matter is revealed by the change in the global context, the complexity of criminal modalities and the international commitments undertaken by Argentina. This new unit will allow the Argentine Prosecutor's Office to rise to the challenges faced by Argentina. **A**

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¹ Argentine Prosecutor's Office, *News*, (December 27, 2012), available at URL: <http://www.mpf.gov.ar/index.asp?page=/ReporteNoticia.asp?IdRegistro=692> (last accessed 29/01/2013).

² INECIP, *Press release*, (December 21, 2012) available at URL: <http://es.scribd.com/doc/117628090/Creacion-de-la-Procuraduria-de-Criminalidad-Economic-a-y-Lavado-de-Activos> (last accessed 29/01/2013). Furthermore, the “Civil Association for Equality and Justice” (ACIJ) also adhered to that statement. ACIJ, *News*, (December 21, 2012) available at URL: <http://acij.org.ar/sin-corrupcion/2012/creacion-de-la-procelac/> (last accessed 29/01/2013).

Brazil: Combating corruption and money laundering – a joint push forward

Brazil represents one of the most dynamic countries in the world in terms of business opportunities. It is Latin America's largest economy and possesses substantial natural resources and a relatively liberal economic environment. Various think tanks and NGOs (e.g., Heritage Foundation/Transparency International) do, however, single out the problem of corruption as a pressing problem undermining economic freedom and therefore the success of business in Brazil. Brazil's president Dilma Rousseff who has made combating corruption a top priority has made significant steps in addressing the corruption problems culminating in corrupt practices within the highest echelons of Brazilian society. Although some experts remain critical of the extent of the changes resulting from Rousseff's efforts, the successes are noteworthy and a critical step in the right direction.

Brazil's fight against corruption

Since Brazilian president Dilma Rousseff was elected in January 2011, the country has witnessed a concerted crackdown on corruption which culminated in the country's largest corruption investigation into Brazilian's political elite, leading to the supreme-court trial of the mensalão (big monthly stipend) — one of the biggest cases to be heard in Brazil since the end of the military dictatorship in 1985.¹

According to an article published by the *BBC*, the mensalão scheme embezzled public funds to buy political support for the then Lula government and to pay off debts from election campaigns. Prosecutor Roberto Gurgel reportedly called the scheme “without doubt the most daring and scandalous case of corruption and embezzlement ever uncovered in Brazilian history.” The central accusation was that politicians from coalition parties were given large payments each month to support the minority government led by the Workers' Party. José Dirceu de Oliveira e Silva (Dirceu) who was Brazil's former president, Luiz Inacio Lula da Silva's

(Lula) chief of staff was accused of being the mastermind behind the scheme. Prosecutors say that Mr. Dirceu and other leaders of the Workers Party (PT), together with bankers and publicists, formed a “criminal organization” that used public and private funds to buy political favors. The trial for the scheme which came to light in 2005, ended on the 17 of December 2012, with 25 of the 38 defendants found guilty of charges including corruption, money-laundering and misuse of public funds.

It was recently reported that Brazil's former president, Lula also faces questions about such ‘discretionary appointments to public office’ when he was in power. On the 14 of December the public prosecutor's office said it was investigating claims of bribery and influence-peddling involving 24 people, including Rosemary de Noronha, a former bank teller who has been close to Lula since before he was president. In 2005, he made her head of a new “presidential office” in São Paulo. Investigators allege that during this time she took bribes to arrange forged permits for construction and transport projects with accomplices in regulatory agencies. Brazilian journalists reportedly dubbed the case “Rosegate,” a riff on Watergate and the shorter version of the name Rosemary Nôvoa de Noronha.²

Brazilian AML legislation amended

As part of her anti-corruption initiative, Rousseff amended the existing AML legislation in mid-2012. The existing AML legislation was first enacted in 1998, Brazil's money laundering laws (Law 9613) did not criminalize the act of money laundering unless the money or assets in question were related to enumerated illegal activities; arms and narcotics trafficking, terrorism, kidnapping and extortion among them.

As reported in the *Rio Times*, the new amendments to Law 9613 does away with the reference to underlying crimes, criminalizing the transfer of funds of which the nature or

source is concealed. In addition to lowering the threshold for prosecution, the new rule enhances the criminal and civil penalties for the offense.³ Under the new rules, prison sentences have been increased from three to ten years and applicable fines drastically increased from R\$200K to R\$20 million (a provision in the new rules provides for the discretionary use of ill-begot funds to be offset against applicable fines).

The same article noted that the significant increase in the penalties will hopefully act as an effective deterrent to money laundering crimes. The new rules also have some bite, providing police and prosecutors expanded investigatory powers. Brazil's decision to embolden the rules on money laundering brings the country more in line with concerted international efforts to stop money laundering.

As reported on its web site, Brazil's financial intelligence unit, Conselho de Controle de Atividades Financeiras (COAF) is part of the Ministry of Finance, and plays a central role in the Brazilian anti-money laundering and counter terrorism financing system, not only at the operational level but also at the policy level through its plenary council, which is comprised of representatives from all the responsible bodies and ministries that meet as needed. Also, COAF has been responsible for coordinating the Brazilian participation in several international organizations, such as FATF, GAFISUD, Egmont Group, and CICAD/OAS.

Brazil also cooperates closely with UNODC in implementing its AML program. The growth of UNODC's areas of work was complemented by the expansion of its geographic reach, which occurred in 2001, when the office became regional, covering the southern cone countries: Argentina, Chile, Paraguay and Uruguay. The thematic areas for the southern cone are also in expansion, with projects on drug prevention, HIV and AIDS prevention, prison reform and prevention against gender-based violence.

¹ <http://www.bbc.co.uk/news/world-latin-america-19081519>

² <http://www.nytimes.com/2012/11/30/world/americas/brazil-faces-a-new-corruption-scandal.html>

³ <http://riotimesonline.com/brazil-news/front-page/new-anti-money-laundering-law-signed/>

Seehanat Prayoonrat: Compliance is our key role

A *CAMS Today* had the opportunity to speak with Police Colonel Seehanat Prayoonrat, PhD (Law), secretary-general of Anti-Money Laundering Office (AMLO), Thailand's FIU. Khun Prayoonrat has held the position of head of AMLO since March 2012. Prior to this position, he was appointed as a member of the Drafting Committee on Anti-Money Laundering Law/Terrorist Financing Law and has served in various capacities with parliamentary and governmental bodies. Consequently, he wrote a monograph titled *An Overview of the Legal Framework of Thailand's AML/CFT Activities*, published in December 2006 by the Asian Development Bank (ADB). He has also presented numerous papers in English at international seminars including a paper on *Extradition and Mutual Assistance in Corruption Matters* in 25 Asian Pacific Countries at the 2006 March seminar sponsored by ADB/OECD Anti-Corruption Initiative for Asia and the Pacific held in Kuala Lumpur, Malaysia. He was appointed by Asia/Pacific Group as honorary advisor for Thailand. He served as director, AMLO Financial Intelligence Unit (FIU), senior specialist, Chief Information Officer (CIO) of AMLO. He was acting secretary-general from October 2008-2012. He is also chairman of the AML/CFT Working Group in Thailand.

ACAMS Today: What is the current AML regime in Thailand in terms of practical implementation? What are the next critical steps?

Seehanat Prayoonrat: On 14 January 2013 and 17 January 2013, the Senate and the House of Representatives respectively gave a final confirmation to the Anti-Money Laundering (AMLA) (No. 4) and FOT Act drafts. Both laws will be submitted for royal signature and gazettal in a few days. I believe that in a few months, Thailand will be mostly in compliance with the FATF standards and obligations. Meanwhile, we expect to see all

reporting entities observe the rules as we will impose more stringent supervision and regulation on them.

AT: What is your vision for AMLO's development and its role in money-laundering prevention and financial crime investigations?

SP: This year and in past years, the Thai Government has rendered strong support to AMLO. We have restructured the work units to include, among others, a Financial Intelligence Division, a Supervision Division and an International Cooperation Division. The government also allocated more budgets and personnel for compliance. I am confident that our action in money laundering prevention and suppression as well as the countering of terrorist financing will be in full swing starting this year.

AT: What are some of the critical AML challenges facing Thailand and Asia? What advice would you give on how to best deal with these challenges?

SP: AML is new to many sectors in our country. How to make the financial, non-financial and civil sectors understand that AML is everyone's duty and is good for the sake of society both domestically and internationally is extremely challenging. But we will continue to talk with them through various media and I believe everyone will gain a better understanding. The AMLO on its part will also exercise our supervisory power to make sure that everyone is compliant with the AML laws.

AT: In the last five years, what would you say are the most memorable AML/CFT lessons learned by compliance professionals?

SP: In the past, some financial institutions failed to fully implement the AML laws and the KYC/CDD regulations, making Thailand vulnerable to be used as a safe haven for money laundering and other financial crimes. Today, we still see people were lured into making bank transfers to the fraudulent

It is time to get rid of the concept that AML is costly and non-profitable

gangsters. We still see human traffickers wiring their money overseas. These are some of the lessons that the FIs need to make note of and help the authorities to get rid of these culprits.

AT: What counsel would you give to financial institutions on how to build a solid compliance program?

SP: I would encourage all managers of a bank and non-bank business to view anti-money laundering as their core business. They must place the greatest importance on this matter and instruct their staff to act accordingly. It is time to get rid of the concept that AML is costly and non-profitable. Cost on society is much higher if you neglect AML compliance duties.

AT: What is your vision for AML development in Thailand in the near future?

SP: From now and into the near future, supervision and regulation on AML compliance is our key role. We are ready to increase the number of staff as well as their efficiency. I am determined to reduce financial crimes that use financial institutions as a tool for committing crimes. **A**

Interviewed by Hue Dang, CAMS, head of Asia, ACAMS, Hong Kong, China, hdang@acams.org



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พันตำรวจเอก สีนหาท ประยูรรัตน์ เลขาธิการคณะกรรมการป้องกันและปราบปรามการฟอกเงิน ประเทศไทย

- ขอทราบสถานะเกี่ยวกับการป้องกันปราบปรามการฟอกเงินของไทยในปัจจุบัน และไม่ทราบว่ามีพัฒนาการหรือขั้นตอนที่สำคัญต่อไปอย่างไรบ้าง
เมื่อวันที่ 14 มกราคมและ 17 มกราคม 2556 ที่ผ่านมา
ที่ประชุมมาติสภาและสภาผู้แทนราษฎร ได้มีมติผ่านร่างแก้ไขพระราชบัญญัติป้องกันและปราบปรามการฟอกเงินฉบับที่ 4
และร่างพระราชบัญญัติป้องกันและปราบปรามการสนับสนุนทางการเงินแก่การก่อการร้าย
กฎหมายทั้งสองฉบับนี้จะได้รับการทูลเกล้าฯ
เพื่อขอให้พระบาทสมเด็จพระเจ้าอยู่หัวทรงลงพระปรมาภิไธย
จากนั้นจะมีผลบังคับใช้ในวันถัดจากวันที่ประกาศในราชกิจจานุเบกษา
ผมเชื่อว่าในอีกไม่กี่เดือน ประเทศไทยจะปฏิบัติตามมาตรฐานและกติกาสากลได้เกือบหมด
ในขณะเดียวกัน
เราก็มุ่งมั่นว่าบรรดาผู้มีหน้าที่ในการรายงานธุรกรรมจะปฏิบัติตามกฎระเบียบต่างๆ
เพราะเราจะมีภารกิจที่ตรวจสอบอย่างเข้มงวดมากยิ่งขึ้น
- ท่านมองว่าสำนักงาน ป.ง. มีพัฒนาการอย่างไร
รวมทั้งบทบาทในการปราบปรามการฟอกเงินและในด้านการสืบสวนอาชญากรรมทางการเงิน
ในปีนี้และที่ผ่านมา รัฐบาลได้ให้การสนับสนุนแก่สำนักงาน ป.ง. เป็นอย่างดี
เราได้มีการปรับปรุงโครงสร้างหน่วยงานใหม่ให้มีหน่วยที่รับผิดชอบหน้าที่ต่างๆ อย่างชัดเจน
เช่นมีกองข่าวกรองทางการเงิน กองกำกับตรวจสอบ และกองความร่วมมือระหว่างประเทศ
เป็นต้น นอกจากนี้ รัฐบาลยังได้อนุมัติงบประมาณและอัตรากำลังเพิ่มให้อีกด้วย
ผมมั่นใจว่าเราจะเริ่มปฏิบัติงานด้านการป้องกันปราบปรามการฟอกเงินและการสนับสนุนทาง
การเงินแก่การก่อการร้าย ได้อย่างเต็มที่ภายในปีนี้เลย
- ท่านคิดว่าในเรื่องการต่อต้านการฟอกเงินของไทยและเอเชีย มีอะไรที่เป็นประเด็นท้าทาย
และมีวิธีการใดที่ดีที่สุดที่จะรับมือกับความท้าทายดังกล่าว
เรื่องที่ทำหยาบคือ การต่อต้านการฟอกเงินในประเทศของเราเป็นเรื่องใหม่สำหรับหลายๆ
ภาคส่วน ดังนั้น การที่จะทำอย่างไรให้บรรดาภาคการเงิน ภาคที่ไม่ใช่สถาบันการเงิน
ตลอดจนภาคประชาสังคมเกิดความเข้าใจว่าการต่อต้านการฟอกเงินเป็นหน้าที่ของทุกคน
ทำเพื่อประโยชน์ของสังคมทั้งในประเทศและต่างประเทศ อันนี้ผมถือว่าเป็นเรื่องท้าทาย ซึ่ง
ป.ง. จะสื่อสารกับภาคส่วนต่างๆ ผ่านช่องทางหลายช่องทางอยู่เสมอ
และผมคิดว่าทุกคนก็มีความเข้าใจดีขึ้น ในส่วนของ ป.ง. เอง
จะเพิ่มความเข้มข้นในการกำกับตรวจสอบตามอำนาจที่มีอยู่เพื่อให้ผู้เกี่ยวข้องปฏิบัติตาม
กฎหมายและระเบียบ
- ใน 5 ปีที่ผ่านมา มีบทเรียนด้าน AML/CFT
อะไรที่น่าจดจำบ้างในมุมมองของผู้ที่ทำหน้าที่กำกับตรวจสอบ
ในอดีต
สถาบันการเงินบางแห่งไม่สนใจปฏิบัติตามกฎหมายฟอกเงินหรือกฎกระทรวงว่าด้วยการรู้จัก
ลูกค้าและตรวจสอบข้อเท็จจริงเกี่ยวกับลูกค้าเท่าที่ควร
ทำให้ประเทศไทยมีความเสี่ยงที่จะตกเป็นแหล่งฟอกเงินหรือการทำอาชญากรรมทางการเงิน
วันนี้เรายังพบกรณีประชาชนถูกหลอกลวงให้โอนเงินจำนวนมากให้คนร้าย
เรายังพบกรณีกลุ่มค้ายาเสพติดได้จากการกระทำความผิดไปต่างประเทศ
นี่เป็นบทเรียนที่ผมอยากให้สถาบันการเงินใส่ใจกว่านี้และช่วยเหลือหน่วยงานในการกำจัดคนที
กระทำความผิด
- ท่านแนะนำให้สถาบันการเงินสร้างแผนงานกำกับดูแลที่เข้มแข็งอย่างไรบ้าง
ผมส่งเสริมให้ผู้บริหารธนาคารและธุรกิจที่ไม่ใช่สถาบันการเงินมองว่า
การต่อต้านการฟอกเงินเป็นงานหลักงานหนึ่ง
ควรรีความสำคัญในเรื่องนี้และจัดการให้พนักงานปฏิบัติตามอย่างจริงจัง
ถึงเวลาแล้วที่จะลดละเลิกความคิดที่ว่าต่อต้านการฟอกเงินเป็นงานที่ต้องเสียค่าใช้จ่ายสูง
หรือไม่สร้างผลตอบแทนใดๆ ผมอยากให้คิดว่ามูลค่าความเสียหายต่อสังคมจะสูงยิ่งกว่า
หากท่านละเลยงานกำกับดูแลเกี่ยวกับการฟอกเงิน
- พัฒนาการด้านการต่อต้านการฟอกเงินของไทยในอนาคตอันใกล้มีด้านใดบ้าง
นับจากวันนี้จนถึงอนาคตอันใกล้ งานกำกับตรวจสอบจะเป็นบทบาทหน้าที่หลักอย่างหนึ่ง
เราพร้อมที่จะเพิ่มอัตรากำลังเจ้าหน้าที่ ตลอดจนเพิ่มประสิทธิภาพในการทำงานของเจ้าหน้าที่
ผมมุ่งมั่นตั้งใจที่จะแก้ไขปัญหาอาชญากรรมทางการเงินที่ใช้สถาบันการเงินเป็นเครื่องมือในการ
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Jeremy Thompson

Product Development Manager



Jeremy Thompson is the product development manager for ACAMS. He has been with the organization since 2006 and his responsibilities range from architecture and design of ACAMS' web sites, to new product development and managing technical projects.

Prior to joining ACAMS, Thompson worked with the Financial Division of Thomson Corp in its User Experience Group, where he focused on the usability and design of product suite and managed a small team dedicated to front-end design/development. Thompson was also instrumental in developing products related to historical research reports, global share ownership and financial transactions. He also spent significant time integrating new and existing services into their integrated platform and tailoring it to specific market groups.

Since joining ACAMS, Thompson has designed and launched several web sites, is the product developer for the Risk Assessment Program, has redesigned the content management system and has proven to be a strong leader within the compliance community.

ACAMS Today: How did you first become involved in web development?

Jeremy Thompson: My education was in visual design, but I started my career working for an information provider. I quickly transferred into the marketing department to put my skills to work, but had a good grasp of our data-centric company so I had the extra responsibility of managing the Online Help system. In the late 90s, the web was changing everything — especially in our industry, so I decided to take a two-day course on HTML

and coded some very basic web sites. My technical skills improved and I was fortunate enough to be recruited into the product development department that was responsible for the usability and design standards for our Investment Banking Group. My overall focus has always been to facilitate the best possible experience for the person using the tool.

AT: What makes your experience working with ACAMS different from your work with other organizations?

JT: ACAMS is smaller, so I'm involved in more projects and in more of the detail surrounding projects. This provides me with a challenge, but at the same time it is also rewarding because the results are more tangible. It is also encouraging to know that my work helps — even if just a very small way — toward the fight against money laundering.

AT: Which ACAMS product did you enjoy working on the most?

JT: I usually have a favorite project for a few months but then my favorites change. Creating the ACAMSToday.org web site and App were both very satisfying since the AT content was not nearly as accessible over the web before the site was created. But the Risk Assessment tool currently in development is also very enjoyable since it offers something brand new for our user base. There are also some upgrades to the ACAMS.org web site which I'm excited about making in the near future.

AT: You have extensive experience in developing web sites, can you tell us your favorite web feature on ACAMSToday.org and on ACAMS.org?

JT: The Forums on ACAMS.org are the most popular feature, but are actually not used to their full potential. Members can actually create a Community/Forum, along with its own Library to share files. These Communities can be open to all, or to serve a specific group of members depending on the need.

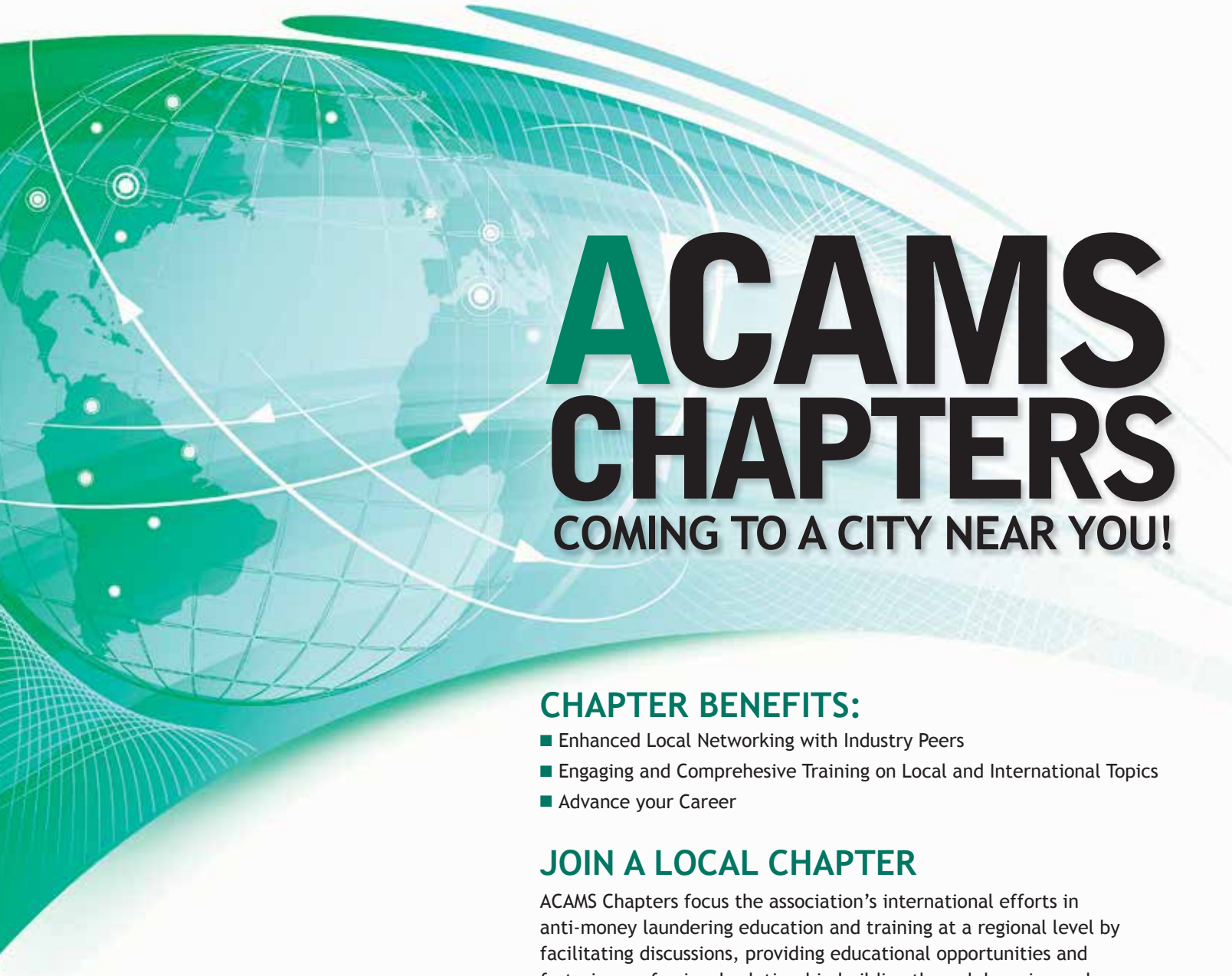
The ACAMSToday.org web site is mostly used to display each *ACAMS Today* article but also has a few lesser known features:

- The AT App (for iPhone and Android) allows users to receive AT articles as they are published, and the iPhone version includes Push Notifications so users can be immediately alerted of new content.
- The web site can be used to order reprints.
- The web site offers *ACAMS Today* issues which can be searched back to January 2008.
- Polls (separate from the Polls on ACAMS.org) are available and include content back to December 2011.

AT: What are you most looking forward to developing in 2013?

JT: We have a few projects which will be released in 2013, but our Risk Assessment tool is the most exciting because it is so new. We are also planning to redesign the ACAMS.org web site which will include better functionality for members to certify and renew their certification. **!**

Interviewed by: Karla Monterrosa-Yancey, CAMS, editor-in-chief, ACAMS, Miami, FL, USA, editor@acams.org



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