



# ***DCU BULLETIN***

***Division of Credit Unions***

***Washington State Department of Financial Institutions***

***Phone: (360) 902-8701***

***FAX: (877) 330-6870***

---

January 2, 2014

No. B-14-01

---

## **Bank Secrecy Act Guidance and Exam Procedures**

While preparing the Division of Credit Unions' Compliance Manual to be published in 2014, we noticed that Bulletin B-05-07 had out-of-date information. Bulletin B-05-07 is now cancelled and this Bulletin will replace it.

On April 29, 2010, the Federal Financial Institution Examination Council (FFIEC) released new examination procedures relating to the Bank Secrecy Act (BSA) and Anti-Money Laundering (AML) as well as the BSA/AML infobase. Both of these resources provide excellent guidance and cover a wide variety of BSA/AML topics. These resources can be found on the FFIEC website at [www.ffiec.gov](http://www.ffiec.gov). The specific webpage URLs are:

- Exam manual – [http://www.ffiec.gov/bsa\\_aml\\_infobase/documents/bsa\\_aml\\_man\\_2010.pdf](http://www.ffiec.gov/bsa_aml_infobase/documents/bsa_aml_man_2010.pdf)
- InfoBase - [http://www.ffiec.gov/bsa\\_aml\\_infobase/pages\\_manual/OLM\\_003.htm](http://www.ffiec.gov/bsa_aml_infobase/pages_manual/OLM_003.htm)

The good news is that many of the procedures discussed in the exam manual and infobase do not apply to a majority of Washington state chartered credit unions. However, credit union leadership needs to institute policies, procedures and processes that are appropriate for the unique BSA/AML challenges and exposures that their credit unions encounter. It is very important that these policies, procedures, and processes be consistently applied to all areas of a credit union's business structure.

On March 11, 2011 Financial Crimes Enforcement Network (FinCEN) transferred the BSA regulations found at 31 C.F.R. 103 to 31 C.F.R. Chapter X, Part 1020.

## **BSA/AML Activities a Credit Union Should Perform**

The key to BSA/AML compliance for most credit unions will be performing an in-depth risk assessment. Management should focus greater compliance efforts on the business lines that present the most risk to their credit union.

The following are core areas of compliance that should be addressed by all credit unions:

- Customer identification program
- Customer due diligence (these are policies, procedures and processes that assist your credit union in detecting, monitoring and reporting suspicious activity)
- Suspicious Activity Reporting (SAR)
- Currency Transaction Reporting (CTR)
- CTR exemptions
- Purchase and sale of monetary instruments
- Funds transfers
- Information sharing (BSA includes statutory and regulatory requirements for special information sharing procedures to deter money laundering and terrorist activities, such as sharing information with FinCEN)

Note that the Office of Foreign Assets Control (OFAC) requirements are separate and distinct from the BSA. All credit unions must also comply with OFAC's regulations.

All the areas listed above, plus OFAC requirements, and any other areas of concern as determined by your credit union's business lines should be included in an analysis of the BSA/AML risk assessment that your credit union performs. We recommend that your credit union use Appendix I (BSA/AML Examination Questions) as a self-assessment to aid management in performing the risk assessment. This attached questionnaire will help your credit union identify areas of weakness and then address concerns. This questionnaire is not to be submitted to the Division.

Division examiners will ask to see your credit union's most recent risk assessment during the examination. Examiners will use this risk assessment to help set the scope for the BSA/AML portion of the exam. Division examiners will also ask for and review the BSA independent testing report.

Also attached to this Bulletin are Appendices II and III. Appendix II illustrates the importance of the risk assessment and how the risk assessment is linked to the credit union BSA/AML compliance program. Appendix III suggests possible appropriate risk weightings that examiners will use for a variety of the risk elements that credit unions may encounter.

## **Division Exam Procedures**

Examiners will focus significant attention on the following areas:

- Board approved policies
- Training appropriate to the level of staff involvement
- Credit union transaction monitoring and reporting procedures
- Independent testing of credit union BSA/AML efforts, either by independent credit union staff or a third party

Examiners will also sample individual transactions for testing compliance with regulatory guidance and credit union policies and procedures.

## **Resources**

BSA/AML guidance for credit unions can be found at the following websites:

- FFIEC – [www.ffiec.gov](http://www.ffiec.gov)
- FinCEN – [www.fincen.gov](http://www.fincen.gov)
- CUNA Compliance – [www.cuna.org/compliance](http://www.cuna.org/compliance)
- NWCUA Compliance - [www.compliance.nwcua.org](http://www.compliance.nwcua.org)
- NASCUS On-line University – [www.nascusonline.org](http://www.nascusonline.org)

If you have any questions regarding this bulletin, please contact Doug Lacy-Roberts at (360) 902-0507 or email [doug.lacy-roberts@dfi.wa.gov](mailto:doug.lacy-roberts@dfi.wa.gov).

Attachments:

**Appendix I:** Exam procedures for Bank Secrecy Act  
(source: NCUA AIRES Questionnaires)

**Appendix II:** Risk Assessment Link to the BSA/AML Compliance Program  
(source: FFEIC BSA/AML Examination Manual)

**Appendix III:** Quality of Risk Matrix  
(source: FFIEC BSA/AML Examination Manual)

# APPENDIX I

## BSA - Bank Secrecy Act

INTRODUCTION AND PURPOSE			
REPORTS			
PENALTIES			
RECORD RETENTION REQUIREMENTS			
REGULATORY REFERENCES			
<b>Risk Assessment / Scoping</b>		<b>Yes/No</b>	<b>Comments</b>
1.0.0	Does review of the AIREs Compliance Violations module indicate that all prior violations are resolved?		
2.0.0	Has the credit union received correspondence from law enforcement or outside regulatory agencies relating to BSA compliance since the last examination?		
3.0.0	Does the credit union maintain a list of high risk accounts?		
4.0.0	Has the credit union completed an appropriate assessment of BSA AML risk?		
4.0.a	a. If response to Question 4.0.0 is no, assess BSA risk using examiner judgment and note exam BSA risk assessment in Comments box.		
<b>Basic Requirements - Policy</b>		<b>Yes/No</b>	<b>Comments</b>
5.0.0	Has the board of directors established an appropriate written program to assure the CU meets BSA reporting and recordkeeping requirements?		
	Does the written BSA compliance program address:		
5.0.a	a. Internal Controls (748.2(c)(1))		
5.0.b	b. Independent Testing (748.2(c)(2))		
5.0.c	c. Responsible Individual (748.2(c)(3))		
5.0.d	d. Training (748.2(c)(4))		
5.0.e	e. Customer Identification (748.2(b))		
<b>Basic Requirements - Practice</b>		<b>Yes/No</b>	<b>Comments</b>
6.0.0	Has the credit union established an adequate Customer (member) Identification Program (CIP)? (1020.220)		
6.0.a	a. Does the CIP require the minimum information (name, date of birth, address, identification number) prior to opening an account? (1020.220(b)(2))		
6.0.b	b. Does the CIP require verification of the information obtained? (1020.220(b)(2))		
6.0.c	c. Does the CU have a process for handling exceptions to the standard CIP policy?		
6.0.d	d. Does the CU keep CIP data for five years after account is closed and CIP documents for, at least, five years after account is opened? (1020.220(b)(3)(ii))		
6.0.e	e. Does the CU provide adequate member notice it is requesting information to verify their identity? (1020.220(b)(5))		
7.0.0	Is the credit union's independent testing adequate for the size and complexity of the institution? (748.2(c)(2))		
8.0.0	Does the BSA officer have appropriate knowledge, resources; and authority - commensurate with the complexity of the credit union's operations? (748.2(c)(3))		
9.0.0	Is the credit union's training adequate for the size and complexity of the institution? (748.2(c)(4))		
<b>Reporting - Data Quality Violations</b>		<b>Yes/No</b>	<b>Comments</b>

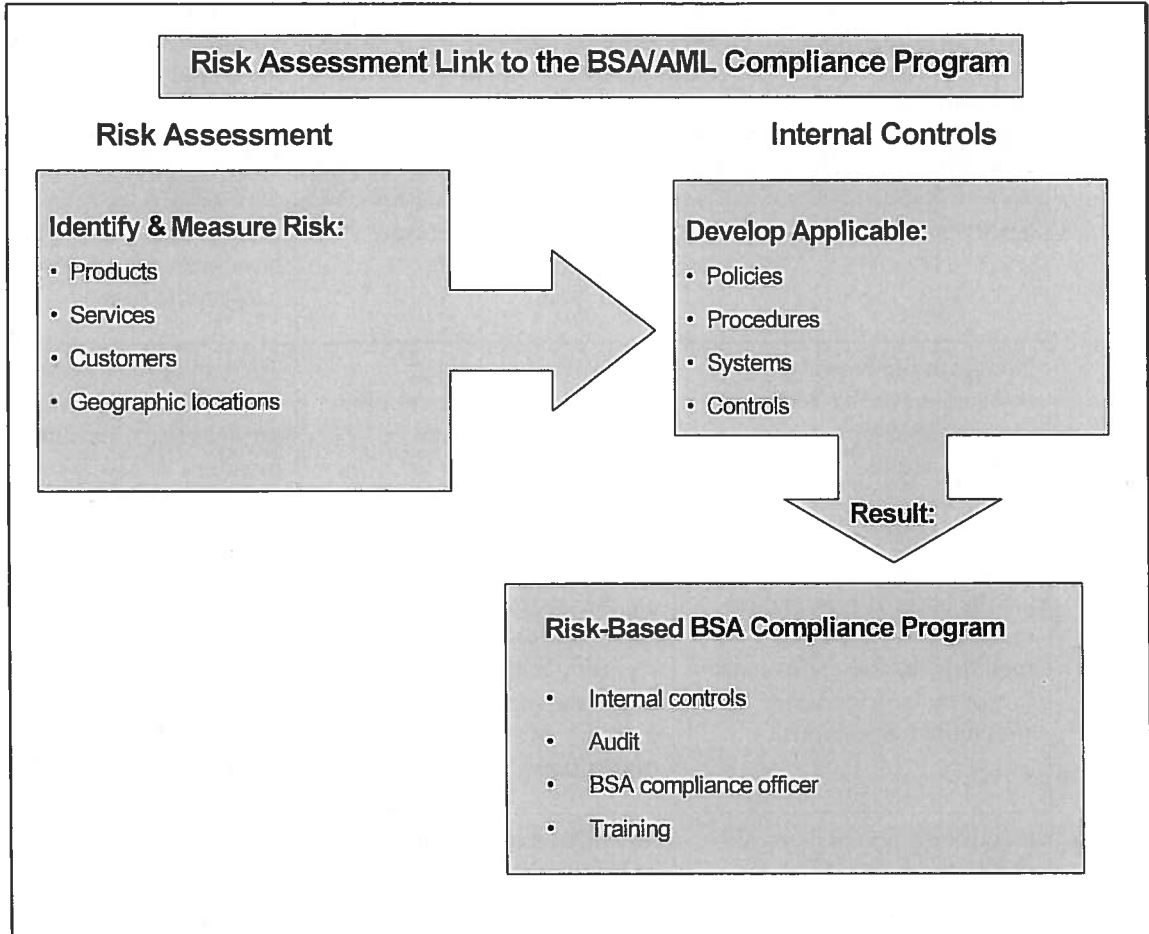
10.0.0	Does the credit union have an adequate process to identify transactions that require completion of a Currency Transaction Report (CTR)? (1020.311)		
10.0.a	a. Since the prior exam, have one or more transactions occurred that require report through a Currency Transaction Report (CTR)?		
10.0.b	b. Does the CU file CTR, Form 104, with the IRS for all transactions (1020.311), and multiple transactions in currency occurring in one day (1020.313), unless it is an exempt transaction, greater than \$10,000 in currency?		
10.0.c	c. Is the CTR filed within 15 days after the transaction occurs (or, 25 days if CTRs are filed electronically)? (1010.306)		
10.0.d	d. Does the CU properly exempt permitted persons from CTR filing by filing a "Designation of Exempt Person" form? (1020.315)		
10.0.e	e. For exempt persons, does the CU perform an annual review of the account (1020.315) to ensure the exemption remains appropriate? Is this review documented?		
11.0.0	Does the CU have an adequate Customer Due Diligence (CDD) process for identifying suspicious transactions and monitoring accounts for suspicious activity? (1020.320(a)(2)(iii))		
11.0.a	a. Is a Suspicious Activity Report (SAR) filed within 30 days after discovery of a suspicious activity? (1020.320(b)(3))		
11.0.b	b. Is supporting documentation for a SAR retained for 5 years? (1020.320(d))		
11.0.c	c. Does CU document decision process on whether to file a non-mandatory SAR?		
11.0.d	d. Does the CU complete SARs fully, accurately and in accordance with form instructions?		
11.0.e	e. Is the Board of Directors promptly notified of all SARs filed? (748.1(c)(4))		
<b>Recordkeeping</b>		<b>Yes/No</b>	<b>Comments</b>
12.0.0	Does the CU maintain the necessary information for the purchase or issuance, by currency, of credit union checks, cashier's checks, traveler's checks, and money orders for amounts between \$3,000 and \$10,000? (1010.415(a) and (1010.415(b)))		
13.0.0	Does the CU maintain adequate historical records on certain transactions for 5 years? If YES, continue to question 14, otherwise answer each sub-question		
13.0.a	a. Extensions of credit greater than \$10,000, except those secured by an interest in real property? (1010.410(a))		
13.0.b	b. Attempts to transfer more than \$10,000 to or from any person, account or place outside the U.S.? (1010.410(b))		
13.0.c	c. All signature cards? (1020.410(b)(1))		
13.0.d	d. Member transaction statements or ledger cards? (1020.410(b)(2))		
13.0.e	e. CU and member share drafts or money orders over \$100? (1020.410(b)(3))		
13.0.f	f. All withdrawals, other than share drafts or money orders, over \$100 to accounts, except CU charges or periodic charges made pursuant to an agreement? (1020.410(b)(4))		
13.0.g	g. Transfers of more than \$10,000 to any person, account, or place outside the US? (1020.410(b)(5,6))		
13.0.h	h. Drafts over \$10,000 issued by, or drawn on, a foreign bank and paid by the CU? (1020.410(b)(7))		

13.0.i	i. Transfers of credit, cash, drafts, other checks, investment securities or other monetary instruments over \$10,000 received directly from a foreign bank, broker or dealer in currency located outside the US? (1020.410(b)(8,9))		
13.0.j	j. Records which allow tracing of deposited share drafts over \$100? (1020.410(b)(10))		
13.0.k	k. Name, address, taxpayer ID#, date of transaction, description of instrument, and method of payment for purchases and redemptions of share certificates? (1020.410(b)(11,12))		
13.0.l	l. Deposit slips or credit checks for transactions, or equivalent wire transfer and direct deposit transactions, over \$100 which specify the amount of currency involved? (1020.410(b)(13))		
<b>Specific Products &amp; Services</b>		<b>Yes/No</b>	<b>Comments</b>
14.0.0	Since the prior exam, has the CU originated or received any wire transfers? If answer is NO, skip to question 15		
14.0.a	a. With regard to wire transfers, does the CU retain, for 5 years, the required information for each payment order that it accepts of \$3,000 or more? (1010.410(e))		
14.0.b	b. Is the required wire transfer information, identified in the above question, retrievable by reference to the originator's name and account number? (1010.410(e)(4))		
15.0.0	Since the prior exam, has the CU been involved with the transportation of currency outside the US or maintenance of an account in a foreign country? If answer is NO, skip to question 16		
15.0.a	a. Does the CU file FINCEN Form 105 for the physical transportation of currency in excess of \$10,000 into or outside the USA? (1010.340)		
15.0.b	b. Is a Report of Foreign Bank and Financial Accounts indicating a financial interest in an account in a foreign country filed annual on or before June 30? (1010.350)		
<b>Information Sharing</b>		<b>Yes/No</b>	<b>Comments</b>
16.0.0	Has the CU designated accurate point of contact information on the CUOnline program or the most recent 5300 for paper filers, to receive 314a information requests from FinCEN regarding investigations of terrorist activity or money laundering? (1020.520(b)(2)(iii))		
16.0.a	a. Is the CU accessing the electronic list on FinCEN's secure website? (1020.520(b))		
16.0.b	b. Does the CU begin its search, required by the 314a information request, promptly and complete it within 2 weeks, reporting any matches to FinCEN upon detection? (1020.520(b)(2))		
17.0.0	Does the CU voluntarily share 314b information with other financial institutions for purposes of identifying and reporting suspected terrorist activity or money laundering? (1020.540) If answer is NO, continue to question 18		
17.0.a	a. Has the CU submitted a Section 314(b) notice to FinCEN for the current year? (1020.540(b)(2))		
17.0.b	b. Has the CU verified that its information sharing partner completed the 314(b) notice? (1020.540(b)(3))		
<b>Third Party Service Providers</b>		<b>Yes/No</b>	<b>Comments</b>
18.0.0	Is the CU using a third party service provider?		
18.0.a	a. Does the CU have an adequate due diligence process for reviewing actions taken by the third party to comply with BSA requirements on behalf of the CU?		
<b>Testing Internal Controls</b>		<b>Yes/No</b>	<b>Comments</b>
19.0.0	Test the CU's internal control function by reviewing a minimum of 10 account level transactions for BSA compliance	<i>When responding "Yes" for testing, briefly describe tests in comment section.</i>	

19.0.a	a. Were transactions reviewed for compliance with Reporting Requirements (Q10-11)		
19.0.b	b. Were transactions reviewed for compliance with Recordkeeping Requirements (Q12-13)		
19.0.c	c. Were transactions reviewed for compliance with Specific Product and Service requirements? (Q14-15)		
19.0.d	d. Were transactions reviewed for compliance with Information Sharing Requirements (Q16-17)		
19.0.e	e. Enter the total number of transactions tested		
<b>Conclusion</b>		<b>Yes/No</b>	<b>Comments</b>
20.0.0	Did the examination identify required CTR or SAR forms that were not filed? If NO, continue to question 21.0.0		
20.0.a	a. For the required CTR forms that were not filed, will the credit union seek a CTR backfiling determination?		
21.0.0	Based on the results of exam testing, are the CU's internal controls effective?		
21.0.a	a. Are internal controls appropriate for the complexity of the institution?		
21.0.b	b. Do results of testing indicate credit union's risk assessment is appropriate?		

# APPENDIX II

## BANK SECRECY ACT RISK ASSESSMENT LINK TO THE BSA/AML COMPLIANCE PROGRAM





## APPENDIX III

### APPENDIX J QUANTITY OF RISK MATRIX

Banks and examiners may use the following matrix to formulate summary conclusions. Prior to using this matrix, they should complete the identification and quantification steps detailed in the BSA/AML Risk Assessment Overview section at pages 22 to 30 of this manual.

Low	Moderate	High
Stable, known customer base.	Customer base increasing due to branching, merger, or acquisition.	A large and growing customer base in a wide and diverse geographic area.
No electronic banking (e-banking) or the Web site is informational or nontransactional.	The bank is beginning e-banking and offers limited products and services.	The bank offers a wide array of e-banking products and services (e.g., account transfers, e-bill payment, or accounts opened via the Internet).
On the basis of information received from the BSA-reporting database, there are few or no large currency or structured transactions.	On the basis of information received from the BSA-reporting database, there is a moderate volume of large currency or structured transactions.	On the basis of information received from the BSA-reporting database, there is a significant volume of large currency or structured transactions.
Identified a few higher-risk customers and businesses.	Identified a moderate number of higher-risk customers and businesses.	Identified a large number of higher-risk customers and businesses.
No foreign correspondent financial institution accounts. The bank does not engage in pouch activities, offer special-use accounts, or offer payable through accounts (PTA), or provide U.S. dollar draft services.	The bank has a few foreign correspondent financial institution accounts, but typically with financial institutions with adequate AML policies and procedures from lower-risk countries, and minimal pouch activities, special-use accounts, PTAs, or U.S. dollar draft services.	The bank maintains a large number of foreign correspondent financial institution accounts with financial institutions with inadequate AML policies and procedures, particularly those located in higher-risk jurisdictions, or offers substantial pouch activities, special-use accounts, PTAs, or U.S. dollar draft services.

Low	Moderate	High
The bank offers limited or no private banking services or trust and asset management products or services.	The bank offers limited domestic private banking services or trust and asset management products or services over which the bank has investment discretion. Strategic plan may be to increase trust business.	The bank offers significant domestic and international private banking or trust and asset management products or services. Private banking or trust and asset management services are growing. Products offered include investment management services, and trust accounts are predominantly nondiscretionary versus where the bank has full investment discretion.
Few international accounts or very low volume of currency activity in the accounts.	Moderate level of international accounts with unexplained currency activity.	Large number of international accounts with unexplained currency activity.
A limited number of funds transfers for customers, noncustomers, limited third-party transactions, and no foreign funds transfers.	A moderate number of funds transfers. A few international funds transfers from personal or business accounts with typically lower-risk countries.	A large number of noncustomer funds transfer transactions and payable upon proper identification (PUPID) transactions. Frequent funds from personal or business accounts to or from higher-risk jurisdictions, and financial secrecy havens or jurisdictions.
The bank is not located in a High Intensity Drug Trafficking Area (HIDTA) <sup>271</sup> or High Intensity Financial Crime Area (HIFCA). No fund transfers or account relationships involve HIDTAs or HIFCAs.	The bank is located in an HIDTA or an HIFCA. Bank has some fund transfers or account relationships that involve HIDTAs or HIFCAs.	Bank is located in an HIDTA and an HIFCA. A large number of fund transfers or account relationships involve HIDTAs or HIFCAs.
No transactions with higher-risk geographic locations.	Minimal transactions with higher-risk geographic locations.	Significant volume of transactions with higher-risk geographic locations.

<sup>271</sup> A list of HIDTAs is available at [www.whitehousedrugpolicy.gov/index.html](http://www.whitehousedrugpolicy.gov/index.html).

Low	Moderate	High
Low turnover of key personnel or frontline personnel (e.g., customer service representatives, tellers, or other branch personnel).	Low turnover of key personnel, but frontline personnel in branches may have changed.	High turnover, especially in key personnel positions.