

Regulatory Alert

Regulatory Insights for Financial Services

February 2024

Heightened Risk Standards: Focus on AML/BSA

KPMG Insights:

- **Regulatory Intensity:** Expanded AML breadth/depth of supervisory and enforcement actions, regulatory industry AML risk alerts and evolving regulations in areas of BSA, CFT, and KYC/CDD.
- **Data Lineage and Quality:** Focus on traceability of data at both the customer and transaction level, as well as across business processes.
- **Transaction Monitoring:** Quality of transaction monitoring and surveillance systems, models, processes, and controls, with expectations for increased effectiveness, strength of underlying models, and innovation.
- **Expansion of Threats:** Expansion of emerging threats and vulnerabilities (e.g., virtual currencies, sanctions evasion, malware/ransomware, human rights/forced labor, and fraud).
- **Skills/Talent Matter:** Breadth of skills/talent in day-to-day operations of AML reviews, investigations, and escalations; dynamic assessment of staffing needs.

As part of the heightened risk standards focus, financial institutions are facing increased regulatory scrutiny in the management of Anti-Money Laundering (AML) and Bank Secrecy Act (BSA) risks. It is crucial for these institutions to understand regulatory expectations and requirements to implement robust compliance programs capable of effectively mitigating risks related to financial crime.

Supervision/Enforcement

With the continuous evolution of sophisticated financial crime patterns, regulators are committed to providing guidance and support for institutions to effectively manage and mitigate financial crime risks. Regulatory focus in areas such as AML/BSA/CFT (Countering the Financing of Terrorism), Know Your Customer (KYC)/Customer Due Diligence (CDD), and transactional activity will continue along with attention to continuously assessing risk and implementing risk-based compliance programs.

In addition to heightened supervisory efforts, there is an uptick in AML/BSA enforcement activities with allegations such as:

- Failing to implement/maintain “effective AML programs”
- Violating BSA Customer Identification Program rules
- Having deficient third-party risk management controls
- Engaging in unsafe or unsound practices relating to AML/BSA internal controls and/or sanctions compliance

With each of the above, regulators are looking at heightened expectations in such areas as:

- **Data Lineage and Quality:** Abilities to demonstrate, and report on, the traceability of data at both the customer and transaction level, as well

as across business processes, systems of record, and systems of origin.

- **Transaction Monitoring and Other Key Program Elements:** The quality of transaction monitoring and surveillance systems, processes, and controls, with expectations for increased accuracy and consistency. Regulatory focus in areas such as AML/BSA/CFT, trading activity, and KYC/CDD and beneficial ownership monitoring will continue along with attention to preparations for implementing risk-based compliance programs in these priority areas.
- **Expanded Threats:** The adequacy and continual improvement of threat detection, monitoring, and response capabilities, including the reliability of

processes (e.g., due diligence, access, safeguards) and coverage of novel and emerging threats and vulnerabilities (e.g., virtual currencies, sanctions evasion, malware/ransomware, human rights/forced labor, detecting organized criminal networks, and fraud).

- **Skills/Talent:** Core skills/backgrounds of those executing day-to-day AML/BSA reviews, investigations, and escalations.

The following recent regulatory issuances highlight heightened expectations for financial institutions to adhere to AML/BSA/CFT requirements:

Agency	Activity	Description	KPMG Regulatory Alert
FRB	Supervision and Regulation Report	Indicates that issues with BSA/AML compliance increased in comparison to prior years.	FRB Reports: Supervision and Regulation; Financial Stability
FDIC	2023 Risk Review	Provides guidance on AML/CFT/CDD requirements for compliance programs. Cautions banks to stay updated on the latest regulations to mitigate sanctions-related risks especially when relying on third parties.	N/A
OCC	Semiannual Risk Perspective	Highlights an increase in AML/BSA compliance risks associated with evolving range of payment methods and accessibility. Banks are urged to “continuously evaluate their BSA/AML risks and corresponding controls to keep pace with new or changing risk profiles”.	Fall 2023 Regulatory Agendas: Key Federal Banking Agencies
FFIEC	Bank Secrecy Act/Anti-Money Laundering (BSA/AML) Examination Manual	Updates manual to “reinforce the risk-focused approach to BSA/AML examinations”.	AML Enforcement: SEC Risk Alert & FFIEC Exam Manual Updates
SEC	Risk Alert	Presents observations about key AML requirements based on recent examinations across the broker-dealer industry covering topics such as: <ul style="list-style-type: none"> — AML Programs focusing on independent testing and training — Customer Identification Program (CIP) Rule — Customer Due Diligence and Beneficial Ownership Requirements 	AML Enforcement: SEC Risk Alert & FFIEC Exam Manual Updates
FINRA	2024 Annual Regulatory Oversight Report	Identifies new account fraud as an emerging risk	Regulatory Oversight: FINRA 2024 Annual Report

New Rulemaking

Further, multiple agencies are anticipated to issue financial crime-related rulemaking proposals this year, which will be influenced in large part by the Anti-Money Laundering Act of 2020 and the Corporate Transparency Act of 2020. (See KPMG Regulatory Alerts [here](#) and [here](#)).

As outlined in the agencies' individual regulatory agendas, these rulemakings include proposals by the:

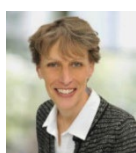
- **Federal Banking Agencies:** Updates to the BSA compliance program rules to conform to FinCEN rules related to beneficial ownership information and CDD requirements.

— FinCEN:

- Revisions to Customer Due Diligence Requirements for Financial Institutions (part 3 of 3 beneficial ownership information rulemakings).
- Anti-Money Laundering Program and Suspicious Activity Report Filing Requirements for Investment Advisers.
- National Exam and Supervision Priorities (including AML/CFT risk assessment for all financial institutions and a requirement to include AML/CFT priorities into risk-based systems).

For more information, please contact [Dan Boylan](#) or [John Caruso](#).

Contact the author:



Amy Matsuo
Principal and National Leader
Regulatory Insights
amatsuo@kpmg.com

kpmg.com/socialme



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