

December 14, 2021

Federal Financial Institutions Examination Council (FFIEC) Updates Bank Secrecy Act/Anti-Money Laundering (BSA/AML) Examination Manual

Key Takeaways

- The Manual provides updated instructions for examiners assessing banks' BSA/AML compliance programs and compliance with the BSA and additional AML laws and regulations.
- The Manual includes a new introduction to the "Risks Associated with Money Laundering and Terrorist Financing" section that provides an overview of the importance of financial institutions' customer relationships and emphasizes the need to understand customers' risk profiles and adjust compliance programs accordingly.
- The updates highlight the cross-cutting importance of Customer Due Diligence/Know Your Customer (CDD/KYC) processes in mitigating a number of diverse financial crimes compliance (FCC) risks. Creating unique customer profiles will allow banks to better mitigate and avoid potential FCC risks.
- All the documents except for the introduction include the addition of "Examiner Evaluation" and "Examination and Testing Procedures" subsections to help examiners evaluate a financial institution's policies and procedures to mitigate potential risks.

Examination Manual

In December 2021, the Federal Financial Institutions Examination Council (FFIEC) updated the "Risks Associated with Money Laundering and Terrorist Financing" section of its Bank Secrecy Act/Anti-Money Laundering (BSA/AML) [Examination Manual](#). The updates do not include new requirements, but rather provide further instructions to examiners assessing a bank's BSA/AML compliance programs and procedures. The FFIEC Examination Manual's modified language is now more aligned with that of global standards-setters such as the Financial Action Task Force (FATF). The updates impacted the following sections of the Examination Manual:

- Introduction – Customers (new)

- Charities and Nonprofit Organizations (edited)
- Independent Automated Teller Machine Owners or Operators (edited)
- Politically Exposed Persons (edited)

Introduction

The updated Manual includes a new Introduction to the “Risks Associated with Money Laundering and Terrorist Financing” section that provides an overview of the importance of institutions’ customer relationships. It notes that different customer types pose varying levels of risk, and not all customers of a particular type are automatically higher risk. The Manual emphasizes the importance of CDD and the risk-based approach, explaining that the level and type of CDD should align with the risks presented by the customer relationship. Importantly, the Manual notes that examiners should assess how an institution develops its customer profiles to determine whether the institution can effectively mitigate potential risks. This will ultimately help examiners determine if the institution has developed and implemented adequate policies and procedures to comply with BSA/AML regulatory requirements.

Charities and Nonprofit Organizations (NPOs)

The updated Manual shifts away from the use of the term “nongovernmental organizations and charities,” instead referring to “nonprofit organizations (NPOs) and charities,” the terminology that the FATF uses. The “Examiner Evaluation” section discusses how examiners should approach assessing risks associated with charity and NPO customers, noting that examiners should determine whether a bank’s internal controls can effectively manage and mitigate money laundering, terrorist financing, and other illicit activity risks that customers of charities and NPOs may pose. The “Charities and Nonprofit Organizations Examination and Testing Procedures” document lays out six steps and recommendations for evaluating banks’ policies to mitigate risks associated with charity and NPO customers, as well as banks’ compliance with CDD and other regulations.

Independent Automated Teller Machine (ATM) Owners or Operators

The title of the automated teller machine (ATM) section of the Manual has been updated to include all ATM owners or operators, as opposed to the previous version that broadly discussed privately owned ATMs. The “Examiner Evaluation” section encourages examiners to evaluate a bank’s processes for assessing risks associated with customers that are independent ATM owners or operators. Examiners should determine whether a bank’s internal controls can effectively manage and mitigate money laundering, terrorist financing, and other illicit activity risks that ATM owners or operators pose. The ATM section provides



seven examination and testing procedures to assist examiners in evaluating banks' policies to mitigate risks associated with ATM owners or operators, as well as banks' compliance with CDD and other regulations.

Politically Exposed Persons (PEPs)

This section of the Manual discusses the methods of evaluating a bank's policies and procedures toward mitigating potential risks associated with foreign individuals who the bank has designated as politically exposed persons (PEPs). Banks designate customers as PEPs, as BSA/AML regulations do not define the term, although this section of the Manual makes reference to the internationally accepted definition of a PEP by noting that "The term PEP is commonly used in the financial industry to refer to foreign individuals who are or have been entrusted with a prominent public function, as well as to their immediate family members and close associates." The updated Manual presents a different approach to risk mitigation that emphasizes the need for risk-based CDD and building a customer risk profile. Banks should use the information collected during CDD and a PEP customer's risk profile to assist them in monitoring and determining whether the PEP's transactions are suspicious. The "Examiner Evaluation" section advises examiners to evaluate the bank's risk assessment processes with customers that are bank-identified PEPs. The "Politically Exposed Persons Examination and Testing Procedures" addition provides six steps for examiners to evaluate banks' compliance with CDD and other regulations regarding bank-identified PEPs.

For more information, please read the updated [FFIEC Examination Manual](#) documents.

