

*Remarks of John M. Reich, Director  
Office of Thrift Supervision  
To the FFIEC Advanced BSA/AML Specialists Conference  
Arlington, Virginia  
August 28, 2007*

Good morning. I am very pleased to be here today to present the opening remarks at the FFIEC's first Advanced BSA/AML Specialists Conference. It is a privilege to help kick off this important event in our country's efforts to combat terrorist financing and money laundering.

Over the next three days, you will participate in a high-level exchange of ideas on topics critical to our national security and economic future. I know I speak for all of you in thanking the conference organizers for responding to your requests to go beyond the essential information provided in the anti-money laundering workshops over the last several years and to delve into advanced hot topics on BSA/AML for the most seasoned experts among the federal banking agencies.

As examiners and anti-money laundering specialists for the FBAs, you are positioned on the front lines of our country's historic battle against terrorism. I don't think it's an overstatement to say that your unique ability to detect and evaluate vulnerabilities in BSA/AML compliance is critically important to the future of our country. Although statistics indicate that federally insured depository institutions continue to make significant strides in implementing systemic controls to detect and report money laundering and terrorist financing in our nation's financial system, this battle is far from over.

Precise estimates don't exist for the amount of money that is laundered worldwide every year, but the International Monetary Fund estimates the figure at between \$590 billion and \$1.5 trillion - two to five percent of the entire global gross domestic product.

Today, money laundering and terrorist financing remain major challenges for our banking institutions that are the gatekeepers to the financial system. The 2007 National Money Laundering Strategy—issued jointly in May by the Treasury Department, Justice Department, and Homeland Security—listed the continued safeguarding of the banking system as “Goal No. 1.” As the report noted, and I quote, “Once illegal proceeds get into a depository institution, they can be moved instantly by wire or disguised through commingling with legitimate funds. With the advent of the Internet and remote banking, depository institutions face increased challenges identifying customers and their customers' sources of funds.”

Through the expertise of you and your colleagues, the FBAs play a key role in safeguarding the financial system because our agencies are responsible for examining regulated institutions for potential money laundering, terrorist financing and related illegal activities. It is hard to overemphasize the important nature of the work you do to

counteract these serious threats to our nation. Since I became the OTS Director two years ago, I have taken advantage of many opportunities to visit with the staffs at each of our regional offices and to solicit the opinions of our examiners and other OTS employees in the field. Through these meetings and visits, I have learned a great deal about our examination process, formed a truer perspective of how our agency accomplishes its strategic mission, and increased my already great admiration for the high caliber of the staff members who work every day with our regulated institutions. I know that my counterparts at the other FBAs can likewise attest to the expertise and professionalism of the dedicated men and women in their respective workforces.

The quality of our collective supervision can be only as good as the quality of you and your colleagues. I can say without hesitation that the quality and caliber of federal depository institution examiners is outstanding and a continuing tribute to each of the FFIEC agencies.

### **Interagency Cooperation**

As I look out into the audience today and see examiners and other experts from across the federal financial regulatory landscape, I am reminded again that a strong spirit of interagency cooperation has been particularly characteristic of the FFIEC's approach to BSA/AML compliance. We have acted collectively to provide a level playing field for our regulated institutions, and to supply a wealth of educational resources to help institutions in their compliance efforts. We have also worked closely and consistently to enhance the clarity and transparency of our joint supervisory expectations. It has been a true team effort and I fully expect it to remain that way.

There are many examples of our work together. I want to highlight just a few.

***BSA/AML Examination Manual*** – The latest example of interagency cooperation occurred just a few days ago when the FFIEC released the 2007 version of its BSA/AML Examination Manual. First issued in 2005, this manual has been updated annually as new regulations become effective and new risks emerge. The manual is a clear sign of the substantial progress we have made in strengthening supervision in this critical area.

The manual's 2007 revisions once again draw upon feedback from the agencies' examination staffs and the industry. Your feedback about what works and, perhaps more importantly, what doesn't work is critical. Equally important are your thoughts on emerging risks and technologies. What you are seeing and telling us about at our regulated institutions is indispensable to the progress we have made thus far, and will strive to continue to make in the future in combating money laundering and related activities..

***Uniform Examination Procedures*** – Another prime example of interagency coordination is the agencies' adoption, implementation and use of uniform examination procedures to ensure a consistent supervisory approach by our examiners and a level

playing field for our regulated institutions. Over the past two years the agencies have continued to follow up on BSA weaknesses and violations at institutions, increased resources and expertise devoted to BSA supervision, provided training for examiners and the industry, and communicated clear expectations to the industry through guidance. These efforts have made our supervision more efficient and have minimized the compliance burden on our institutions.

***Enforcement Efforts*** – A third example of interagency cooperation occurred just last month, when the agencies took a joint approach on BSA/AML enforcement by issuing the *Interagency Statement on Enforcement of Bank Secrecy Act/Anti-Money Laundering Requirements*. The statement provides for greater consistency among the agencies in enforcement decisions in BSA matters and offers insight into the considerations that form the basis of those decisions. The statement complements the BSA/AML Examination Manual, which I mentioned earlier. Both were designed to foster interagency consistency and transparency regarding the BSA examination process.

***Outreach Efforts*** – Yet another example of interagency cooperation is the extensive outreach effort by the FFIEC agencies—spearheaded by the FDIC and the Federal Reserve—to educate examiners, institutions, institution directors and other key parties about BSA/AML compliance. In 2005 and 2006, we aired a nationwide video teleconference for 1,100 examiners and other staff members; conducted three conference calls with more than 8,000 listeners from the depository institution industry and trade associations; held five regional conferences in San Francisco, Dallas, Chicago, New York and Miami; and launched a Web cast with more than 12,000 registered viewers.

We also continue to solicit industry input on BSA matters through regular meetings of the Bank Secrecy Act Advisory Group (BSAAG) Subcommittee on Examinations. And we maintain a presence at national and regional conferences and forums. On all of these initiatives, the agencies work closely with FinCEN, the Office of Foreign Assets Control and the Conference of State Bank Supervisors.

Taken as a whole, these efforts represent an ambitious nationwide program to raise the level of expertise in this important area for the financial industry and federal regulatory community. Thanks to this program—and your support—we believe we have enhanced examination consistency and strengthened our regulatory oversight of financial institutions' BSA/AML compliance.

The FFIEC agencies have a long history of working together to safeguard the soundness and integrity of our financial system, but the teamwork and spirit of cooperation have gone beyond even our lofty standard. This high-level of coordination between the agencies has been an essential ingredient of FFIEC's approach to BSA/AML compliance and has contributed significantly to the many accomplishments in this area over the past two years.

## **Indicators of Progress**

So, what evidence can I cite that shows the results of our combined efforts? As I mentioned earlier, federally regulated financial institutions are making notable progress in putting into place and sustaining the robust systems necessary for proper vigilance on BSA/AML. Much has been said and written about the burden on institutions of filing suspicious activity reports. As I will mention in more detail in a few moments, I am an unabashed advocate of regulatory burden relief. However, the fact is undeniable that reports from our institutions of suspicious activities and currency transactions are essential parts of our BSA/AML efforts. It is gratifying that the filing burden is not borne in vain. Information reported by financial institutions is extremely helpful to law enforcement in financial crimes investigations.

Information posted on the website of FinCEN—the Financial Crimes Enforcement Network—highlights a recent FBI review that illustrated the value of this data to counterterrorism efforts. FinCEN said that when combined with other data collected by law enforcement and the intelligence communities, BSA-related data assist investigators in connecting the dots in their investigations. Using computer analysis, the FBI reviewed about 71 million BSA documents for their relevance to counterterrorism matters. The review identified more than 88,000 SARs and CTRs that related to subjects of terrorism investigations. The website highlights specific cases in which information from SARs and CTRs either led to successful investigations, or was otherwise a vital part of those investigations.

Later this week during the conference, you will hear details about how law enforcement agencies are using data that financial institutions report to FinCEN to develop valuable analytical products, identify hot spots of suspicious activity, and deploy resources to areas identified as high risk.

There is also another positive, welcome and unmistakable sign that our efforts are bearing fruit—that financial institutions and federal regulators are making substantial progress in identifying, clarifying and complying with BSA/AML requirements. Consolidated Quarterly Report statistics compiled by FinCEN show that since 2005, enforcement actions related to BSA compliance have declined for the OTS, as well as the FDIC, OCC and the Federal Reserve. This decline signals that BSA compliance, which was new and little understood just a few short years ago, is becoming ingrained in the operations of federally regulated financial institutions.

### **Continued Vigilance on Regulatory Burden Reduction**

Let me now turn to a subject that continues to be a significant concern of mine for the industry – regulatory burden relief. As some of you may know, I have worked extensively on achieving meaningful reductions in the regulatory burden on regulated institutions. Legislation enacted last year—the Financial Services Regulatory Relief Act of 2006—contained significant provisions for banks and thrifts, including call report simplification, creation of a simplified privacy notice disclosure form, and, in the case of thrift institutions, the same treatment as banks under the federal securities laws.

As we collectively issue guidance, conduct outreach events, hold training classes and make other efforts to ensure strong BSA/AML systems in our regulated institutions, we remain mindful of the challenges that institutions face in complying with the array of requirements—and the costs of compliance. The agencies and FinCEN agree that the BSA must be applied consistently, but we also acknowledge that we regulate a broad diversity of institutions—and when it comes to BSA/AML compliance, one size does not fit all.

The impact of BSA compliance can be particularly significant for smaller, community-based institutions that have fewer resources to implement the cost-effective programs required to address the monitoring of financial activities under the law. This is particularly troubling given the competitive impact on smaller institutions and the risk to community banking in America.

### **Community Banking**

As the OTS Director for the past two years, and as a member of the Board of the FDIC for nearly 7 years, I have been outspoken about my continuing concerns about the future of community banking in this country. I have noted that the future of community banking is at a crossroads. That future is by no means certain and I believe few outside this industry truly understand the real cost to our communities from the loss of this important resource as a result of M&A activity

Mergers and acquisitions involving community banks are typically motivated by real market pressures, including regulatory burden and unfair competition that is squeezing community banks. We need to remain sensitive to these issues and continue to work to reduce regulatory burden on community banks.

### **Risk-Based Approach to BSA/AML**

BSA/AML compliance is an area where my concerns about the future of community banking and my dedication to regulatory burden relief intersect. We must continue to pursue substantive regulatory burden relief, which is integral to the future of community banking. Reducing the undue costs of regulatory compliance for smaller financial institutions enhances their ability to operate and compete successfully with larger banks and thrifts that may have more elaborate compliance infrastructures.

I am particularly pleased to note that in June, FinCEN announced an initiative to adopt a more risk-based approach to examining community banks for anti-money laundering compliance. We will work with our sister agencies and FinCEN to refine a risk-based examination process, including clarifying the definition of money service businesses. I applaud Treasury Secretary Paulson for supporting this important initiative.

As regulators, we expect banking organizations to take a risk-based approach in developing and administering their anti-money laundering compliance programs, just as

examiners and other experts like you take a risk-based approach to your supervisory responsibilities. This approach provides institutions with the flexibility to design programs that are most appropriate for their particular business operations. As we move forward, it is important to support the ability of institutions to tailor their programs to their particular risks, as well as to support efforts to reduce burden to the institutions we regulate. We must also recognize our role in establishing a regulatory climate in which the U.S. financial industry can continue to grow and prosper. A key challenge going forward will be to achieve the right balance between the compliance costs and the benefits to law enforcement. It is essential to get this balance right.

## **Conference Focus**

As I mentioned earlier, the focus of this conference over the next few days will be to provide you with targeted training on advanced BSA/AML topics. You will learn more about certain activities and transactions that, without appropriate controls, could pose an elevated risk of money laundering and terrorist financing. And you will hear repeatedly about the benefits and challenges posed by emerging technologies.

For example, immediately after the break this morning, you will hear a panel talk about the challenges posed by electronic payments and the Automated Clearing House, or ACH payments. Tomorrow afternoon, you will hear about remote deposit capture, which allows commercial customers to scan images and send the images to the bank. The press recently cited remote deposit as one of the most quickly adopted technologies in banking history.

In addition to emerging technology issues, there will be many other topics addressed, including a panel of agency examiners this afternoon who will discuss best practices for transaction testing. As you know, this topic is critically important to our collective efforts in the BSA/AML context.

Tomorrow, you will also hear an update on developments to address issues related to Money Services Business—or MSBs—including a discussion of the risks associated with different types of MSBs. FinCEN has been working closely with law enforcement and regulators to address many issues dealing with the MSB community, particularly the issue of access to banking services.

Lastly, I hope you will take advantage of the opportunity to ask questions during the interagency Q&A panel on Thursday on particular issues not otherwise addressed during the conference. And I encourage you throughout the course of the conference to ask questions and to get the answers that satisfy your concerns.

## **Conclusion**

In closing, I want to thank the FFIEC for having me here today and for hosting this important conference, and I would like to thank all of you again for being here to

participate in this important forum. I also want to thank each one of you for your hard work and dedication. As I said earlier, you play a critical role in waging this nation's historic battle against money laundering and terrorist financing. I am very proud of the work that you do and I am equally proud to be part of the interagency partnership that is such an indispensable source of the success we have enjoyed thus far, and will continue to enjoy in the future.

Thank you, and I hope that you have a great conference.