

Frequently Asked Question and Answer

September 1, 2015

Question

What are the requirements for the frequency of a Bank Secrecy Act (“BSA”)/Anti-Money Laundering (“AML”) automated software system validation and a review of the system parameters to ensure that the parameters remain effective and reasonable for the institution?

Answer

The importance of a BSA/AML automated software system validation and a review of the system parameters to ensure that the parameters remain effective and reasonable cannot be understated. The Office of the Comptroller of the Currency (“OCC”) has highlighted the importance of the review of any model-based analysis via its Supervisory Guidance on Model Risk Management, released back in 2011. These reviews should be performed to ensure that all data from the core system and supplemental systems, such as wire transfer systems, is flowing properly into the automated system.

Institutions must also validate that the automated system parameters are appropriately capturing potentially suspicious activity and assisting institutions in their customer risk rating process. This testing is mandated by the OCC’s guidance, generally accepted by all the agencies, and the Federal Financial Institution Examination Council’s (“FFIEC”) BSA Examination Manual.

Answer Details

The FFIEC BSA Examination Manual page 66 states: “Management should also periodically review and test the filtering criteria and thresholds established to ensure that they are still effective. In addition, the monitoring system’s programming methodology and effectiveness should be independently validated to ensure that the models are detecting potentially suspicious activity. The independent validation should also verify the policies in place and that management is complying with those policies.”

However, the FFIEC BSA Examination Manual does not define “periodically”. Within the BSA environment, some examiners have informally stated that the AML system validation and review of the system parameters for effectiveness and reasonableness should be performed annually, while others state that the system validation and review of the system parameters for effectiveness and reasonableness should be performed at less frequent intervals. Key matters that the institution will want to consider when determining the frequency of such reviews is its own unique examination and audit history and when key changes are made to the institution’s automated software, core processing system or the BSA/AML program.

As part of the data validation review, the institution should ensure that testing is performed to both validate the proper flow of information into the automated system as well as to ensure that the automated system is properly generating alerts and reports as intended. For example, the institution may separately identify the information that should have been triggered during the identified time period based on the rules of the software and ensure that the automated software generated alerts and/or reports in the same fashion.

When analyzing the parameters, the institution should consider the reasonableness of suspicious activity and risk rating rules as applicable to ensure that they are properly structured to identify activity, that they are in line with the institution's risk, and that there is appropriate documentation evidencing such an analysis.

If you are interested in discussing your BSA Program or are in need of a BSA/AML Automated Software Reasonableness Review and/or System Validation, please contact either Brian Shea at bshea@wolfandco.com or Erica Torres at etorres@wolfandco.com.