



ACAMS US Capital Chapter Summer 2017

Chasing the Dragon

Mary Bashore and Megan Cerveny

Many thanks to our U.S. Capital Chapter partners - the Richmond ACAMS Chapter, Fairfax County Police, and Thomson Reuters – for helping us create a well-attended and successful learning event on April 14 called “Chasing the Dragon.”

“Chasing the Dragon” refers to an FBI-produced documentary about opioid abuse and the effect it has on individuals, families, law enforcement and our own communities. The presentation by the Fairfax County Police Department was followed by a discussion amongst a panel of experts including John Byrne, Jim Cox, Andrew Gordon, Ted Solomy, Peter Vincent and Joe Soniat. Don’t miss John Byrne’s interview of Jim Cox in a podcast on the ACAMS website. During the film and in discussions with the experts,

Jim Cox, with nearly 30 years as an undercover detective, supervisor and member of the Fairfax County Police Narcotics Taskforce, refers to opioid addicts as “The True Walking Dead.”

participants learned some sobering statistics and some real-life stories, many ending tragically in death due to accidental overdose. Jim Cox, with nearly 30 years as an undercover detective, supervisor and member of the Fairfax County Police Narcotics Taskforce, refers to opioid addicts as “The True Walking Dead.” He explained how users from stable homes and good families can quickly become abusers. Often starting with just one prescribed pill, abusers soon become trapped in a cycle of addiction and move on to street drugs. Sadly, drug

Note from Chapter Co-Chairs Dennis Lormel & Sepideh Behram

The US Capital ACAMS Chapter is dedicated to delivering high quality, relevant training events to its members. The Chapter has held four learning events in 2017, focusing on the FBI’s investigative approach, the Opioid epidemic, current and future AML perspectives and a discussion on community bank issues. The Chapter has some outstanding programs scheduled for the remainder of this year.

We welcome Chapter member feedback and ideas on topics you would like to hear about. You can reach us either through LinkedIn or via email at USCapitalChapter@acams.org

Tentative 2017 Upcoming Events

September: Sanctions

October: To be announced soon

November: Law Enforcement Case Studies

December: 2017 in Review and Looking Ahead

Specific dates and locations to be announced, please visit our website: <http://www.acams.org/acams-chapters/u-s-capital/#events>



ACAMS US Capital Chapter Summer 2017

traffickers deliberately target the most addictive products to increase demand, and often “cut” drugs with dangerous substances.

Law enforcement realizes they cannot arrest their way out of this problem – it is estimated there are more than 10 million opioid users, and an increasing number of deaths due to accidental overdose. In the suburbs of Virginia, it is almost a daily occurrence. Communities need to raise awareness, establish lines of communication, and engage in partnerships to provide help and support to addicts, while law enforcement pursues the drug trafficking organizations.

As AML professionals, we can help law enforcement and our community by applying strong KYC and CDD practices. As always, we should train front line staff to report unusual activity or attempted activity. Since opioid trafficking is often accompanied by structuring, using smurfs and funnel accounts to transfer funds to a central collection point, financial institutions need to tie all accounts together. Don't overlook a high volume of low dollar amount transactions, use of virtual wallets or the source of funds used to make loan payments on cars and mortgages. Be especially wary of even dollar amounts, especially transactions after midnight. Visit your branches, do drive-bys, use 314(b) information sharing, look for odd patterns of activity. Document and organize all your information, including interviews with staff and photos. If visiting a business customer, pay attention to signage, inventory, customers and the general environment. Does the owner know their business or could it be a front? In other words, all the classic signs of money laundering can point to a modern-day opioid dealer operation.

The SARs you file may not necessarily open an investigation, but will surely help law enforcement with ongoing investigations. Having filed a SAR (and thus obtained safe harbor) if you feel you need an immediate response, contact local law enforcement. While Fairfax County Police encourages this, we all recognize resources are limited and some jurisdictions may refer you elsewhere. Don't be discouraged - there are many agencies and departments joining forces to deal with this huge problem, and SAR Review Teams know who they are. Law enforcement may also want you to keep the account open and continue filing SARs. As we have seen in the past, drug traffickers will modify their money laundering methods as laws change, systems are strengthened and gaps are closed. They will be looking for weak links. Don't let it be your institution.



ACAMS US Capital Chapter Summer 2017

Community Bank and Credit Union BSA/AML and Law Enforcement Forum

Barbara Keller

On June 14, the US Capital Chapter held its first BSA/AML and Law Enforcement forum specifically designed for community banks and credit unions organized by Board members Lauren Kohr and Megan Cervený. The attendees began the day with an update from ACAMS Executive Vice President John Byrne who discussed a number of key current initiatives and themes that bankers are navigating through, as follows:

1. Addressing the new Customer Due Diligence for Beneficial Ownership rule, as the fifth pillar of an AML Program describing some of the challenges that AML professionals are facing in the implementation process.
2. Banks struggle with establishing a compliance culture which is where the biggest deficiencies lie and John pointed to FinCEN's "Culture of Compliance" guidance as a tool compliance officers can use in talking with their senior management and board—tone at the top is key.
3. With regard to enforcement actions, he advised attendees not just to forward information about enforcements actions to management but, rather, do a gap analysis then take the themes in the actions and talk about how they relate to your institution. When you receive a formal criticism during an examination, tell the board what needs to be fixed and when.
4. The financial sector, including small banks, has been extremely proactive in the past 4-5 years in helping to identify possible human trafficking.
5. Dealing with de-risking and financial inclusion. John cautioned attendees to be sure they have the resources they need if they are taking on higher risk accounts that have moved as a result of de-risking from larger institutions.
6. SARs continue to be an area of focus for law enforcement and the regulators.
7. Cybersecurity is a major new focus for AML professionals. John's advice for compliance officers with regard to exams was to solidify the lines of communication to ensure that misinformation does not spread during an examination .

His key takeaway was that "nothing matters without a strong culture of compliance."

Following these comments, a panel discussion was held on regulatory hot topics and exams with the regulators made up of representatives from the Federal Reserve, the FDIC, NCUA, and OCC, moderated by US Capital Chapter Board member Barbara Keller. The panel began by discussing areas of exam focus and identified a number of common areas. With the CDD rule scheduled to take effect in May 2018, they are all focusing on how their agencies are preparing for implementation, including thinking through the advice and guidance that needs to be provided. All are also focusing on risk exposure, risk assessments, and risk mitigation plans put in place by institutions. The common weaknesses they identified through the examination process includes suspicious activity monitoring; risk assessment methodologies and metrics;



ACAMS US Capital Chapter Summer 2017

appropriate due diligence on customer types and product lines, particularly when taking on new types of customers and products/services; training, especially board awareness; and, independent audit, especially adequate transaction testing. The agencies are working on exam guidance for the new CDD rule, which will be issued before the rule takes effect next year. The FFIEC manual will also be updated to reflect the implementation of the rule. With regard to the issue of de-risking, some of the regulators commented that, with proper internal controls, procedures, and monitoring, institutions should feel comfortable providing services to cash-intensive businesses.

Dennis Lormel's lunch presentation on terrorist financing definitely kept all attendees' attention. He provided an overview of the origins and state of the current terrorist threat landscape, terrorist funding flows, and the institutional risks associated with the funding of terrorism. With regard to risk, all financial institutions are vulnerable to terrorist exploitation. With the extensive network of terrorist organizations, it is virtually impossible to develop and implement monitoring systems to identify the full gamut of terrorist financing. The risk of being exploited by terrorist organizations differs from the risk of dealing with terrorist operatives and there are different ways to address these risks. Dennis recommended developing typologies likely to be encountered by your institution, in order to understand how to identify these scenarios before they occur. In assessing risk, measure both the likelihood of facilitating terrorist organizational activity and/or individual operative activity distinctly from each other. Visualize who you may be dealing with and in what capacity.

The afternoon law enforcement panel was made up of representatives from the FBI, IRS-CI, and the Northern Virginia Financial Initiative and was moderated by US Chapter Program Committee member Michael Loughnane. With regard to emerging financial threats, the discussion focused on bitcoin and cryptocurrencies in general. Law enforcement has the ability to unravel block chain activity but other methods of transferring cash, such as Venmo, continue to pose a threat. One of the challenges for law enforcement is keeping up the knowledge and skill level needed to go after criminal activity in these emerging areas. IRS-CI, which focuses 70% of its work on tax evasion and tax crimes, commented that virtual currency is another opportunity for tax evasion. The IRS has gotten the problem of ID theft to file false tax returns under control but now criminals have turned to cybercrime, such as hacking payroll providers in the US and selling the data on the dark web. Much of the focus of the panel centered on SARs—what makes a good SAR? Does law enforcement really use the SARs the financial industry files? What's the best way to develop a relationship with local law enforcement? The panelists assured the attendees that they all review SARs in their daily investigations but cautioned that they are not in a position to contact the filer to explain how a particular SAR was useful. They use analytics, which touch all SARs, to run key word searches geared to identify specific threat programs. They also encouraged attendees to reach out to law enforcement in their area to discuss potential suspicious activity identified and also to learn about emerging trends that law enforcement is seeing.



ACAMS US Capital Chapter Summer 2017

Law Enforcement Focus

Bob Pasley

On Tuesday, February 16, 2017, the US Capital Chapter held a sold-out luncheon event hosted by the BGR Group. Tom Locke from the BGR Group and the US Capital Chapter Board introduced the speaker, Special Agent Matthew B. Taylor of the Money Laundering Unit in the Criminal Division of the FBI.

Mr. Taylor provided the audience a brief history of the unit and discussed the responsibilities and focus of the unit on the money laundering facilitation threat. He delved into what the FBI looks for in these cases and how financial institutions can identify money laundering facilitators. He also walked the audience through several very informative case studies.

There was a very good question and answer period following the presentation. We were all very grateful that Mr. Taylor was able to share his expertise and background with us.

Perspectives on Current Issues & future of AML

Barbara Keller

On May 17, the US Capital Chapter members were fortunate to have an opportunity to hear perspectives on current and future AML requirements from Dan Stipano, the former deputy chief counsel at the Office of the Comptroller of the Currency (OCC), now a partner with Buckley Sandler's Washington, DC office. Mr. Stipano was introduced by US Capital Chapter Board member and former OCC colleague John Wagner, now a partner at Deloitte. In the hour long session, Mr. Stipano shared his views on current key issues within the industry, regulatory and U.S. Government. He also provided his thoughts on what we should be considering in rethinking the U.S. approach to AML compliance.

Mr. Stipano discussed five main topics—de-risking, the Customer Due Diligence (CDD) Beneficial Ownership final rule, enforcement actions, individual liability, and FinTech. With regard to de-risking, he saw two reasons why it continues to be a hot topic - the high cost of compliance and the regulatory consequences of “getting it wrong.” In terms of the CDD rule and beneficial ownership, he believes the rule is harder to implement than it looks on the surface and that institutions will be challenged to get their onboarding systems ready by May 11, 2018. In his view, the rule's requirement to monitor for changes in customer profiles, including beneficial owners, breaks new ground and codifies a requirement that formerly was subsumed in the AML Program rule. Mr. Stipano commented that the picture of numbers of BSA/AML





ACAMS US Capital Chapter Summer 2017

enforcement actions holding steady is deceptive because all of the largest banks are under enforcement actions that require the development of action plans. The plans are amended as a result of new exams, therefore, they are in a perpetual penalty box. Individual liability is a big topic but it has been more rhetoric than action, in his view. The recent settlement of the case against Tom Haider, formerly of MoneyGram, was a groundbreaking action for FinCEN. The opposition to OCC's proposal to offer a limited national bank charter to FinTech companies was underestimated. Whether or not these charters are granted, RegTech, use of technology for regulatory compliance, is becoming big business and could change the face of BSA/AML compliance down the road. In the future, RegTech could identify transactions of most interest to law enforcement more efficiently and quickly, but the industry will have to drag the government along down this technological innovation road.

With regard to the administration, Mr. Stipano commented that there are still a lot of "empty chairs" in key federal agencies that regulate financial institutions for BSA/AML. There are three Fed governorships that need to be filled. The Office of Comptroller of the Currency has an acting comptroller, the FDIC chairman's term is up in November, and at Treasury, the Undersecretary for Terrorism and Financial Intelligence and the FinCEN director positions are held by officials in an acting capacity. He predicted that these agencies will be sensitive to regulatory burden concerns, especially as they affect community banks, but not on the enforcement side.

THANK
YOU

A Special "Thank You" to all our 2017 speakers and sponsors: Dan Stipano, Deloitte, John Byrne, Jim Cox, Andrew Gordon, Ted Solomy, Peter Vincent, Joe Soniat, Fairfax County Police Department, Tom Locke, BGR Group, Special Agent Matthew B. Taylor, Thompson Reuters, Congressional Bank and Northwest Federal Credit Union.

Chapter Information



Check out our LinkedIn group page for Chapter updates!

Follow us on Twitter
@ACAMSDC

Did you Know...

Law enforcement and government employees receive added discounts to become chapter members? Contact the Chapter for more information.

Our Board Members:

Dennis Lormel (Co-Chair), Sepideh Behram (Co-Chair), Kevin Anderson (Treasurer), Barbara Keller (Program Director), Bob Pasley (Communications Director), Rachele Byrne (Social Media Director), Members at Large: Don Temple, Ed Rodriguez, Lester Joseph, Steve Gurdak, John Wagner, Lauren Kohr and Megan Cerveney and Emeritus Members: Mary Bashore and Jim Wright.