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## **Budget Crunches, EU Directive, Knowing Your Employee Will Loom Large in 2008, AML Experts Say**

Now that the confetti has settled and the kazoos have been packed away for next year's parties, anti-money laundering compliance officers are asking themselves questions about what lies ahead. Will Congress enact transaction reporting reform? What concrete steps will the Financial Crimes Enforcement Network and the Treasury Department take to reduce burgeoning AML compliance requirements? Will the shift in regulatory attention toward mortgage lending issues encourage financial institutions to slash their AML compliance budgets?

Fortent Inform reporter Brian Orsak and [Moneylaundering.com](http://Moneylaundering.com) reporter Brian Monroe asked some leading experts to identify the biggest issues that confront AML and counter terrorism financing professionals in 2008. Here are some of their answers:

**Jim Richards, executive vice president, BSA officer, Wells Fargo & Co.:** "2007 saw big dollar civil money penalties and more deferred prosecution agreements and I don't see that stopping in 2008. I don't see a slowdown in regulatory pressure.

"The big thing in 2008 will be balancing a tighter AML budget and staff due to the housing market [downturn]. There will be a sort of AML fatigue because everyone has

been pushing and running so hard for so long. You can only sprint for so long when the finish keeps getting farther and farther out and they don't tell you how long the race is."

**Teresa Pesce, partner in charge of AML services, KPMG:** Last year's increase in "attention to AML from the U.S. Justice Department and law enforcement will continue."

"The EU third directive became effective a few weeks ago and that enhances certain requirements for banks doing business in the EU, and there are a lot of U.S. institutions that do business in Europe. One of the challenges will be identifying beneficial ownership. I think that's going to require additional due diligence."

**Dennis Lormel, senior vice president of anti-money laundering, Corporate Risk International:** "I anticipate that the Senate will take up the Seasoned Customer CTR legislation that ABA has pushed for. I'm less inclined to think that the Senate will go along with this to the extent that the House did, but I think certain recommendations deserve consideration. I understand what the financial industry is saying but I haven't heard one thing from the industry about what type of monitoring they're going to do [if monitoring thresholds are raised]."

**Sepideh Behram, senior compliance counsel, American Bankers Association:** "The GAO studies that are coming up will have a significant impact. We provided testimony for the reports on CTR and SAR burdens. The SAR study will identify some of the challenges, and offer some guidance on how we can open up the lines of communication more. The MSB front will also continue to make news, and we're hoping there will be a new exam to identify what should be in AML programs. We anticipate that FinCEN will issue some guidance on how to identify MSBs and the GAO's CTR study will shed some light here."

**Hal Crawford, senior vice president, Brown Brothers Harriman & Co.:** “In 2007, there was a pretty significant focus on the behavior of employees, whether insider trading, willful misconduct or willful blindness. In 08, firms are going to be continuing to get resources to focus on employee communication and the transactions that their employees make. This will mean screening employee emails, as well. We’re going to spend a lot of time doing this, and financial institutions are building it now into their AML programs.”

**Matthew Levitt, author of *Hamas: Politics, Charity, and Terrorism in the Service of Jihad* and senior analyst, Washington Institute for Near East Policy:** “One of the most significant [events of 2007] was the Holy Land trial ending in mistrial. There is a difficulty prosecuting involving more support than they are actual acts of terrorism. Part of the effort going forward will be streamlining these cases—there were too many counts in that case—but also we need to update our legislation to better reflect the realities of how charities, in particular, can be abused with relative ease... [In 2008,] here’s going to be a Holy Land retrial. They didn’t get Capone the first time they went after him either.”

**Ellen Zimiles, chief executive officer, Daylight Forensic & Advisory LLC:** “2008 will be a time for a lot banks to reevaluate their risk assessments. A lot banks put them in place last year just to have something. Now they’re going to have go back and find out if what they’ve done is really effective. We may also see, with all of the subprime stuff going on, that there may be a budget crunch and compliance staffs will be expected to do more, or the same, with less.”

**Steven Pinter, counsel with Eren Law Firm and former senior sanctions adviser for OFAC:** “The IEEPA penalty enhancement [in 2007 for OFAC sanctions violations] is very, very significant and a quite powerful deterrent. The penalties prior to this were relatively mild, so this brings us up to date. There’s quite a bit of nervousness not only

among purposeful perpetrators but also those who might be the subject of enforcement even if they tried to prevent, if it happened just out of negligence. Now the potential fines will multiply for a bank that's going through great pains to maintain a compliance program, and nobody's perfect. They will slip up."

**Megan Hodge, BSA compliance officer, RBC Centura:** "Ever-increasing expectations will continue to pose real challenges to the AML community. The term 'risk-based approach' seems to be losing its meaning as more and more products and client types are apparently being used to facilitate money laundering and become valuable targets for law enforcement. Industry talk of micro-structuring and stored-value cards, for instance, is changing the idea that small transactions are low risk and setting a new expectation for what banks can, and must, do through their transaction monitoring program. When all transactions, both large and small, can be seen as 'high-risk,' what can banks reasonably do?"

**David Landsman, executive director, National Money Transmitters Association:** "In the coming year, I would like to see the industry become more politically active, since we have seen that our efforts along these lines start to get real results. Political action can have a real effect not only on getting legislation introduced, but can also affect people's attitudes and behaviors toward MSBs.

"I also believe we need to find alternatives to the so-called 'risk-based' paradigm since, as we have seen, it boils down to profiling, and all the negative effects that result from profiling follow."

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