

Areas of Focus: Risk Assessment, Independent Testing, and Monitoring

During the BSA examination process, examiners will evaluate the rationale underlying a decision to accept avoidable risk, the frequency and quality of independent testing, and the process of monitoring accounts and transactions for suspicious activity.

Risk Assessment

While there is no statutory requirement for a credit union to prepare a written risk assessment, it is the initial step in the development and approval of anti-money laundering policies and procedures. Before a board of directors can approve a BSA policy or set standards for the identification of members, decisions about risk are required.

By documenting these decisions in a written risk assessment, officials and credit union management will better understand areas of risk exposure, internal controls adopted to offset risk exposure, and decisions made to accept risk. The complexity and documentation associated with a credit union's risk assessment should correspond to the extent of products and services offered.

Independent Testing

Credit unions must perform periodic independent tests to validate internal controls over compliance with the Bank Secrecy Act. Independent testing is required by Section 748.2(c)(2) of the NCUA Rules and Regulations. Unless a credit union can demonstrate strong controls and limited risk exposure, NCUA expects independent testing to be conducted annually. Additional guidance concerning independent testing is provided in Letter to Credit Unions, 05-CU-09, *Bank Secrecy Act Compliance*, published in June 2005. A copy is available on NCUA's web site at: <http://www.ncua.gov/letters/letters.html>

Monitoring for Suspicious Activity

Credit unions must establish systems to identify suspicious transactions and to monitor accounts for suspicious activity, including structuring. In July 2005, the Financial Crimes Enforcement Network (FinCEN) published FinCEN Ruling 2005-06, *Suspicious Activity Reporting (Structuring)*. This ruling clarifies that credit unions must have systems in place to identify transactions and accounts that appear suspicious. A copy of the ruling is available on FinCEN's web site at: <http://www.fincen.gov/fincenruling2005-6.pdf>

NCUA will expect to see identification and monitoring systems commensurate with credit union resources, product breadth, and services offered.

Communication

To support credit unions in better understanding their BSA responsibilities, NCUA has made a special effort to communicate about the importance of the BSA and agency expectations for compliance.

NCUA has:

- Participated in development of the FFIEC BSA/AML Manual. An electronic copy of the manual is available at: <http://www.ncua.gov/RegulationsOpinionsLaws/BankSecrecy/BankSerecy.htm>
- Engaged in outreach to credit unions through free Credit Union Conferences hosted by the NCUA Office of Small Credit Union Initiatives. A list of upcoming conferences is available at: <http://www.ncua.gov/CreditUnionDevelopment/Events/>
- Coordinated with credit union leagues, chapters, and trade groups
- Published written guidance addressing BSA compliance, including Regulatory Alerts and Letters to Credit Unions. This guidance is available on the NCUA web site, <http://www.ncua.gov/>
- Updated the AIREs questionnaire used by NCUA to assist in evaluating compliance with BSA. The enclosed BSA questionnaire incorporates material from the FFIEC BSA/AML Manual. An electronic copy of the questionnaire is available on the NCUA website at: <http://www.ncua.gov/CreditUnionResources/aires/aires.html>

If you have questions regarding the enclosed questionnaire or compliance with BSA, please contact your district examiner, regional office, or state supervisory authority.

Sincerely,

/s/

JoAnn Johnson
Chairman

Enclosure