Examination Procedures

Parallel Banking

Objective. *Assess the adequacy of the bank’s systems to manage the risks associated with parallel banking relationships, and management’s ability to implement effective due diligence, monitoring, and reporting systems.*

| **Procedure** | **Comments** |
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| 1. Determine whether parallel banking relationships exist through discussions with management or by reviewing inter-party activities involving the bank and another foreign financial institution. Review the policies, procedures, and processes related to parallel banking relationships. Evaluate the adequacy of the policies, procedures, and processes given the bank’s parallel banking activities and the risks they present. Assess whether the controls are adequate to reasonably protect the bank from money laundering and terrorist financing. |  |
| 1. Determine whether there are any conflicts of interest or differences in policies, procedures, and processes between parallel bank relationships and other foreign correspondent bank relationships. Particular consideration should be given to funds transfer, pouch, and payable through activities because these activities are more vulnerable to money laundering. If the bank engages in any of these activities, examiners should consider completing applicable expanded examination procedures that address each of these topics. |  |
| 1. From a review of MIS and internal risk rating factors, determine whether the bank effectively identifies and monitors parallel banking relationships, particularly those that pose a higher-risk for money laundering. |  |
| 1. Determine whether the bank’s system for monitoring parallel banking relationships for suspicious activities, and for reporting suspicious activities, is adequate given the bank’s size, complexity, location, and types of customer relationships. |  |
| 1. If appropriate, for additional guidance refer to the core examination procedures, “Office of Foreign Assets Control”. |  |
| **Transaction Testing** | |
| 1. On the basis of the bank’s risk assessment of its parallel banking activities, as well as prior examination and audit reports, select a sample of higher-risk activities from parallel banking relationships (e.g., foreign correspondent banking, funds transfer, payable through accounts, and pouch). |  |
| 1. Consider the location of the foreign parallel financial institution. If the jurisdiction is higher risk, examiners should review a larger sample of transactions between the two institutions. Banks doing business with parallel foreign banking organizations in countries not designated as higher risk may still require EDD, but that determination will be based on the size, nature, and type of the transactions between the institutions. |  |
| 1. On the basis of examination procedures completed, including transaction testing, form a conclusion about the adequacy of policies, procedures, and processes associated with parallel banking organizations. Focus on whether controls exist to ensure independent and arms-length dealings between the two entities. If significant concerns are raised about the relationship between the two entities, recommend that this information be forwarded to the appropriate supervisory authorities. |  |