

## Parallel Banking — Overview

**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.*

A parallel banking organization exists when at least one U.S. bank and one foreign financial institution are controlled either directly or indirectly by the same person or group of persons who are closely associated in their business dealings or otherwise acting together, but are not subject to consolidated supervision by a single home country supervisor. The foreign financial institution is subject to different money laundering rules and regulations and a different supervisory oversight structure, both of which may be less stringent than in the United States. The regulatory and supervisory differences heighten the BSA/AML risk associated with parallel banking organizations.

### Risk Factors

Parallel banking organizations may have common management, share policies and procedures, cross-sell products, or generally be linked to a foreign parallel financial institution in a number of ways. The key money laundering concern regarding parallel banking organizations is that the U.S. bank may be exposed to greater risk through transactions with the foreign parallel financial institution. Transactions may be facilitated and risks heightened because of the lack of arm’s-length dealing or reduced controls on transactions between banks that are linked or closely associated. For example, officers or directors may be common to both entities or may be different but nonetheless work together.<sup>177</sup>

### Risk Mitigation

The U.S. bank’s policies, procedures, and processes for parallel banking relationships should be consistent with those for other foreign correspondent bank relationships. In addition, parallel banks should:

- Provide for independent lines of decision-making authority.
- Guard against conflicts of interest.
- Ensure independent and arm’s-length dealings between the related entities.

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<sup>177</sup> For additional risks associated with parallel banking, refer to the *Joint Agency Statement on Parallel-Owned Banking Organizations* issued by the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, and Office of Thrift Supervision, April 23, 2002.