

EXPANDED EXAMINATION OVERVIEW AND PROCEDURES FOR PRODUCTS AND SERVICES

Correspondent Accounts (Domestic) — Overview

Objective. *Assess the adequacy of the bank's systems to manage the risks associated with offering domestic correspondent account relationships, and management's ability to implement effective monitoring and reporting systems.*

Banks maintain correspondent relationships at other domestic banks to provide certain services that can be performed more economically or efficiently because of the other bank's size, expertise in a specific line of business, or geographic location. Such services may include:

- **Deposit accounts.** Assets known as “due from bank deposits” or “correspondent bank balances” may represent the bank's primary operating account.
- **Funds transfers.** A transfer of funds between banks may result from the collection of checks or other cash items, transfer and settlement of securities transactions, transfer of participating loan funds, purchase or sale of federal funds, or processing of customer transactions.
- **Other services.** Services include processing loan participations, facilitating secondary market loan sales, performing data processing and payroll services, and exchanging foreign currency.

Bankers' Banks

A bankers' bank, which is organized and chartered to do business with other banks, is generally owned by the banks it services. Bankers' banks, which do not conduct business directly with the public, offer correspondent banking services to independent community banks, thrifts, credit unions, and real estate investment trusts. Bankers' banks provide services directly, through outsourcing arrangements, or by sponsoring or endorsing third parties. The products bankers' banks offer normally consist of traditional correspondent banking services. Bankers' banks should have risk-based policies, procedures, and processes to manage the BSA/AML risks involved in these correspondent relationships to detect and report suspicious activities.

Generally, a bankers' bank signs a service agreement with the respondent bank¹⁷⁸ outlining each party's responsibilities. The service agreement may include the following:

- Products and services provided.
- Responsibility for record keeping (e.g., CTRs filed).
- Responsibility for task performed (e.g., OFAC filtering).

¹⁷⁸ A respondent bank is any bank for which another bank establishes, maintains, administers, or manages a correspondent account relationship.

- Review of oversight documentation (e.g., audit and consultants reports).

Risk Factors

Because domestic banks must follow the same regulatory requirements, BSA/AML risks in domestic correspondent banking, including bankers' banks, are minimal in comparison to other types of financial services, especially for proprietary accounts (i.e., the domestic bank is using the correspondent account for its own transactions). Each bank, however, has its own approach for conducting its BSA/AML compliance program, including customer due diligence, MIS, account monitoring, and reporting suspicious activities. Furthermore, while a domestic correspondent account may not be considered higher risk, transactions through the account, which may be conducted on behalf of the respondent's customer, may be higher risk. Money laundering risks can be heightened when a respondent bank allows its customers to direct or execute transactions through the correspondent account, especially when such transactions are directed or executed through an ostensibly proprietary account.

The correspondent bank also faces heightened risks when providing direct currency shipments for customers of respondent banks. This is not to imply that such activities necessarily entail money laundering, but these direct currency shipments should be appropriately monitored for unusual and suspicious activity. Without such a monitoring system, the correspondent bank is essentially providing these direct services to an unknown customer.

Risk Mitigation

Banks that offer correspondent bank services to respondent banks should have policies, procedures, and processes to manage the BSA/AML risks involved in these correspondent relationships and to detect and report suspicious activities. Banks should ascertain whether domestic correspondent accounts are proprietary or allow third-party transactions. When the respondent bank allows third-party customers to transact business through the correspondent account, the correspondent bank should ensure that it understands the due diligence and monitoring procedures applied by the respondent on its customers that utilize the account.

The level of risk varies depending on the services provided and the types of transactions conducted through the account and the respondent bank's BSA/AML compliance program, products, services, customers, entities, and geographic locations. Each bank should appropriately monitor transactions of domestic correspondent accounts relative to the level of assessed risk. In addition, domestic banks are independently responsible for OFAC compliance for any transactions that flow through their banks. Appropriate filtering should be in place. Refer to core overview section and examination procedures, "Office of Foreign Assets Control," page 142 and 152, respectively.