Examination Procedures

U.S. Dollar Drafts

Objective. *Assess the adequacy of the bank’s systems to manage the risks associated with U.S. dollar drafts, and management’s ability to implement effective monitoring and reporting systems.*

| **Procedure** | **Comments** |
| --- | --- |
| 1. Review the policies, procedures, and processes related to U.S. dollar drafts. Evaluate the adequacy of the policies, procedures, and processes given the bank’s U.S. dollar draft activities and the risks they present. Assess whether the controls are adequate to reasonably protect the bank from money laundering and terrorist financing. Determine whether policies address the following:  * Criteria for allowing a foreign financial institution or entity to issue the U.S. bank’s dollar drafts (e.g., jurisdiction; products, services, and target markets; purpose of account and anticipated activity; customer history; and other available information). * Identification of unusual transactions (e.g., structuring transactions or the purchase of multiple sequentially numbered U.S. dollar drafts to the same payee). * Criteria for ceasing U.S. dollar draft issuance through a foreign financial institution or entity. |  |
| 1. From a review of MIS and internal risk rating factors, determine whether the bank effectively identifies and monitors higher-risk U.S. dollar draft accounts. |  |
| 1. Determine whether the bank’s system for monitoring U.S. dollar draft accounts for suspicious activities, and for reporting suspicious activities, is adequate given the bank’s size, complexity, location, and types of customer relationships. |  |
| 1. Obtain a list of foreign bank correspondent accounts in which U.S. dollar drafts are offered. Review the volume, by number and dollar amount, of monthly transactions for each account. Determine whether management has appropriately assessed risk. |  |
| **Transaction Testing** | |
| 1. On the basis of the bank’s risk assessment of its U.S. dollar draft activities, as well as prior examination and audit reports, select a sample of foreign correspondent bank accounts in which U.S. dollar drafts are processed. In the sample selected, include accounts with a high volume of U.S. dollar draft activity. From the sample selected, perform the following examination procedures:  * Review transactions for sequentially numbered U.S. dollar drafts to the same payee or from the same remitter. Research any unusual or suspicious U.S. dollar draft transactions. * Review the bank’s contracts and agreements with foreign correspondent banks. Determine whether contracts address procedures for processing and clearing U.S. dollar drafts. * Verify that the bank has obtained and reviewed information about the foreign financial institution’s home country AML regulatory requirements (e.g., customer identification and suspicious activity reporting). |  |
| 1. On the basis of examination procedures completed, including transaction testing, form a conclusion about the adequacy of policies, procedures, and processes associated with U.S. dollar drafts. |  |