Examination Procedures

Payable Through Accounts

Objective. *Assess the adequacy of the bank’s systems to manage the risks associated with payable through accounts (PTA), and management’s ability to implement effective monitoring and reporting systems.*

| **Procedure** | **Comments** |
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| 1. Review the policies, procedures, and processes related to PTAs. Evaluate the adequacy of the policies, procedures, and processes given the bank’s PTA 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:  * Criteria for opening PTA relationships with a foreign financial institution are adequate. Examples of factors that may be used include: jurisdiction; bank secrecy or money laundering haven; products, services, and markets; purpose; anticipated activity; customer history; ownership; senior management; certificate of incorporation; banking license; certificate of good standing; and demonstration of the foreign financial institution’s operational capability to monitor account activity. * Appropriate information has been obtained and validated from the foreign financial institution concerning the identity of any persons having authority to direct transactions through the PTA. * Information and EDD have been obtained from the foreign financial institution concerning the source and beneficial ownership of funds of persons who have authority to direct transactions through the PTA (e.g., name, address, expected activity level, place of employment, description of business, related accounts, identification of foreign politically exposed persons, source of funds, and articles of incorporation). * Subaccounts are not opened before the U.S. bank has reviewed and approved the customer information. * Master or subaccounts can be closed if the information provided to the bank has been materially inaccurate or incomplete. * The bank can identify all signers on each subaccount. |  |
| 1. From a review of MIS) and internal risk rating factors, determine whether the bank effectively identifies and monitors PTAs. |  |
| 1. Determine whether the bank’s system for monitoring PTAs for suspicious activities, and reporting suspicious activities, is adequate given the bank’s size, complexity, location, and types of customer relationships. |  |
| 1. To assess the volume of risk and determine whether adequate resources are allocated to the oversight and monitoring activity, obtain a list of foreign correspondent bank accounts in which PTAs are offered and request MIS reports that show:  * The number of subaccounts within each PTA. * The volume and dollar amount of monthly transactions for each subaccount. |  |
| 1. Verify that the bank has obtained and reviewed information concerning the foreign financial institution’s home country AML regulatory requirements (e.g., customer identification requirements and suspicious activity reporting) and considered these requirements when reviewing PTAs. Determine whether the bank has ensured that subaccount agreements comply with any AML statutory and regulatory requirements existing in the foreign financial institution’s home country. |  |
| 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 PTA activities, as well as prior examination and audit reports, select a sample of PTAs. From the sample, review the contracts or agreements with the foreign financial institution. Determine whether the contracts or agreements:  * Clearly outline the contractual responsibilities of both the U.S. bank and the foreign financial institution. * Define PTA and subaccount opening procedures and require an independent review and approval process when opening the account. * Require the foreign financial institution to comply with its local AML requirements. * Restrict subaccounts from being opened by casas de cambio*,* finance companies, funds remitters, or other nonbank financial institutions. * Prohibit multi-tier subaccountholders. * Provide for proper controls over currency deposits and withdrawals by subaccountholders and ensure that CTRs have been appropriately filed. * Provide for dollar limits on each sub-accountholder’s transactions that are consistent with expected account activity. * Contain documentation requirements that are consistent with those used for opening domestic accounts at the U.S. bank. * Provide the U.S. bank with the ability to review information concerning the identity of subaccountholders (e.g., directly or through a trusted third party). * Require the foreign financial institution to monitor subaccount activities for unusual or suspicious activity and report findings to the U.S. bank. * Allow the U.S. bank, as permitted by local laws, to audit the foreign financial institution’s PTA operations and to access PTA documents. |  |
| 1. Review PTA master-account bank statements. (The examiner should determine the time period based upon the size and complexity of the bank.) The statements chosen should include frequent transactions and those of large dollar amounts. Verify the statements to the general ledger and bank reconcilements. Note any currency shipments or deposits made at the U.S. bank on behalf of an individual subaccountholder for credit to the customer’s subaccount. |  |
| 1. From the sample selected, review each subaccountholder’s identifying information and related transactions for a period of time as determined by the examiner. Evaluate PTA subaccountholders’ transactions. Determine whether the transactions are consistent with expected transactions or warrant further research. (The sample should include subaccountholders with significant dollar activity.) |  |
| 1. On the basis of examination procedures completed, including transaction testing, form a conclusion about the adequacy of policies, procedures, and processes associated with PTAs. |  |