Examination Procedures

Funds Transfers

Objective. *Assess the adequacy of the bank’s systems to manage the risks associated with funds transfers, and management’s ability to implement effective monitoring and reporting systems. This section expands the core review of the statutory and regulatory requirements of funds transfers to provide a broader assessment of AML risks associated with this activity.*

| **Procedure** | **Comments** |
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| 1. Review the policies, procedures, and processes related to funds transfers. Evaluate the adequacy of the policies, procedures, and processes given the bank’s funds transfer activities and the risks they present. Assess whether the controls are adequate to reasonably protect the bank from money laundering and terrorist financing.
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| 1. Review MIS and internal risk rating factors, and determine whether the bank effectively identifies and monitors funds transfer activities.
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| 1. Evaluate the bank’s risks related to funds transfer activities by analyzing the frequency and dollar volume of funds transfers, jurisdictions, and the bank’s role in the funds transfer process (e.g., whether it is the originator’s bank, intermediary bank, or beneficiary’s bank). These factors should be evaluated in relation to the bank’s size, its location, and the nature of its customer and correspondent account relationships.
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| 1. Determine whether an audit trail of funds transfer activities exists. Determine whether an adequate separation of duties or other compensating controls are in place to ensure proper authorization for sending and receiving funds transfers and for correcting postings to accounts.
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| 1. Determine whether the bank’s system for monitoring funds transfers and for reporting suspicious activities is adequate given the bank’s size, complexity, location, and types of customer relationships. Determine whether suspicious activity monitoring and reporting systems include:
* Funds transfers purchased with currency.
* Transactions in which the bank is acting as an intermediary.
* All SWIFT message formats, including MT103, MT 202, and MT202 COV.
* Transactions in which the bank is originating or receiving funds transfers from foreign financial institutions, particularly to or from jurisdictions with strict privacy and secrecy laws or those identified as higher risk.
* Frequent currency deposits or funds transfers and then subsequent transfers, particularly to a larger institution or out of the country.
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| 1. Review the bank’s procedures for cross-border funds transfers:
* Determine whether the bank’s processes for foreign correspondent bank due diligence, as required under section 312 of the USA PATRIOT Act and corresponding regulations include the review and evaluation of the transparency practices of the bank’s correspondents who are involved in cross-border funds transfers through the bank (for example, whether correspondents are appropriately utilizing the MT 202 COV message format).
* As applicable and if not already performed, review the bank’s procedures to ensure compliance with the Travel Rule, including appropriate use of the MT 202 COV format.
* Assess the bank’s policies for cooperating with its correspondents when they request the bank to provide information about parties involved in funds transfers.
* Assess the adequacy of the bank’s procedures for addressing isolated as well as, repeated instances where payment information received from a correspondent is missing, manifestly meaningless or incomplete, or suspicious.
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| 1. Determine the bank’s procedures for payable upon proper identification (PUPID) transactions.
* Beneficiary bank — determine how the bank disburses the proceeds (i.e., by currency or official check).
* Originating bank — determine whether the bank allows PUPID funds transfers for noncustomers. If so, determine the type of funds accepted (i.e., by currency or official check).
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| 1. If appropriate, for additional guidance refer to the core examination procedures, “Office of Foreign Assets Control”.
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| **Transaction Testing** |
| 1. On the basis of the bank’s risk assessment of funds transfer activities, as well as prior examination and audit reports, select a sample of higher-risk funds transfer activities, which may include the following:
* Funds transfers purchased with currency.
* Transactions in which the bank is acting as an intermediary, such as cover payments.
* Transactions in which the bank is originating or receiving funds transfers from foreign financial institutions, particularly to or from jurisdictions with strict privacy and secrecy laws or those identified as higher risk.
* PUPID transactions.
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| 1. From the sample selected, analyze funds transfers to determine whether the amounts, frequency, and jurisdictions of origin or destination are consistent with the nature of the business or occupation of the customer.
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| 1. In addition, for funds transfers processed using the MT 202 and MT 202 COV message formats, review the sample of messages to determine whether the bank has used the appropriate message formats and has included complete originator and beneficiary information (e.g., no missing or meaningless information).
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| 1. On the basis of examination procedures completed, including transaction testing, form a conclusion about the adequacy of policies, procedures, and processes associated with funds transfer activity.
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