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U.S. Publishes FATF-Mandated Risk Assessments Ahead of Mutual Evaluation

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The exploitation of nominee accountholders, misuse of correspondent relationships and complicity of third-party payment processors continue to frustrate efforts to shield banks from money laundering and terror financing, U.S. officials said Friday.

In its first evaluations of its exposure to the two crimes since 2005, the United States said that some $300 billion in illicit proceeds is generated annually but that the nation's vulnerabilities remain similar to those identified a decade ago. The reports, which also cited the misuse of remote deposit capture services and corrupt charities, deemed regulatory oversight of banks sufficient.

"With few exceptions, U.S. regulation, supervision and enforcement are effective and adequate," the report found. "Between 2006 to 2012, out of the approximately 13,000 depository institutions in the United States only approximately one percent were subjected to formal enforcement actions requiring them to improve their programs, and over the last three years the issuance of enforcement actions has decreased significantly."

In their evaluation of terrorist financing, American officials outlined efforts by militants to raise money through kidnapping and extortion as well as donations, and suggested that further scrutiny of charities by the IRS could "lead to further investigations that provide more insight" into illicit funding networks.

The reports, issued Friday by the U.S. Treasury Department, precede an evaluation of the U.S. regulatory regime by the Financial Action Task Force (FATF) scheduled to start by February. The Paris-based group outlined in March 2013 how member-states should identify the risks of money laundering and terrorism financing under the organization's revised recommendations.

"The assessments published today should be used as one additional tool in evaluating risk, but should not be read in isolation," said Adam Szubin, acting secretary for the Office of Terrorism and Financial Intelligence in a statement exhorting financial institutions and other companies to utilize the reports in crafting their compliance programs.

"These are the kinds of comprehensive assessments the industry has been asking Treasury for for a long time" and which could be used by banks to update their internal risk assessments, said a former official with the department's Financial Crimes Enforcement Network, or FinCEN.

Still, "there's a substantial question if this report is going to be persuasive to FATF assessors," said Ross Delston, a Washington, D.C.-based attorney and a former assessor for the International Monetary Fund.

FATF officials could view the analysis in the assessments as “simplistic,” according to Delston, who cited as an example the assessments’ focus on currency transaction reports filed by casinos as a vulnerability, rather than other industry risks identified in regulatory settlements.

American officials based the reports’ findings on the analysis of thousands of law enforcement cases and regulatory reports submitted by U.S. financial institutions.

“As important as what’s in the report is how the U.S. applied FATF methodology to put the risk assessment together, as a model to the rest of the world to figure out how to do this,” said Chip Poncy, the former director of the Treasury Department’s Office of Strategic Policy for Terrorist Financing and Financial Crimes and a founding partner of Financial Integrity Network, a consultancy.

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