

---

# Anti-Money Laundering Risk Management

November 2011



---

# Disclaimer

---

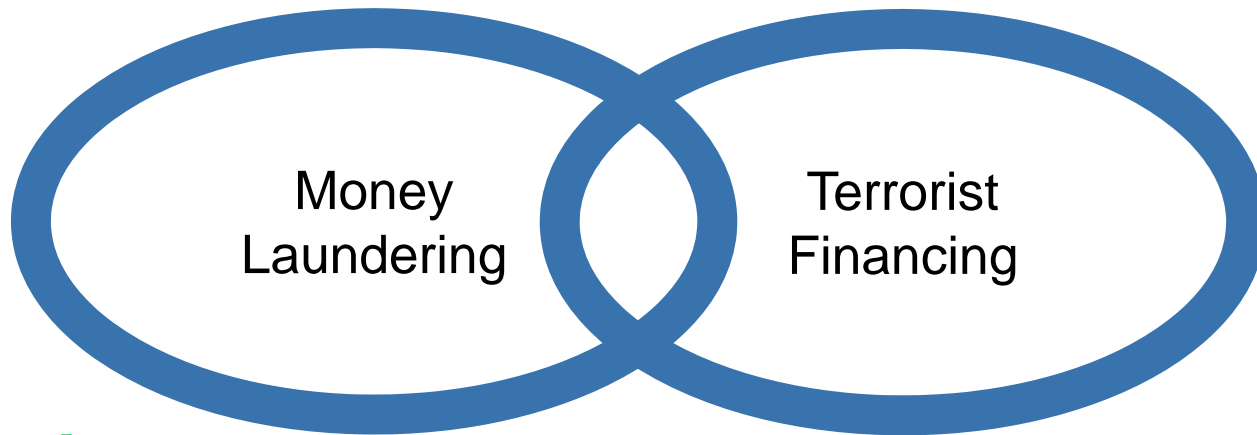
These materials are provided for educational and illustrative purposes only and not as a solicitation by Citi for any particular product or service. Furthermore, although the information contained herein is believed to be reliable, the following does not constitute legal advice and Citi makes no representation or warranty as to the accuracy or completeness of any information contained herein or otherwise provided by it.

---

# What is Money Laundering?

---

Often linked in legislation and regulation.....



Source vs. Use

.....but are different concepts



# Money Laundering Stages

Placement

Layering

Integration



Places criminal proceeds into the financial system.

Separates illicit proceeds from their source by creating complex layers of financial transactions designed to disguise the audit trail and provide anonymity.

Places the laundered proceeds back into the economy in such a way that it re-enters the financial system appearing to be normal business funds.

---

# Anti-Money Laundering has Global Regulatory Attention

---

## United States

Department of the Treasury

- Office of the Comptroller of the Currency
- Financial Crimes Enforcement Network
- Office of Foreign Asset Control

## European Union

- European Commission
- Bank for International Settlements



## United Nations

- Security Council Sanctions Committees

<http://financialregulatorsgateway.com/>

## Country Specific Examples

- Monetary Authority of Singapore
- The People's Bank of China
- Attorney's General Department (Australia)
- Council of Financial Activities Control (Brazil)
- Financial Monitoring Committee (Russia)
- Financial Intelligence Centre (S. Africa)
- Hong Kong Monetary Authority

---

## The Cost of Non Compliance is High

---

### *Over 100 BSA/AML Actions have been taken since May 2004.*

<b>August 2011</b>	OFAC issued its largest civil penalty, <b>\$88.3M</b> , in the history of its civil penalty program for apparent violations of several sanctions programs.
<b>February 2011</b>	Concurrent OCC and FinCEN orders. Assessment of <b>\$8mm</b> focused on former foreign correspondent bank business.
<b>October 2010</b>	FRB and OCC Cease and Desist order. Focused on firm-wide compliance risk management program, violation of Bank Secrecy Act and its underlying regulations.
<b>May 2010</b>	US Department of Justice. Forfeiture of <b>\$500M</b> . Violation of the Bank Secrecy Act and violation of two laws underlying OFAC.
<b>March 2010</b>	<b>\$110M</b> Forfeiture with DOJ, a civil money penalty of <b>\$50M</b> and a Cease and Desist with OCC; civil money penalty of <b>\$110</b> with FinCEN. Alleged failures in the AML/BSA program.
<b>January 2008</b>	<b>\$12M</b> Civil Money Penalty by FinCEN; Failure to implement effective controls to ensure compliance with BSA.
<b>September 2007</b>	OCC <b>\$10M</b> Civil Money Penalty; Cease and Desist; DOJ Deferred Prosecution Agreement and <b>\$21.6M</b> Forfeiture.

---

# How can your organization manage AML Risk?

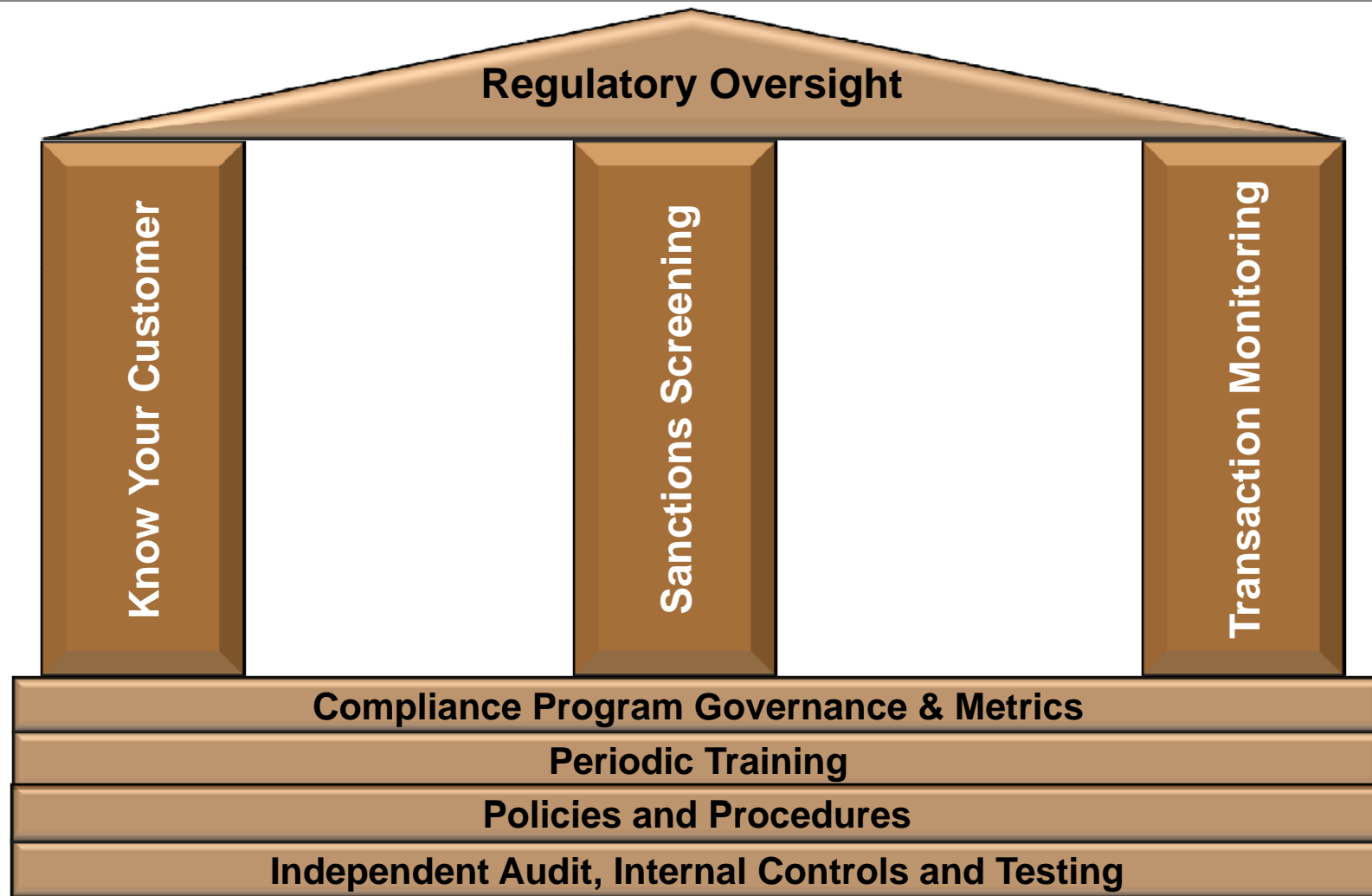
---



---

# Key Anti-Money Laundering Program Components

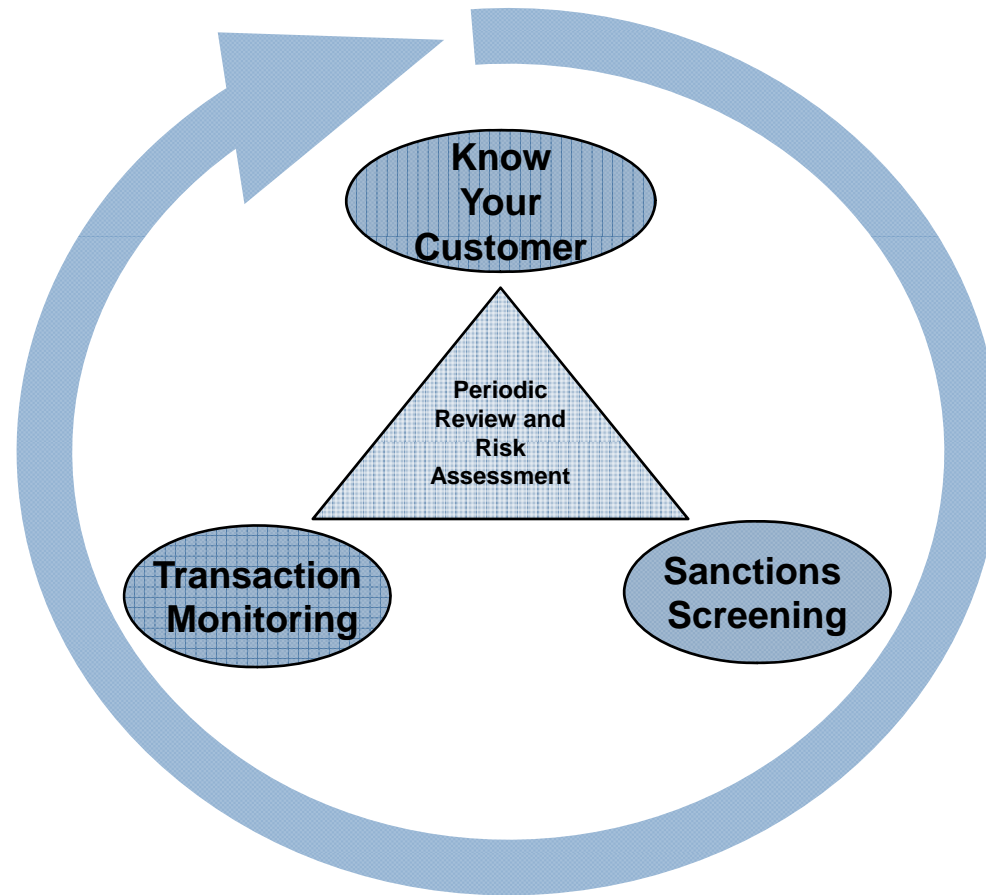
---



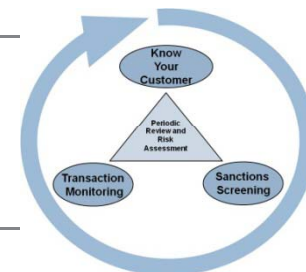
---

An AML Program should be a continuous feedback loop...

---



# KYC – Know Your Customer



...an ongoing process throughout the client relationship

## Client On-boarding

- ✓ Customer Identification Program
- ✓ Is this a legitimate customer?
- ✓ What business are they in?
- ✓ Who are the senior officers; beneficial owners?
- ✓ Were proper corporate documents provided?
- ✓ What is the controlling ownership structure?
- ✓ Are any officers Politically Exposed Persons (PEP) or have OFAC sanctions?
- ✓ Negative News Search

## Internal Risk Assessments

- ✓ Does the customer operate in high risk geographies?
- ✓ Is the customer's industry considered high risk?
- ✓ Enhanced Due Diligence
- ✓ Risk Rating Methodology
- ✓ Was an AML Call Report prepared?

## Periodic Review

- ✓ Does the client conduct business as expected?
- ✓ Have the senior officers or beneficial owners changed?
- ✓ Do they operate in new and/or high risk countries?
- ✓ Have they expanded into new business lines?
- ✓ Is the AML Call Report current?

# Components of the AML Call Report

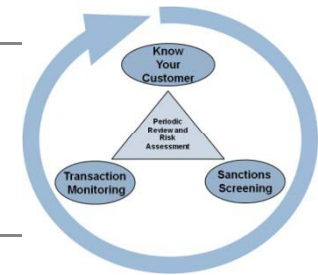
<p><b>Wolfsberg Questionnaire</b></p>	<ul style="list-style-type: none"> <li>✓ A series of questions across the key aspects of a bank's AML Program.</li> <li>✓ Should be current. i.e. prepared in the last 12 months</li> <li>✓ Signed by a senior Compliance Officer</li> <li>✓ Reference: <a href="http://www.wolfsberg-principles.com/index.html">http://www.wolfsberg-principles.com/index.html</a></li> </ul>								
<p><b>In Person Meetings</b></p>	<ul style="list-style-type: none"> <li>✓ Conduct on site meetings with your customer's Compliance Officers.</li> <li>✓ Review the components of their AML Program:</li> </ul> <table border="1" data-bbox="653 773 1682 1016" style="margin-left: 40px;"> <tr> <td>•Staffing</td> <td>•Training</td> </tr> <tr> <td>•AML Systems</td> <td>•Governance</td> </tr> <tr> <td>•Policies/Procedures</td> <td>•Independent Audit</td> </tr> <tr> <td>•Internal Controls</td> <td>•Local Regulatory Oversight</td> </tr> </table>	•Staffing	•Training	•AML Systems	•Governance	•Policies/Procedures	•Independent Audit	•Internal Controls	•Local Regulatory Oversight
•Staffing	•Training								
•AML Systems	•Governance								
•Policies/Procedures	•Independent Audit								
•Internal Controls	•Local Regulatory Oversight								
<p><b>Risk Assessment</b></p>	<ul style="list-style-type: none"> <li>✓ Implement periodic AML Risk Assessment based on identified risks and internal risk ratings</li> </ul>								
<p><b>Periodic Review</b></p>	<ul style="list-style-type: none"> <li>✓ Update the AML Call Report according to your internal risk assessment guidelines</li> </ul>								

# Additional Requirements for Foreign Correspondent Banks

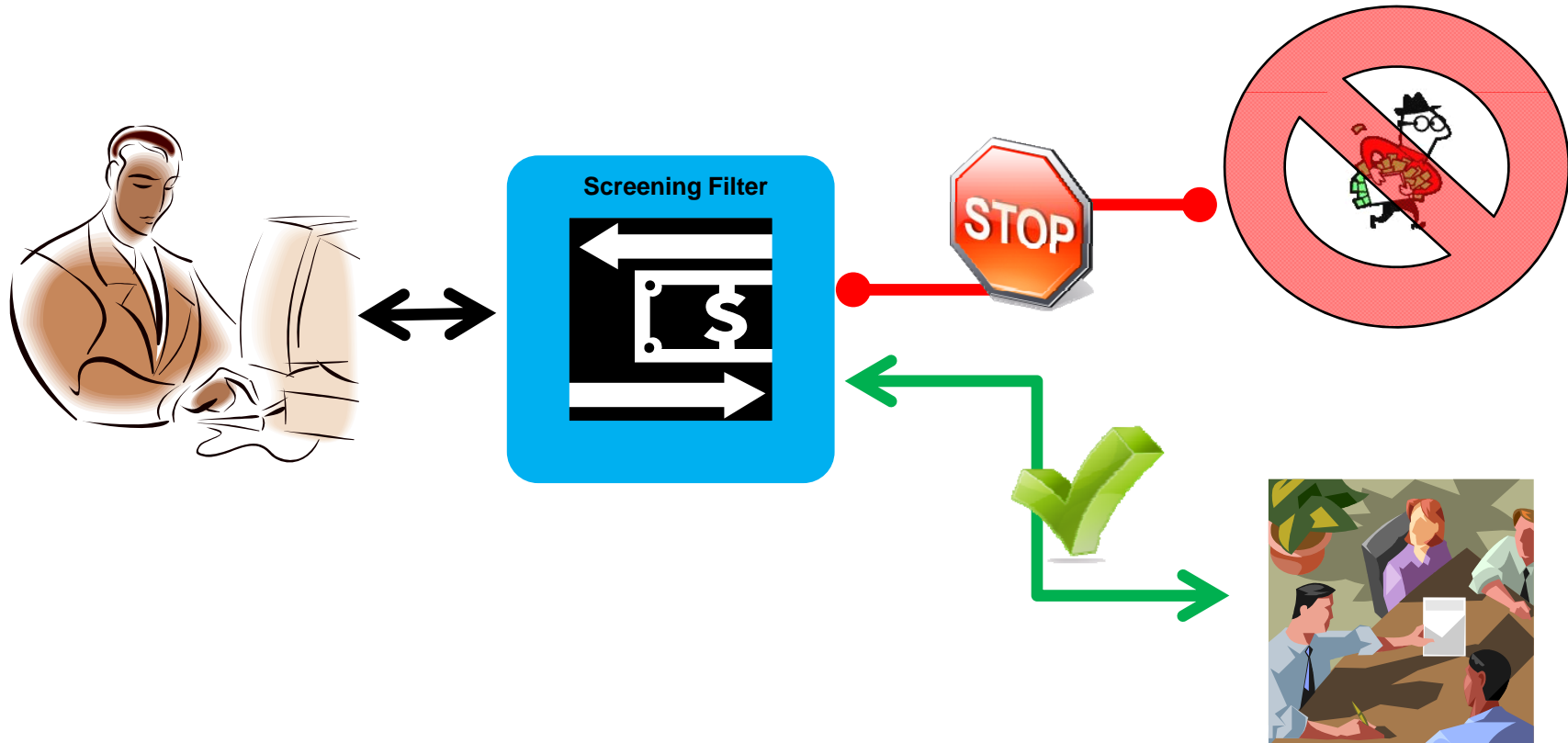
➤ Required by Section 312 of the USA PATRIOT Act

General Due Diligence Requirements	Enhanced Due Diligence Requirements
<ul style="list-style-type: none"> <li>✓ Have a program to determine if the account is subject to enhanced due diligence.</li> <li>✓ Assess the money laundering risk posed, based on relevant risk factors. (i.e. AML Call Report)</li> </ul>	<ul style="list-style-type: none"> <li>✓ Required When:               <ul style="list-style-type: none"> <li>• Is the FCB operating under an offshore license?</li> <li>• Does the FCB operate in a non-cooperative or known money laundering jurisdiction?</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>✓ Apply risk based policies, procedures and controls               <ul style="list-style-type: none"> <li>• Detect and report suspected money laundering activity</li> <li>• Periodic review of activity</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>✓ Conduct appropriate enhanced scrutiny.</li> <li>✓ If the FCB offers correspondent banking services, conduct due diligence on those entities.</li> <li>✓ Identify owners if not publicly traded.</li> </ul>

# Sanctions Screening



Used to prevent the transfer of assets to entities, individuals and countries against which financial sanctions have been issued



---

## Sanctions are Set by Regulatory Bodies

---

➤ For example:

– United States: US Department of the Treasury



– United Nations: Security Council Sanctions Committee



➤ Penalties for non-compliance are severe

➤ There is no tolerance for non-compliance

---

# U.S. Department of the Treasury

## Office of Foreign Asset Control - OFAC

---



- OFAC administers and enforces U.S. economic sanctions and trade restrictions based on national security and foreign policy objectives and goals.
- OFAC uses its broad administrative powers to:
  - Implement various sanctions programs to block and prohibit dealings involving targeted countries, regimes, entities, individuals, and activities
  - Investigate possible sanctions violations (Administrative Subpoenas)
  - Create exceptions to regulatory prohibitions (Licenses)
  - Impose civil penalties for non-compliance with and evasion of U.S. sanctions laws and regulations
- <http://www.treasury.gov/resource-center/sanctions/Pages/default.aspx>

---

# OFAC Penalties for Non Compliance

---

## ➤ Civil

Depending on the program:

Penalties range from \$250,000 or twice the amount of each underlying transaction to \$1,075,000 for each violation.

## ➤ Criminal

Financial Penalties can range from \$50,000 to \$10,000,000

Imprisonment can range from 10 to 30 years for willful violations

Civil and criminal penalties may also be aggregated  
All penalties and settlements are made public

<http://www.treasury.gov/resource-center/sanctions/CivPen/Pages/civpen-index2.aspx>

---

## Sanction Lists are Many.....

---

- **Her Majesty Treasury List**
- **Bureau of Industry and Security**
- **Department of State**
- **EU Terrorism List**
- **FBI Top Ten Most Wanted**
- **Interpol Most Wanted**
- **ICE List (U.S. Immigrations and Customs Enforcement)**
- **Office of Foreign Assets Control (OFAC) Sanctions**

- **CBI List (The Central Bureau of Investigation)**
- **SDN & Blocked Entities (OFAC)**
- **SECO List (Switzerland)**
- **Treasury PML List**
- **UN Consolidated List**
- **OCC Shell Bank List**
- **World Bank Debarred Parties List**
- **Debarred Parties List (US State Department – Trade)**

....What is the SDN List?

## Stands for Specially Designated Nationals

✓ Published by  
OFAC

✓ Available for  
download

✓ Updated  
periodically

✓ Individuals  
✓ Companies  
✓ Groups  
✓ Entities  
✓ Terrorists  
✓ Narcotics Traffickers

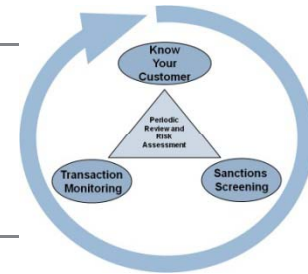
If a match:

✓ Block / Freeze  
Property

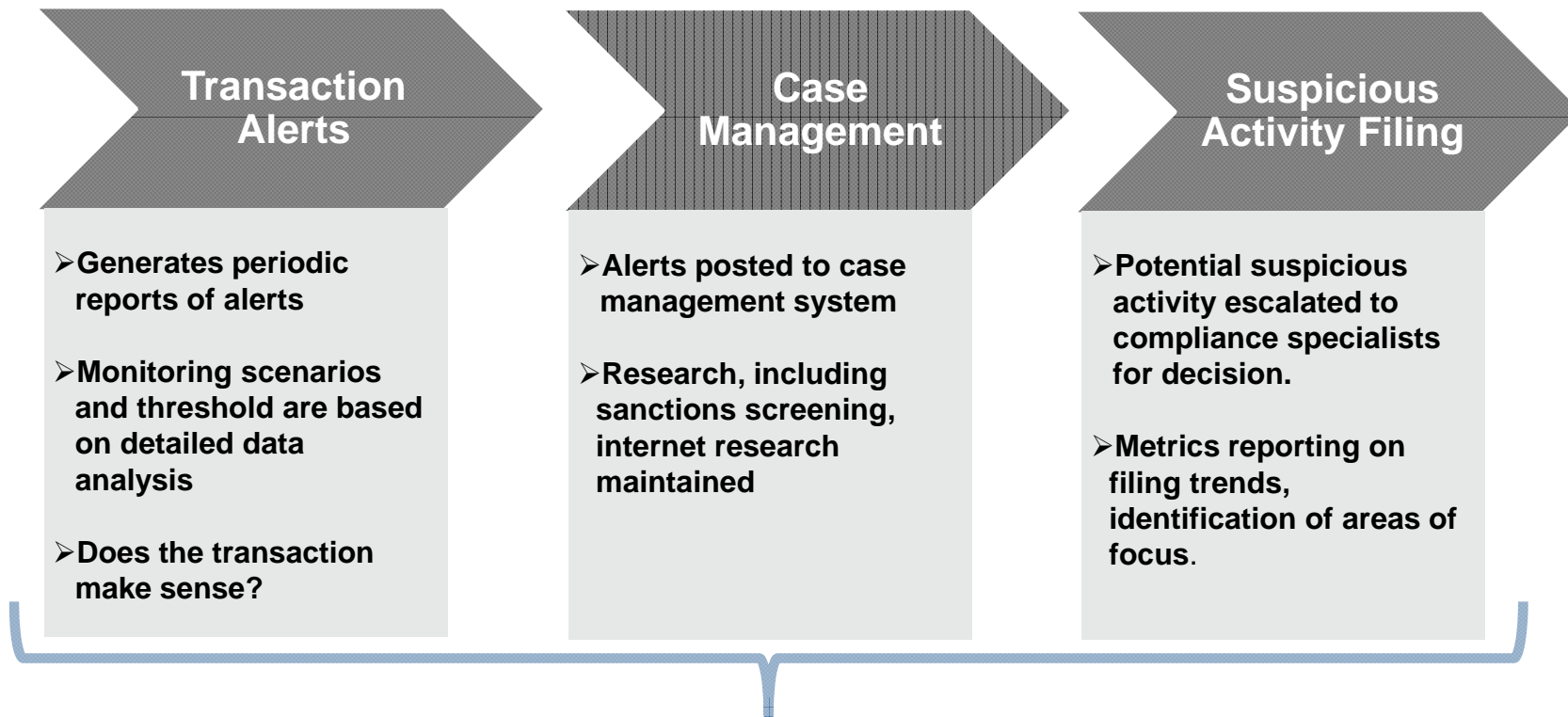
✓ US Persons  
prohibited from  
further dealings

The title to the blocked assets remains with the owner or SDN but the exercise of powers and privileges normally associated with ownership is prohibited.

# Transaction Monitoring



On-going review of transaction data to look for outlying patterns and/or unusual activity.



Client Risk Assessment – Is the activity as expected?

---

## Suspicious Activity Reporting

---

- Required by different regulatory bodies. Examples:
  - US Department of the Treasury
    - Financial Crimes Enforcement Network (FinCEN)
  - SOCA (UK) – Serious Organized Crime Agency
    - UK Financial Intelligence Unit
  
- Subject to regulatory oversight
  
- Criminal and/or Civil Penalties can be assessed for non compliance

## United States – FinCEN Overview



*FinCEN's mission is to enhance U.S. national security, deter and detect criminal activity, and safeguard financial systems from abuse by promoting transparency in the U.S. and international financial systems.*

- Originally established in 1990
- Becomes a bureau of the US Treasury with broader authority after the passage of the USA Patriot Act
- Supports law enforcement, intelligence, and regulatory agencies through sharing and analysis of financial intelligence – i.e. SAR data
- Scope goes beyond money laundering i.e. fraud, tax evasion, illegal activities, corruption, drug trafficking , etc.

---

## FinCEN SAR Filing Highlights

---

The SAR rules require that a Suspicious Activity Report be filed no later than 30 calendar days from the date of the initial detection of the suspicious activity, unless no suspect can be identified, in which case, the time period for filing a SAR is extended to 60 days.

**U.S. Federal law prohibits the notification of any person that is involved in the activity being reported on a SAR, that the activity has been reported.**

---

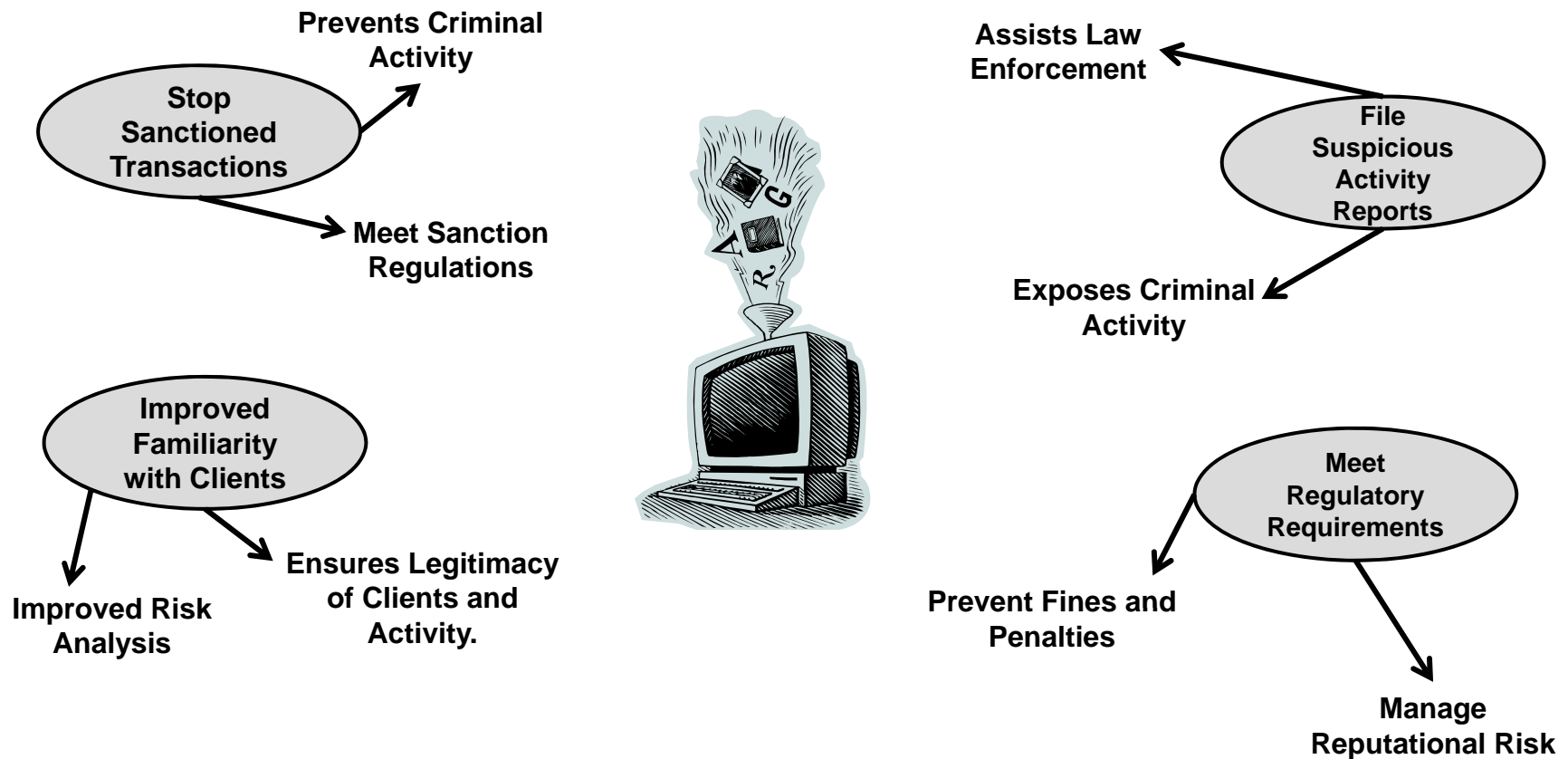
## Examples of How SAR Information Was Used....

---

- **Check Kiting Suspect**
- **Embezzlement by Former Bank Executive**
- **Misapplication of Funds at Depository Institution**
- **Proactive SAR Search Leads to Guilty Plea in Tax Fraud Investigation**
- **Proactive SAR Review Leads to Guilty Plea for Money Remitter Structuring Transactions**
- **Stolen Check Scheme**
- **Ponzi Schemes**
- **Insider Fraud Contributes to Bank Failure**

FinCEN publishes *The SAR Activity Review – Trends, Tips & Issues* periodically as a product of close collaboration between FinCEN's regulatory, law enforcement and industry partners. It is intended to provide meaningful information about the preparation, use, and value of Suspicious Activity Reports (SARs) filed by financial institutions. [http://www.fincen.gov/news\\_room/rp/sar\\_tti.html](http://www.fincen.gov/news_room/rp/sar_tti.html)

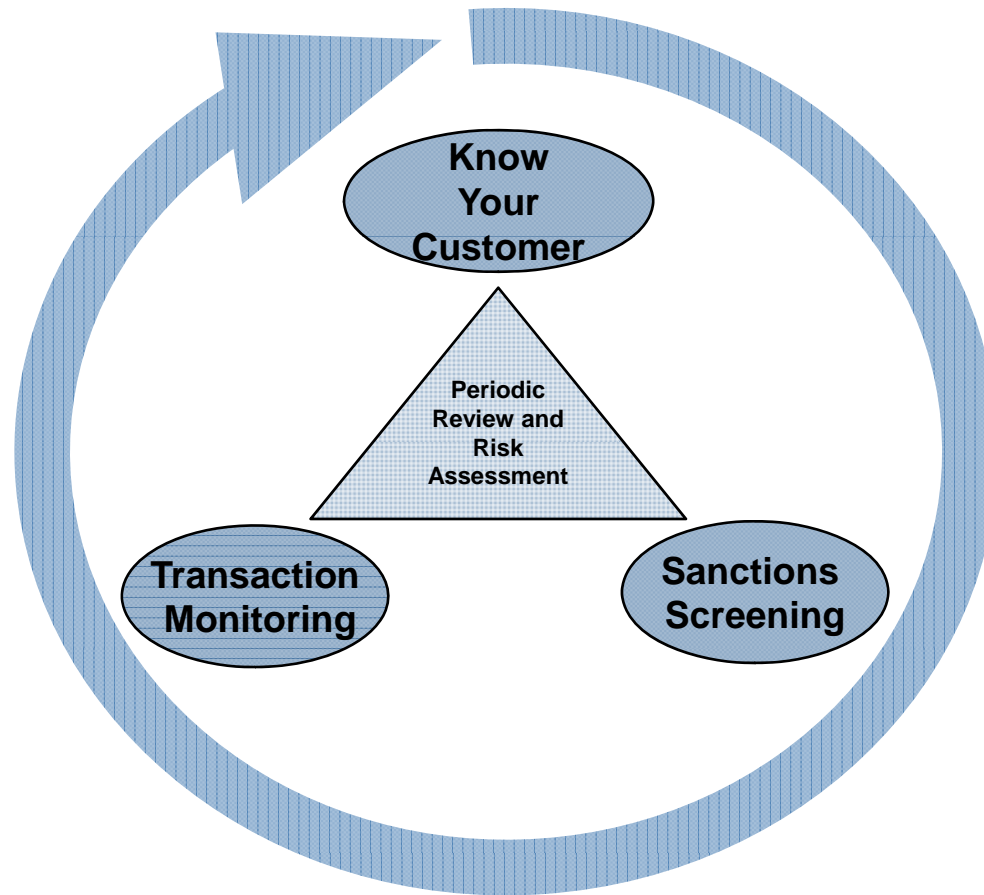
# How do we use this information to manage our AML Risk?



---

# Summary...

---



---

# Questions

---



**IRS Circular 230 Disclosure: Citigroup Inc. and its affiliates do not provide tax or legal advice. Any discussion of tax matters in these materials (i) is not intended or written to be used, and cannot be used or relied upon, by you for the purpose of avoiding any tax penalties and (ii) may have been written in connection with the "promotion or marketing" of any transaction contemplated hereby ("Transaction"). Accordingly, you should seek advice based on your particular circumstances from an independent tax advisor.**

Any terms set forth herein are intended for discussion purposes only and are subject to the final terms as set forth in separate definitive written agreements. This presentation is not a commitment to lend, syndicate a financing, underwrite or purchase securities, or commit capital nor does it obligate us to enter into such a commitment, nor are we acting as a fiduciary to you. By accepting this presentation, subject to applicable law or regulation, you agree to keep confidential the information contained herein and the existence of and proposed terms for any Transaction.

Prior to entering into any Transaction, you should determine, without reliance upon us or our affiliates, the economic risks and merits (and independently determine that you are able to assume these risks) as well as the legal, tax and accounting characterizations and consequences of any such Transaction. In this regard, by accepting this presentation, you acknowledge that (a) we are not in the business of providing (and you are not relying on us for) legal, tax or accounting advice, (b) there may be legal, tax or accounting risks associated with any Transaction, (c) you should receive (and rely on) separate and qualified legal, tax and accounting advice and (d) you should apprise senior management in your organization as to such legal, tax and accounting advice (and any risks associated with any Transaction) and our disclaimer as to these matters. By acceptance of these materials, you and we hereby agree that from the commencement of discussions with respect to any Transaction, and notwithstanding any other provision in this presentation, we hereby confirm that no participant in any Transaction shall be limited from disclosing the U.S. tax treatment or U.S. tax structure of such Transaction.

We are required to obtain, verify and record certain information that identifies each entity that enters into a formal business relationship with us. We will ask for your complete name, street address, and taxpayer ID number. We may also request corporate formation documents, or other forms of identification, to verify information provided.

Any prices or levels contained herein are preliminary and indicative only and do not represent bids or offers. These indications are provided solely for your information and consideration, are subject to change at any time without notice and are not intended as a solicitation with respect to the purchase or sale of any instrument. The information contained in this presentation may include results of analyses from a quantitative model which represent potential future events that may or may not be realized, and is not a complete analysis of every material fact representing any product. Any estimates included herein constitute our judgment as of the date hereof and are subject to change without any notice. We and/or our affiliates may make a market in these instruments for our customers and for our own account. Accordingly, we may have a position in any such instrument at any time.

Although this material may contain publicly available information about Citi corporate bond research, fixed income strategy or economic and market analysis, Citi policy (i) prohibits employees from offering, directly or indirectly, a favorable or negative research opinion or offering to change an opinion as consideration or inducement for the receipt of business or for compensation; and (ii) prohibits analysts from being compensated for specific recommendations or views contained in research reports. So as to reduce the potential for conflicts of interest, as well as to reduce any appearance of conflicts of interest, Citi has enacted policies and procedures designed to limit communications between its investment banking and research personnel to specifically prescribed circumstances.

© 2010 Citibank, N.A. All rights reserved. Citi and Citi and Arc Design are trademarks and service marks of Citigroup Inc. or its affiliates and are used and registered throughout the world.

Citi believes that sustainability is good business practice. We work closely with our clients, peer financial institutions, NGOs and other partners to finance solutions to climate change, develop industry standards, reduce our own environmental footprint, and engage with stakeholders to advance shared learning and solutions. Highlights of Citi's unique role in promoting sustainability include: (a) releasing in 2007 a Climate Change Position Statement, the first US financial institution to do so; (b) targeting \$50 billion over 10 years to address global climate change: includes significant increases in investment and financing of renewable energy, clean technology, and other carbon-emission reduction activities; (c) committing to an absolute reduction in GHG emissions of all Citi owned and leased properties around the world by 10% by 2011; (d) purchasing more than 234,000 MWh of carbon neutral power for our operations over the last three years; (e) establishing in 2008 the Carbon Principles; a framework for banks and their U.S. power clients to evaluate and address carbon risks in the financing of electric power projects; (f) producing equity research related to climate issues that helps to inform investors on risks and opportunities associated with the issue; and (g) engaging with a broad range of stakeholders on the issue of climate change to help advance understanding and solutions.

Citi works with its clients in greenhouse gas intensive industries to evaluate emerging risks from climate change and, where appropriate, to mitigate those risks.

**efficiency, renewable energy & mitigation**

