KPMG

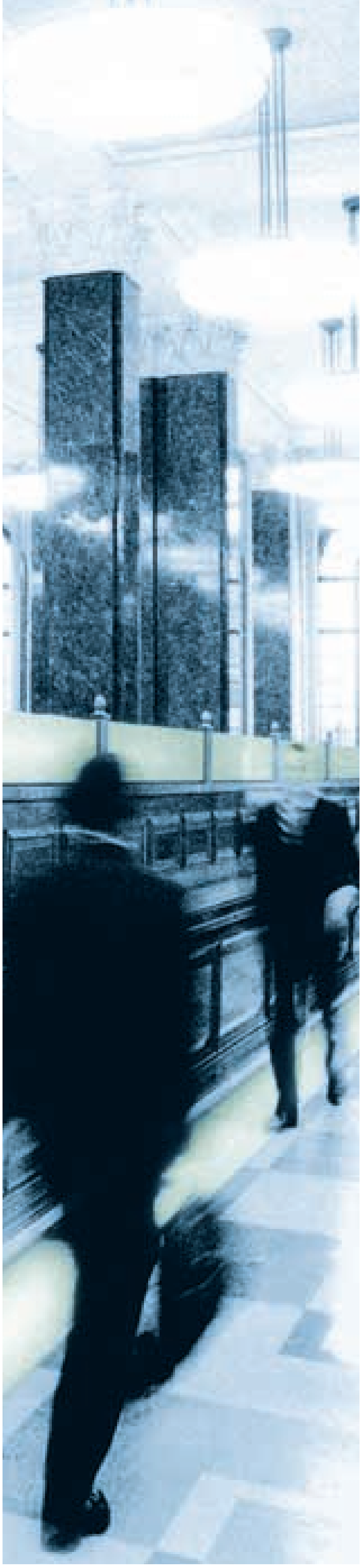
Global Anti–Money Laundering Survey 2004

How Banks Are Facing Up to the Challenge

ADVISORY

AUDIT ▪ TAX ▪ ADVISORY

Contents



Foreword

"…money launderers subvert legitimate financial mechanisms and banking relationships by using them as protective covering for the movement of criminal proceeds and the financing of crime and terrorism, and, by so doing, can …undermine the integrity of United States financial institutions and of the global financial and trading systems upon which prosperity and growth depend…"

USA PATRIOT Act, Section 302(3)

Recent estimates suggest that US$500 billion to $1 trillion is laundered worldwide annually by drug dealers, arms traffickers, and other criminals.[1] Banks act as gatekeepers for the legitimate financial system and it is only through their vigilance that the system can be protected from providing organized criminals or terrorists with a mechanism for concealing the proceeds of illicit and corrupt activity. As such, they play a crucial role in the prevention, detection, and reporting of money laundering.

We commissioned this Global Anti–Money Laundering (AML) Survey to determine whether the increasing globalization of banking groups and of international regulatory cooperation has resulted in increased consistency in the approach to AML. We also sought to draw out the key questions that we believe bank senior management must consider if they are to help ensure that their banks address the key issues arising from both the results of KPMG's Global AML Survey 2004 and respondents' comments and issues.

Anti–money laundering did not historically represent a high priority for either governments or the banking industry and was in the past perceived largely as a local issue. Appropriate legal and regulatory requirements have been enacted only relatively recently in many countries, and new laws and regulations have not always been actively or effectively enforced after introduction.

Recent years, however, have seen a fundamental change in the legal and regulatory environment. Driven by a growing political determination to strike against drug traffickers, participants in organized crime, and terrorists, there have been a series of concerted national and international AML initiatives:

- Ongoing reform in many countries has been prompted by the inter-governmental Financial Action Task Force (FATF) in promulgating recommendations and blacklisting countries with serious deficiencies in AML regulations.
- The International Monetary Fund and the World Bank have now become actively involved in AML issues, and they have incorporated AML issues into their country assessments. They are also now providing technical assistance to help strengthen the AML and anti-terrorist framework in member countries.
- The Basel Committee on Banking Supervision[2] (the Basel Committee) has published best practice base standards for customer identification, know your customer (KYC) activity, and corporate governance.
- The European Union (EU) Second Money Laundering Directive provided a specific focus and set minimum standards for European banks; a proposed Third Directive was published earlier this year.
- Regulators in the developed economies have generally become more active in taking enforcement action for system and control breaches, even where no money laundering has been proven.
- A series of high profile cases of corrupt politicians misappropriating public funds and laundering them through developed country banks has led to greater focus on private banking activities, particularly the level of due diligence carried out, how transactions are monitored, and how suspicions are reported.

- The events of September 11, 2001, heightened concerns about how terrorists fund operations through the legitimate banking system, and stimulated further strengthening of U.S. AML requirements through the enactment of the USA PATRIOT Act. Despite debate about the characteristics of terrorist financing, there is no doubt that the continuing "war on terror" has maintained the focus on KYC efforts and transaction monitoring in particular.
- A number of international banks have been active on their own initiative in establishing and implementing new agreed standards, such as the Wolfsberg Principles for international private banking activities.
- These developments have been accompanied by a stronger global emphasis on corporate governance, risk management, and the role of senior management in exercising oversight of a wide range of their businesses' activities.

Ensuring that the banking system cannot be used for money laundering purposes is a key imperative for policymakers and lawmakers across the globe. Achieving this goal will not be possible without the active assistance of the banking industry, and it can only work if the banks play their full part. Encouragingly, KPMG's Global AML Survey 2004 shows that the vast majority of respondents believe that the current AML burden is acceptable, and they want to work with regulators and law enforcement to make the system work more effectively. It is also apparent, however, that the cost of meeting these requirements has increased significantly and will continue to do so.

Ensuring that the banking system cannot be used for money laundering purposes is a key imperative for policymakers and lawmakers across the globe.

We believe that the survey results will be illuminating to senior executives of banks and AML professionals as well as to regulators, law enforcement agencies, and governments around the world. For banks, there is much of interest by way of future trends, peer comparison, and opportunities. For the law enforcement community and policymakers, the survey gives a snapshot of how the increase in AML regulation has been received by the industry, and should provide food for thought regarding future policy direction.

Our thanks go to the 209 banks and their senior executives who participated in the survey.

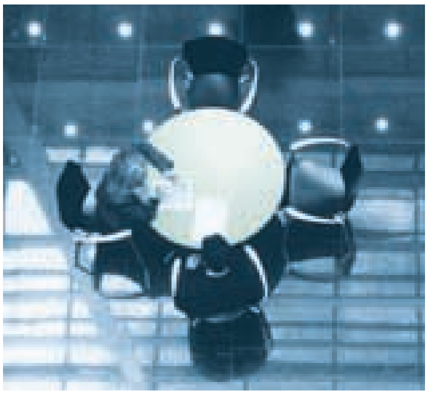
Brendan Nelson

Global Chairman
KPMG Financial Services

Adam Bates

Global Chairman
KPMG Forensic℠

Executive Summary



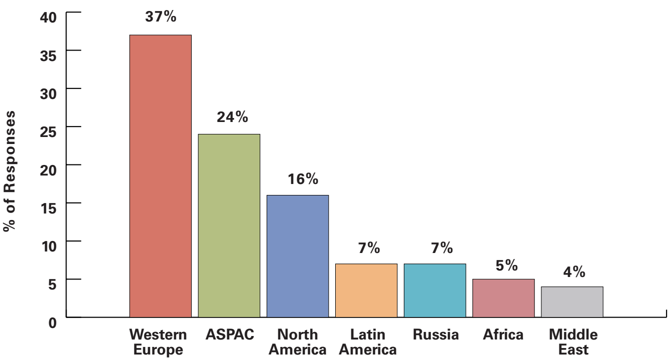
KPMG's Global AML Survey 2004 explored the range of challenges that banking institutions face in complying with enhanced AML requirements and how they are responding to the changed environment.

The survey covered the following topics:

1. The Role of Senior Management in AML Issues
2. The Cost of AML Compliance
3. AML Policies and Procedures
4. Formal Monitoring of AML Systems and Controls
5. Risk-Based Approach and KYC Activity
6. Retrospective Remediation
7. Transaction Monitoring
8. Suspicion Reporting
9. Training
10. Attitudes toward Regulation

KPMG commissioned Consensus Research, an independent research agency based in the United Kingdom, to conduct a telephone survey of banks across the major sectors (retail, corporate/business, private, investment, and wholesale). These banks were drawn from the top 1,000 global banks, supplemented by key local banks from seven regions (see chart at left). Fieldwork was carried out between March 1 and March 26, 2004, and responses were obtained from 209 banks based in 41 countries. The caliber of survey respondents was high, with job titles ranging from Group Money Laundering Risk Officer (MLRO) (36% of the total sample) and Head of Compliance (33%) to Head of Legal and Head of Risk. Many of those surveyed operate across several market sectors and in a number of countries around the world. Approximately a quarter have operations in more than four countries; nearly half, however, operate in a single jurisdiction. For the purpose of the survey, we have grouped the banks into various regions. Details of which countries are included in each region, and how many banks responded from each country, are set out in *Appendix I: Details of Respondents*.[3]

Analysis of Respondents by Region



Source: KPMG LLP in the United Kingdom, 2004

AML is now a high-priority issue within banks.
Respondents reported a significant and increasing focus on AML issues at the senior management level. We have summarized the major developments in AML law and regulation worldwide over the last 60 years in *Appendix IV: Selected AML Chronology*. As this summary shows, the last 20 years, and most particularly the last five, have seen unprecedented activity by governments, regulators, and supra-national bodies in the AML sphere. As a result of this rapid development, AML has become a key issue for senior management because the possibility of an AML-related failure now poses significant potential reputational risk, both domestically and for banks' international operations.

The cost of AML compliance is increasing sharply. The cost of AML compliance has risen significantly over the past three years, with the average reported increase being 61%. None of our respondents reported a decrease in investment. Most also envisage a continuing increase in expenditure over the coming three years, at a lower, but still substantial, rate.

Enhanced transaction monitoring is the main area of increased AML spending. Transaction monitoring activity has been the main cause of increased AML spending over the past three years; respondents anticipate that it will also be the main area of AML expenditure over the next three years. The challenge all banks now face is to build on and enhance existing systems. In doing so, banks need to continue to use a risk-based approach, assessing the relative risks that they face from individual products, relationships, and jurisdictions.

Respondents anticipate that transaction monitoring will be the main area of AML expenditure over the next three years.

Training continues to be of vital importance, with face-to-face training strongly preferred. The second biggest area of increased AML past and future spend is the provision of training to staff. Although almost two thirds of respondents use computer-based training, only 22% believe that it is the most effective method. Respondents strongly believe that face-to-face training is the most effective method; in practice, they have to balance the difficulty and cost of rolling out face-to-face training with the wider reach and lower expense of computer-based training.

Establishing a global policy is a major challenge. Nearly two thirds of respondents have a global AML policy, although in half these cases detailed implementation is undertaken at a local level. While this approach does allow local issues to be addressed, it leaves organizations facing the risk of inconsistent application as well as the risk of potentially inappropriate customers having access to other parts of the bank. Increasingly, KPMG is finding that organizations require that local bank operations meet the *higher* of global AML standards and local legislative/regulatory requirements, waived only with dispensation from the global head office.

Banks increasingly understand the importance of AML compliance for existing as well as new customers. Nearly three quarters of respondents had programs in place to remediate information gaps on their existing customers, who may have been taken on before the introduction or strengthening of KYC or account-opening laws and guidance. Such exercises are often viewed solely in terms of cost, but KPMG's experience is that they can often provide significant benefits to banks both in terms of improved customer relationship management and more accurate management information.

Testing and monitoring of AML procedures needs to be independent and coordinated. Most respondents have a formal program of independent testing of AML systems and controls, carried out by a range of internal or external resources. Senior management needs to help ensure that the monitoring process is independent of the areas of the business responsible for operation of the procedures and is coordinated such that the results provide a coherent and holistic view of the AML systems and controls and their implementation in practice.

Banks are adopting a risk-based approach. Increasingly, institutions are taking a risk-based approach to AML efforts, with most respondents requiring stricter KYC requirements for new customers depending on the risks that they pose. Nonetheless, a relatively low proportion of banks take account of whether their customers are politically exposed persons (PEPs).

The volume of suspicious activity reporting is rising around the world. Two thirds of banks indicate that they have generated a greater number of suspicious activity reports (SARs) over the last three years. This can be attributed in part to increased use of electronic monitoring systems, suggesting that the marked investment in these tools has proved beneficial; it also confirms the benefits accruing from the increased investment in training confirmed by the survey.

The regulatory burden is generally regarded as acceptable, but a significant number of banks believe that AML requirements could be more effective in combating money laundering. Encouragingly, a vast majority of respondents (84%) believe the burden of AML requirements to be acceptable, which illustrates the high degree of commitment within the industry to supporting the global AML effort. More than half, however, considered the requirements could be made more effective. A number of themes emerged such as a call for better feedback from governments and Financial Intelligence Units (FIUs) as well as for better coordination of AML policy at a global level. While a significant number of respondents called for more prescription in AML requirements, global opinion is clearly divided on the subject as many others sought a more flexible, risk based approach. Respondents in Americas, Africa, and the Middle East tended to hold the former view, while Western European respondents tended to hold the latter.

Looking ahead. It is clear that respondents have increasingly embedded AML policies and procedures into their standard business operations. They are now seeking to enhance their existing AML systems and controls, whether these are fully automated or rely more on manual processes. The challenge is to help ensure that policies are rolled out consistently across banks, and that management can obtain comfort that this is being done effectively.

Key Questions for Senior Management on AML Issues

- Does our board and senior management consider AML to be a high priority and do they actively demonstrate their commitment to the bank's AML effort?
- Has the senior management team signed off the AML policy, and does it apply on a global basis?
- How does senior management help ensure that the overarching bank AML policies are implemented effectively and in all jurisdictions?
- Have we adopted a risk-based approach to the identification of new customers, and is it sufficiently rigorous in identifying the relevant risks?
- Do we have a formal remediation program in place for our long-standing customers, and if not, how comfortable are we with the potential AML risk of our existing customer base?
- Have we reviewed our transaction monitoring capability and approach, and is it appropriate for our business and customer base?
- Are our procedures for identifying and reporting suspicions suitable, rigorous, and understood by all the relevant staff?
- Have we helped ensure that our AML training is appropriate and sufficient for our staff?
- Have we identified the potential opportunities and benefits from our AML activity for the rest of the business (e.g., credit card and fraud prevention)?
- Do we as an organization have good active relationships with law enforcement, policymakers, and the relevant regulators?

KPMG's experience is that such enhancements will allow banks greater leverage and benefits from their AML investment in improving their understanding of their individual customers and in their customer relationship management processes. There are also opportunities for operational savings through linking the AML process with fraud prevention and credit control.

Detailed Survey Results

"Effective KYC procedures embrace routines for proper management oversight, systems and controls, segregation of duties, training and other related policies. The board of directors of the bank should be fully committed to an effective KYC program by establishing appropriate procedures and ensuring their effectiveness."

Paragraph 55 of "Customer Due Diligence for Banks" issued by the Basel Committee, October 2001.

1. The Role of Senior Management in AML Issues

Key Issues

Industry leaders worldwide face broad new responsibilities as a result of new laws, regulations, and reporting requirements, many of which have focused on improving corporate governance—including, for example, Sarbanes-Oxley in the United States, the Combined Code in the United Kingdom, and Corporate Law Economic Reform Program (CLERP) 9 in Australia. Recent AML legislation and regulator pronouncements have focused particularly on the importance of senior management's role.

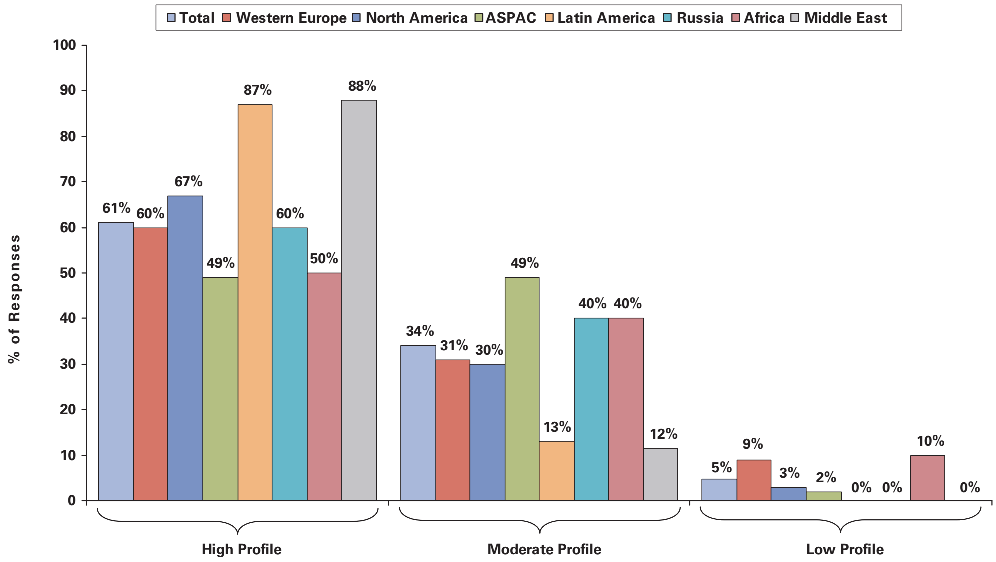
Traditionally, compliance issues have not been a high priority for many at senior management level; today, the risk of reputational damage, regulatory action and, in some jurisdictions, personal liability for non-compliance, has placed AML near the top of the senior management agenda.

Survey Results

Not surprisingly, the survey results suggest an increasing focus on AML among senior management, although there is certainly room for further progress. Sixty-one percent of respondents believe that AML is a high-profile issue within their banks, with the most senior level of management, including board members, taking an active interest. Only 5% of respondents consider it to be a low-profile issue with little senior management interest or involvement. It appears to be a very high-profile issue in Latin America (87%) and the Middle East (88%), although less so in ASPAC (49%) and Africa (50%).

The 60% figure for Western Europe is somewhat surprising. Although almost all respondents from some countries (the United Kingdom, Belgium, Spain, and Switzerland) thought it high profile, those from Germany were split equally between high and moderate profile, all four from the Netherlands thought it moderate profile, and four of the seven from Austria saw it as moderate and two as low profile. This relative lack of profile may reflect the absence of major AML scandals in these countries in recent years.

Profile of AML for Respondents' Senior Management



Source: KPMG LLP in the United Kingdom, 2004

Senior Management: In the Line of Fire for AML Compliance Failures?

Switzerland – Senior management has specific responsibilities to guarantee the "fit and proper" requirement, which includes personal responsibility for approving accounts related to "politically exposed persons." The ultimate sanction for failure is withdrawal of a banking license.

Australia – The Australian Commonwealth Criminal Code Act of 1995 addresses the concept of corporate culture and responsibility, which includes intention, knowledge or recklessness at board or "high-managerial" level.

Kenya – Guidelines issued by the Central Bank place a burden on senior management to adhere to KYC principles and report suspicious transactions to the Central Bank. However, Kenya has yet to enact AML legislation (expected late 2004), which currently inhibits the enforcement of such guidelines.

United States – The Department of Justice guidelines entitled *Federal Prosecutions of Business Organizations*, published in 2003, emphasize that an effective compliance program will be seen as a mitigating factor when prosecuting corporate misconduct, which includes AML breaches. In assessing effectiveness, one of the factors taken into account is whether specific high-ranking members of senior management actively oversee compliance with standards and procedures.

United Kingdom – The Financial Services Authority's approach under its new rule book has focused on senior management responsibilities for all systems and controls matters; its Statement of Principles for Approved Persons specifically includes responsibility for AML activity.

Implications and Opportunities

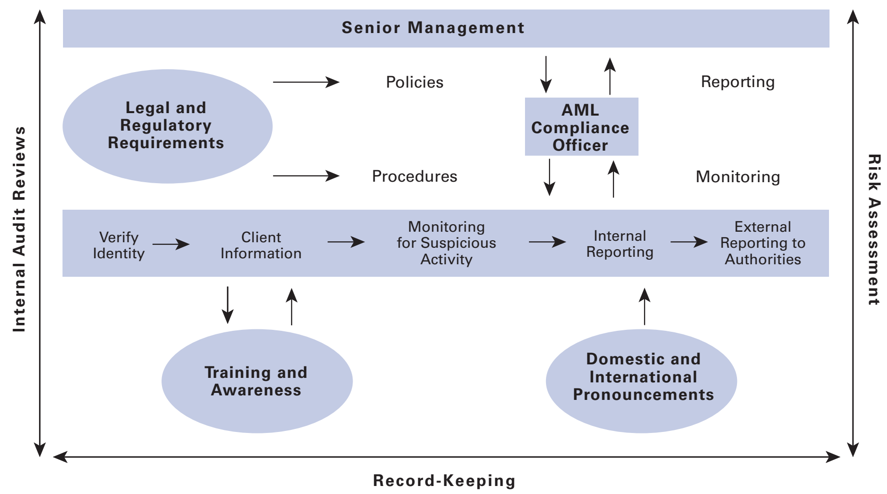
Senior management set the tone and focus of banks' AML compliance arrangements in three key areas, which together provide the overarching control framework:

1. Setting the bank's policies and procedures
2. Delegating responsibilities through a clear and logical structure
3. Formal monitoring of the operation of processes and controls, and ensuring that senior management receives appropriate management information on the business and controls

Meeting the Challenges—A Model Approach

The diagram below provides an example AML governance framework.

A Model Anti–Money Laundering Framework



Source: KPMG LLP in the United Kingdom, 2004

Most banks are capable of developing both high-level policy and detailed procedures. The formal and informal infrastructure connecting the policy and procedures is more difficult to get right. Management's role is crucial in pulling the pieces together and ensuring there is no gap between intention and reality.

Key Questions: The Role of Senior Management in AML Issues

- Have we embedded a clear AML culture within our organization?
- Does senior management set a positive tone at the top of the bank for AML activities?
- Does senior management actively oversee its AML compliance program?
- Do we have a constructive and ongoing dialogue with our regulatory authorities, law enforcement, and the relevant policymakers?

2. The Cost of AML Compliance

Key Issues

Senior executives' corporate governance responsibilities are prompting them to focus on a variety of compliance issues. Evolving "best practice," supported by regulatory and financial reporting obligations, is that compliance should no longer be isolated in one department but should be embedded in day-to-day processes enterprise-wide—as are its costs. Internal audit, regulatory compliance, and numerous other departments are typically involved in AML compliance efforts, with direct and indirect costs spread across departments and budgets. Moreover, some of these costs may be attributed to customer relationship management, rather than AML efforts. The true cost of AML compliance is therefore difficult to quantify consistently.

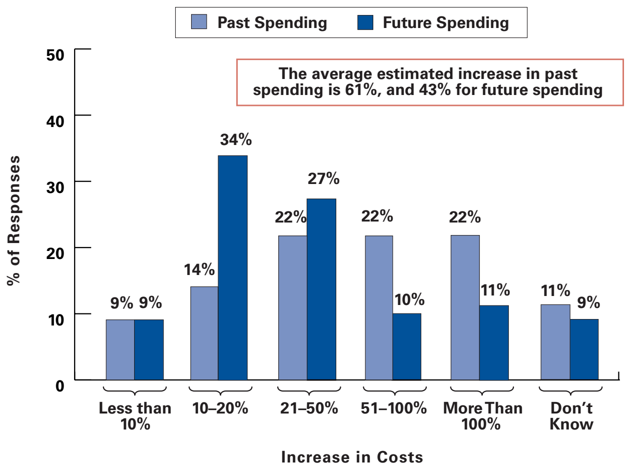
Survey Results

The reputational and regulatory risk faced by financial institutions for non-compliance with AML requirements has substantially increased. It is therefore not surprising that the cost of AML compliance that respondents are aware of and can measure has already risen significantly. Eighty-three percent of all respondents (and 94% of North Americans) report that costs have risen over the past three years; no respondent reported a decrease in investment. The average increase over the period was 61%.

The trend is set to continue, with 81% of respondents expecting AML costs to continue to rise. The expectation across all regions is for a substantial but lower level of increase in the future, with the overall average being 43%.[4]

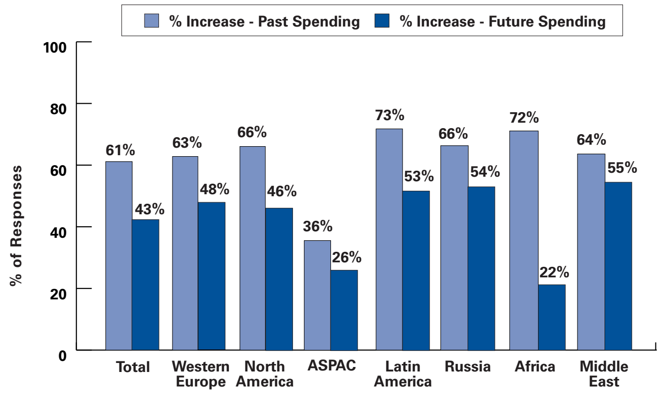
Significantly, in terms of the size of the increased investment, 29% of respondents in North America reported a rise of more than 100% over the past three years. This result reflects the impact of recent legislative and regulatory changes in the United States since 2001, most notably the USA PATRIOT Act, and the fact that some institutions needed to "raise their game" substantially to meet the strengthened requirements.

Respondents' Estimates of % Increase in AML Investment Over the Last Three Years Compared with the Next Three Years



Source: KPMG LLP in the United Kingdom, 2004

Respondents' Estimates of Average % Increase in AML Investment (Over the Last Three Years) and % Increase in Future Spending (Over the Next Three Years)

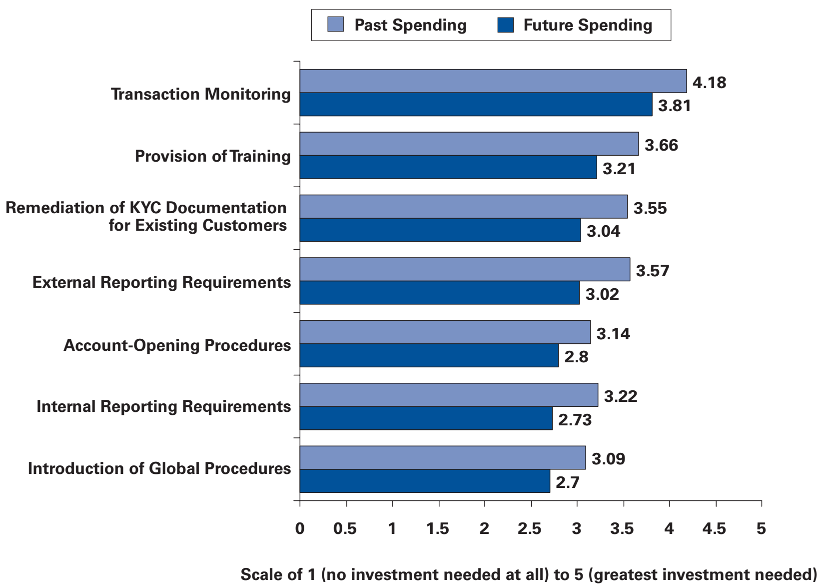


Source: KPMG LLP in the United Kingdom, 2004

Respondents were asked to name the areas where AML spending had increased over the past three years. Transaction monitoring was chosen as the main driver of increased spending. Other areas, including the provision of training and remediation, also scored strongly.

When asked to name the areas where they expected AML spending to increase over the next three years, perhaps unsurprisingly respondents again indicated transaction monitoring followed by the provision of training. Other areas were all expected to lead to additional spending, reflecting and confirming that work continues to be required on a broad range of issues.

Respondents' Estimates of Areas of Greatest Additional AML Spending Over the Last Three Years and Over the Next Three Years



Source: KPMG LLP in the United Kingdom, 2004

Regionally, some differences emerge in future spending priorities. The results for North America show a somewhat different order of priorities compared with results in other regions.[5] While all respondents identify transaction monitoring and the provision of training as the two largest contributors to increased investment, the third biggest increase in North America (compared with fourth globally) relates to external reporting to the regulator or external law enforcement agencies; enhanced account-opening procedures come fourth (compared with fifth globally). Again, these variances may reflect a differing regulatory focus and the impact of the USA PATRIOT Act on the behavior of banks in the United States.

Few respondents provided answers when asked to estimate the overall cost of AML compliance to their banks. Those who did provided figures that, in KPMG's experience, seemed low, suggesting that respondents may have included only direct costs. This result appears to underscore the difficulty institutions face in accurately measuring the wide range of costs associated with AML compliance.

AML compliance should not be seen as a stand-alone activity, and opportunities should be taken to use AML work to support other processes wherever possible.

Implications and Opportunities

That AML compliance costs have increased and are increasing comes as no surprise given the radical changes in the legal and regulatory landscape in the past three to five years.

The challenge for the banking industry is to spend wisely. The main objective will be to help ensure that the AML compliance program protects the bank adequately from money-laundering risk and meets the requirements of the relevant laws and regulations. However, AML compliance should not be seen as a stand-alone activity, and opportunities should be taken to use AML work to support other processes wherever possible. For example:

- Customer profiles from KYC or transaction monitoring activity can be used within customer relationship programs, including in identifying opportunities for cross-selling.
- Management information can be enhanced by using accurate, up-to-date statistics on current customer populations, appropriately stratified by activity and risk rating.
- Opportunities for cost containment or reduction can be found through linking AML processes with other connected processes such as credit control (through, for example, avoiding duplication of effort on client acceptance) and fraud prevention (through, for example, using the output of monitoring to review for possible incidents of fraud).

Key Questions: The Cost of AML Compliance

- How does our previous and anticipated future change in spending on AML compare to the benchmark for our peers?
- Have we sought to integrate the range of information available through our AML and customer relationship management processes?
- Have we considered the financial and operational benefits of linking our AML activities with processes such as credit control and fraud prevention?

3. AML Policies and Procedures

Key Issues

"...A bank should aim to apply its customer acceptance policy, procedures for customer identification, process for monitoring higher risk accounts and risk management framework on a global basis to all its branches and subsidiaries around the world. The bank should clearly communicate these policies and procedures and ensure that they are fully adhered to."

Paragraph 6 of "Consolidated KYC Risk Management," Consultative Document issued by the Basel Committee, October 2003.

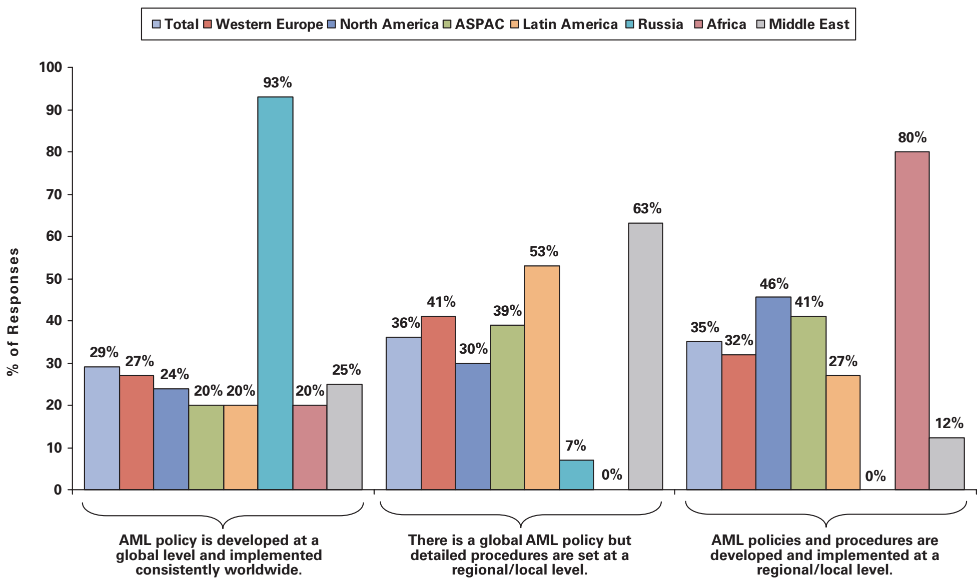
Policies and procedures derive from organizational culture, represent the core values of the organization, and require a formal framework, supported by senior management, to help ensure their efficient implementation and acceptance. AML policy sets the tone for the institution's approach to AML compliance. AML procedures document the detail of the systems and controls on which institutions rely.

The increasingly global environment in which financial institutions operate and the increased regulatory and reputational risk that they face suggest that banking groups should be taking an increasingly international approach to their policies and procedures. Consequently, the survey asked respondents about their approach to AML policies and procedures.

Survey Results

Respondents were asked to identify which of three possible alternatives most closely reflected their approach to AML policy and procedure setting.

Statement Best Describing Respondents' AML Policies and Procedures



Source: KPMG LLP in the United Kingdom, 2004

Responses were divided almost equally among the three approaches. Thirty-five percent of respondents continued to develop and implement both policies and procedures at a local level, reflecting the fact that a number of respondents operate solely in a single country. The remaining 65% stated that they do have a global AML policy, although implementation varies. Nearly half of these (29% of total respondents) have developed policies and procedures at a global level and implemented them worldwide. The remainder (36% of the respondents) do have a global policy but allow

The Swiss AML Ordinance
The Swiss AML Ordinance applies not only to Swiss financial institutions but also to branches and subsidiaries of such institutions located abroad (Article 3). Article 9 confirms that financial institutions are required to identify, mitigate, and monitor the legal and reputational risks associated with money laundering on a global basis.

Banks are required to inform the Swiss Banking Commission where local regulations prevent compliance with the basic principles in the ordinance, or where they would suffer a serious competitive disadvantage by meeting the requirements of the ordinance.

The Draft EU Third Money Laundering Directive
The draft text of the EU Third Money Laundering Directive includes in Article 27 the requirement that banks apply the directive's obligations on customer identification as far as possible in all branches and subsidiaries outside the EU; where local legislation does not require equivalent measures to be taken, banks are then required to notify their EU regulators.

"There is a conflict of standards for banks. On the one hand, there is the requirement to gather as much information as possible on the customer, but on the other hand the law requires that some of this information cannot be shared with other parts of the group. This is an absurd conflict situation."

Austrian respondent

detailed procedures to be set at a regional or local level. Although 93% of Russian respondents stated that they set and implement AML policies globally, two-thirds of Russian respondents currently operate only in that country.

Implications and Opportunities
Leaving detailed implementation of global policies to local discretion leaves banks open to risk. A number of banks with operations in several countries have been let down by local implementation of established global standards, through a lack of either understanding or appropriate oversight. Customers may be taken on in a jurisdiction where standards are less robust than elsewhere and thereby gain access to the global bank. Members of senior management are exposed if they are not aware of, or have not agreed to, regional differences in application of the global policy to which they are committed. There is, however, a potential competitive disadvantage to implementing global procedures in local markets, as these global standards may be more onerous than those applicable to local competitor banks.

Key Questions: AML Policies and Procedures

- How consistent are our KYC policies globally? Are they consistent across all products and services? How well are they followed and enforced around the world?
- How can we prevent group standards from putting our banks at a competitive disadvantage in certain other jurisdictions?

4. Formal Monitoring of AML Systems and Controls

Key Issues

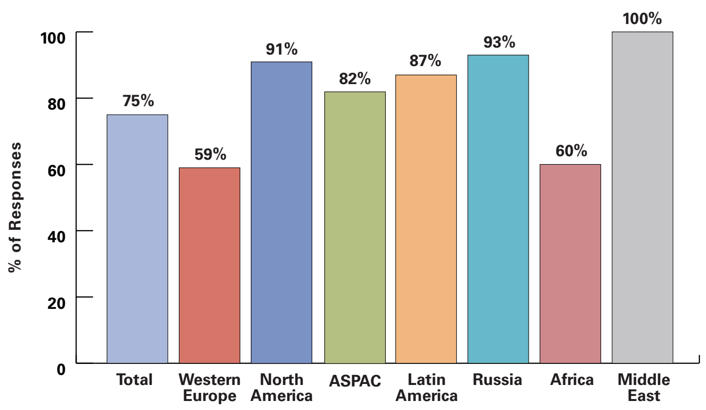
As expectations of senior management have become more clearly identified, including a more active involvement in their bank's AML activities and approach, so too have expectations for how banks assess the effectiveness of their systems and controls. Regulatory expectations for AML processes and procedures have developed significantly over recent years. It is no longer enough to delegate responsibility for AML or any other aspect of the business without then ensuring the effective implementation of what has been delegated. Regulators expect that new or existing procedures are tested for adequacy and appropriateness on a regular basis, and doing so is good corporate governance and business practice.

Survey Results

When asked whether their banks had a formal program of independent testing of AML systems and controls, the response was strongly affirmative except in Western Europe and Africa: all other regions showed 82% or more responding positively, with 91% in North America and 100% in the Middle East, compared with 59% in Western Europe and 60% in Africa.

The Western Europe results conceal significant differences between countries. All respondents from four countries (the United Kingdom, Italy, Portugal, and Ireland) and 88% of those from Spain undertake formal monitoring. Against that, 11 of 14 in Germany, 5 of 7 in Belgium, the 2 Swedish respondents, the 2 Danish respondents, and 3 of the 7 Swiss respondents said they did not have a formal monitoring program. That said, the German regulator requires external auditors to review banks' AML arrangements; in Belgium external auditors are required to report to the Belgian regulator on a bank's compliance with a number of legal and regulatory issues, including AML; and Swiss banks must have programs in place to monitor their compliance with AML requirements. It may be, therefore, that some form of monitoring is taking place at the respondents' banks, but they did not consider it to be a formal monitoring program.

Respondents with Formal Program for Testing Effectiveness of AML Systems and Controls

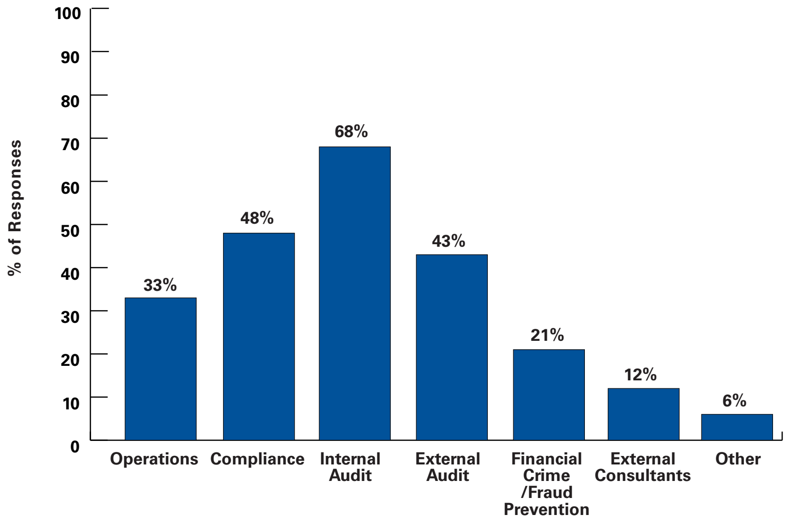


Source: KPMG LLP in the United Kingdom, 2004

We also asked those respondents who had a formal program in place which function (or functions) within the bank carried out the monitoring.

Banks predominantly use internal independent control functions to test and monitor the effectiveness of AML systems and controls, with 68% of respondents using internal audit and 48% using compliance. Operations and external auditors are also used to test and monitor effectiveness of systems and controls, although in no cases as the sole provider of independent monitoring.

Respondents' Functions with a Role in Testing and Monitoring Effectiveness of AML Systems and Controls



(Options are not mutually exclusive.)

Source: KPMG LLP in the United Kingdom, 2004

"The banking group's internal audit and compliance functions are the principal mechanism for monitoring the application of the bank's global KYC policies and procedures, including the effectiveness of the procedures for sharing information within the group."

Paragraph 19 of "Consolidated KYC Risk Management," Consultative Document issued by the Basel Committee, October 2003.

Implications and Opportunities

Banks work hard at putting in place appropriate policies and procedures to meet regulatory requirements, but this effort can give a false sense of security if the procedures are not working in practice. Effective monitoring helps to establish whether procedures are working and also helps to identify the reasons behind any failures.

Monitoring can be performed by a range of internal or external resources. The key is to help ensure that the monitoring process is independent of the areas of the business responsible for operation of the procedures, and to help ensure that there is a channel of communication to report any deficiencies to senior management. It is also important that the monitoring effort has comprehensive coverage across the AML compliance program and that the results are pulled together to provide a coherent and holistic view of the overall approach and the way in which it is implemented in practice.

"It is important that there is a independent AML team within each bank which is at a senior level within the bank and reports directly to the board."

Indian respondent

Key Questions: Formal Monitoring of AML Systems and Controls

- How do we confirm that policies and procedures are working effectively in practice?
- How do we help ensure that key AML issues, including those relating to systems and controls, are reported to senior management?
- How do we help ensure that actions are taken to address all identified deficiencies as well as risks that are not covered?
- How do we help ensure that the lessons arising from monitoring activity are clearly identified, understood, and promulgated around the organization?

5. Risk-Based Approach and Know Your Customer Activity

Key Issues

The increasing global focus on corporate governance has led banks to adopt risk-based approaches to focus their efforts and resources more effectively on the higher-risk aspects of their operations. This approach has been mirrored in the regulatory arena, where regulators worldwide increasingly expect institutions to consider how the specific risks inherent in their particular business and operational processes have been addressed in meeting a variety of objectives—from capital adequacy (Basel II) to financial reporting (Sarbanes-Oxley).

"KYC safeguards go beyond simple account opening and record-keeping and require banks to formulate a customer acceptance policy and a tiered customer identification program that involves more extensive due diligence for higher risk accounts, and includes proactive account monitoring for suspicious activities."

Paragraph 4 of "Customer Due Diligence for Banks," issued by the Basel Committee, October 2001.

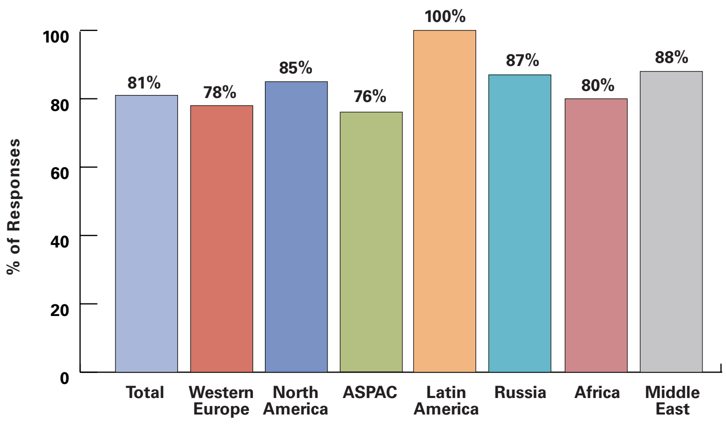
The requirement to know your customer underpins global efforts to counter money laundering, and it is a legal requirement in most jurisdictions. When a bank takes on a new customer, it provides the customer with an entry point to that bank both locally and internationally as well as to the wider financial system. It is therefore fundamental that banks understand their customers' circumstances and financial situation and know with whom they are dealing. Banks that do not comply sufficiently expose themselves to reputational risk as well as the risk of formal legal or regulatory sanction, often whether or not any actual money laundering is proven to have occurred.

Survey Results

Evidence that institutions are taking a risk-based approach to AML at the account-opening stage, at least to some degree, is shown by the fact that 81% of respondents overall tailor their KYC requirements for new customers, depending on the level of risk initially attributed to them.

Western Europe has almost the lowest proportion of banks that adopt stricter KYC requirements according to the risk posed by the customer. This figure can be attributed to three countries: 5 of 14 German banks, 3 of 8 Spanish banks, and both Irish banks surveyed do not use a risk-based approach. While these different approaches may reflect local legislative requirements, this apparent inconsistency may well change with the proposed EU Third Money Laundering Directive, which requires that banks formally introduce a "risk-sensitive" approach to customer identification.

Respondents That Employ a Risk-Based Approach at the Account-Opening Stage

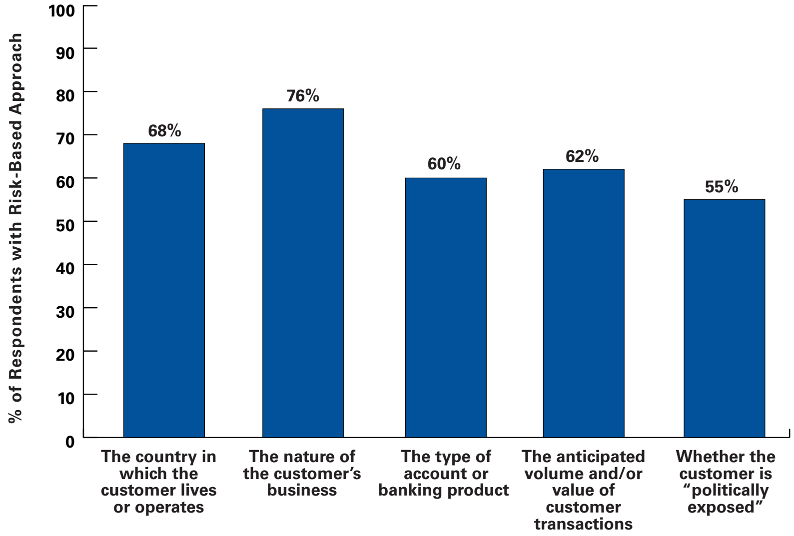


Source: KPMG LLP in the United Kingdom, 2004

Those who do take a risk-based approach were asked what factors they took into account when risk-rating a customer.[6]

In KPMG's experience, all the risk factors are relevant in assessing customer risk. The survey results show that many of these factors are taken into account by respondents who adopt a risk-based approach, but that practice is by no means consistent.

Factors Taken into Account by Respondents When Using a Risk-Based Approach at the Account-Opening Stage



(Options are not mutually exclusive.)

Source: KPMG LLP in the United Kingdom, 2004

"Currently, there is too much of a focus on documentation at the expense of the actual risk involved."

United Kingdom respondent

"We need an approach that it more risk-based rather than rules-based."

Dutch respondent

"We have got to get away from just fulfilling formalities."

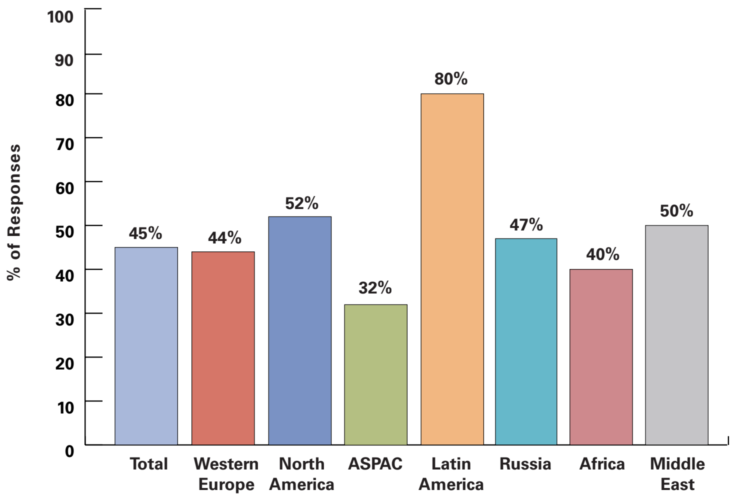
German respondent

"The risk based approach to KYC and account monitoring should be formalized, ideally in law."

United Kingdom respondent

It is also noteworthy that a customer's political exposure received the lowest proportion of positive responses. This is surprising given the number of recent high-profile scandals involving laundering by high-ranking public officials, or PEPs.

Respondents That Take Account of PEPs at the Account-Opening Stage



Source: KPMG LLP in the United Kingdom, 2004

FATF PEP Definition:
PEPs are individuals who are or have been entrusted with prominent public functions in a foreign country (for example heads of state or of government, senior politicians, senior members of government, judicial or military officials, senior executives of state-owned corporations, important political party officials). Business relationships with family members or close associates of PEPs involve reputational risks similar to those with PEPs themselves. The definition is not intended to cover middle ranking or more junior individuals in the foregoing categories.

Note that the FATF definition refers to "…prominent public functions in a foreign country…." Whether people who fall within the category of "domestic" PEPs should be subject to enhanced due diligence is subject to ongoing debate.

FATF 40 Recommendations:
International "best-practice" standards for the prevention and detection of money laundering activity issued by the Financial Action Task Force.

Implications and Opportunities

Without using a formal risk-based approach to AML issues, banks will not have identified those elements of the business that could pose the greatest degree of threat to the organization; they will not therefore consciously be able to direct resources to mitigate them.

While the use of a risk-based approach is becoming more prevalent, it is not necessarily a less expensive option. It requires a significant investment in technology, a staff of high quality, and stringent training requirements. It can also be more difficult to implement than an approach that does not differentiate between customers. To implement a risk-based approach effectively, banks need to develop clear and unambiguous internal procedures to guide staff on how to assess risk. The decision as to the appropriate level of due diligence to be performed on each customer should be based as far as possible on such procedures, not on a bank officer's subjective view.

The survey results also suggest that banks are adopting inconsistent approaches to how they assess risk. In this regard, there is perhaps a need for more practical international guidance on risk assessment for AML purposes, to which groups such as Wolfsberg (representing the global private banking industry) and Egmont (representing global FIUs) should contribute.

Challenges Posed by PEPs

Of the risks evident in account opening, PEPs pose particular challenges for financial institutions. Definitions of who is a PEP will differ across banks, possibly within groups, and across jurisdictions.

The approach to defining or identifying PEPs varies significantly between jurisdictions:

- **Australia** – The banking community has called on the government/regulator to issue a list of whom it deems to be a PEP in order to bring some clarity to the issue
- **South Africa** – South Africa is currently considering whether a PEP check should be done at the client take-on stage
- **United States** – Laws, regulations, and guidance make clear that banks need only be concerned with foreign politically exposed persons

"There should be better training on the risks of politically exposed people, which we don't take account of at the moment."

African respondent

Banks need to identify their policy relating to PEPs, agree it at a senior level, and then implement the policy through robust procedures, using a range of methods to identify higher-risk PEP clients.

Classification as a PEP increases the risk profile of a customer, but not necessarily to such an extent that the risk is not manageable. It is a good practice to help ensure that higher-risk accounts such as PEPs are accepted at an appropriate level within the organization. A formal PEP register can then be maintained to allow specific monitoring. Periodic reviews of known PEP customers are good practice; political exposure can change over time and an acceptable risk at the time of account opening may not be so at a future date. In Switzerland, for example, any application by a PEP must be formally approved by a member of the bank's most senior executive body; periodic reviews of known PEP clients are mandatory.

Key Questions: Risk-Based Approach and Know Your Customer Activity

- Have we identified which countries, businesses and products place us at the greatest risk of money laundering?
- Is the likely level of customer activity appropriately taken into account in the due diligence performed?
- Do we have a formal policy and procedures in place covering the identification, acceptance, and monitoring of PEP customers, to include senior management sign-off and monitoring of activity on any such accounts?

6. Retrospective Remediation

Key Issues

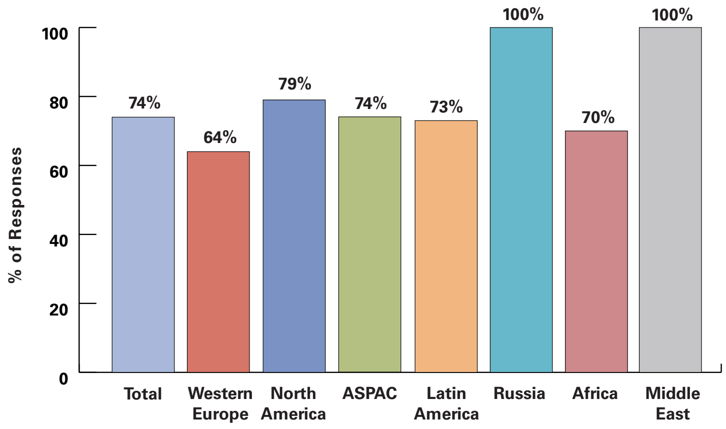
Risk-based monitoring for unusual or suspicious activity needs to be based on an understanding of what represents normal activity for individual clients. Banks have historically not held very much, if any, information on long-standing customers or groups of customers. Banks face a particular challenge in assessing existing customers whose relationship with the bank pre-dates the introduction of current KYC and account-opening legislation and guidance.

Survey Results

The survey enquired about banks' approaches to remediating gaps in information held for existing customers and the reasons, where relevant, for not having such a remediation program.

A number of jurisdictions have required institutions to remediate their existing customers, including South Africa and the Cayman Islands. In the United Kingdom, the six largest banking groups volunteered to remediate their customer base using a series of filters agreed with their regulator. A number of other U.K. institutions have followed their lead. Some U.S. banks have conducted remediation exercises, either voluntarily or as a firm-specific regulatory requirement. U.S. banks typically focus on their higher-risk customers in such exercises and concentrate on source of wealth and beneficial ownership questions; they do not tend to extend to information such as date of birth or current addresses where they believe that the customer's identity is known.

Respondents with a Program to Remediate Gaps in KYC Information Held for Existing Customers



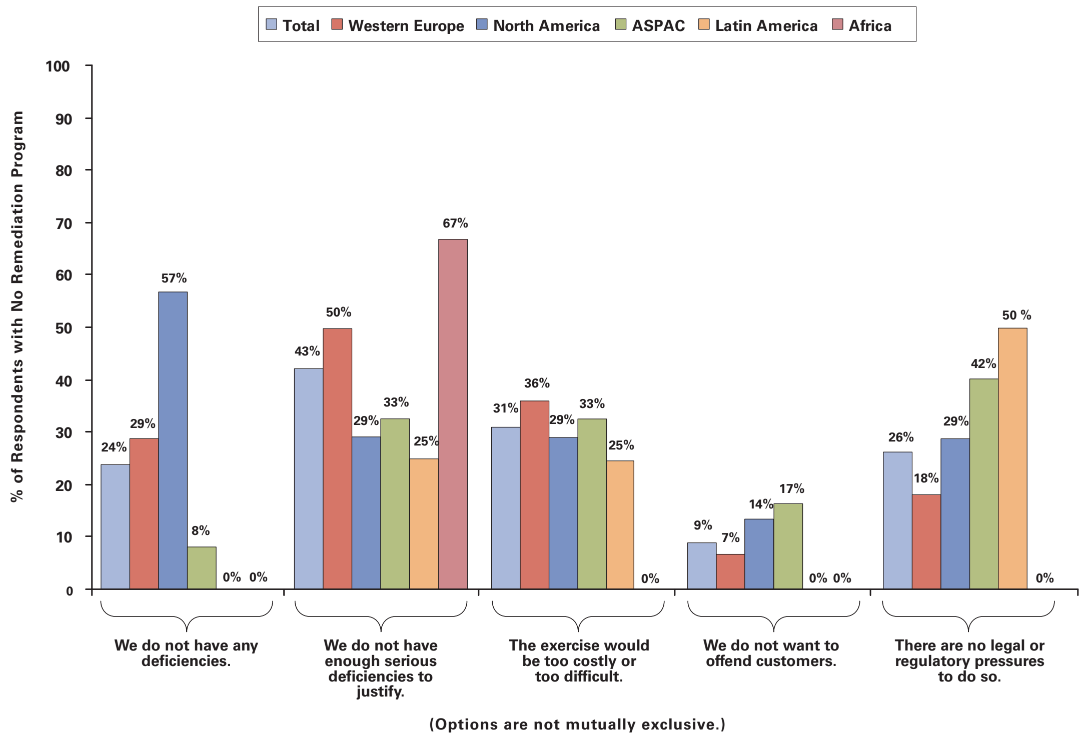
Source: KPMG LLP in the United Kingdom, 2004

The results of the survey show that nearly three quarters of institutions have a program in place to remedy information gaps with existing customers. In remedying such gaps, institutions need to balance the costs, potential disruption to the business, and disturbance to customers against the potential reputational risks of not doing so. The extent of remediation being carried out suggests that banks increasingly understand the importance of proper compliance for existing as well as new customers, particularly those posing higher AML risks, and that regulatory pressure has encouraged this trend.

Institutions in Western Europe are least likely to have remediation programs in place. Here again there are marked differences between individual countries. The Netherlands, Ireland, and the United Kingdom have strong positive responses. The following did not: Germany (7 of 14), Belgium (4 of 7), Italy (4 of 10), and Spain (5 of 8). This result may reflect the regulatory environment in these countries, where remediation may not be common practice.

The most common reason given for not having a remediation program is that serious deficiencies are not sufficiently numerous to justify launching such an effort.[7] Twelve percent of North American respondents and 10% of all Western European respondents claim not to have any such deficiencies.

Respondents' Reasons for Not Having a Remediation Program in Place

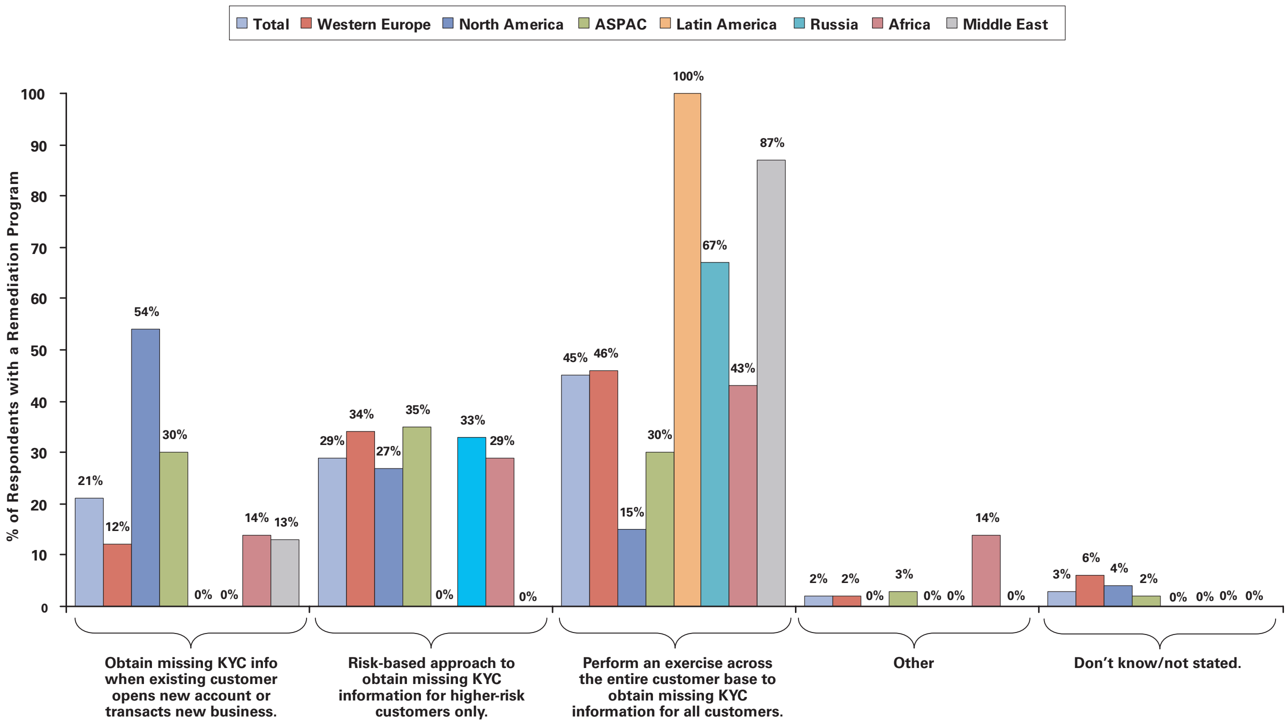


Source: KPMG LLP in the United Kingdom, 2004

Encouragingly, only 9% of those without a remediation program in place (equivalent to 2% of total respondents) cited a fear of upsetting customers as a reason.

Significant regional variations emerged in approaches to remediation. North Americans tended to favor a reactive approach, with 54% seeking to obtain missing information following a trigger event (such as a customer opening a new account or transacting new business), which is significantly more than in other regions.

Respondents' Approach to Remediation



Source: KPMG LLP in the United Kingdom, 2004

Approximately 30% of respondents from regions other than Latin America and the Middle East use a risk-based approach to obtain missing KYC information. All the respondents from Latin America and 87% of Middle Eastern respondents favor remediation across the entire customer base; this approach is also favored by more than 40% of respondents in Russia, Africa, and Western Europe.

Implications and Opportunities

If they have not already done so, institutions should consider a risk-prioritized approach to remediation, combining proactive and reactive features. Typically, the customer base is stratified into higher- and lower-risk business, with the higher-risk customers actively remediated within a tight timeframe and lower-risk customers dealt with either as a later priority or in response to trigger events.

Such validation exercises are often viewed only in terms of their costs. Such activity can, however, have benefits for a bank's customer relationship management processes. For example, additional customer information can allow more effective and targeted marketing and sales activity as well as help reduce the incidence of inappropriate marketing. Furthermore, such an exercise can provide crucial assistance in helping to clean up the data in a bank's customer database, identify duplicate customer details, and remove dormant accounts.

Key Questions: Retrospective Remediation

- Do we have a formal remediation program for our existing customer base?
- Have we considered how we can use the information gained through our remediation program as widely as possible—for example, in enhancing our customer relationship management program or to help improve our risk profiling activity?

7. Transaction Monitoring

Key Issues

Transaction monitoring has been an area of increasing focus for regulators and legislators. Most countries' legal frameworks and AML requirements are based on a regime for reporting suspicions to law enforcement, in parallel to requirements for customer identification that must be met before opening a new account or business relationship. Financial institutions must play an active role in the fight against money laundering by identifying suspicious activity and transactions and reporting them to the authorities. To do so effectively, organizations adopt a formal system to monitor customer activity.

"Banks should look at the overall behavior of the customer and not just a single transaction to make an assessment of whether there is a suspicion of money laundering."

German respondent

Survey Results

The results of the survey clearly showed that transaction monitoring, both through new automated systems and upgrades and via customization of existing systems, has made the greatest contribution to increased AML spending over the past three years; respondents also anticipate that transaction monitoring will continue to be the most significant factor in future spending on AML questions.

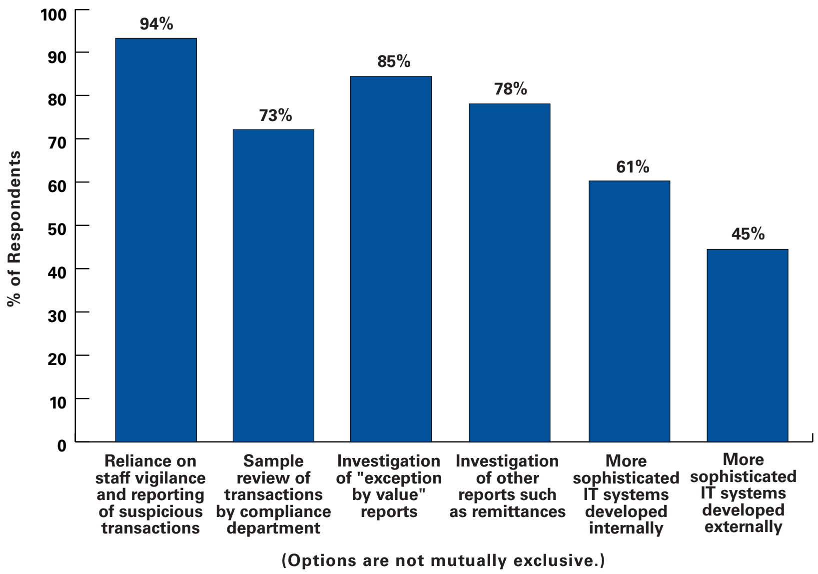
"One area of improvement would be the ability to create activity profiles to reflect the different types of relationships between us and our clients."

United States respondent

Monitoring Methods Employed by Banks

A range of manual and technology-based methods are used to monitor transactions. Ninety-four percent of respondents state that they rely on staff vigilance, among other methods, to identify potential money laundering. This reliance on staff activity confirms the importance of training to help staff identify money laundering as effectively as possible, and confirms that, important though they are, technological solutions should not be relied on solely as the only useful approach.[8]

Methods Used by Respondents to Monitor Transactions



Source: KPMG LLP in the United Kingdom, 2004

Notwithstanding that transaction monitoring has been a primary area of investment, a number of banks have not yet implemented sophisticated IT monitoring systems. As shown above, 61% of banks overall are using internally developed systems and 45% use those developed externally. However, 22% of respondents do not yet use either internally or externally developed systems. The fact that respondents identified this as an area of future AML spending reflects a realization that such systems have to be either installed or upgraded to keep pace with the increasing regulatory, legal, and reputational risks of failing to identify and report suspicious activity.

"Joined up" Monitoring

Respondents were also asked whether they had the capability to monitor a single customer's transaction and account status across several different countries. Forty-six percent of those operating in 6 to 10 countries could not do so at all, nor could 25% of those operating in more than 10 countries. Increasingly, the larger and more global organizations suggest that they need a "big picture" view of customers, including the links between their accounts and their holdings within different parts of groups or across jurisdictions.

Attempts to conduct such global or cross-jurisdictional monitoring, thereby improving a bank's chances of identifying cross-jurisdictional money laundering, will always rely on a bank having access to relevant information in different jurisdictions. Gaining such access remains difficult in a number of countries, where local banking secrecy or data protection constraints prevent free circulation of customer details outside that particular jurisdiction.

"The problems with sharing information across borders are not to do with any particular country, but are a consequence of data protection issues."

Swiss respondent

"The system would be improved if we had a worldwide customer view."

United States respondent

"We should monitor relationships using a firm wide integrated approach, monitoring global transactions centrally."

United States respondent

"We need to move away from isolated monitoring of individual accounts."

Swiss respondent

"Focus not on a single customer's transactions, but on the customer's whole behavior."

German respondent

"A risk-based approach for monitoring and relevant screening and searching should be closely linked to the risk-based approach used at account opening and such an approach should consider both elements that increase as well as reduce risk. Where financial institutions know their clients better, including understanding their intended activity at the institution, the greater is the ability to identify gaps between current activity and past and expected activities, which in turn provides financial institutions with critical information to assist in determining whether unusual or suspicious activity exists."

"Wolfsberg Statement on Monitoring, Screening and Searching," issued September 2003

Suggestions for Improving Existing Monitoring Systems

Respondents were asked to identify a specific aspect of their current monitoring system they would like to see improved. Comments ranged from improving staff training to agreeing parameters for monitoring with the regulator. Most comments, however, related to installing or enhancing automated systems. A small number of respondents felt that nothing more could be done to improve their existing systems.

Respondents with existing systems are seeking to increase the level of sophistication of their monitoring efforts in various ways:

- Better client and transaction profiling, linking the level of estimated activity to actual frequency and number of transactions
- Pattern recognition of transactions rather than identifying transactions in isolation
- Broadening of electronic systems used to collect data and better core data in master files, indicating that respondents have experienced the "garbage in, garbage out" syndrome
- More timely, or even real-time, monitoring rather than analysis of historical data. This change would require major systems upgrades and resource available to respond in real time. Organizations usually already have manual monitoring procedures in place for significant high-transaction-value business, so the benefits of a real-time automated system may be less immediately apparent

Implications and Opportunities

Most respondents have instituted some form of transaction monitoring, whether manual or through use of an automated system. The challenge now for all banks, regardless of their current position, is to build on and enhance existing systems—perhaps by adding automated systems, increasing cross-border or cross-jurisdictional activities, or allowing the capture of the range of accounts or relationships that customers have with large financial services providers. In doing so, banks need to continue to apply a risk-based approach, assessing the relative risks that they face from individual products, relationships, and jurisdictions. This effort will help inform the parameters for whatever monitoring processes are adopted, allowing a targeted and coherent approach across different parts of the bank.

It is difficult to see how banks that conduct large volumes of relatively low-value transactions are able to monitor activity across their books without the use of automated solutions. As money laundering activity has become more sophisticated, more complex transaction monitoring approaches have been developed, based on advanced mathematical models. Detection of these complex scenarios, particularly for large institutions, is very difficult without the use of advanced monitoring techniques and specific software technology.

Legislative Developments

Switzerland recently introduced legislation that requires banks to introduce automated transaction monitoring systems. However, banks with a limited number of customers or transactions can commission their auditors to undertake an annual independent assessment of the monitoring procedures in place.

Swiss AML Ordinance, July 2003

Key Questions: Transaction Monitoring

- Are our transaction monitoring procedures appropriate to our business and the risks we run?
- Have we formally reviewed the appropriateness of the parameters used for identification of inputs and outputs for our transaction monitoring system?
- Have we reviewed our existing transaction monitoring processes for potential gaps and areas where enhancements could be made—for example, in aggregating customer data across different products and jurisdictions?

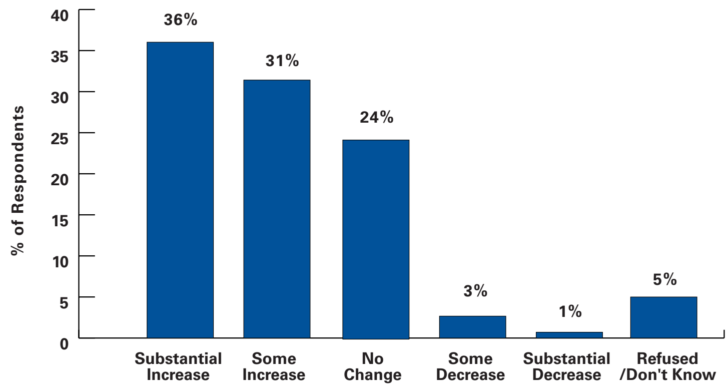
8. Suspicion Reporting

Survey Results

Sixty-seven percent of institutions worldwide report an increase in the level of SARs over the past three years, but this figure jumps to 94% in the case of North America, with 61% of North American institutions reporting a substantial increase (compared with 36% worldwide). Three percent reported some decrease in reports, with just 1% reporting a substantial decrease. For Western Europe, the response is more evenly balanced, with a significant increase, some increase, or no change in reporting levels seen by about 30% of respondents each.

Specific regional analysis of the change in number of SARs is provided in *Appendix II: Additional Detailed Results by Region*.

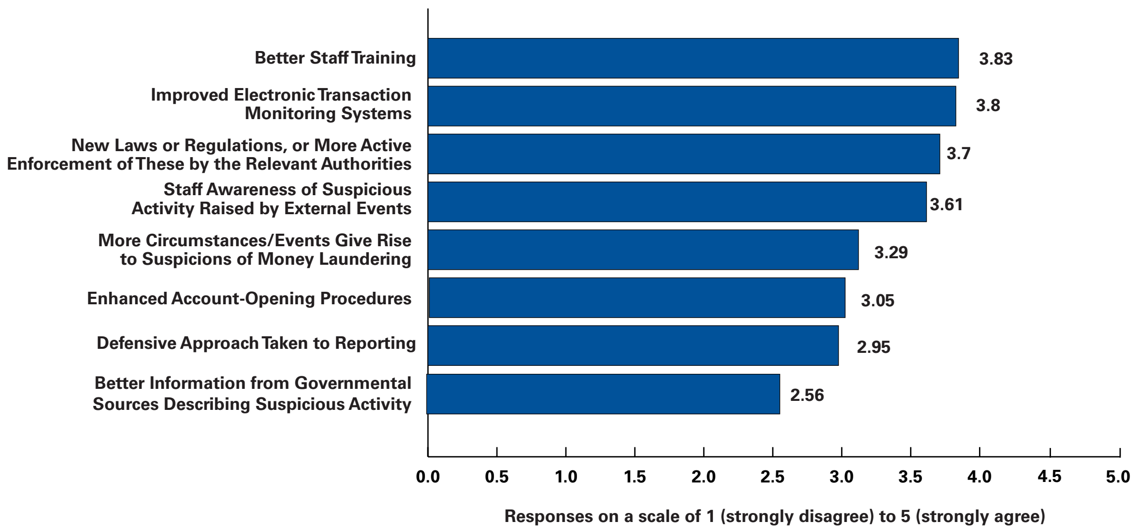
Change Reported by Respondents in Number of SARs Compared with Three Years Ago



Source: KPMG LLP in the United Kingdom, 2004

When asked to explain the increase in SARs, participants overall most often cited improvement in the quality of training for staff, closely followed by investment in electronic monitoring systems, the introduction of new laws, and staff awareness of AML issues from external events.[9] This result suggests that the various types of investment that banks have made in these areas are paying off.

Reasons Provided by Respondents for Increase in SARs



Source: KPMG LLP in the United Kingdom, 2004

Defensive Reporting
There have been suggestions that, rather than suffer regulatory criticism, banks may be filing more SARs as a defensive tactic, which then also affords them protection under the law. Defensive reporting ranks only seventh on the list, with an average score of 2.95 on a scale of 1 to 5. No individual region shows a rating of 4 or 5 on this criterion. Middle Eastern respondents rated it more strongly than other regions with a score of 3.5, closely followed by North American and ASPAC respondents with 3.32. The increased number of external reports in the United States may reflect local circumstances, including confirmation that under the USA PATRIOT Act banks will not be held liable should they file a SAR that turns out not to be suspicious.

Typologies and Feedback
"Receipt of better information from government sources" was chosen least often as a reason for increased reporting. This result may reflect a reporting system that is often viewed as "one-way traffic," with a perception that there is very little feedback to banks on typologies and other information describing how money laundering has occurred or been attempted across the relevant market.

Implications and Opportunities

The increased volume of SARs raises a number of questions for banks. They need to help ensure that their internal processes and procedures are appropriate for what may be a very different scale of reporting than was originally envisaged. The parameters for monitoring need to be reviewed to help ensure they are appropriate and produce quality reports. Banks also need to help ensure that any backlog of reports is kept to a minimum. This may entail significant changes in the approach and management controls involved.

The banking industry needs a greater level of information flow from governments and FIUs to support banks in their efforts to keep up to date with current money laundering practices and typologies. Without such information, individual banks' processes and procedures will continue to focus on out of date criminal methodologies and potentially miss other new aspects of criminality.

"It is a global problem. In every country we operate we have had bad feedback."

Swedish respondent

"Some of the authorities do not cooperate well… they often pass the ball to each other… they do not take responsibility…"

Chinese respondent

While the problem of defensive reporting is acknowledged by industry, government, and law enforcement, resolving the issue will be difficult without actions on the part of various parties. In jurisdictions such as the United Kingdom, the relevant legislation requires reporting of all suspicions without a de minimis level; in the United States, all matches to the Office of Foreign Assets Control sanctions list requires a SAR to be made. Law enforcement may also want to retain the intelligence information that arises from smaller reports, even if such intelligence does not specifically lead to individual investigation and prosecution. In practice, a number of banks in both jurisdictions are not currently prepared to restrict the numbers of reports that they make, however small, while these legal requirements are in place and the threat of regulatory action remains.

Key Questions: Suspicion Reporting

- Are we confident that our SAR processes are appropriate for the scale of internal and external reporting that we now have in place?
- Do we formally monitor the number of SARs and the trend in reporting?
- Have we helped ensure that our bank is appropriately represented in discussion groups organized by the industry, government, law enforcement, or regulators?

9. Training

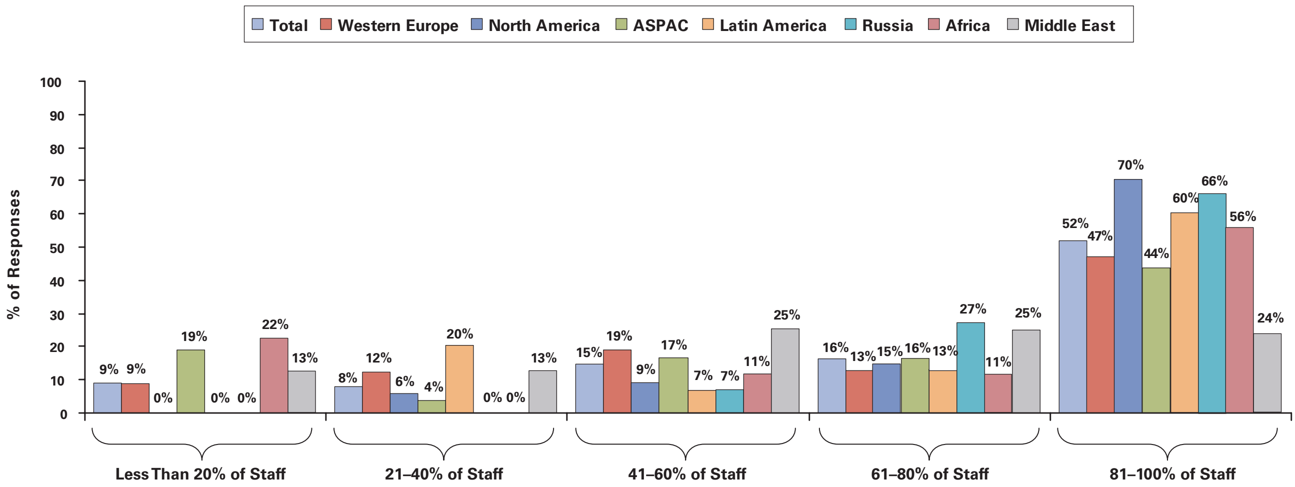
Key Issues

AML training has traditionally focused on providing staff with a high-level description of the source and types of money laundering, details of the basic policies and procedures of the institution, and the legal requirements and information about penalties for non-compliance, both for the institution and for individuals. The more sophisticated the institution's approach to AML, the more sophisticated are its training needs.

Survey Results

Training is a high priority: the survey shows that the second biggest contributor to the future increase in costs worldwide is the provision of training to staff. All but three of the respondents reported that they provide AML training for their staff.

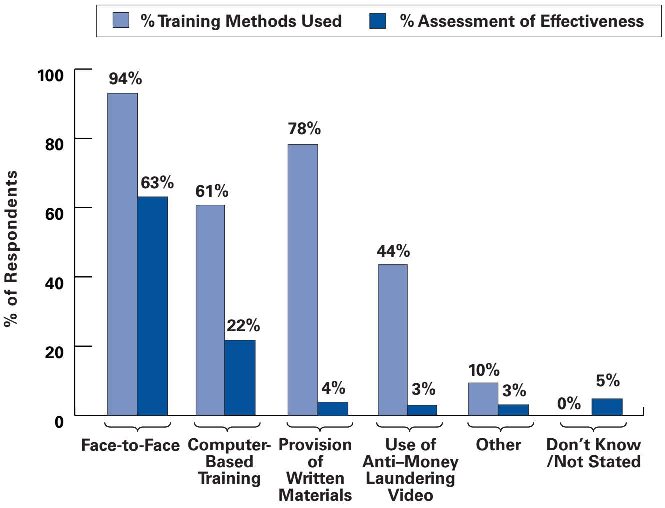
Estimate by Respondents of % of Staff Who Received AML Training in the Past Two Years



Source: KPMG LLP in the United Kingdom, 2004

As can be seen, the proportion of staff that have been trained varies among the regions. Although more than 50% of respondents believe that more than 80% of their staff have been trained in the past two years, approximately 20% have trained less than 50% of staff in the same period. This result suggests that many banks are selective as to whom they train, with some training only those with direct customer-facing responsibilities, while others take the view that all staff require training.

Training Methods Used by Respondents Compared with Assessment of Effectiveness



(Options for training methods are not mutually exclusive.)

Source: KPMG LLP in the United Kingdom, 2004

When asked about the most effective method of training,[10] bearing in mind both quality and cost, 63% of respondents opted for face-to-face training, although a significant minority (22%) opted for computer-based training (CBT). Ninety-four percent of respondents use face-to-face training in practice, compared with 61% for CBT, although verbal responses indicated that a number of respondents are currently introducing CBT. Although only 4% chose the provision of written materials as the most effective training mechanism, 78% of banks use it in practice. Given the prevalence of other training techniques, this result may reflect the use of course handouts; it may also include the production of AML manuals and policy documents.

The only slight divergence was in North America where 42% of respondents (compared with 22% globally) favored CBT as the most effective method, while only 48% (compared with 63% globally) favored face-to-face training. This preference for CBT may reflect the geographic spread of the larger North American banks' operations, which may necessitate a decentralized approach to training—perceived to be most effectively accomplished through electronic means.

"Tailored for more specific business areas."

Irish respondent

"Regulator should publicize cases they have pursued. More real-life examples are needed from law enforcement agencies and regulators."

United Kingdom respondent

"Currently, we do not have tests for employees when they join the firm. We need to introduce tests for both new and existing employees so that we can assess their understanding of AML issues."

African respondent

When asked how training could be improved, the most recurrent answers focused on the need to tailor the training to the business areas in which staff members are working through the use of case studies or role-plays. Various respondents suggested that they would like their regulator to provide them with more real-life examples or even get involved in delivering training. These responses suggest that banks are looking to upgrade their regular AML training now that the concept has become embedded. That said, many respondents also regretted the lack of time and resources available. One respondent suggested that the one thing that would improve the quality of training would be "more hours in the day."

Implications and Opportunities

Effective training should be tailored to the particular needs of the institution and reflect the specific risks it runs, particularly for those staff that work closely with clients or might be in the best position to identify actual money laundering or its potential risk.

The use of CBT can greatly assist the cost-effective provision of general and generic training and information for a wide range of staff in a large, geographically diverse organization. A wide variety of off-the-shelf packages are now available. Where CBT is not developed internally, institutions should seek to purchase a package that can be tailored to their specific needs and risks.

A successful training program has a highly positive impact on the promotion of an AML culture within an organization, particularly if senior management demonstrates its commitment to the process. In recent years, many large institutions have made effective use of videotaped messages—disseminated via intranet or during face-to-face sessions—in which senior management describes the key features of the organization's AML policy, expresses their commitment to it, and explains what they expect from their staff.

Banks should endeavor to provide aspects of AML training for certain staff in face-to-face sessions. AML issues can be complex, and giving staff the opportunity to ask the "what if" questions fosters a culture in which people are encouraged to participate and will assist in genuine learning and staff buy-in. Case studies are particularly effective in prompting staff to raise issues, and they may identify business risks that compliance practitioners had not identified.

"Invite trainers from different institutions and abroad to tell us about their AML-related experience and case studies."

Middle East respondent

"AML training would be more effective if decentralized. 'Train the trainer' is a good concept—regionalized training combines effectiveness and speed."

Indian respondent

Key Questions: Training

- Have we assessed the quality, impact, and effectiveness of AML training for staff?
- Do we train all our staff or only those who are customer facing?
- Do we provide tailored training for specific groups, or merely generic information?
- Has senior management undertaken the AML training alongside other staff members?

10. Attitudes toward Regulation

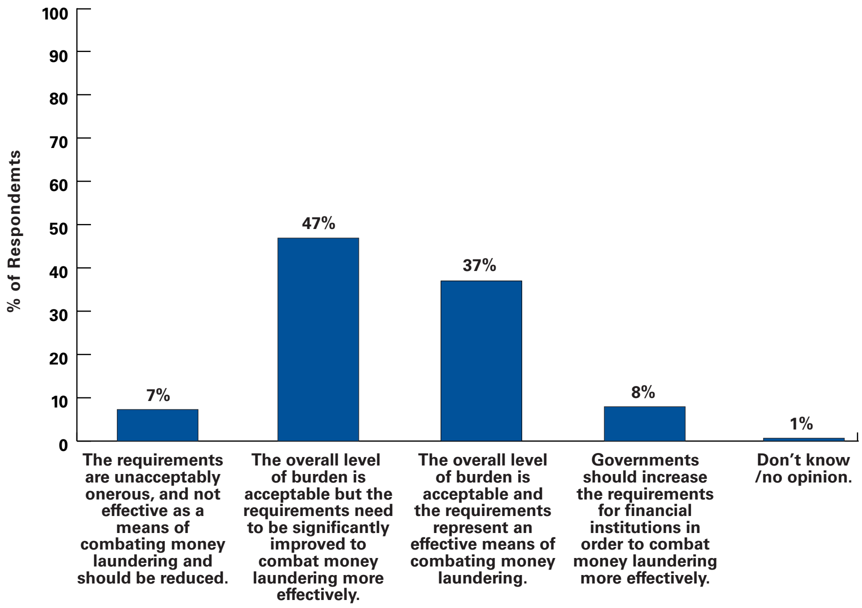
Key Issues

Globalization, complex cross-border transactions, new legislation, and high-profile regulatory enforcement actions have heightened banks' awareness of the challenges and risks of regulatory compliance. Financial institutions around the globe face increased expectations that they represent a front-line defense against money launderers and other financial criminals—a role with which some banks may be uncomfortable.

Survey Results

The survey results show a positive attitude toward AML regulation. The vast majority of respondents globally (84%) believe that the level of the AML burden placed upon them is acceptable. For those who hold this view, an interesting geographical split exists between those who feel that the requirements are effective and those who believe that they need to be significantly improved and better focused in order to be effective.

Statement Most Closely Reflecting Respondents' View on AML Requirements



Source: KPMG LLP in the United Kingdom, 2004

In North America,[11] 70% of all respondents believe the requirements are acceptable but need improvement, against only 18% who feel that they are acceptable and effective. Twelve percent of all respondents in North America feel that the regulatory burden is too onerous (compared with 7% globally). This result may reflect respondents' perceptions of the increased burden posed by regulation, especially since the introduction of the USA PATRIOT Act.

Conversely, in ASPAC, 26% believe the requirements are acceptable but need improvement, while 50% believe that they are acceptable and effective. In Western Europe there was a marked split by country: most banks from Germany, Italy, and the United Kingdom thought the burden acceptable but that the requirements needed to be significantly improved; other countries in the region were split more or less equally on whether the requirements were effective or needed to be improved. Four of the seven Swiss banks thought that requirements needed to be improved, and two thought they were unduly onerous.

"Make the law clear, do not give any room for interpretation—write down what the banks have to ask for and that's it."

Austrian respondent

"More help/guidance/warnings"

Irish respondent

"They need to provide more specific guidance on what they want us to look for instead of relying on us and our practices."

United States respondent

"Laws are rigid and inflexible. They don't stand in relation to our day-to-day business.... Regulations are black and white."

Swiss respondent

How Could the AML Regulations Be Improved?

Some explanation and context for these results can be found in respondents' comments when asked to suggest one change that they would make to the AML regulations.

An interesting difference emerged between those who would like to see less room for interpretation in the regulations (more prevalent among respondents from the Americas, Africa, and the Middle East) and those who would like to have more flexibility to take a risk-based approach (a frequent response of those from Western Europe).

Of those who wish for less interpretation, the reasons tend to be divided between those who want requirements to be rigidly prescribed and those who desire specific guidelines, less ambiguity, and more guidance. Those who prefer a risk-based approach favor its practicality.

A number of themes emerged in respondents' comments:

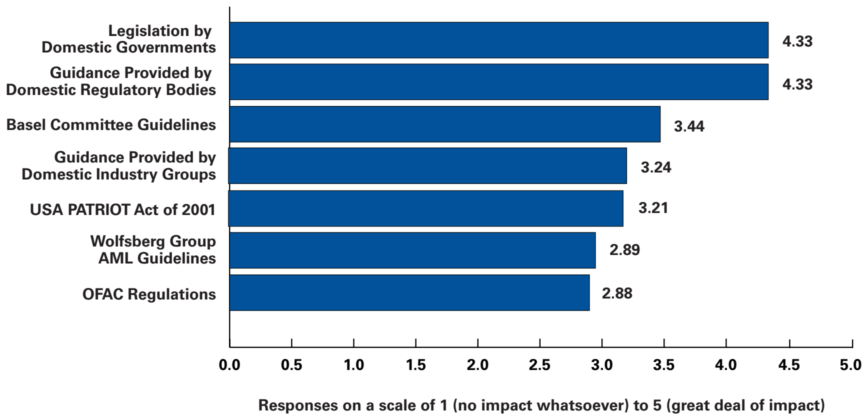
- Those who had made extensive investment in systems and controls to meet the current regime argued against any major changes in requirements unless they would clarify banks' potential legal and regulatory liability.
- Better feedback and communication from the FIUs, including known or recently identified typologies and methods used by launderers, preferably differentiated by market and industry (e.g., retail banking, investment banking, life assurance, and so forth).
- Increased sharing of information between institutions and countries and with government.
- The potential value of an internationally focused regulatory framework.

Impact of Global Legislation and Guidance

While respondents rated domestic legislation and regulatory guidance as having the most impact (perhaps not surprisingly), other guidance by local industry groups and supra-national bodies also rate highly.[12]

The high impact of the USA PATRIOT Act is evident. In North America, it is rated more highly than any other category and has clearly been a factor in the level of increased spending in this region and the greatly increased level of external reporting.

Impact of Global Legislation and Guidance on Respondents



Source: KPMG LLP in the United Kingdom, 2004

"There is not a great maturity of knowledge anywhere and regulators should ask institutions to justify how what they are doing is efficient and productive."

United Kingdom respondent

"I think that the level of requirements are good and well defined, but that the linkage between the FIU and law enforcement and the courts are not sufficiently effective."

United States respondent

"The system would be better if government bodies enhanced the level of cooperation between each other. AML is not simply the responsibility of one bank; it is the responsibility of society."

Chinese respondent

"Money laundering regulations would be improved if financial intermediaries were rewarded for reporting suspicions rather than penalizing firms for failing to comply with requirements—regulators could award triple ratings to firms for ML prevention."

Swiss respondent

"In the United States, we should remove the currency transaction reporting requirement. There were eight million currency transaction reports, but only 450 investigations and 200 prosecutions."

United States respondent

Respondents in most regions rate AML guidelines developed by the Basel Committee as the third most influential. The exceptions were in North America (where it is seventh) and Russia (where it is fourth). For the rest, it features more highly than guidance from domestic industry groups. More than 50% of respondents rated the Basel guidelines as "highly influential" (rated 4 to 5 on a scale of 1 to 5), with 23% of respondents giving it the maximum rating.

The Wolfsberg Principles were less highly rated than Basel in terms of their global impact, which may be because a number of respondents are national rather than international banks; despite this result, the Wolfsberg Principles are very important to some banks, with 28% of global respondents rating them as highly influential. They were also considered to be more influential than the Basel Committee guidelines in North America.

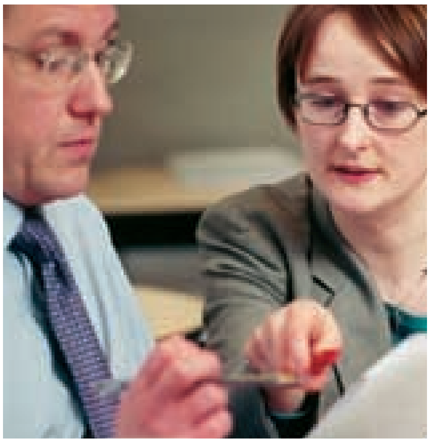
The U.S. OFAC Regulations are significant for both North American and Latin American respondents: they were rated as the second most important factor in each region. They are less important overall for other regions, but they remain significant for the global (rather than national) banks based there.

Basel Committee Guidelines

In its guidelines, the Basel Committee addresses the treatment of suspicious transactions, KYC, methods of reporting, politically exposed persons, training, and other key issues. Nonetheless, the Committee asserts that money-laundering efforts are essentially the province of the Financial Action Task Force. The Basel Committee recommends the adoption of the FATF 40 Recommendations by financial institutions.[13] At the same time, the Committee says that its approach to KYC "is from a wider prudential, not just anti–money laundering, perspective."[14]

"The Basel Committee's interest in sound KYC standards originates from its concerns for market integrity and has been heightened by the direct and indirect losses incurred by banks due to their lack of diligence in applying appropriate procedures. These losses could probably have been avoided and damage to the banks' reputation significantly diminished had the banks maintained effective KYC programmes."[15]

Conclusion



The high degree of commitment by the banking industry to the AML cause is clear from the responses to this survey.

The results of the survey provide the opportunity for banks around the world to assess and benchmark their own practices against those of their regional and international peer group.

The last few years have seen an unprecedented period of AML activity within banks spurred on by legal and regulatory changes across the world. As never before, banks and their officers have legal responsibilities to help ensure they do not knowingly do business with money launderers and that suspicions are reported.

The high degree of commitment by the banking industry to the AML cause is clear from the responses to this survey. Around the world, significant investment is being made, and will continue to be made, in processes such as client acceptance, staff training, and transaction monitoring. Banks are increasingly conducting reviews of their existing customers taken on before AML regulations were implemented and enforced. The volume of suspicion reports continues to mount. Banks are regularly monitoring the effectiveness of their AML systems and controls.

It is encouraging that the majority of banks accept the responsibilities laid upon them without serious complaint. It is also understandable that they are anxious, as responsible corporate citizens, that the system as a whole is functioning effectively. There is a recognition that as business becomes more global, so does organized crime and international terrorism, and an increasingly comprehensive approach is needed to defend society against such growing threats.

The future challenges for banks include how to help ensure that their defenses against money launderers are consistently strong across all their global operations, and how to work more effectively with law enforcement and other banks across the globe to help prevent criminals and terrorists from expanding their empires through the legitimate network. For policymakers, regulators, and law enforcement, future challenges include better coordination of global AML approaches, ensuring critical information interchange can be facilitated, and working better with the industry so that each bank's contribution is made as effective as possible and is properly recognized when it is effective.

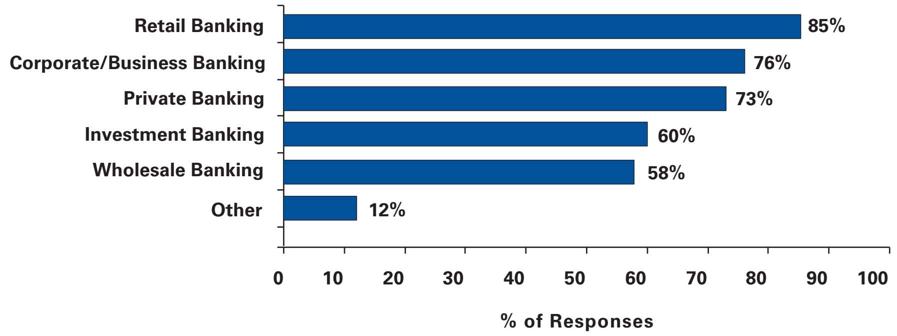
It is clear that much has been achieved, but equally clear that much remains to be done.

Appendix I: Details of Respondents

Analysis of Respondents by Region and Country

Western Europe	**78**
Austria	7
Belgium	7
Denmark	2
Germany	14
Ireland	2
Italy	10
Luxembourg	2
Netherlands	4
Norway	1
Portugal	1
Spain	8
Sweden	2
Switzerland	7
United Kingdom	11
Africa	**10**
Botswana	2
Kenya	3
Nigeria	1
South Africa	1
Uganda	3
North America	**33**
Canada	5
United States	28
Middle East	**8**
Kuwait	2
Oman	1
United Arab Emirates	5
Latin America	**15**
Argentina	4
Brazil	2
Chile	3
Columbia	2
Panama	3
Peru	1
ASPAC	**50**
Australia	3
China	6
Hong Kong	8
India	8
Indonesia	1
Japan	9
New Zealand	1
Philippines	1
Singapore	1
Taiwan	12
Russia	**15**

Analysis of Respondents by Industry

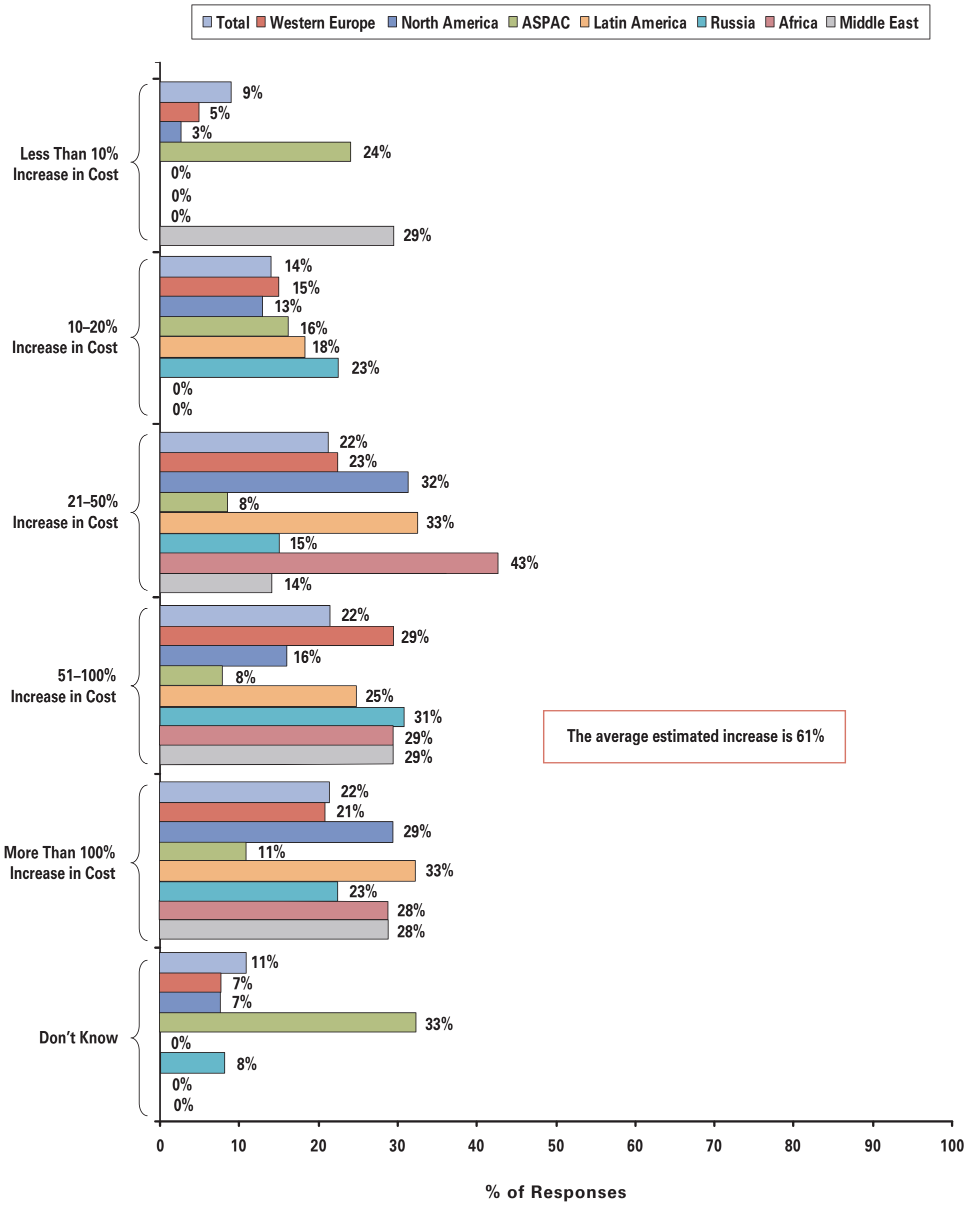


(Options are not mutually exclusive.)

Source: KPMG LLP in the United Kingdom, 2004

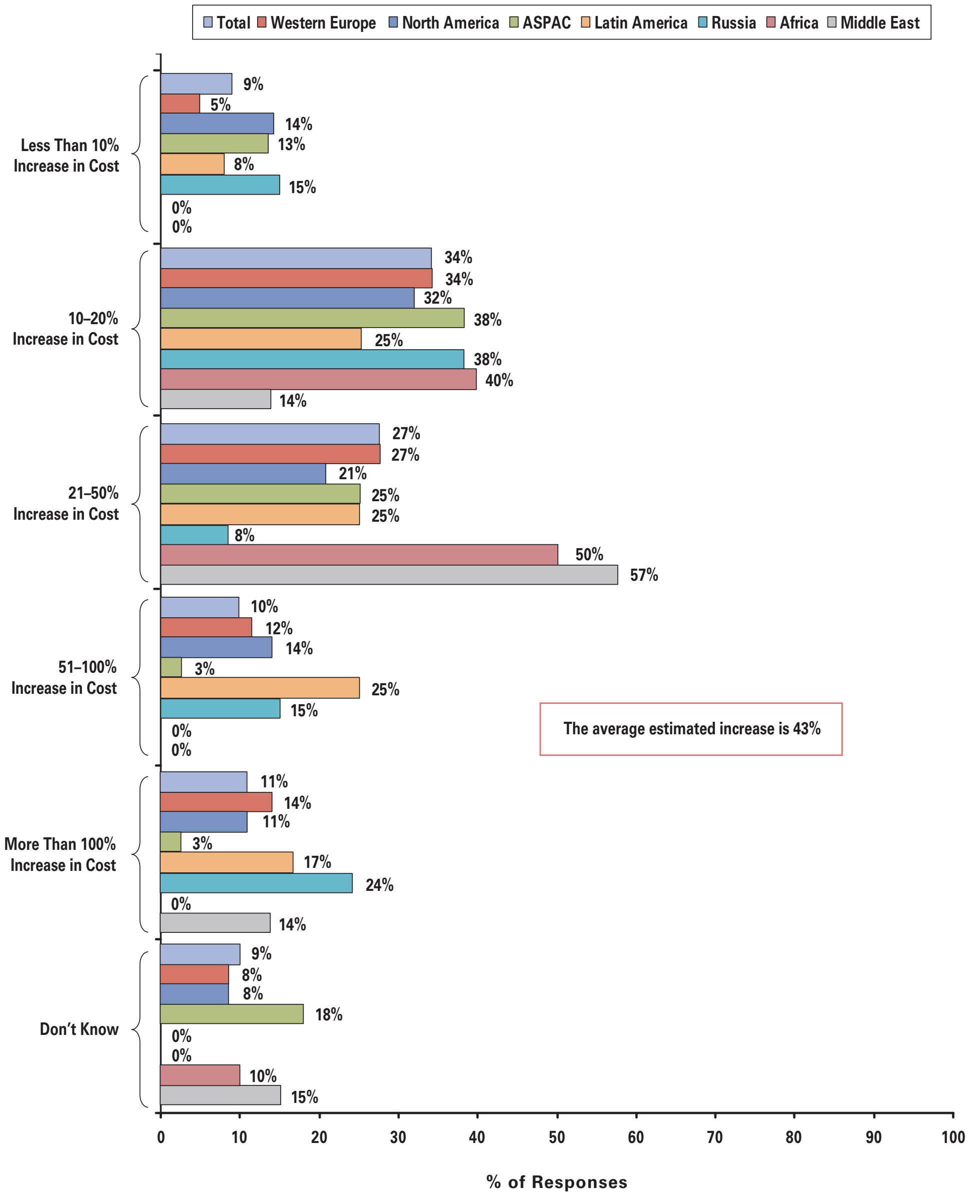
Appendix II: Additional Detailed Results by Region

Estimate of % Increase in AML Investment Over the Last Three Years—Regional Analysis



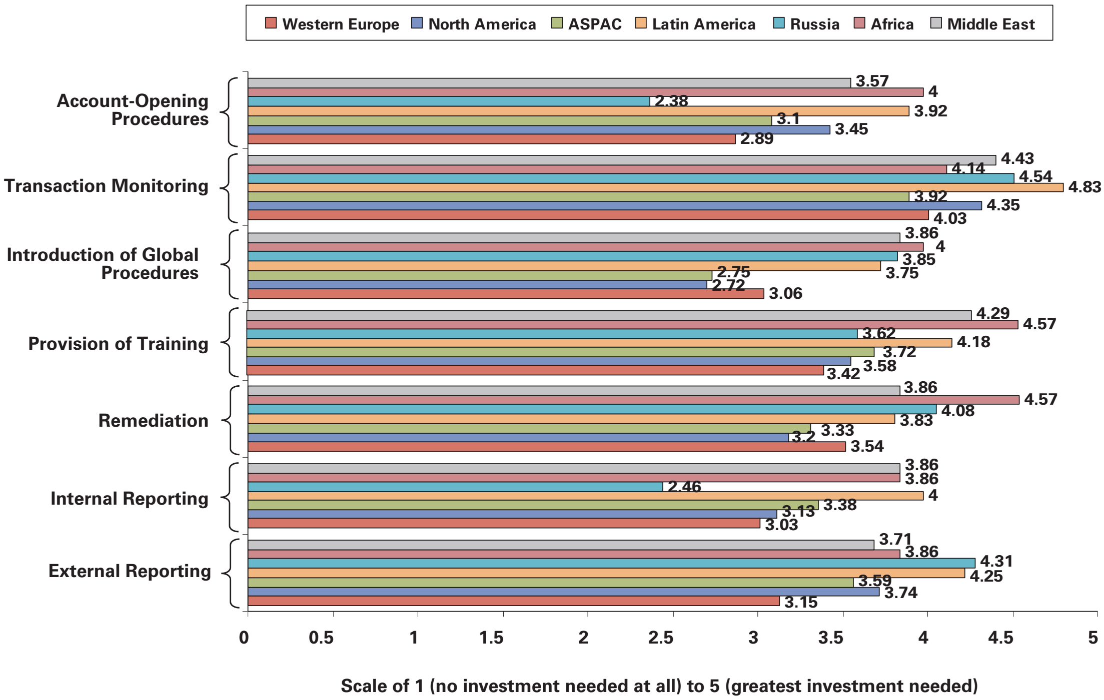
Source: KPMG LLP in the United Kingdom, 2004

Estimate of % Increase in AML Investment Over the Next Three Years – Regional Analysis



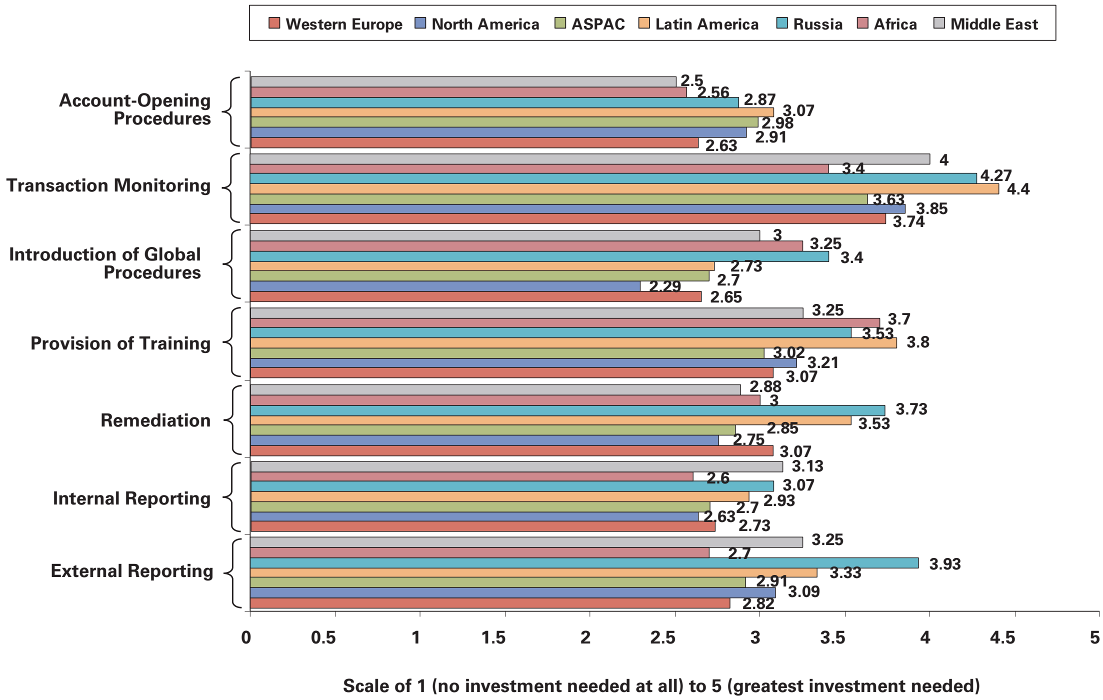
Source: KPMG LLP in the United Kingdom, 2004

Respondents' Estimates of Areas of Greatest Additional AML Spending Over the Last Three Years – Regional Analysis



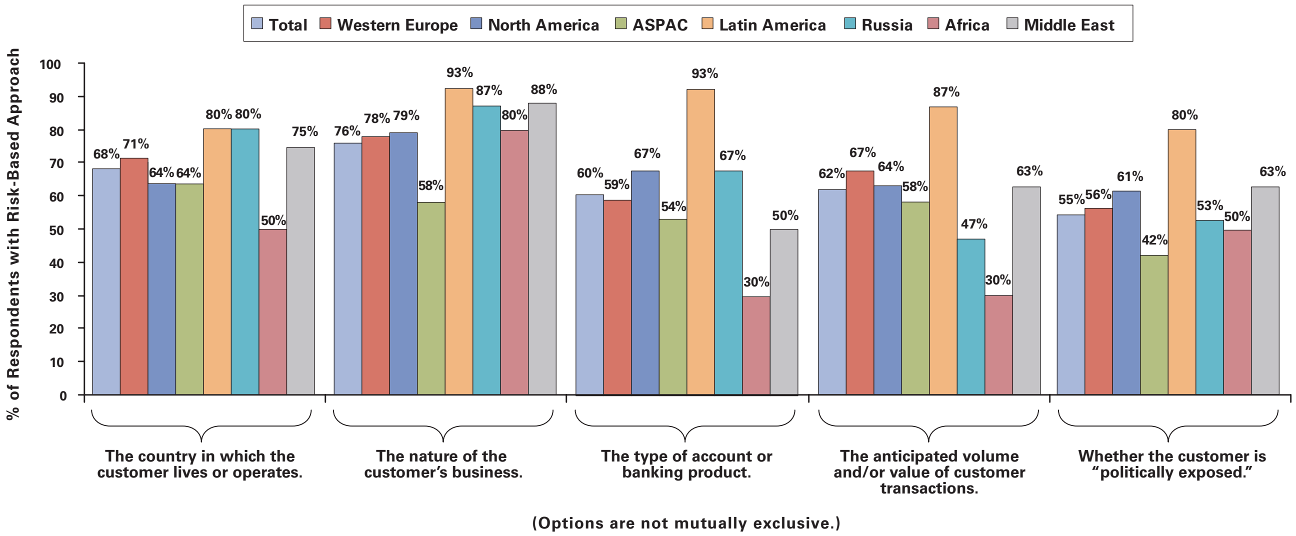
Source: KPMG LLP in the United Kingdom, 2004

Respondents' Estimates of Areas of Greatest Additional AML Spending over the Next Three Years – Regional Analysis



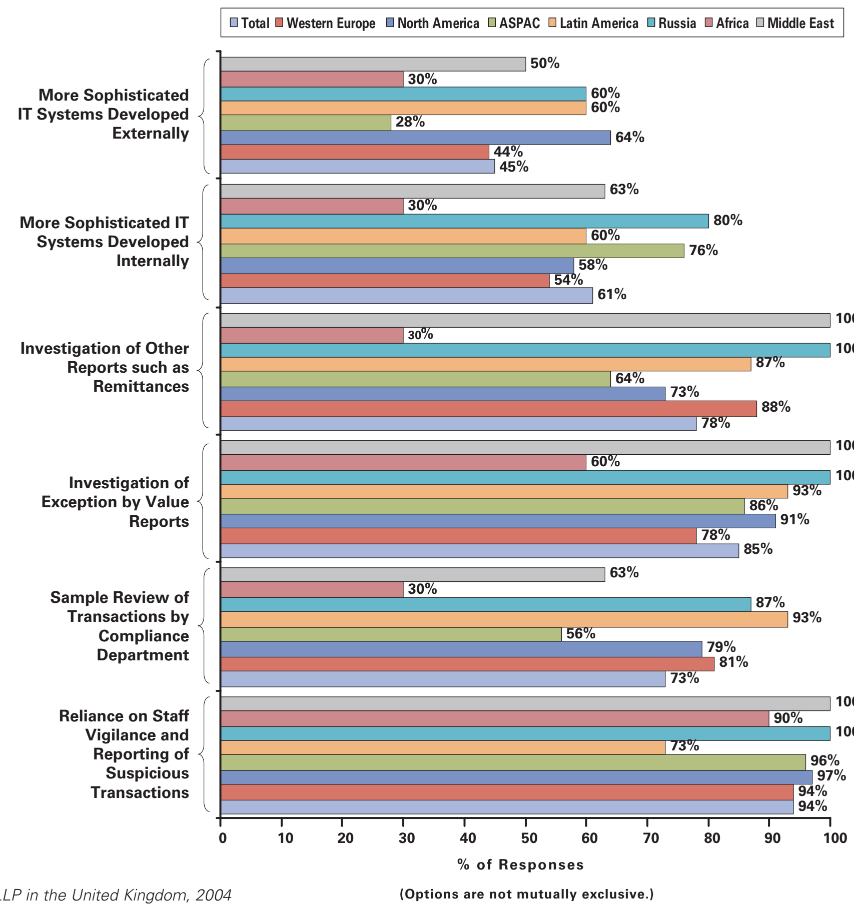
Source: KPMG LLP in the United Kingdom, 2004

Factors Taken into Account by Respondents When Using a Risk-Based Approach at the Account-Opening Stage – Regional Analysis



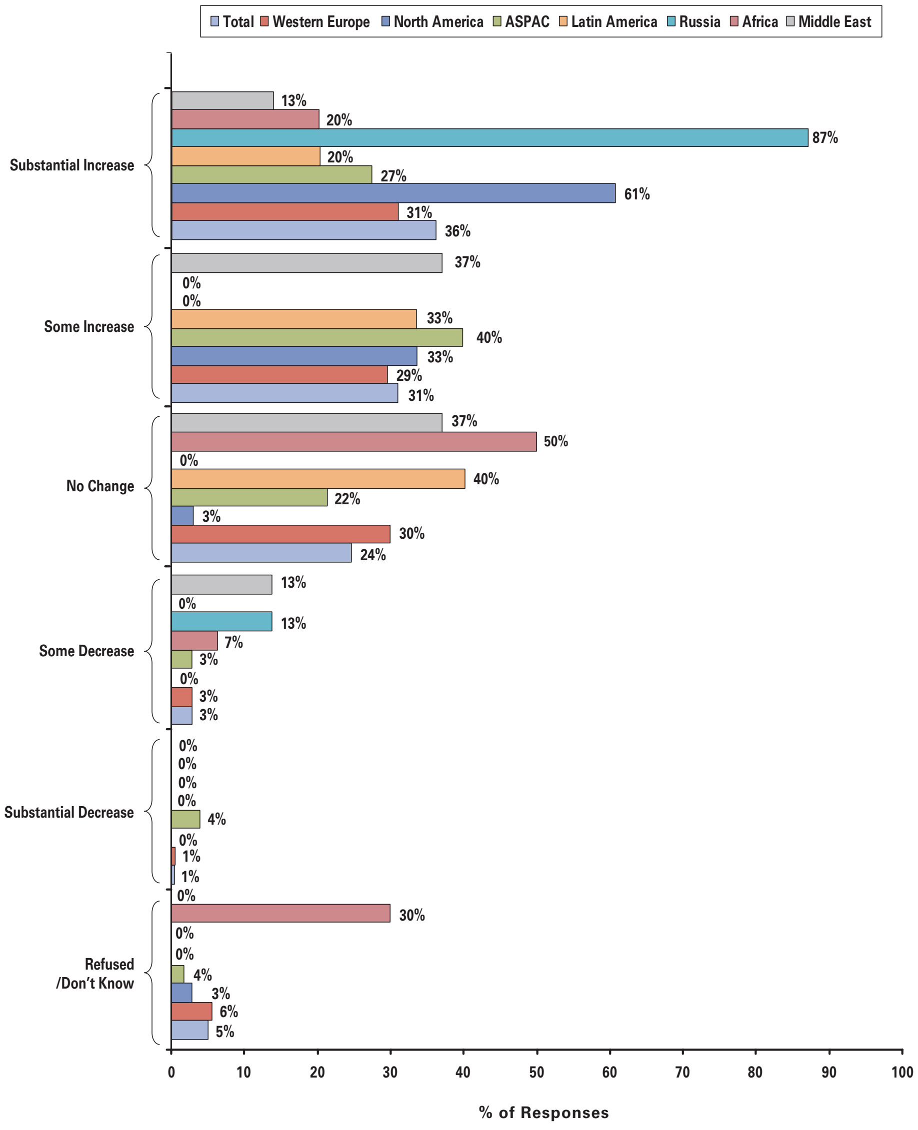
Source: KPMG LLP in the United Kingdom, 2004

Methods Used by Respondents to Monitor Transactions – Regional Analysis



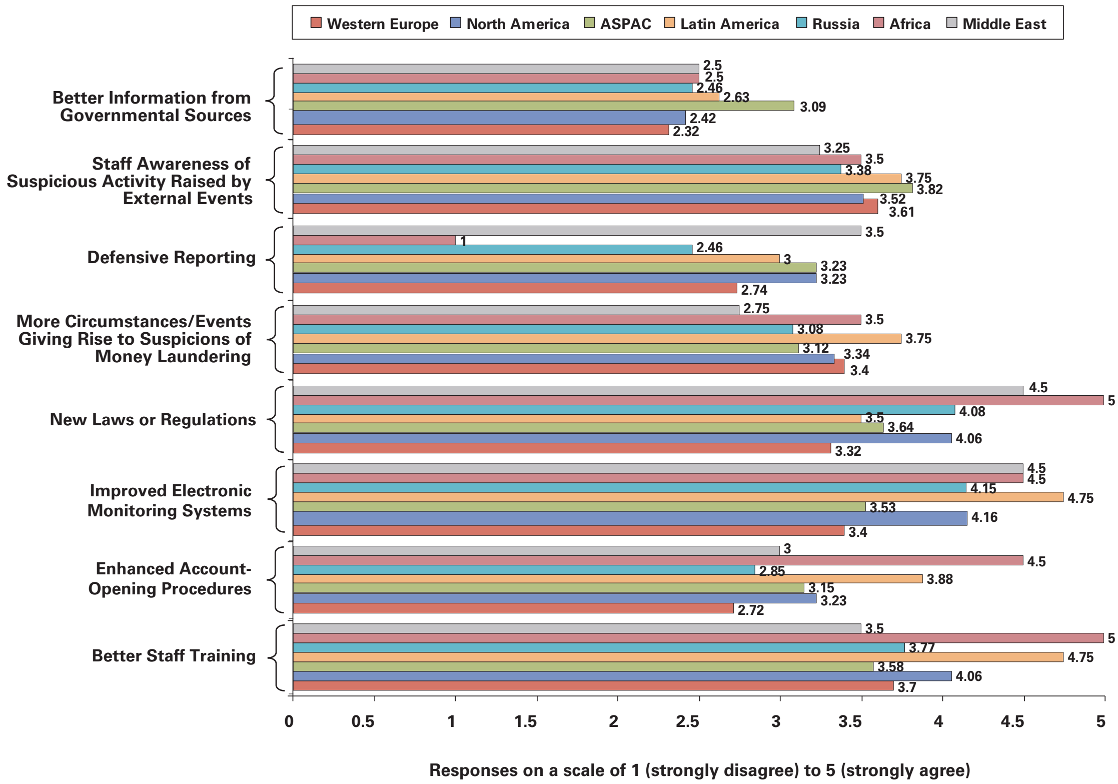
Source: KPMG LLP in the United Kingdom, 2004

Change Reported by Respondents in Number of SARs Compared with Three Years Ago – Regional Analysis



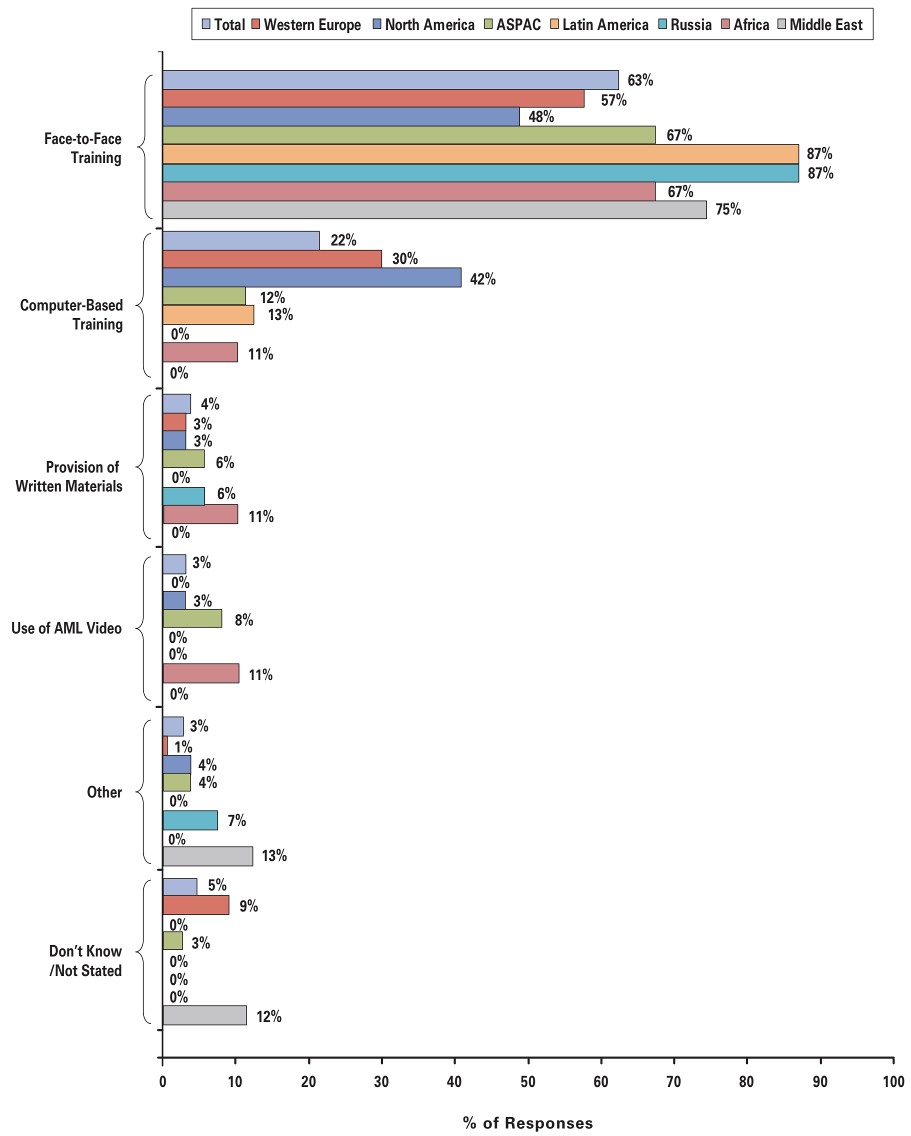
Source: KPMG LLP in the United Kingdom, 2004

Reasons Provided by Respondents for Increase in SARs – Regional Analysis



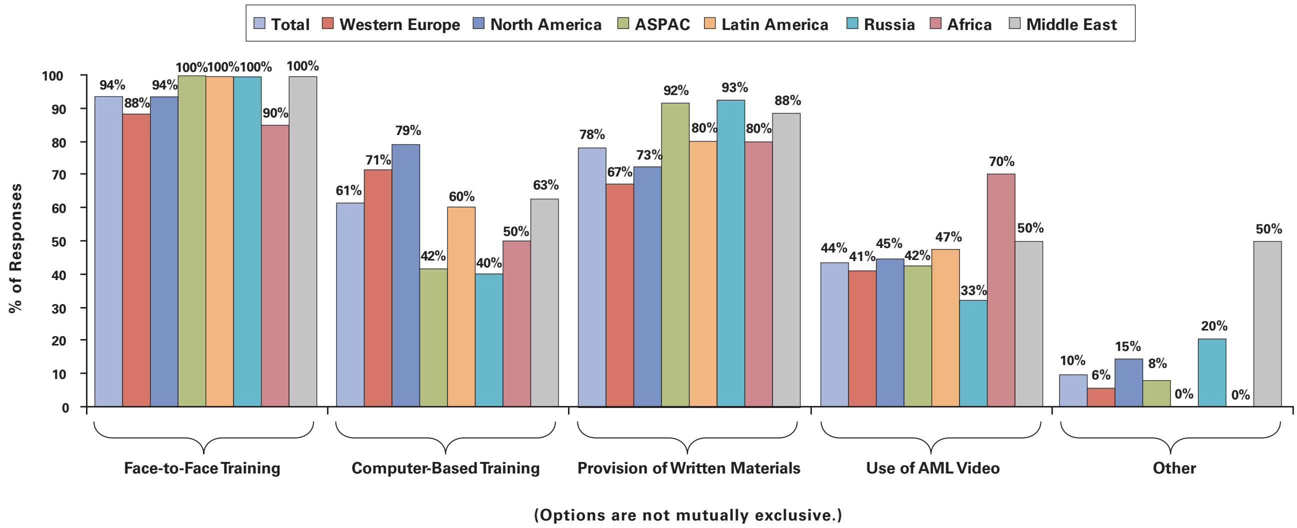
Source: KPMG LLP in the United Kingdom, 2004

Respondents' Assessment of Most Effective Training Methods – Regional Analysis



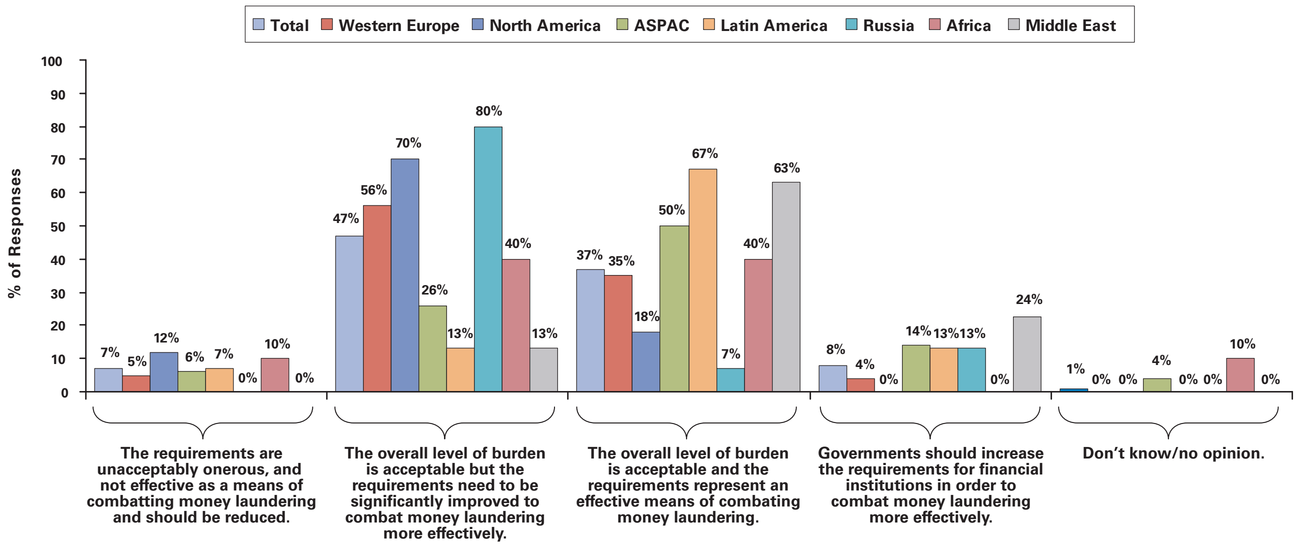
Source: KPMG LLP in the United Kingdom, 2004

Methods Used by Respondents to Deliver AML Training – Regional Analysis



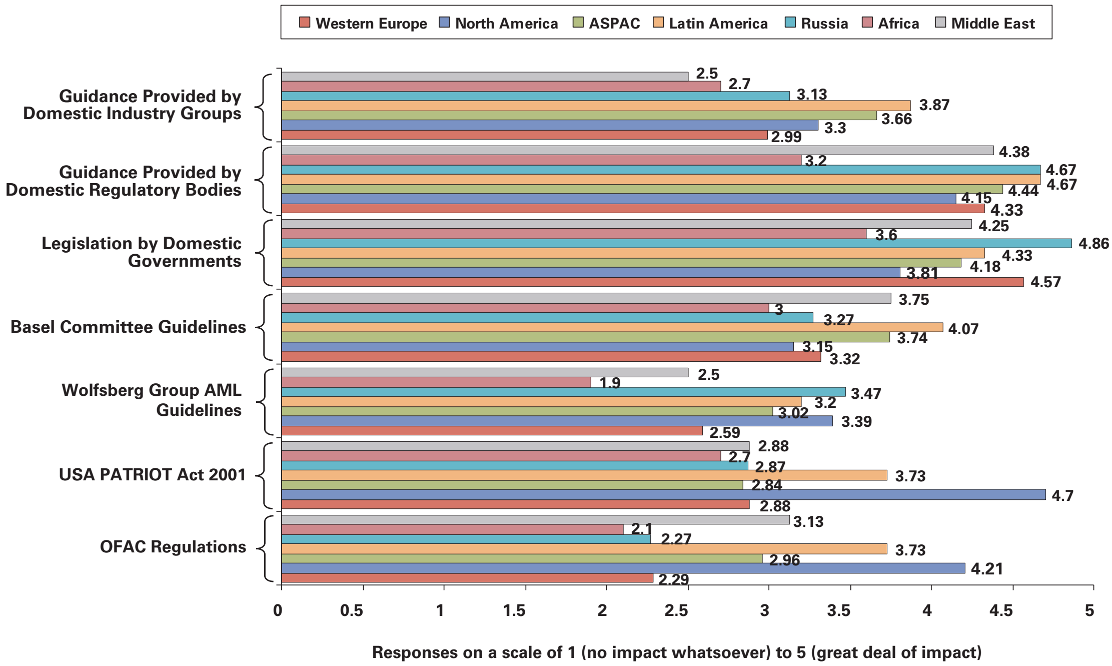
Source: KPMG LLP in the United Kingdom, 2004

Statement Most Closely Reflecting Respondents' View on AML Requirements – Regional Analysis



Source: KPMG LLP in the United Kingdom, 2004

Impact of Global Legislation and Guidance on Respondents – Regional Analysis



Source: KPMG LLP in the United Kingdom, 2004

Appendix III: International Legislative Responses to Money Laundering

Africa

Countries across Africa are beginning to develop legislation to help prevent and detect money laundering. South Africa introduced new legislation in July 2003 aimed at preventing money laundering, whereby banks opening accounts are required to verify the customers' identities. A recent FATF report, however, identified a number of deficiencies in the legislation, notably around the issue of identifying beneficial owners and in relation to the number of exemptions to the requirements. Banks are required to re-identify all existing customers, although the deadline for completing this exercise was recently extended from July 2004 to September 2006, as banks struggled to obtain the necessary proof of identity for many low-income customers in rural areas. South Africa became a FATF member in 2003.

Asia Pacific

Both Australia and Hong Kong have recently introduced legislation designed to strengthen AML controls. The Australian Transaction Reports and Analysis Centre (AUSTRAC) reviews suspicious transaction reports and undertakes compliance inspections, referring serious cases of noncompliance to law enforcement agencies. The implementation of a more stringent AML regulatory regime is expected to increase the number of enforcement actions, which thus far have been limited. The Hong Kong Monetary Authority has recently issued revisions to its AML guidelines, espousing the risk-based approach advocated by the FATF. While a number of syndicates involved in laundering the proceeds of illegal gambling and tax evasion have been criminally prosecuted, few enforcement actions have taken place to date against banks. The situation in mainland China is somewhat different as China's first AML laws were introduced in March 2003—marking that country's first step in addressing the issue of money laundering, particularly with regard to smuggling, corruption, and tax evasion.

Latin America

The Inter-American Development Bank (IADB) estimated recently that money laundering transactions in the region equate to between 2.5% to 6.3% of GDP. The IADB said that Argentina, Brazil, Chile, Peru and Uruguay, among others, were complying with most of the key FATF recommendations. For example, Brazil enacted AML legislation in 1998 and has recently introduced further requirements, including provisions against terrorist financing. The 1998 legislation established the Financial Activities Control Bureau (COAF), which reports to the Ministry of Finance and is responsible for receiving reports of suspicious transactions and deciding whether further investigation is warranted.

Middle East

AML is a relatively new topic in the region. Several countries have now introduced post-September 11 AML legislation that banks have to follow and implement. These are largely based on the FATF Recommendations and international best practice. Typically, each country's central bank acts as the regulator and is charged with enforcing compliance; the respective regulators have not yet embarked on a widespread program of testing compliance at local institutions, given the more recent introduction of legislation. A number of countries, including Kuwait, Saudi Arabia, and the United Arab Emirates (UAE), have or are in the process of setting up FIUs. The UAE is also enhancing the regulatory powers of the Dubai Financial Supervision Authority, which is the regulatory arm of the Dubai International Financial Centre.

North America

The regulatory landscape has markedly changed following the events of September 11 and the issues raised by various corporate scandals. The USA PATRIOT Act and the Sarbanes-Oxley Act of 2002 have prompted boards, senior executives and other senior managers to focus on AML and other regulatory issues. The various U.S. regulatory bodies have taken more than 90 public enforcement actions against U.S. banks for AML issues since January 2000; there are undoubtedly other non-public informal actions that have been taken over this period. Moreover, new sentencing guidelines for corporations underscore organizations' responsibility to promulgate and implement a corporate code of ethics.

Russia

Updated legislation against money laundering was introduced in August 2001 (and came into force in February 2002), and amended in October 2002 to include terrorist financing. In October 2002, Russia was removed from the FATF blacklist and in June 2003 became a full member of FATF. Russian AML legislation requires that all transactions equal to or above RUR600,000 (approximately US$20,000) are monitored and it places suspicious reporting obligations on all entities performing operations with monetary funds or other assets. The scope is broad and includes, among others, credit institutions, insurance companies, leasing companies, professional participants in the securities markets, and buyers and sellers of precious metals and stones.

The Financial Monitoring Committee of the Russian Federation coordinates AML activities and has direct supervisory responsibility for leasing companies, pawnbrokers, and casinos. The Central Bank of The Russian Federation is the supervisory body for credit institutions, with responsibility for ensuring compliance with AML legislation. A number of other supervisory bodies have responsibility for compliance in other sectors. The Russian regulatory authorities have been active in testing compliance with AML requirements. In the first eight months of 2003, the Central Bank tested compliance in more than 1,000 financial institutions. Approximately a third were found to be in breach. Since February 2002, the Central Bank has revoked the licenses of four banks for breaches of AML legislation.

Western Europe

The introduction of the EU Second Money Laundering Directive reflects a more determined approach from EU legislators and regulators. The new Swiss Money Laundering Ordinance introduced in 2003 emphasizes the role of senior management and the importance of monitoring transactions. The U.K.'s Financial Services Authority (FSA) has placed responsibility for compliance matters firmly on senior management's shoulders. The FSA has also initiated an unprecedented number of public actions against banks for breaches of AML requirements, with fines being levied on six banks. The scope of AML regulations has been extended in the United Kingdom, Belgium, Germany, and the Netherlands, and now includes lawyers and accountants (included within the scope of Swiss AML regulations since 1998); a number of jurisdictions, including the United Kingdom, now also include dealers in high-value goods within the scope of their AML regime.

Appendix IV: Selected AML Chronology

We have summarized the major developments in AML law and regulation worldwide over the last 60 years. This chronology is a summary of examples; it is not intended to be an exhaustive list.

DATE	EVENT
July 1944	The IMF is conceived at a United Nations conference
October 1970	U.S. Bank Secrecy Act enacted
December 1977	First establishment of the Swiss Due Diligence Agreement initially between the banks and the Swiss National Bank
September 1986	U.K. Drug Trafficking Offences Act 1986 comes into force, establishing the offense of drug money laundering
October 1986	U.S .Money Laundering Control Act is passed
December 1988	UN Convention signed, which established legal framework to criminalize money laundering (for drug-related offenses)
December 1988	Basel statement issued on *Prevention of Criminal Use of the Banking System for the Purpose of Money Laundering*
February 1989	Australian Cash Transaction Reports Agency was established to combat money laundering (renamed as the Australian Transaction and Reports Analysis Centre (AUSTRAC) in 1992)
July 1989	U.S. Financial Crimes Enforcement Network created
April 1990	FATF releases its 40 Recommendations
April 1990	First EU Money Laundering Directive is adopted
June 1991	Caribbean Financial Action Task Force established
November 1992	German Money Laundering Law enacted
July 1993	U.K. Criminal Justice Act enacted introducing new money laundering offences beyond drug trafficking
November 1993	U.K. Money Laundering Regulations 1993 come into force
April 1994	Nigeria's Money Laundering Decree introduced
January 1995	Egmont Group is formed
June 1995	Asia-Pacific Group on Money Laundering established
July 1997	Hong Kong Securities and Futures Commission issues revised guidance notes regarding money laundering.
March 1998	Brazil introduces legislation to combat money laundering
April 1998	Switzerland introduces law on the prevention of money laundering in the financial sector
January 1999	Prevention of Organized Crime Act comes into operation in South Africa
August 1999	Eastern and Southern African Anti–Money Laundering Group is established
November 1999	U.S. Senate launches investigation into Raul Salinas (brother of former Mexican President Carlos Salinas) over allegations of money laundering
December 1999	UN adopts International Convention for the Suppression of the Financing of Terrorism
February 2000	FATF adopts 40 Recommendations and issues first report on NCCTs
February 2000	Japan introduced legislation enhancing the suspicious transaction reporting system
February 2000	Japanese FIU established
June 2000	Russia is included on the FATF list of NCCTs
July 2000	The Financial Transactions and Reports Analysis Centre of Canada is created
September 2000	Swiss Federal Banking Commission names and shames six banks over Abacha affair
October 2000	The Wolfsberg Group is formed
October 2000	U.K. Financial Services Authority investigates the role of U.K. banks in Abacha affair
October 2000	The Wolfsberg Anti–Money Laundering Principles for Private Banking are published
November 2000	UN adopts convention against transnational organized crime
December 2000	Financial Action Task Force of South America against money laundering established
December 2000	Hong Kong Monetary Authority revises its Guidelines on Money Laundering
December 2000	Hong Kong AML guidance revised to take account of organized and serious crimes
April 2001	IMF concludes that money laundering poses a threat to integrity of global financial system

DATE	EVENT
June 2001	Egypt is added to the FATF NCCT list
June 2001	Nigeria is added to the FATF NCCT list
October 2001	FATF releases the 8 Special Recommendations
October 2001	Basel Committee issues paper *Customer Due Diligence for Banks*
October 2001	USA PATRIOT Act enacted
November 2001	South Africa's Financial Intelligence Centre Act comes into effect
November 2001	Canada's Proceeds of Crime (Money Laundering) Act comes into effect
November 2001	Russia sets up its Financial Monitoring Committee
December 2001	Second EU Money Laundering Directive introduced
January 2002	Saudi Arabia approves anti–money laundering law
January 2002	UAE Money Laundering law comes into force
February 2002	Israel's new money laundering regulations come into effect
February 2002	Kuwait parliament approves anti–money laundering bill
February 2002	Russia's Federal Law No. 115-FZ introduced to combat money laundering
February 2002	Russia's Financial Monitoring Committee begins operations
March 2002	Oman money laundering law is enacted
March 2002	Nicaraguan government starts investigation of former president Arnoldo Aleman
May 2002	Egypt issues Law No 80 on combating money laundering
May 2002	The Wolfsberg Anti–Money Laundering Principles for Private Banking are revised
June 2002	Israel is removed from FATF list of NCCTs
July 2002	Sarbanes-Oxley Act enacted in the United States
July 2002	U.K. Proceeds of Crime Act enacted
August 2002	Germany's FIU begins operations
October 2002	IMF begins a program of assessment on AML and combating the financing of terrorism
October 2002	Russia removed from FATF list of NCCTs
2003	U.K. Regulator fines several banks for breaches of AML requirements
January 2003	Australian Proceeds of Crime Act 2002 comes into effect
January 2003	Japan introduces law on identification and retention of records by financial institutions
January 2003	U.K. Proceeds of Crime Act comes into force
January 2003	UN Security Council resolution on the issue of combating terrorism
February 2003	India's Prevention of Money Laundering Act 2002 receives assent
April 2003	Hong Kong Securities and Futures Commission issues further revised guidance notes on money laundering
May 2003	Nigeria introduces the Money Laundering Prohibition Action
June 2003	FATF issues revised 40 Recommendations
July 2003	Brazil criminalizes terrorist financing, making it a predicate offense for money laundering
July 2003	South Africa introduces new money laundering law
July 2003	Swiss Money Laundering Ordinance comes into effect; this applies to any branches or subsidiaries of Swiss financial institutions located abroad
August 2003	Uganda's central bank issues money laundering guidance to foreign exchange dealers
September 2003	Syria introduces Money Laundering Law and establishes the Agency for Combating Money Laundering
October 2003	French authorities indict 8 banks on money laundering charges
February 2004	Egypt is removed from the FATF list of NCCTs
March 2004	U.K. Money Laundering Regulations 2003 come into effect
May 2004	Russian bank license revoked amid allegations that bank in violation of AML law
July 2004	U.S. Senate issues report of its investigations into accounts held by Augusto Pinochet

Appendix V: Glossary

The following terms are used throughout this document.

Anti–Money Laundering (AML): The process by which efforts are made to prevent and detect money laundering activity.

Basel Committee of Banking Supervisors: The Basel Committee formulates broad supervisory standards and guidelines and recommends statements of best practice for banking supervisory authorities to implement in ways best suited to their own national systems.

Basel II: Revision of the framework put in place by the original Basel Accord (Basel I) agreed in 1998 by the Basel Committee on Banking Supervision. Basel I helped to strengthen the soundness and stability of the international banking system as a result of the higher capital ratios that it required.

CLERP 9: The Corporate Law Economic Reform Program (CLERP) is an Australian set of reforms covering appropriate corporate behavior, including oversight of the auditing profession and corporate disclosure and reporting.

Compliance: The process of complying with laws, regulations, and guidance.

Data Protection: The regulation of the use of personal data held by businesses, covering the way such information is handled and the rights of individuals to gain access to information held about them.

Dealers in High-Value Goods: This includes art dealers, auctioneers, jewelers, dealers in luxury cars, etc.

Dormant Accounts: These are bank accounts where there have been no transactions (deposits or withdrawals) for a period of time (usually at least a year) and where the account holder has made no contact with the bank during the period or following attempts made by the bank to make contact with the account holder.

EU Second Money Laundering Directive: The Directive 2001/97/EC of the European Parliament and of the Council of December 4, 2001, amending Council Directive 91/308/EEC on prevention of the use of the financial system for the purposes of money laundering.

EU Third Money Laundering Directive: Proposed directive to consolidate and revise the First and Second Money Laundering Directives and take account of changes in international anti–money laundering standards such as those set out in the FATF 40 Recommendations.

Exception by Value Reports: As part of transaction monitoring, exception by value reports are generated to show all transactions within prescribed limits, e.g., all transactions above US$100,000.

Financial Action Task Force (FATF): FATF is an inter-governmental body; its Secretariat is based at the Organisation for Economic Co-operation and Development (OECD). FATF's purpose is to develop and promote policies to combat money laundering and terrorist financing. It currently has 29 member countries.

FIUs: Financial intelligence units are central, national agencies responsible for receiving (and sometimes requesting), analyzing, and disseminating to competent authorities, disclosures of financial information in relation to suspicions of money laundering.

40 Recommendations: International "best practice" for the prevention and detection of money laundering activity issued by the Financial Action Task Force.

Know Your Customer (KYC): The requirement that financial institutions understand who their customers are, including by obtaining documentation to verify identity, address, source of funds, etc. KYC is often referred to as customer due diligence (CDD).

Local Banking Secrecy: Measures within a particular jurisdiction intended to protect information about banks' clients from access by third parties.

Money Laundering: The process by which the proceeds of crime are converted into assets that appear to have a legitimate origin.

Office of Foreign Assets Control (OFAC): A division of the United States Department of the Treasury, OFAC administers and enforces economic and trade sanctions against targeted foreign countries, terrorists, international drug traffickers, and those engaged in activities related to the proliferation of weapons of mass destruction.

Politically Exposed Persons (PEPs) refers to persons who perform important public functions for a state and includes heads of state, government and cabinet ministers, senior judges, senior or influential officials, functionaries and military leaders, and people with similar functions in international or supranational organizations as well as members of ruling royal families. The term also applies to the family and close associates of such individuals.

Retrospective Remediation: The process of reviewing existing customer identification documentation, identifying where it fails to meet current requirements, and setting about obtaining that information from those customers.

Risk Appetite: The levels of risk that an organization is willing to face and considers acceptable for its business operations.

Risk-Based Approach: A risk-based approach involves organizations (a) identifying and assessing the money laundering risks that they face, given their particular customer, product, services, and geographic profile, and (b) identifying and applying measures to manage and mitigate these risks.

Sarbanes-Oxley: Enacted in the United States on July 30, 2002, the Sarbanes-Oxley Act established new responsibilities for listed companies with respect to corporate governance, management reporting, financial statement disclosures, and management assessment of internal controls. It also changed the responsibilities of external auditors.

Suspicious Activity Report (SAR): Financial institutions submit a suspicious activity report to law enforcement/regulatory authorities when they have a suspicion that transactions involve funds derived from criminal activity, are intended to hide or disguise funds derived from criminal activity (money laundering), or are being structured to evade reporting requirements (e.g., those under the United States Bank Secrecy Act).

Swiss Money Laundering Ordinance: Effective from July 1, 2003, the Money Laundering Ordinance replaced the 1998 Money Laundering Guidelines. It sets out the due diligence requirements for banks and securities dealers.

Terrorist Financing: The financing of terrorist acts, terrorists, and terrorist organizations.

Transaction Monitoring: Monitoring customer transactions for indications of suspicious patterns of transactions that may require a suspicious activity report to be filed.

USA PATRIOT Act: Officially titled "Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001," the Act is intended to deter and punish terrorist acts in the United States and around the world and to enhance law enforcement investigation tools.

Wolfsberg Principles: AML principles developed by the Wolfsberg Group, which consists of 12 leading international banks that publish global anti–money laundering guidelines.

Endnotes

[1] U.S. General Accounting Office, Report to Congressional Requesters, Combating Money Laundering-Opportunities Exist to Improve the National Strategy, September 2003, p. 6.

[2] "A committee of central banks and bank supervisors/regulators from the major industrialized countries that meets every three months at the Bank for International Settlements (BIS) in Basel." www.bis.org/about/factbcbs.htm. The Basel Committee has issued the Basel II Capital Accord, "intended to improve safety and soundness in the financial systems by placing increased emphasis on banks' own internal control and risk management processes and models, the supervisory review process, and market discipline." KPMG's 2003 paper, *Basel II: A Worldwide Challenge for the Banking Business*.

[3] There are relatively few banks in the Middle East (8), Africa (10), Russia (15), and Latin America (15) among the respondents; the information for these regions is therefore indicative rather than conclusive.

[4] A regional analysis can be found in *Appendix II: Additional Detailed Results by Region.*

[5] A regional analysis can be found in *Appendix II: Additional Detailed Results by Region*.

[6] A regional analysis can be found in *Appendix II: Additional Detailed Results by Region*.

[7] Respondents from the Middle East and Russia are not represented on the chart, as 100% of respondents from these regions indicated that they have a remediation program in place.

[8] A regional analysis can be found in *Appendix II: Additional Detailed Results by Region*.

[9] A regional analysis can be found in *Appendix II: Additional Detailed Results by Region*.

[10] A regional analysis can be found in *Appendix II: Additional Detailed Results by Region.*

[11] A regional analysis can be found in *Appendix II*: *Additional Detailed Results by Region*.

[12] A regional analysis can be found in *Appendix II*: *Additional Detailed Results by Region*.

[13] http://www.bis.org/publ/bcbs85.htm
[14] http://www.bis.org/publ/bcbs85.htm
[15] http://www.bis.org/publ/bcbs85.htm

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