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Citigroup AML Deficiencies

This morning's newspaper of record had an article on the Fed's recent Consent Order regarding Citigroup's failure to organize an effective AML program. The order does not paint a pretty picture of Citi's efforts in this important area. With all the financial and legal and other resources at a huge bank, it is a surprise that they still manage to muck up in this area. For banks without these resources, it is a sobering reminder that this area can never be neglected or else all the good work in other areas can be for naught.

What are the lessons for everyone from this Order:

Boards of Directors have to be totally immersed with AML compliance

It is compliance 101 but responding to audits, exam findings, other consent orders and the recommendations of your own consultants must be done—evidently Citi missed this class at ACAMs.

The duties, roles and scope of Compliance must be clear—it must be properly funded and staffed—have the requisite independence and power—and have clear reporting lines—both into and out of the Compliance Department.

Enough money needs to be spent on the Compliance Department so they can do AML correctly.

Don't forget OFAC.

There must be means to test and insure business lines are following internal AML policies.

There must be never-ending internal reviews of policies, procedures, risk testing and performance.

Among the notable elements of the Order were:

A directive to the Board of Citigroup to take AML seriously; Citi has been dealing with a host of separate AML orders and evidently has not been moving fast enough for the Fed. Thus, the Board must give the Fed a written plan of how it will do a better job of supervising AML throughout the whole company, including funding and resources, new policies, means to insure the policies are followed and correcting items from examinations and audits.

Filing a written plan for compliance on BSA and OFAC matters, including: the structure of Citi's compliance committees; better policies; more independence and power for Compliance; clearer duties and reporting lines for Compliance; regular reviews of staffing strength; better risk assessments; make business lines work with Compliance and deal with the recommendations of Citi's own consultants.

Complete a review of Citi's AML program and do a report (the "AML Report") that includes: the structure of the BSA program; Citi-wide standards; duties of the Chief AML official and reporting lines in and out; better communication of roles; better coordination; all processes for monitoring business line compliance with AML laws and Citi procedures; total review of SAR filing and procedures; internal reporting standards; making sure that SAR activities meet the legal requirements; more testing and training and dealing with the recommendations of Citi's own consultants.

The Board has to review the AML Report and give the Fed a plan of specific actions to improve AML compliance. Every 30 days the Board has to give a report to the Fed on its progress

R.C.A.