



AML-ology

The study of AML trends and solutions

How to Navigate and Stay Compliant with NYS DFS Rule 504

NYS DFS Rule 504 Survey Detailed Report



Conducted 4Q 2016

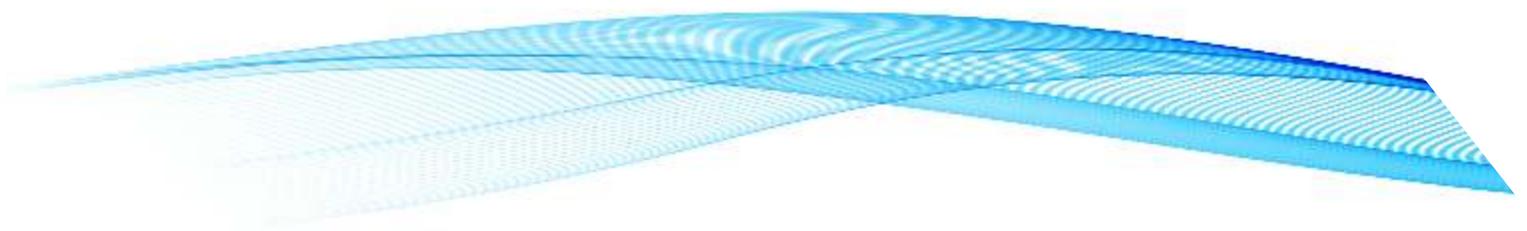


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Purpose of the Survey:

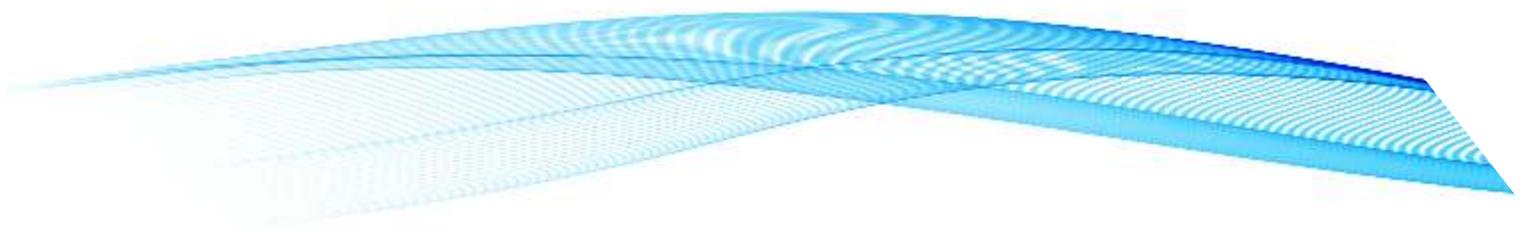
On June 30, 2016, the New York State Department of Financial Services (NYS DFS) issued Final Rule 504, “Banking division transaction monitoring and filtering program requirements and certifications.” The rule takes effect on January 1, 2017 with the first reporting date of April 15, 2018. Even with a lead-time of 15 months, the certification requirement has us thinking where do we stand today so we know what to prepare for.

In this survey, we wanted to get a feel for how our clients are reacting to the new rule, and many want to know how their peers are handling the change so we asked our participants questions like: when do you plan on implementing changes your program will need, do you maintain up-to-date job descriptions of all employees in the Compliance Department, how are you verifying that the software solution you are using for your financial institution is appropriate, and more.

Purpose of this Report:

The purpose of this report is to summarize and demonstrate the detailed findings of this survey for retail and commercial bank respondents. A summarized version of this report discussing how banks are addressing this issue in their institutions is also available. To receive a copy, please send us an [email](#) requesting a copy of the survey results.

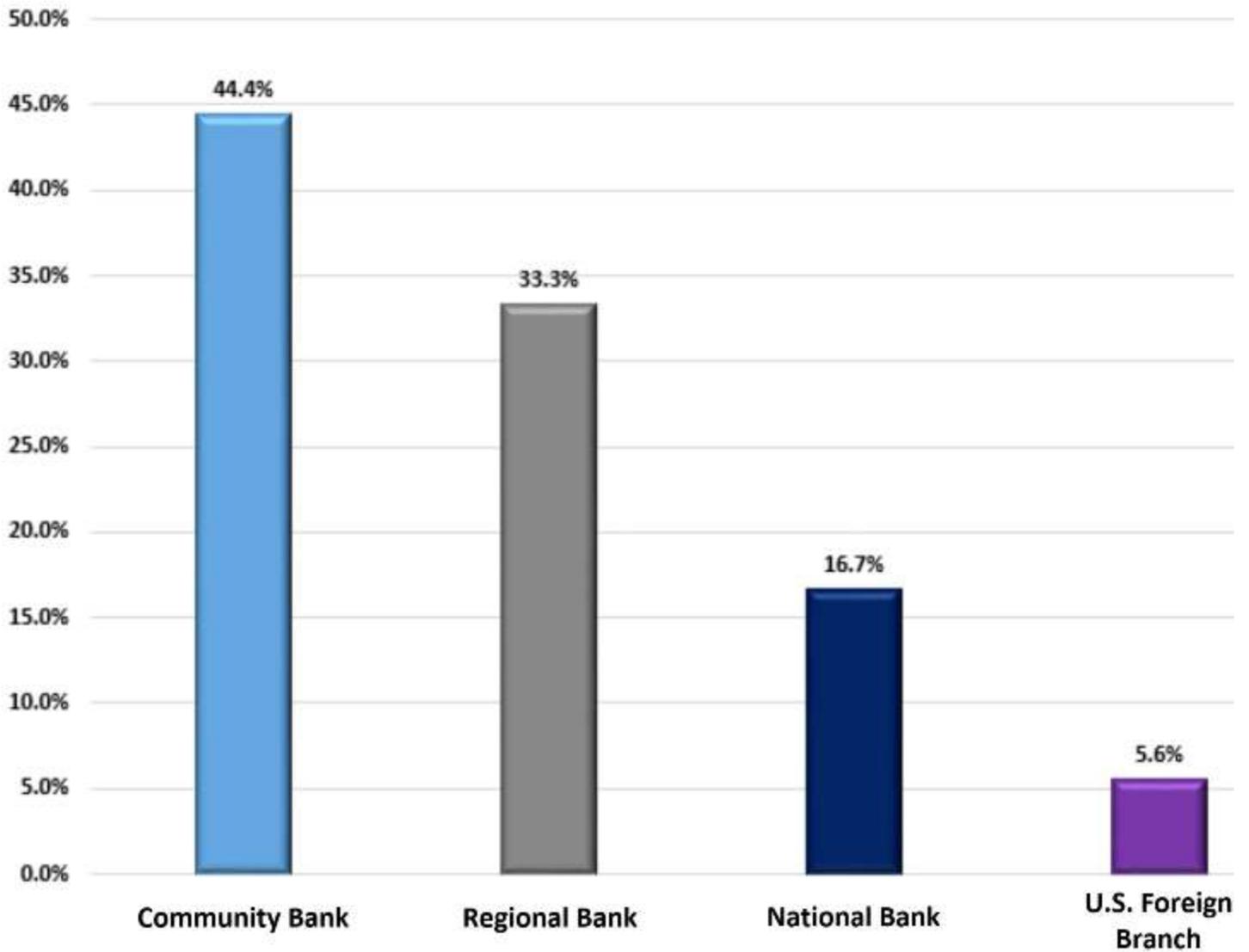


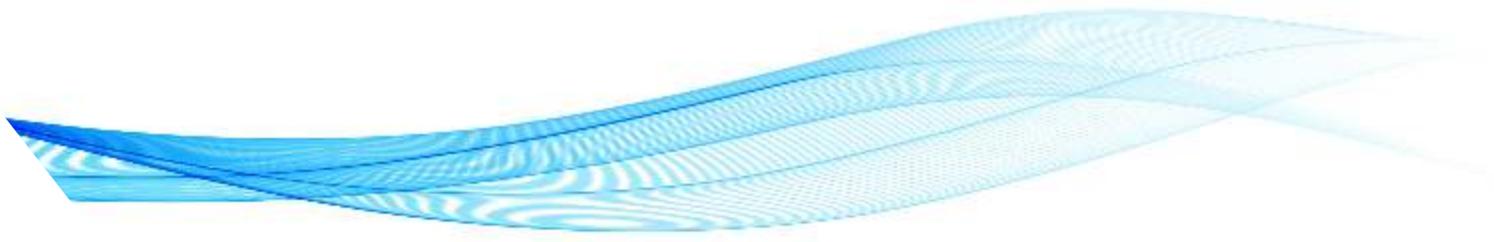


Retail Banks Demographic Results:

Institution Type:

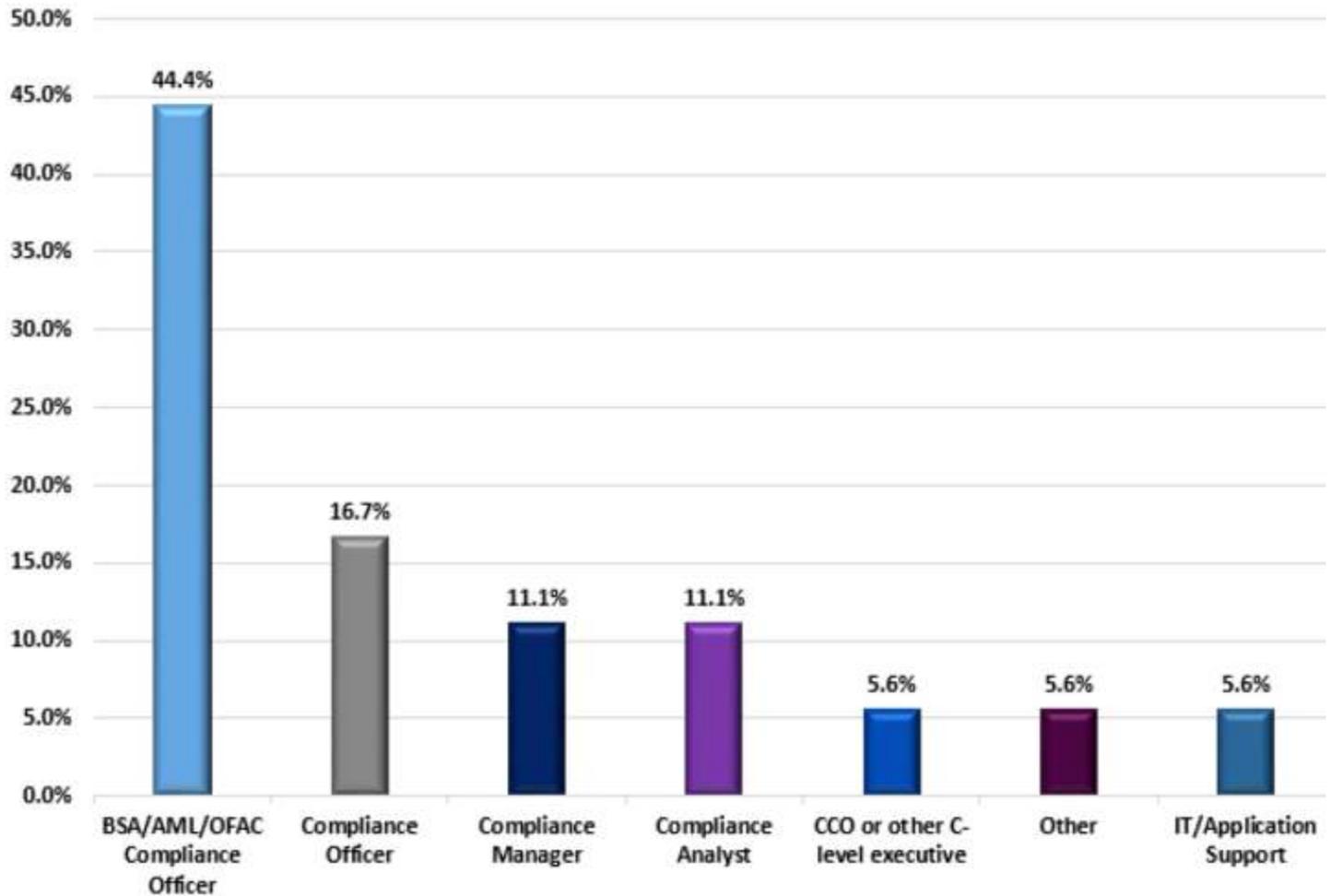
The largest group of retail bank respondents represented community banks (44.4%) followed by regional banks (33.3%).

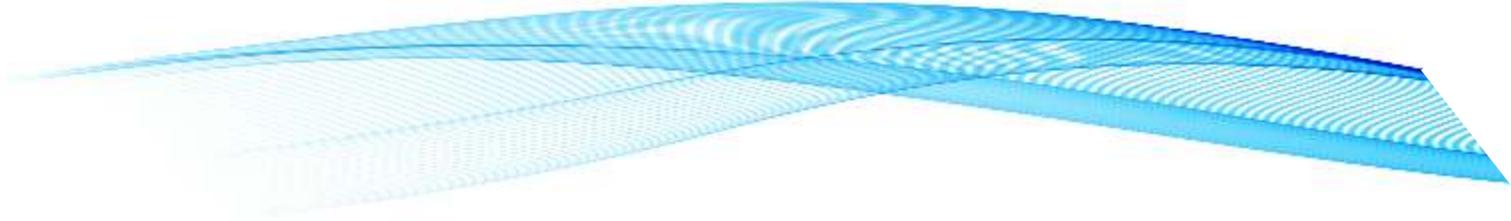




Current Position:

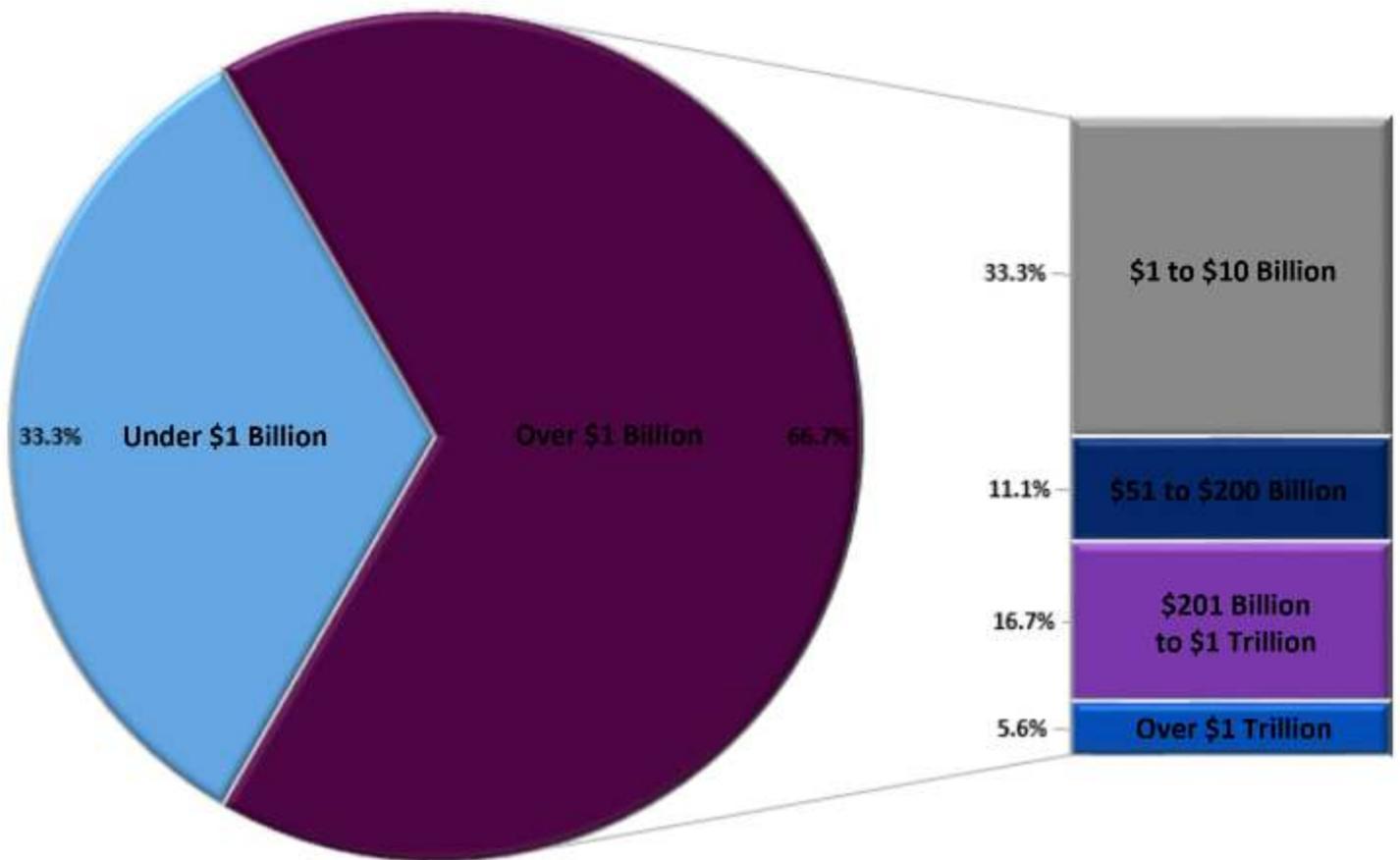
The most common job title for retail banks was a BSA/AML/OFAC compliance officer (44.4%), followed by compliance officer (16.7%) then compliance manager and compliance analyst (11.1% each).





Asset Size:

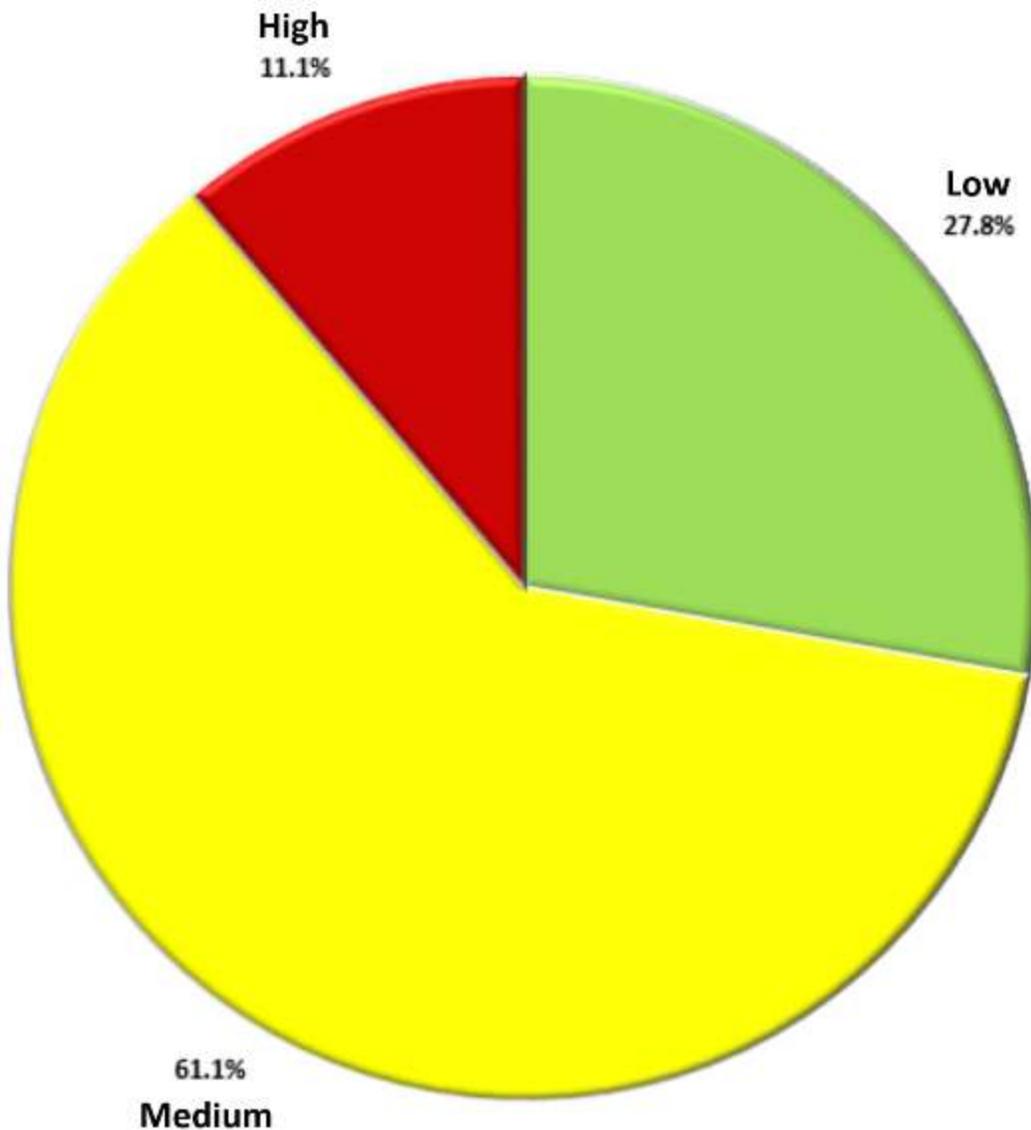
When our retail bank respondents were asked about their institutions asset size, the majority (66.7%) of our respondents said they were over \$1 billion in assets compared to those under \$1 billion (33.3%). For the institutions with assets over \$1 billion, the most common asset size was between \$1 to \$10 billion (33.3%) followed by \$201 billion to \$1 trillion (16.7%).





Risk Rating:

The final demographic question we asked our retail banks respondents was to describe their institution's overall risk rating. The majority stated that they have a medium risk rating (61.1%) with the next most frequent answer being a low risk rating (27.8%), and finally a high risk rating (11.1%).



Retail Banks General 504 Questions:

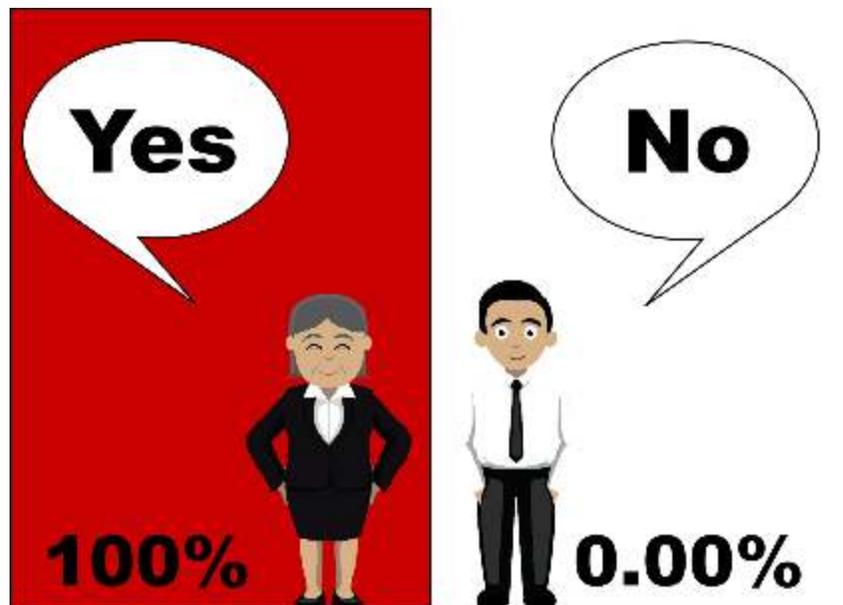
Regulated by the NYS DFS:

We asked our retail bank participants if they are regulated by the NYS DFS and just about three quarters said they were not (72.2%).



When did Those Affected Implement Changes:

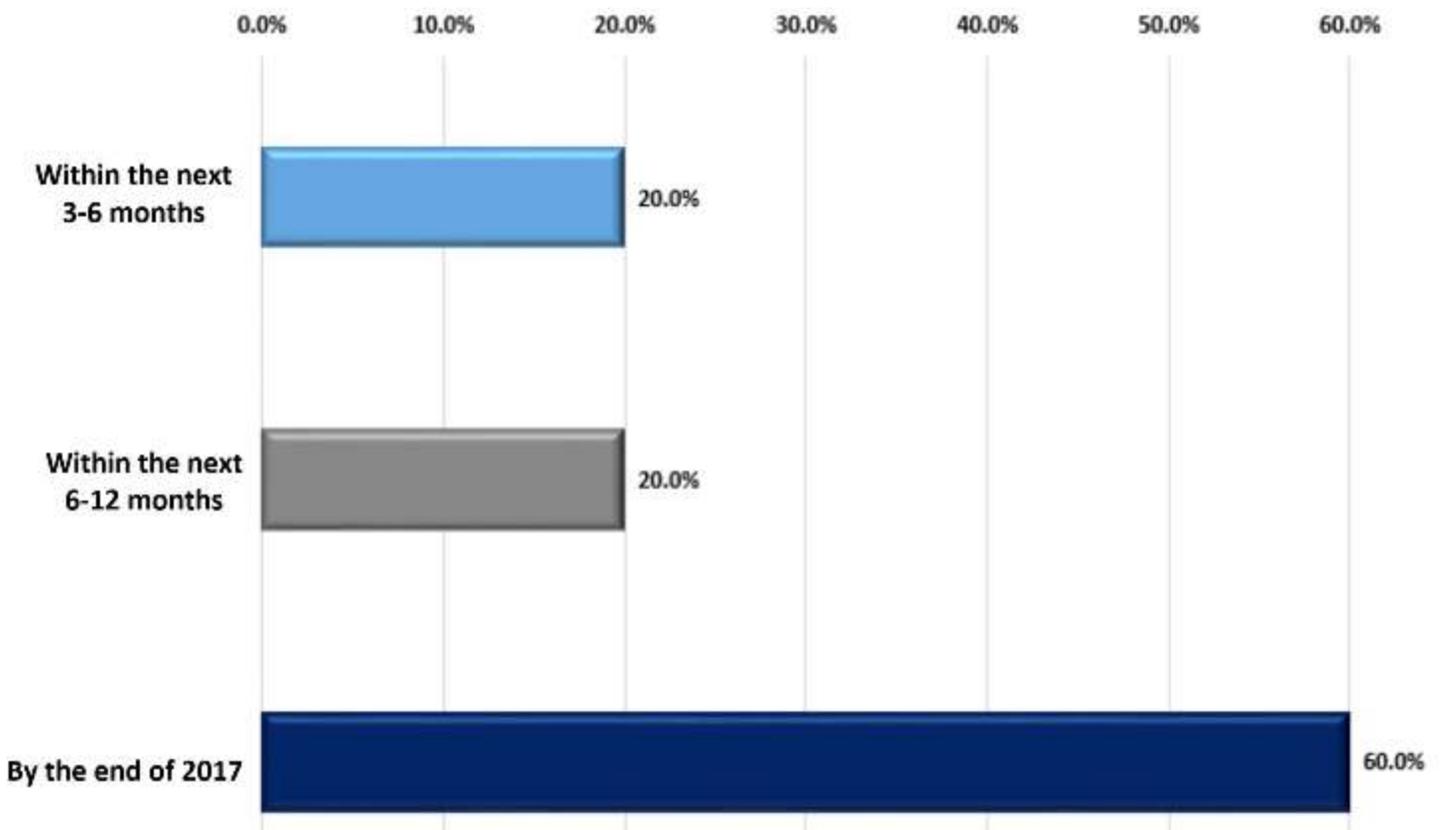
For those retail banks that are affected by Rule 504, all of them said that they started planning changes as soon as the rule was released.





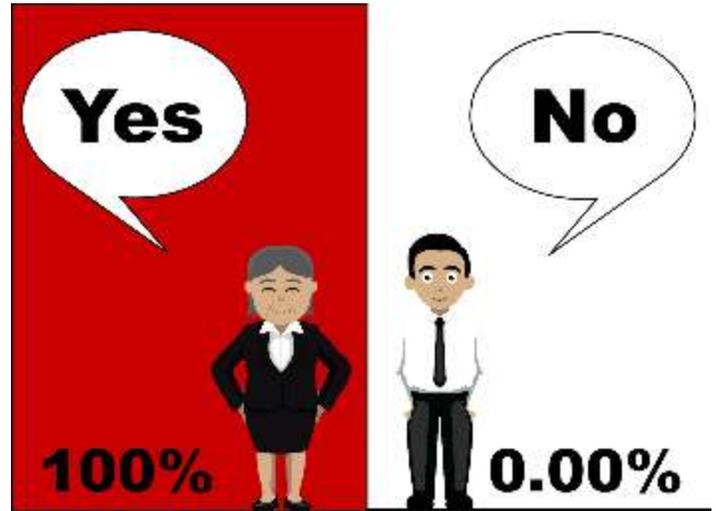
504 Implementation Planning:

The majority of retail respondents (60%) said that they will have their changes implemented by the end of 2017, with only 20% planning to implement those changes within the next 3-6 months and 20% within 6-12 months.



Maintaining Up-To-Date Job Descriptions:

When considering some of the ways to demonstrate compliance with Rule 504, we asked our retail bank participants if they maintain up-to-date job descriptions all of them said that they do.



Verifying Job Descriptions to Resumes:

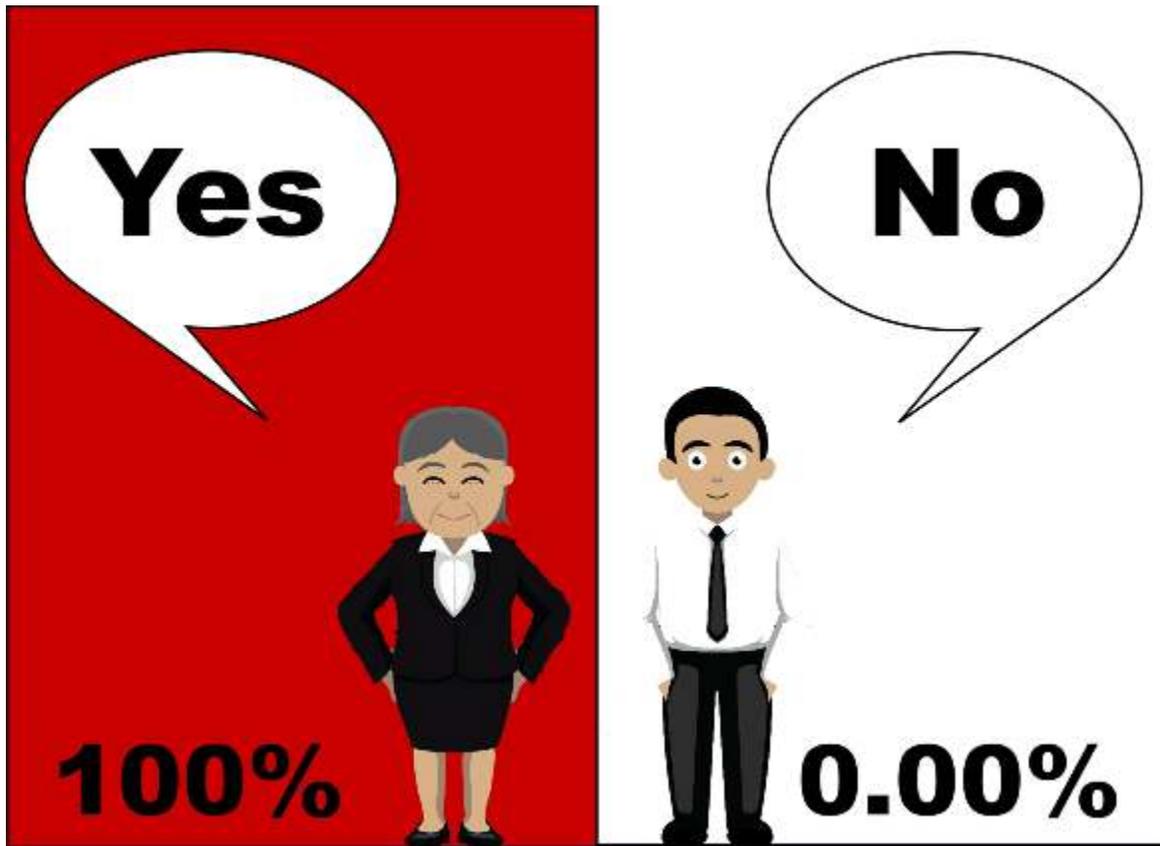
Again, when considering ways to demonstrate compliance with Rule 504, the majority (60%) of retail banks have compared the resumes of those performing certain tasks with their job descriptions.

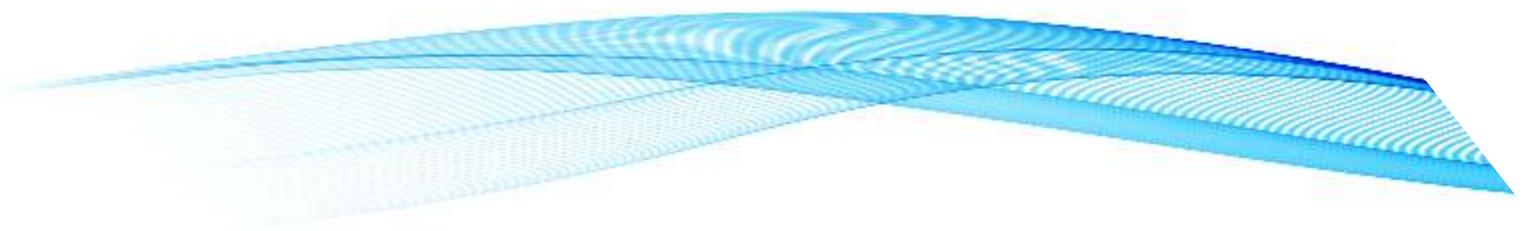




Verifying appropriateness of AML Software:

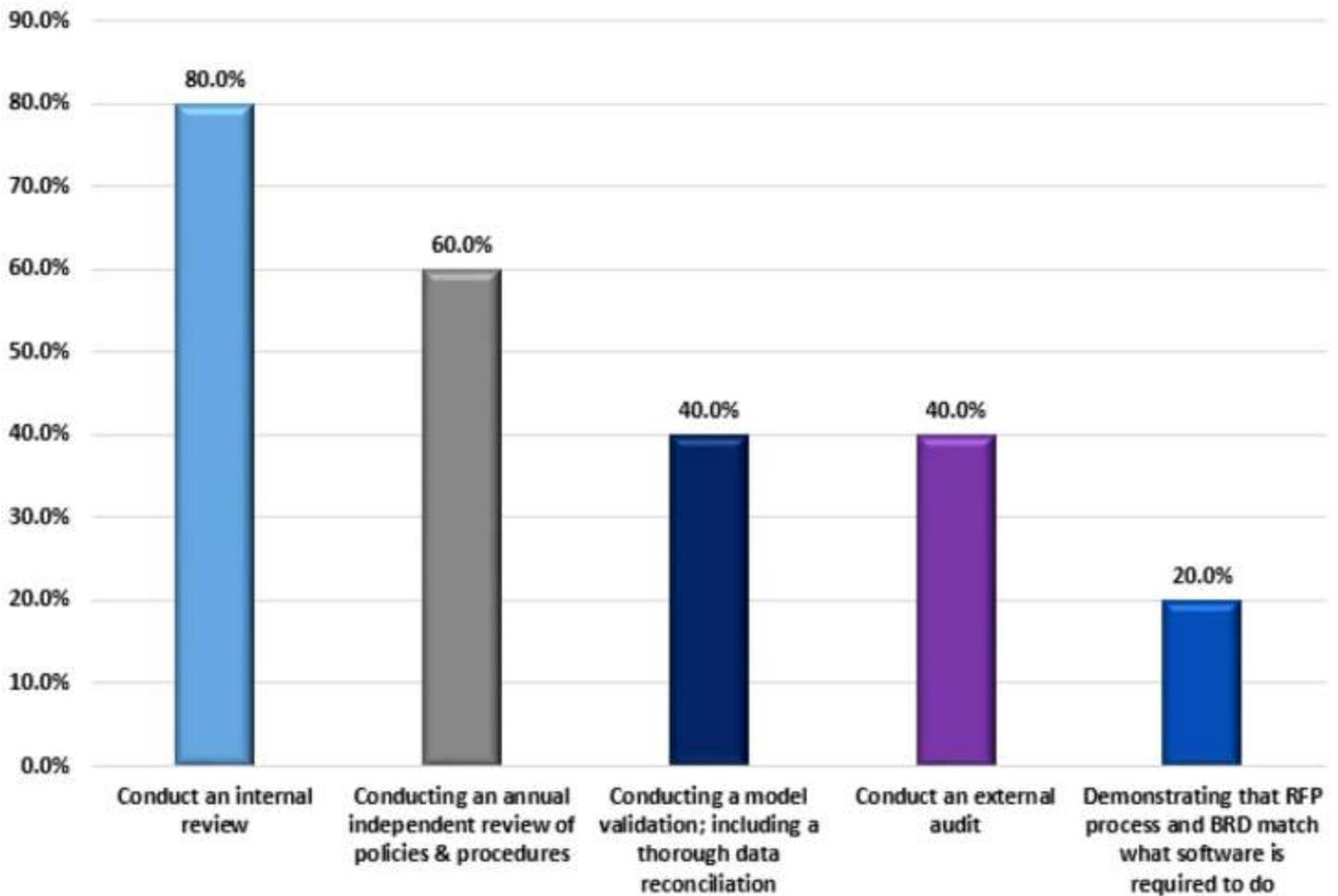
Again, all of our retail bank respondents said that they are or have been verifying that their AML software is appropriate for their institution.

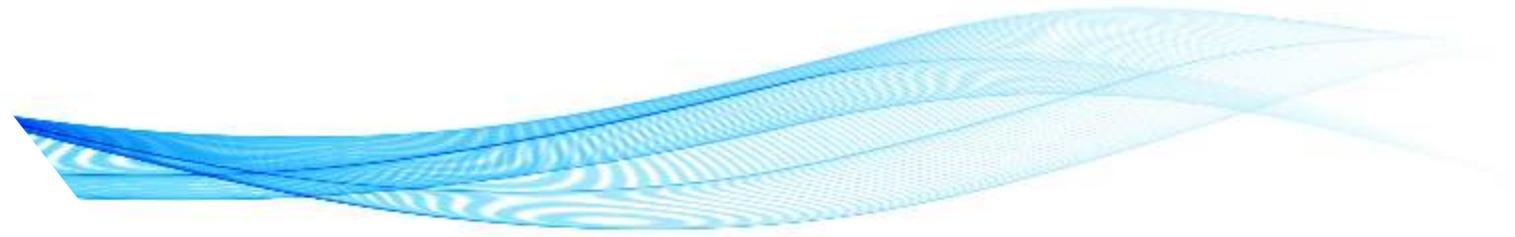




How Participants are Verifying Appropriateness of AML Software:

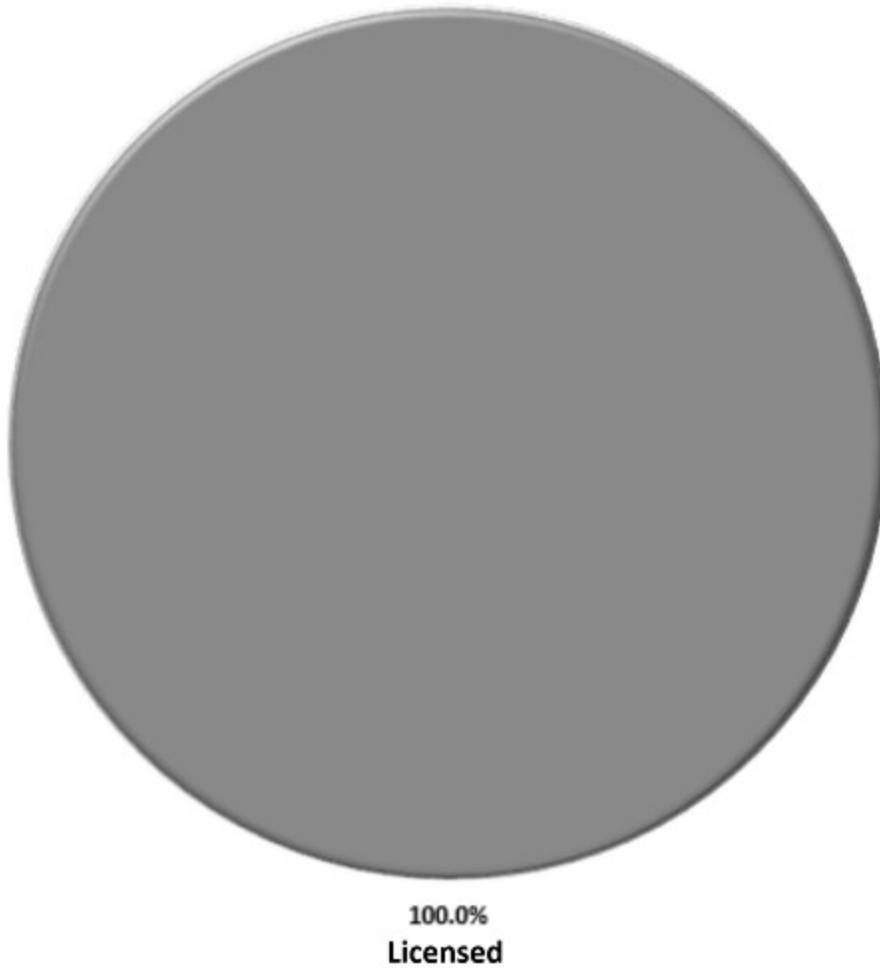
More than three quarters of our retail bank respondents are verifying that their AML software is appropriate by conducting an internal review (80%), followed by conducting an annual independent review of their policies and procedures (60%). Only 40% of respondents are utilizing an external review or model validation.

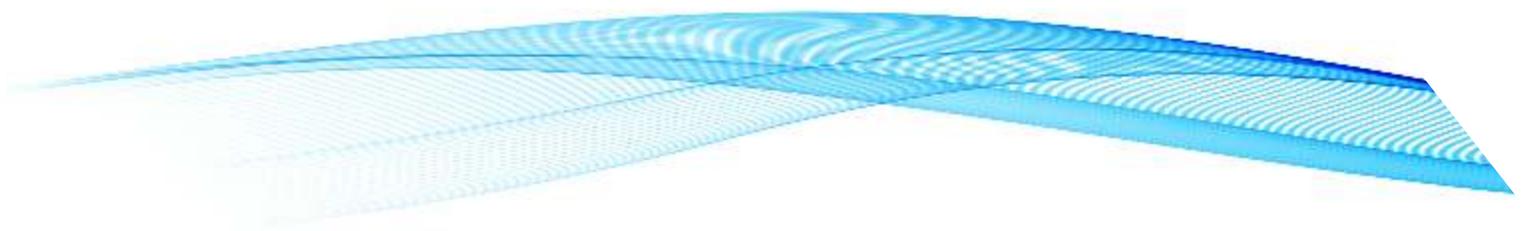




Hosted vs. Licensed AML Software:

100% of all retail bank respondents are utilizing a licensed AML system





Reviewing External Resources to Comply with Rule 504:

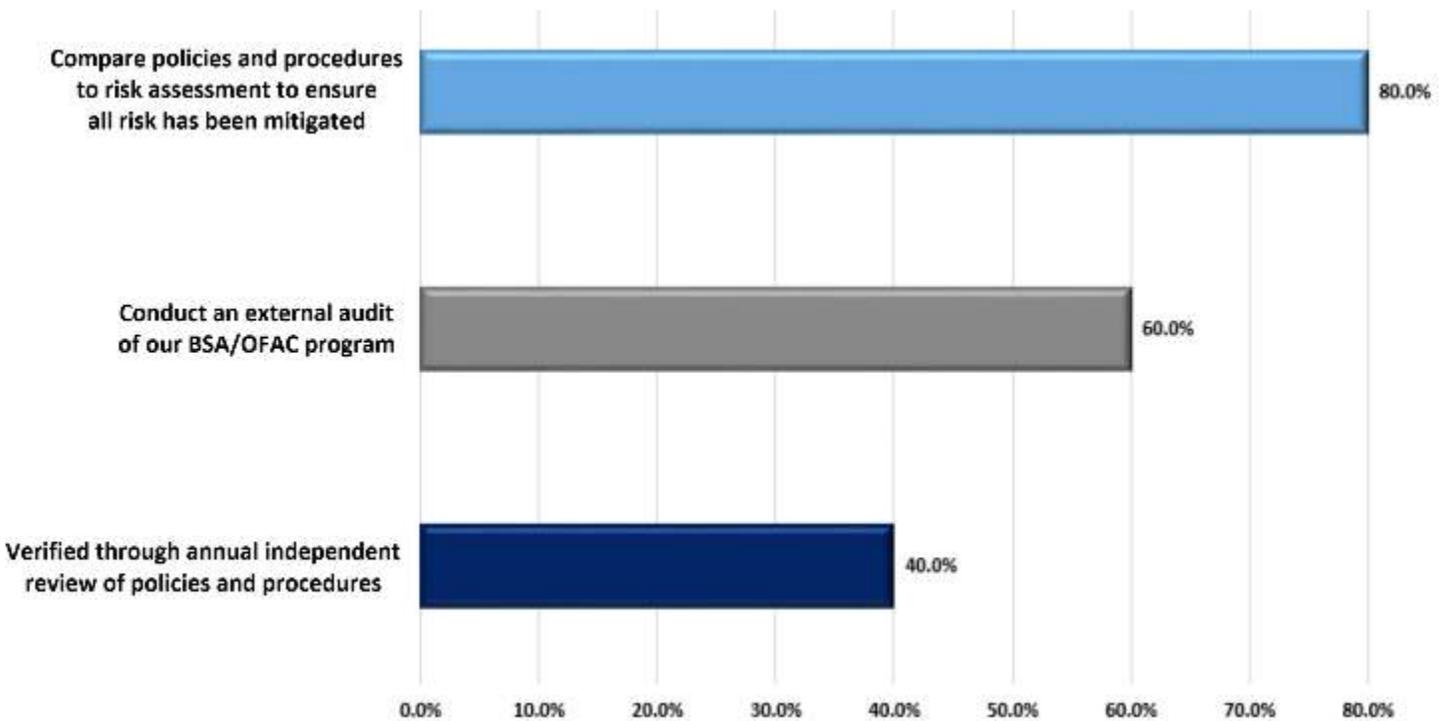
The majority of our retail bank respondents are planning on utilizing external resources to support them in their certification requirements (60%).





Verifying Appropriateness of Policies and Procedures:

The majority of our retail bank respondents are verifying their policies and procedures by comparing them to their risk assessment to ensure all risk has been mitigated (80%), followed by an external audit (60%) and then an annual independent review (40%).



Selecting the Certification Sign Off Representative:

A key component of Rule 504 is selecting someone from the institution to certify that the BSA and OFAC programs are working and appropriate for their institution. Most of our retail bank respondents (80%) said that they have selected this person.

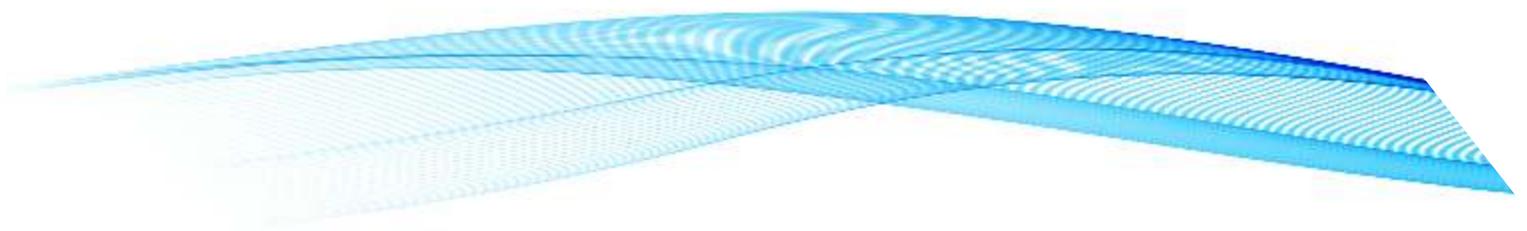




Who Will Certify on Behalf of the Institution:

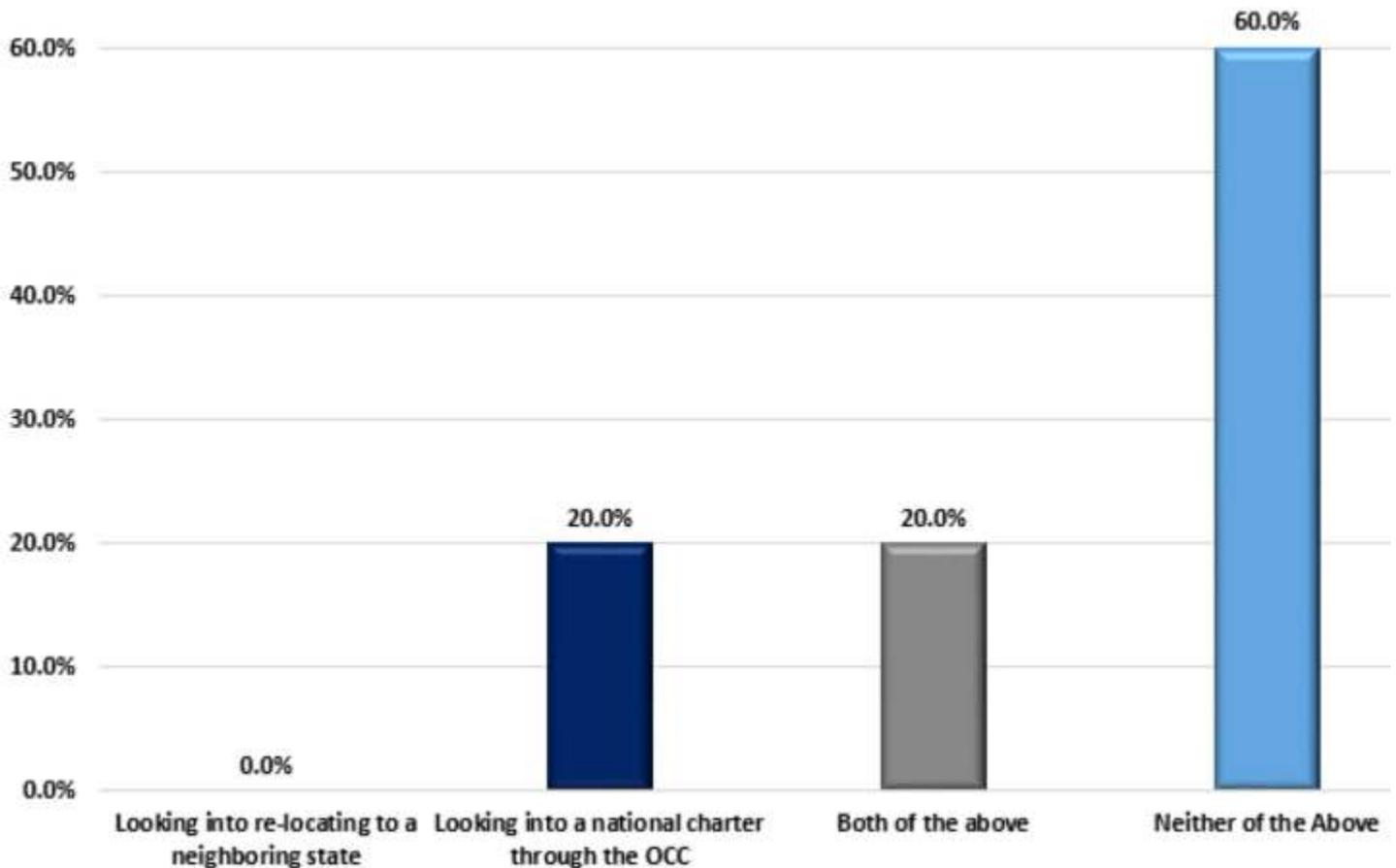
For our retail bank respondents who have already selected someone to certify their BSA and OFAC programs are working and appropriate for their institution, the results were evenly split. A BSA Officer, Board Member, General Manager/President, and CEO were all tied at 25% of respondents appointing each.





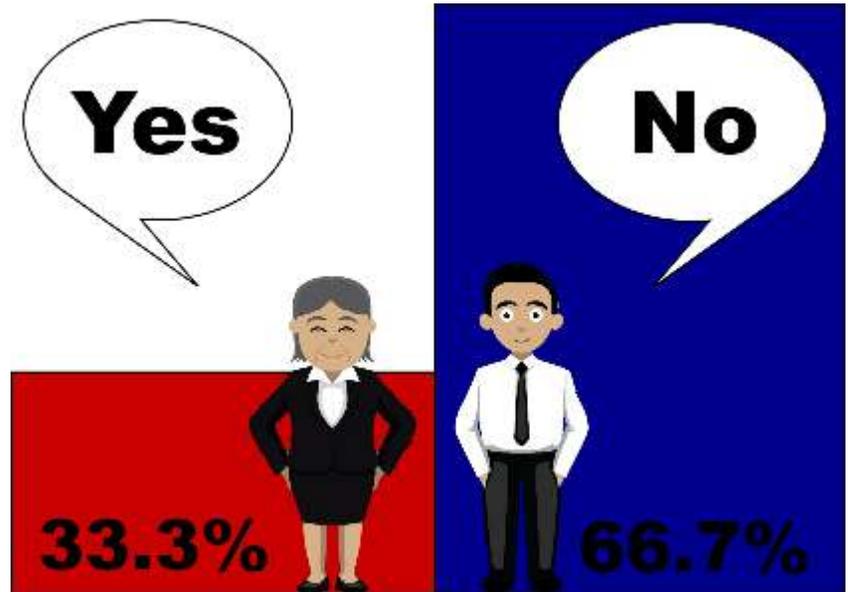
Alternatives to NYS DFS Rule 504 Regulation:

The majority of our retail bank respondents have not been looking into any alternatives to being regulated by the NYS DFS (60%). A small portion of respondents (20%) are either looking into a national charter through the OCC, or both that and looking to relocating to a neighboring state (20%).



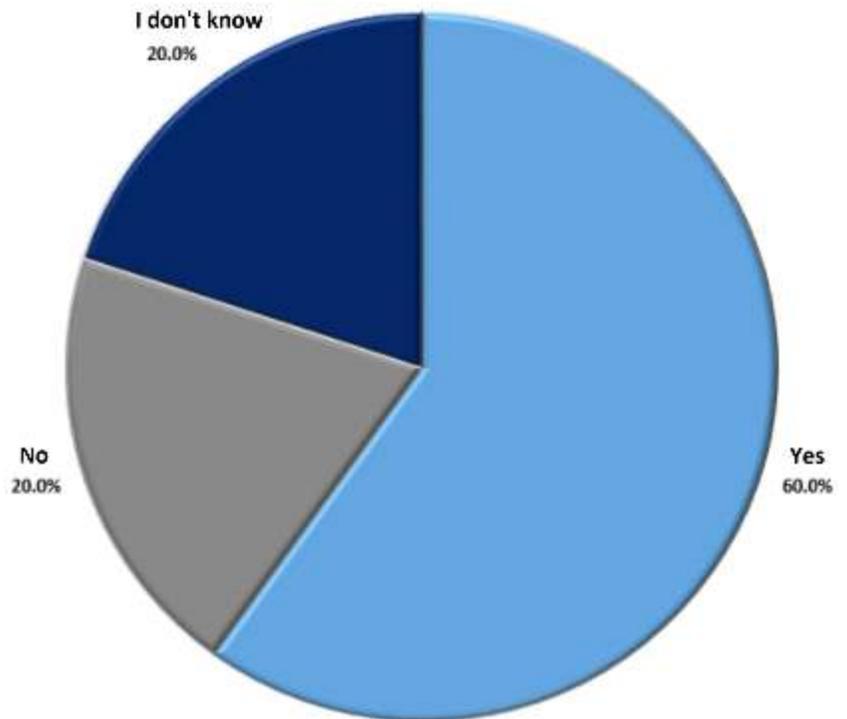
National Charter Through the OCC:

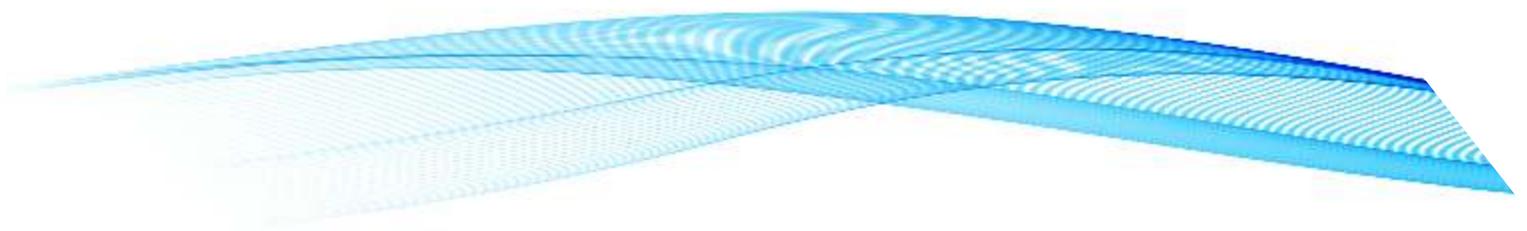
We asked the retail bank respondents who are considering a national charter through the OCC if they have already applied for one and most (66.7%) have not.



Is Your Program Compliant with Rule 504:

For the retail bank respondents who are regulated by NYS DFS we asked if they believed their program as it stands today would be compliant with Rule 504. The majority (60%) said yes they are, 20% said no they are not, and 20% said they don't know.

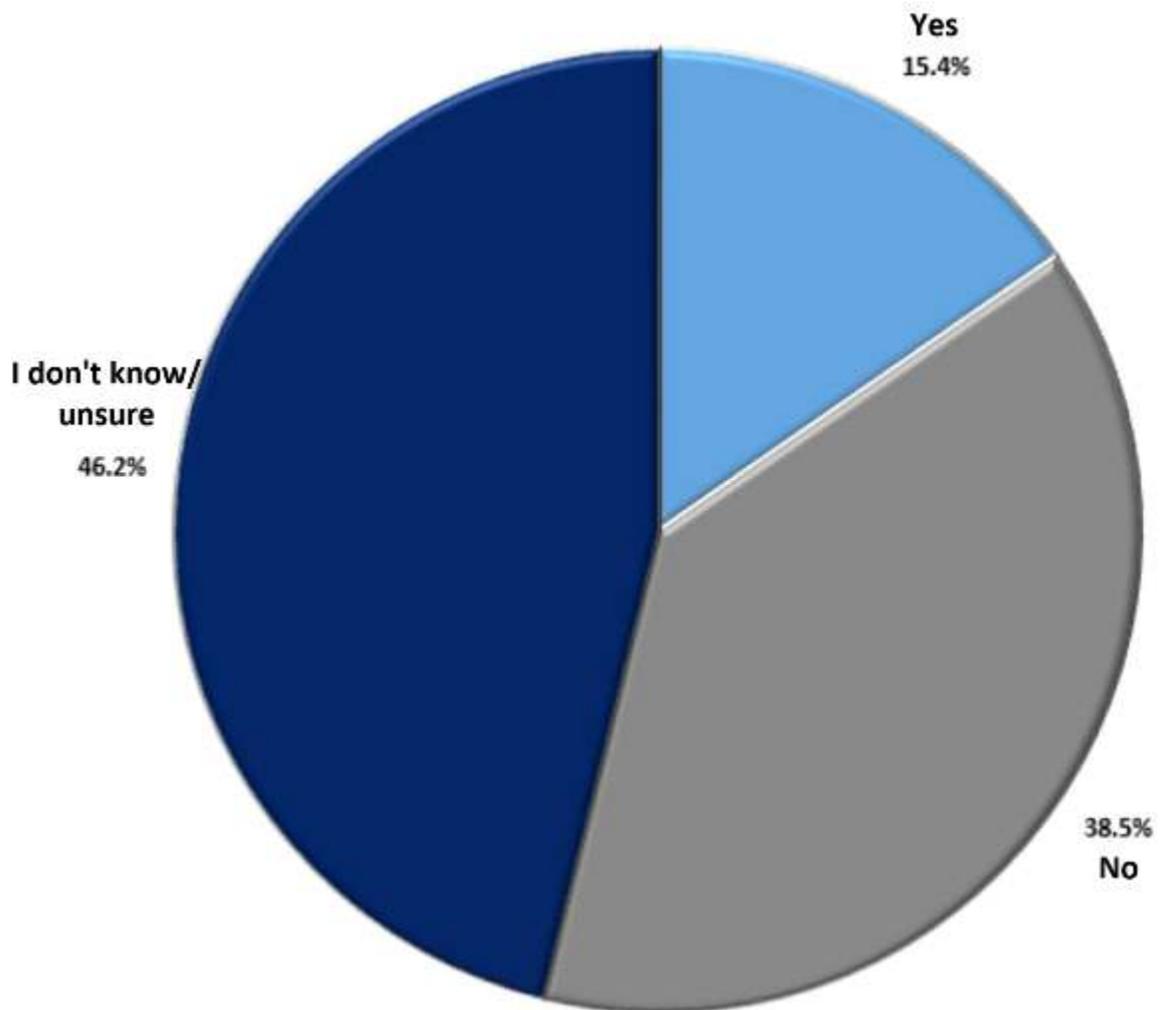




Retail Banks Not Regulated By NYS DFS

Will Your Regulating Body Adopt Rule 504:

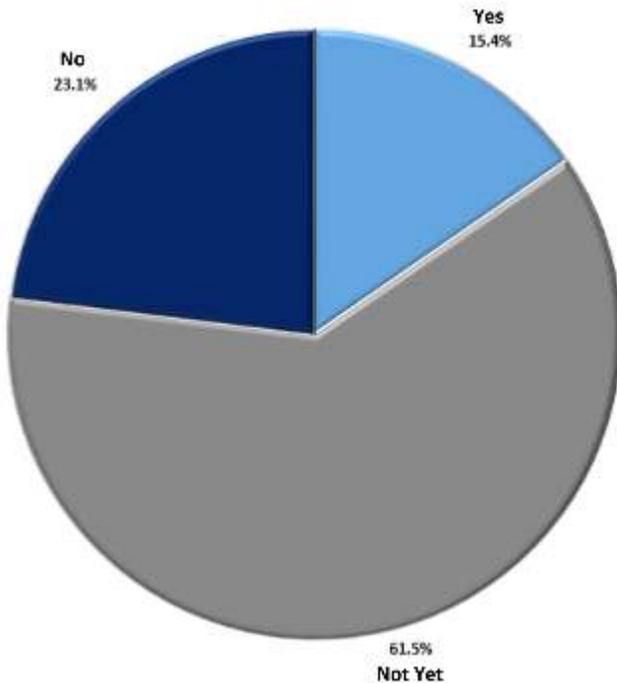
The retail bank respondents who aren't currently regulated by NYS DFS were asked if they believe their regulating body will adopt Rule 504. 15.4% said yes, 38.5% said no, and the majority (46.2%) said they didn't know or were unsure.





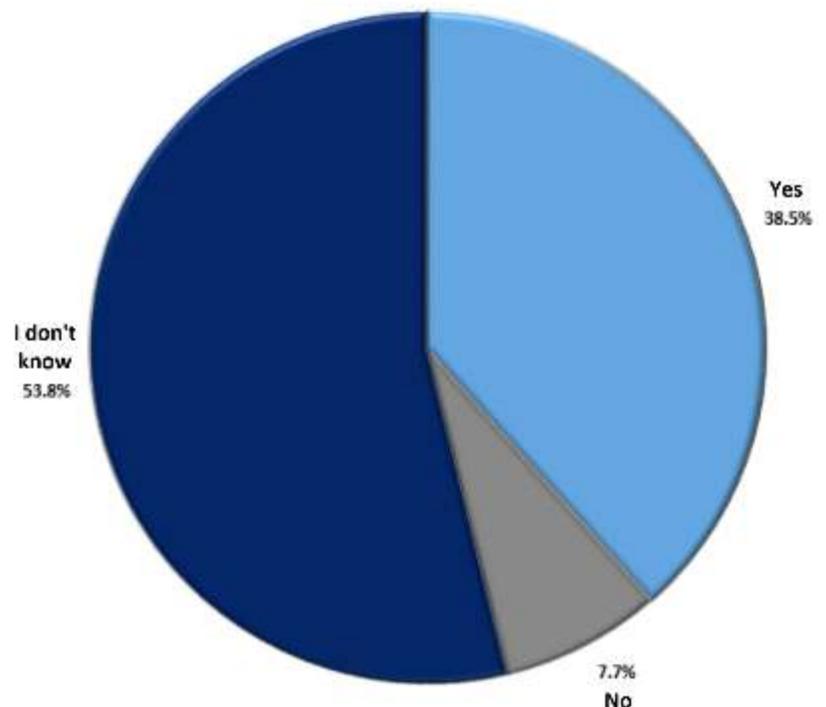
Preemptive adjustments to BSA and OFAC Programs:

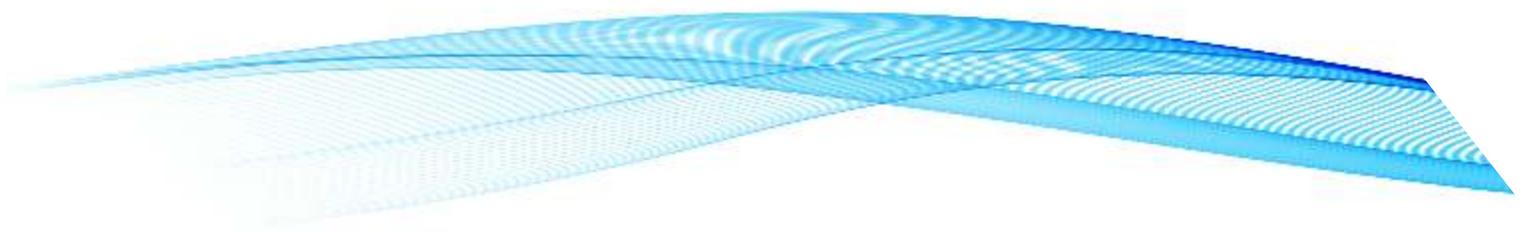
Retail bank respondents not currently regulated by NYS DFS were asked if they will make any adjustments to their BSA and OFAC programs in case their regulating body adopts Rule 504. A small portion said yes (15.4%), followed by 23.1% saying no. The vast majority (61.5%) said not yet.



Would Your Program Be Compliant with Rule 504:

For the retail bank respondents who are not regulated by NYS DFS we asked if they believed their program, as it stands today, would be compliant with Rule 504. The majority (53.8%) said they didn't know, 38.5% yes they would, and 7.7% no they wouldn't.

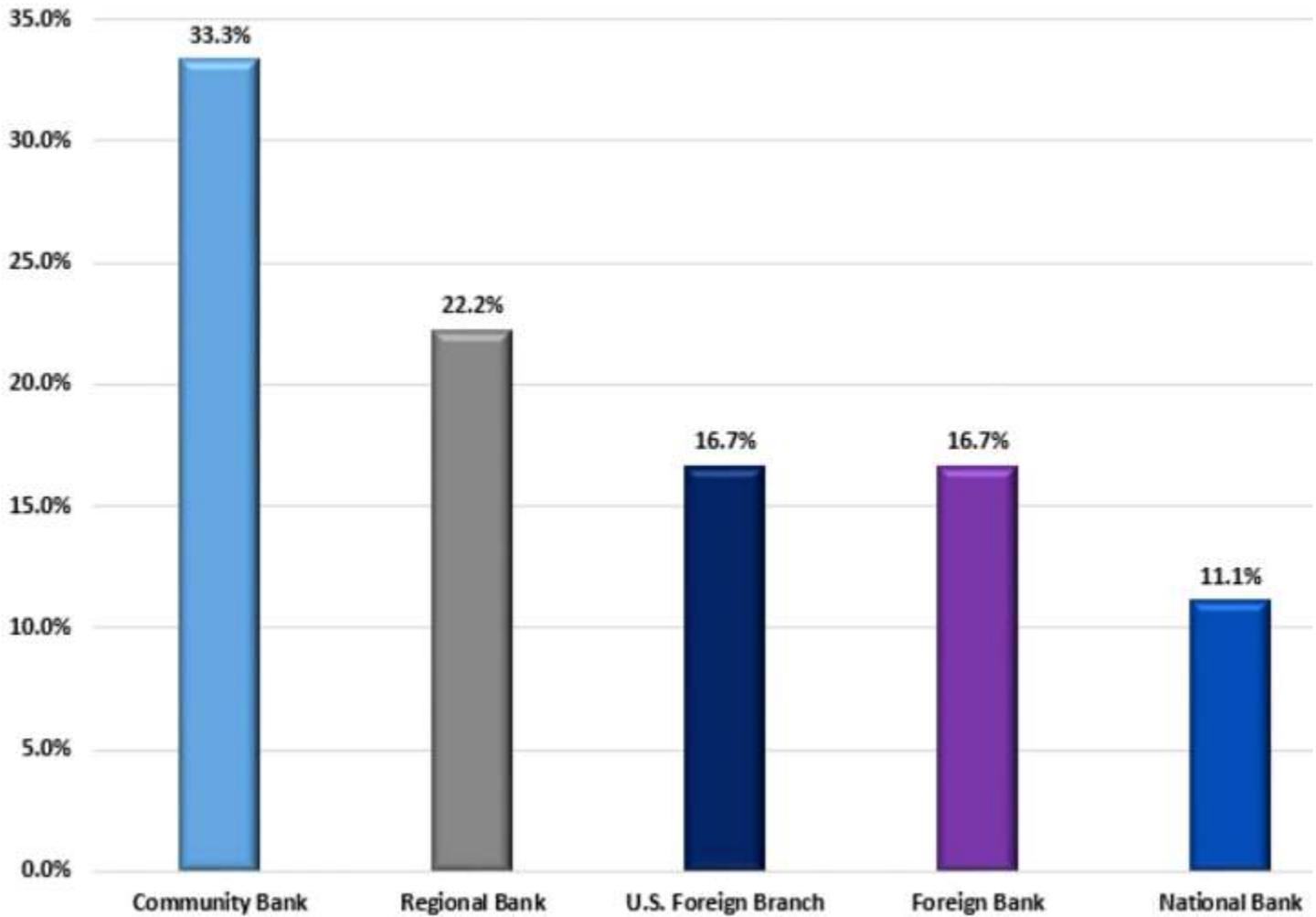




Commercial Banks Demographic Results:

Institution Type:

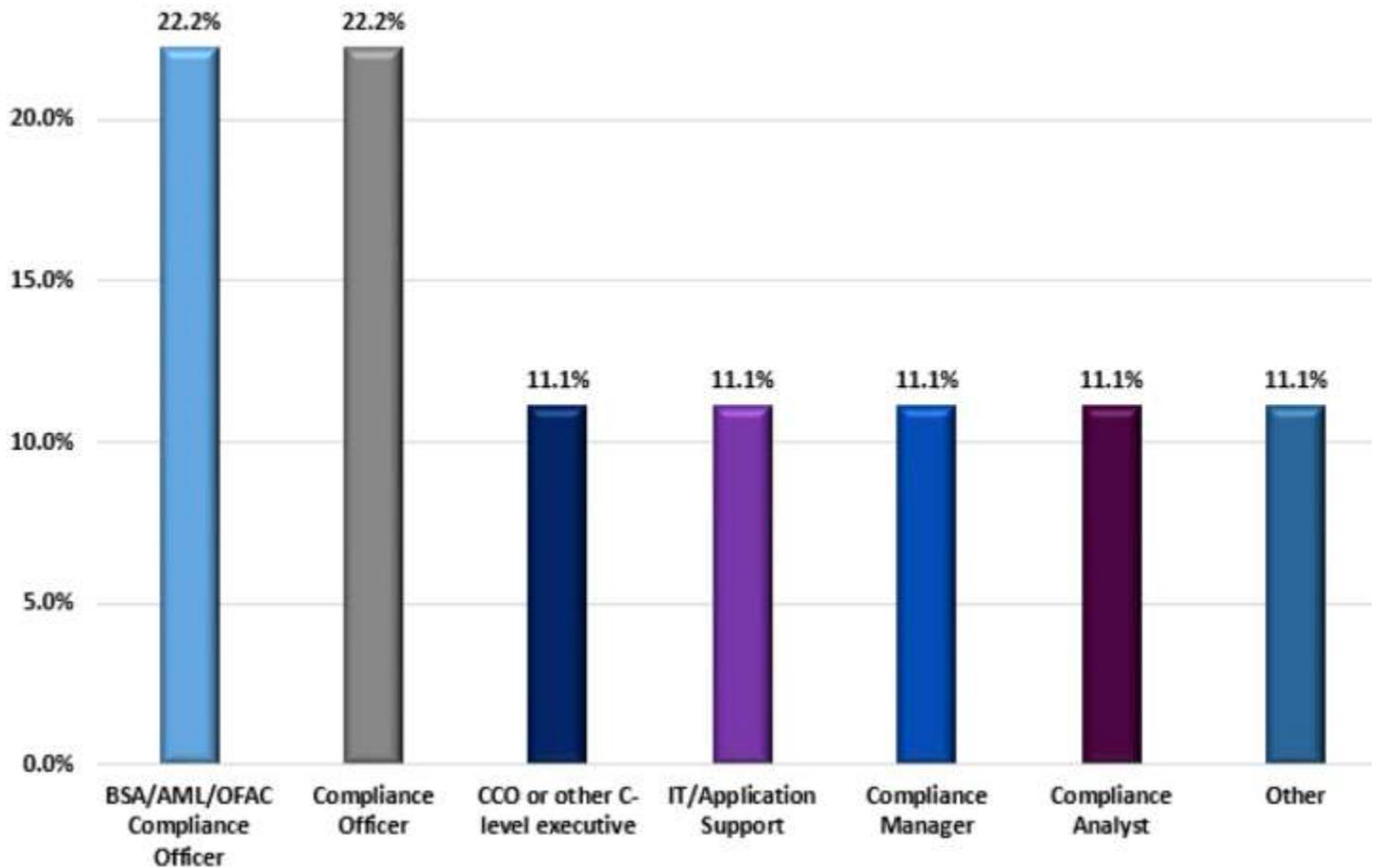
Most commercial banks respondents represented community banks (33.3%), followed by a regional bank (22.2%).





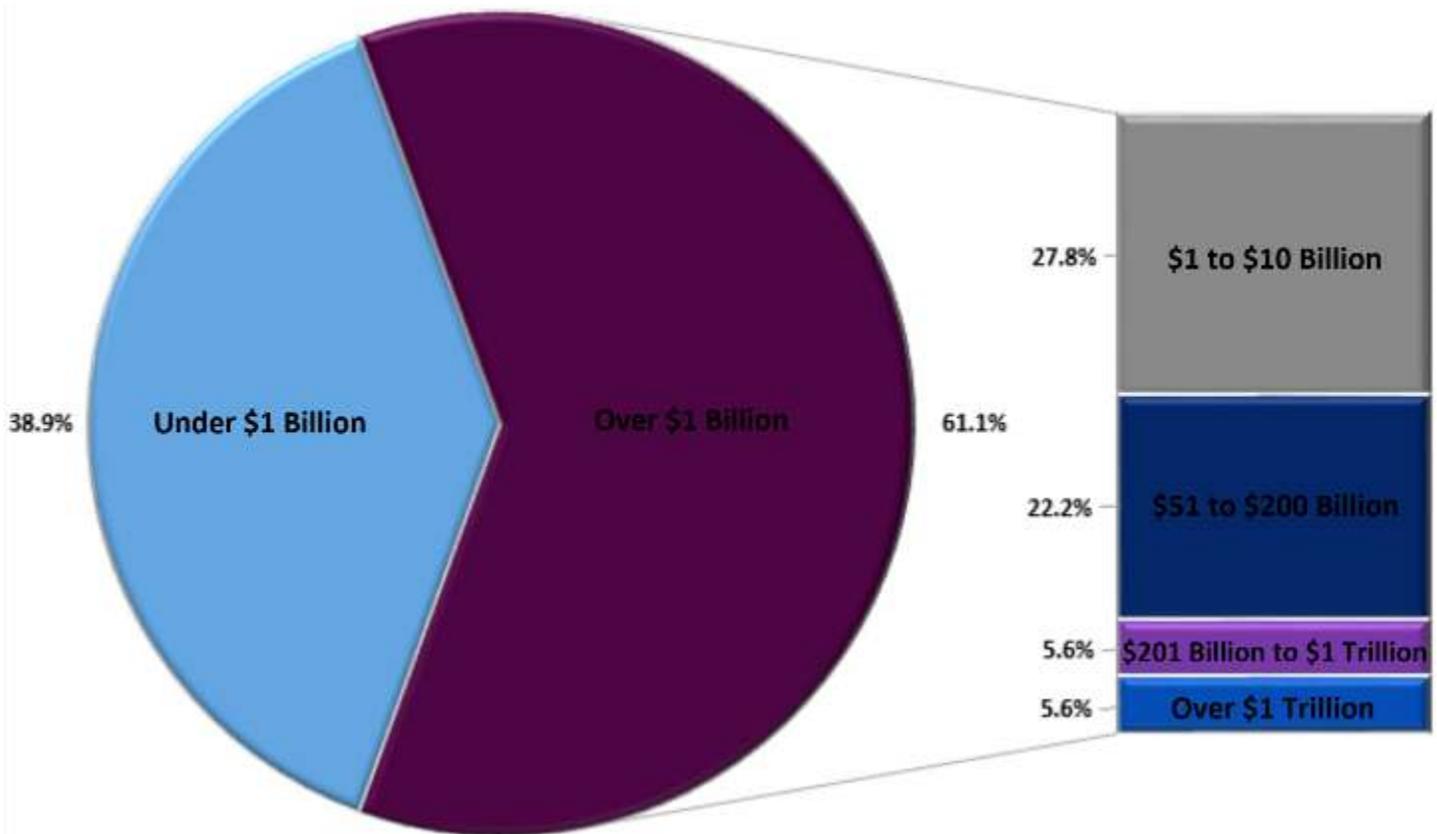
Current Position

The two most common job titles for commercial banks were BSA/AML/OFAC compliance officer and compliance officer (22.2%).



Asset Size:

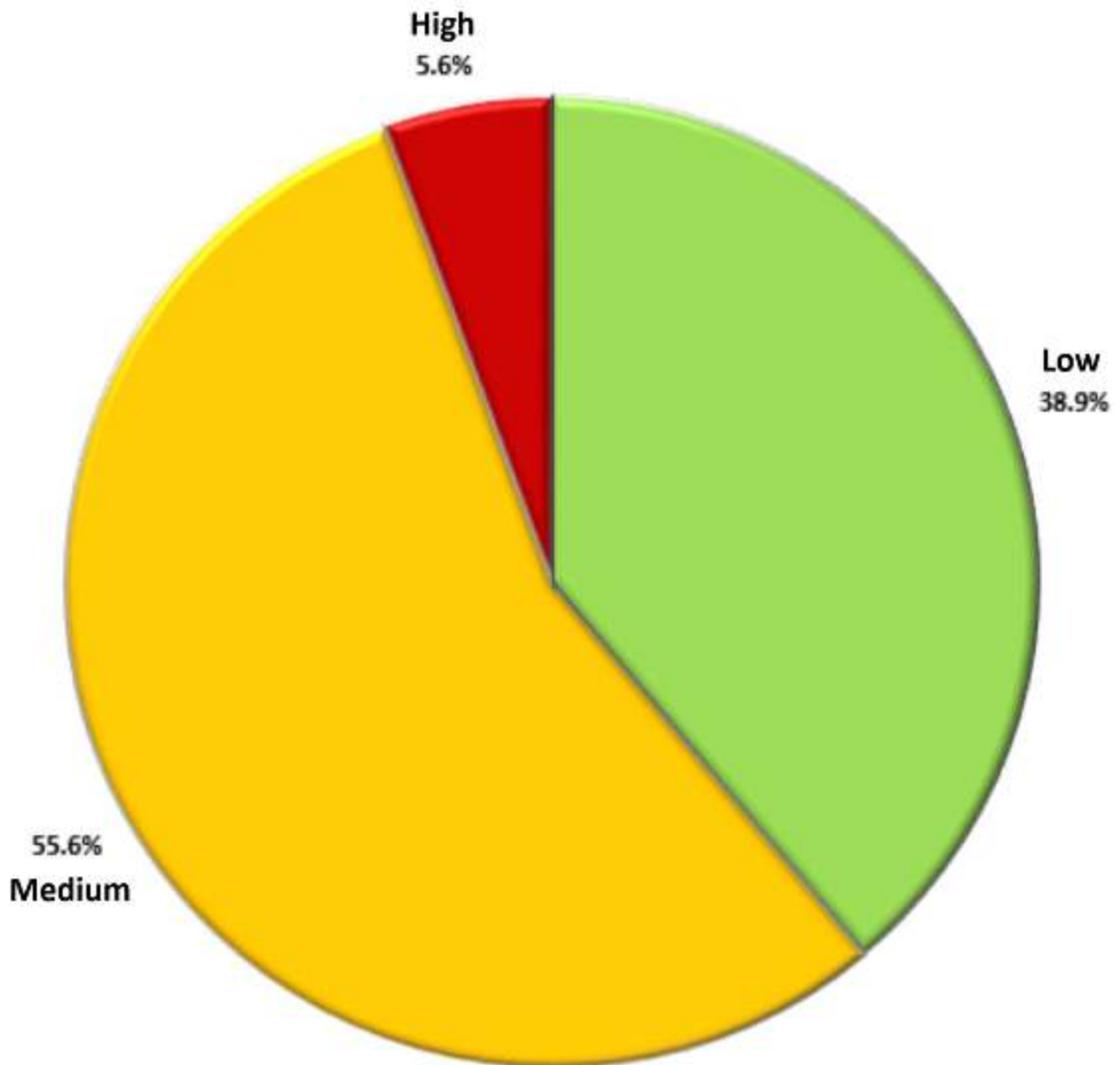
The majority (61.1%) of our commercial bank respondents said they were over \$1 billion in assets compared to those under \$1 billion (38.9%). For the institutions with assets over \$1 billion, the most common asset size was between \$1 to \$10 billion (27.8%) followed by \$51 to \$200 billion (22.2%).





Risk Rating:

The final demographic question we asked our commercial bank respondents was to describe their institution's overall risk rating. The majority stated that they have a medium risk rating (55.6%) with the next most frequent answer being a low risk rating (38.9%), and finally a high risk rating (5.6%).



Commercial Banks General 504 Questions:

Regulated by the NYS DFS:

We asked our commercial bank participants if they are regulated by the NYS DFS and just over three quarters said that they were (77.8%).



When Did Those Affected Implement Changes:

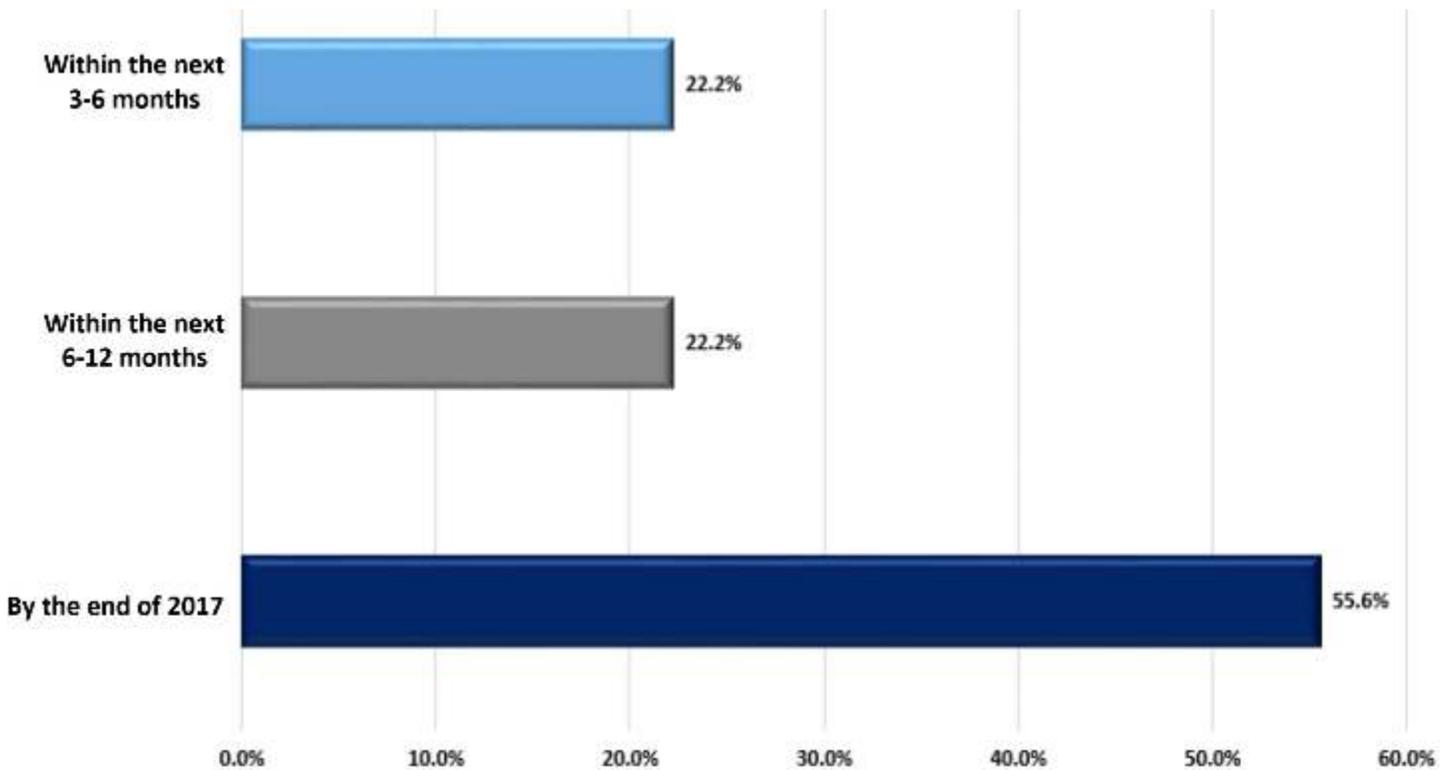


For those commercial banks that are affected by Rule 504, exactly half of them said that they started planning changes as soon as the rule was released.



504 Implementation Planning:

The majority of commercial respondents (55.6%) said that they will have their changes implemented by the end of 2017, with only 22.2% planning to implement those changes within the next 3-6 months or within the next 6-12 months (respectively).



Maintaining Up-To-Date Job Descriptions:

When considering some of the ways to demonstrate compliance with Rule 504, we asked our commercial bank participants if they maintain up-to-date job descriptions, 88.9% said that they do.



Verifying Job Descriptions to Resumes:

Again when considering ways to demonstrate compliance with Rule 504, the majority of commercial banks (66.7%) have compared the resumes of those performing certain tasks with their job descriptions.





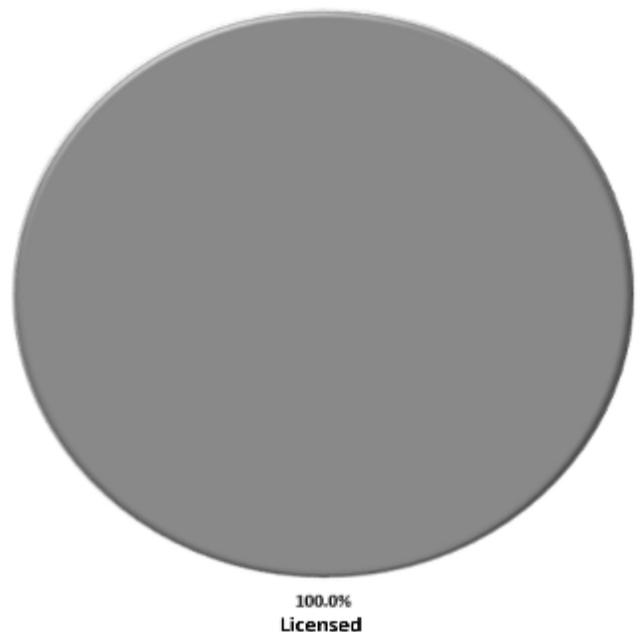
Verifying Appropriateness of AML Software

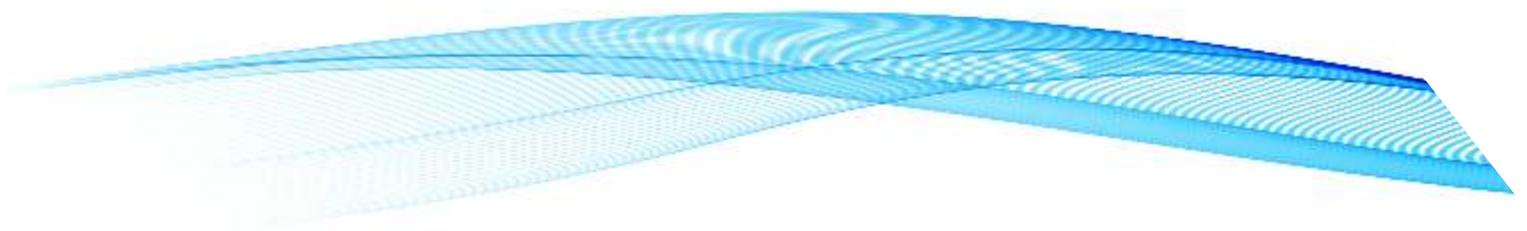
88.9% of our commercial bank respondents said that they are or have been verifying that their AML software is appropriate for their institution.



Hosted vs. Licensed AML Software

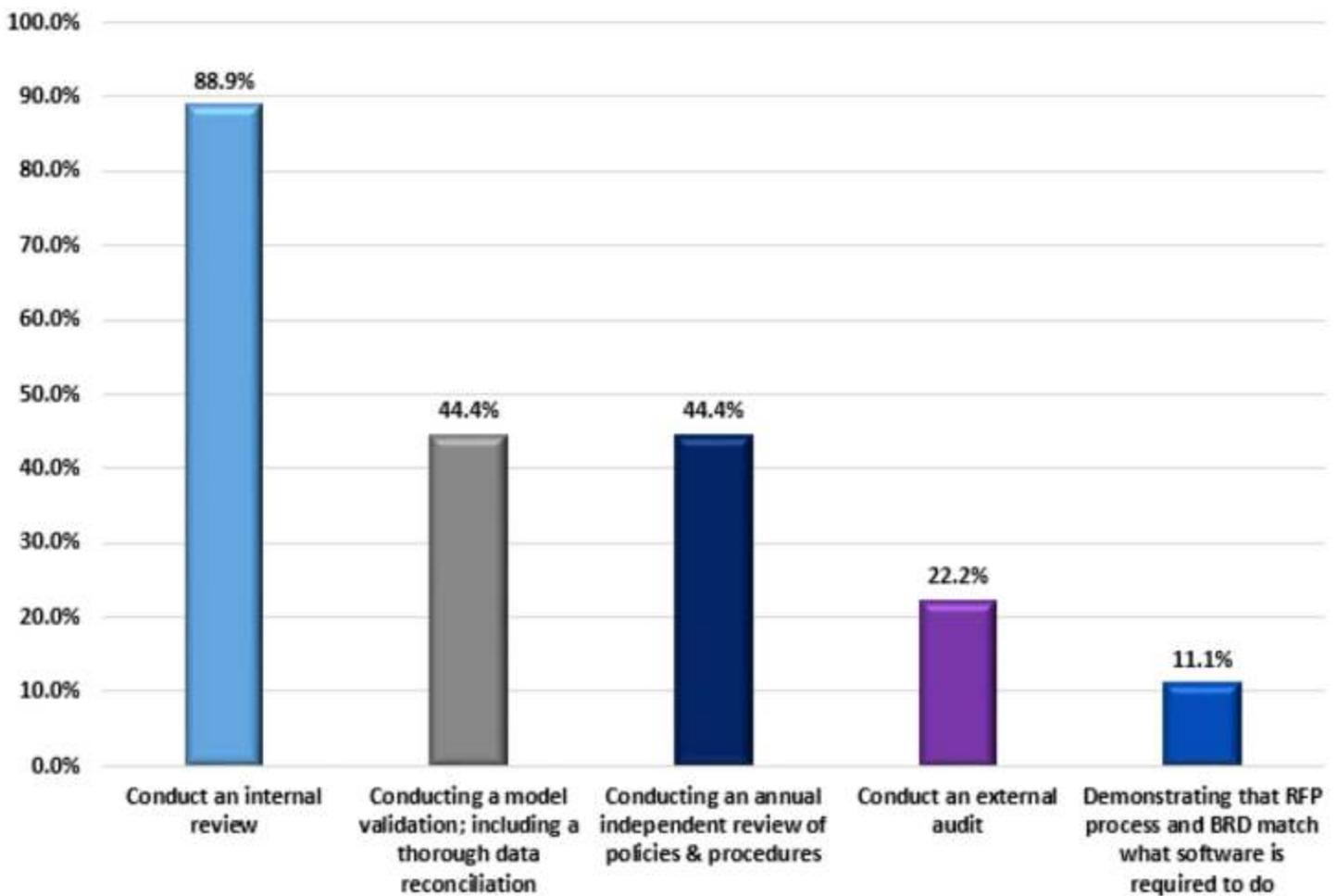
100% of all commercial bank respondents are utilizing a licensed AML system.





How Participants are Verifying Appropriateness of AML Software

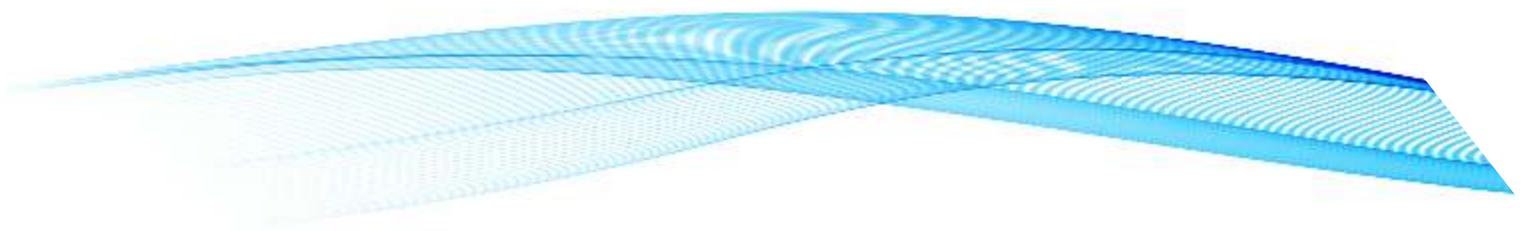
88.9% of our commercial bank respondents are verifying that their AML software is appropriate by conducting an internal review. Conducting a model validation and/or an annual independent review of policies & procedures (44.4% respectively) were the next most popular choices.



Reviewing External Resources to Comply with Rule 504:

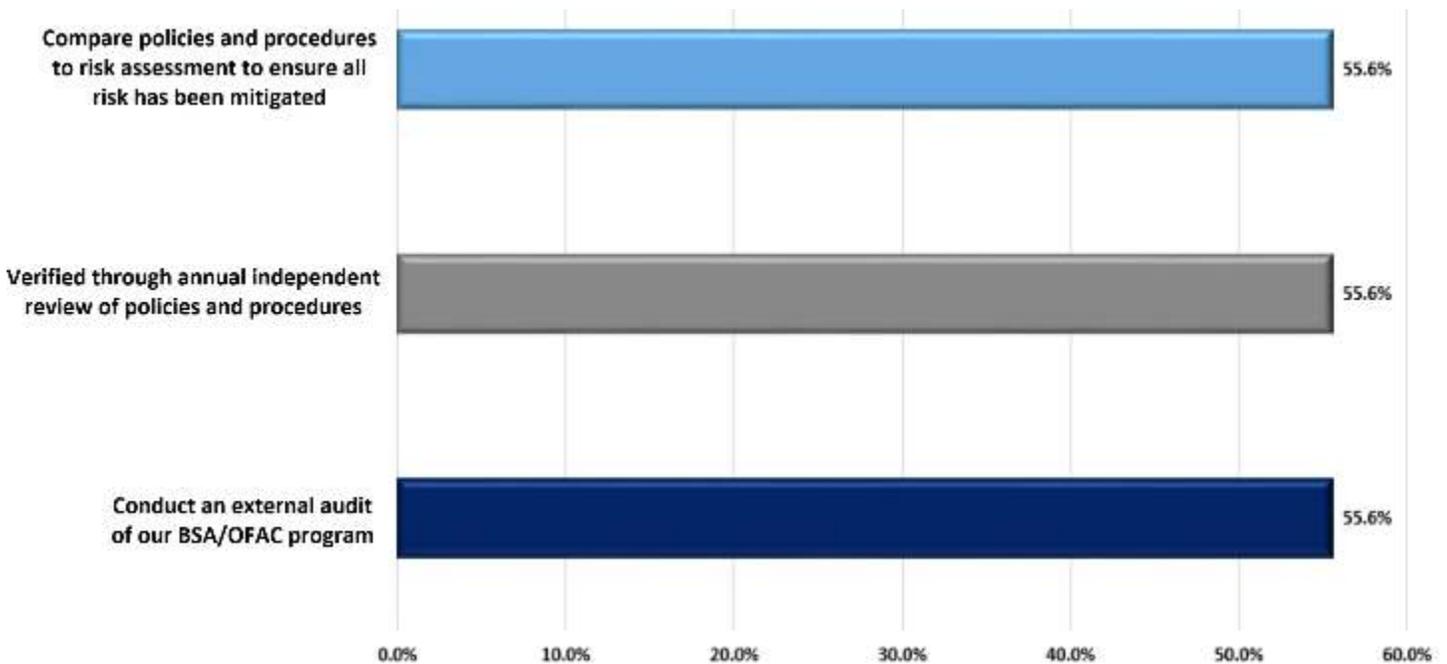
The majority (77.8%) of our commercial bank respondents are planning on utilizing external resources to support them in their certification requirements





Verifying Appropriateness of Policies and Procedures:

When asked how they're verifying that their policies and procedures are appropriate for their institution, commercial bank respondents had a split between three responses; compare policies and procedures to risk assesment to ensure all risk as been mitigated, verify through annual independent review of policies and procedres, and conduct an external audit of the BSA/OFAC program (all 55.6%).

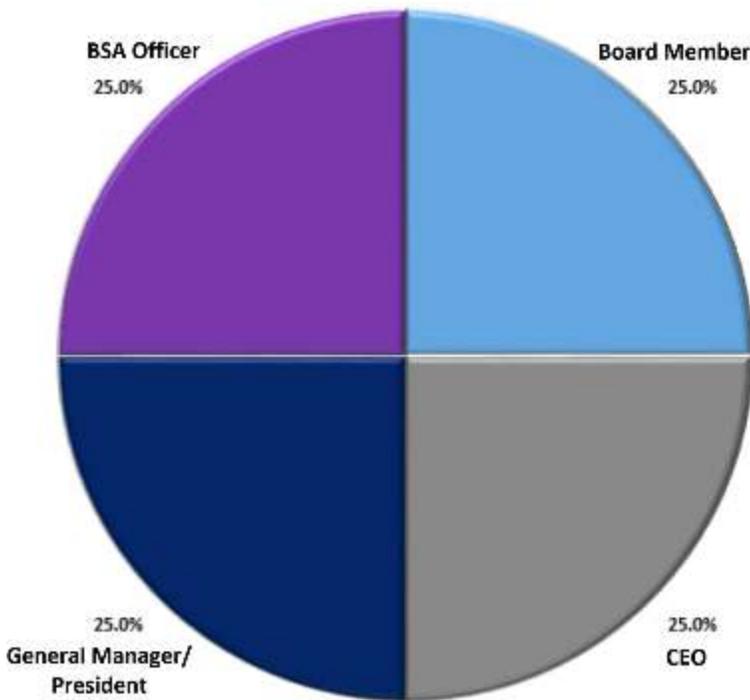


Selecting The Certification Sign Off Representative:

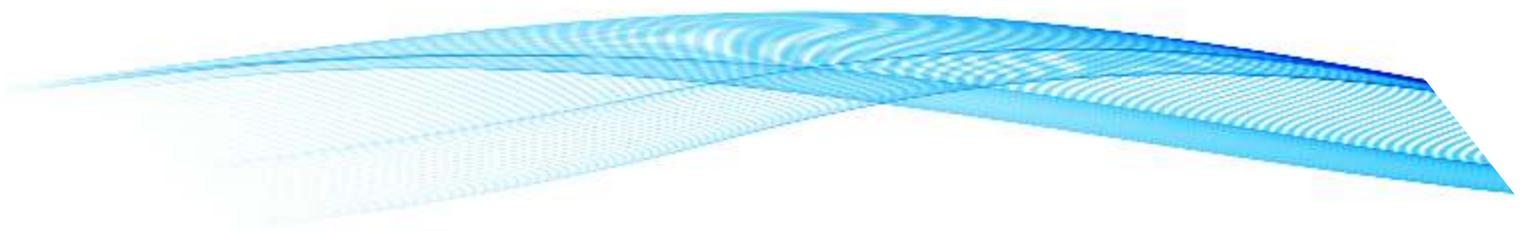
A key component of Rule 504 is selecting someone from the institution to certify that the BSA and OFAC programs are working and appropriate for their institution. While pretty even, most of our commercial bank respondents (55.6%) said they have not selected this person yet.



Who Will Certify on Behalf of the Institution:

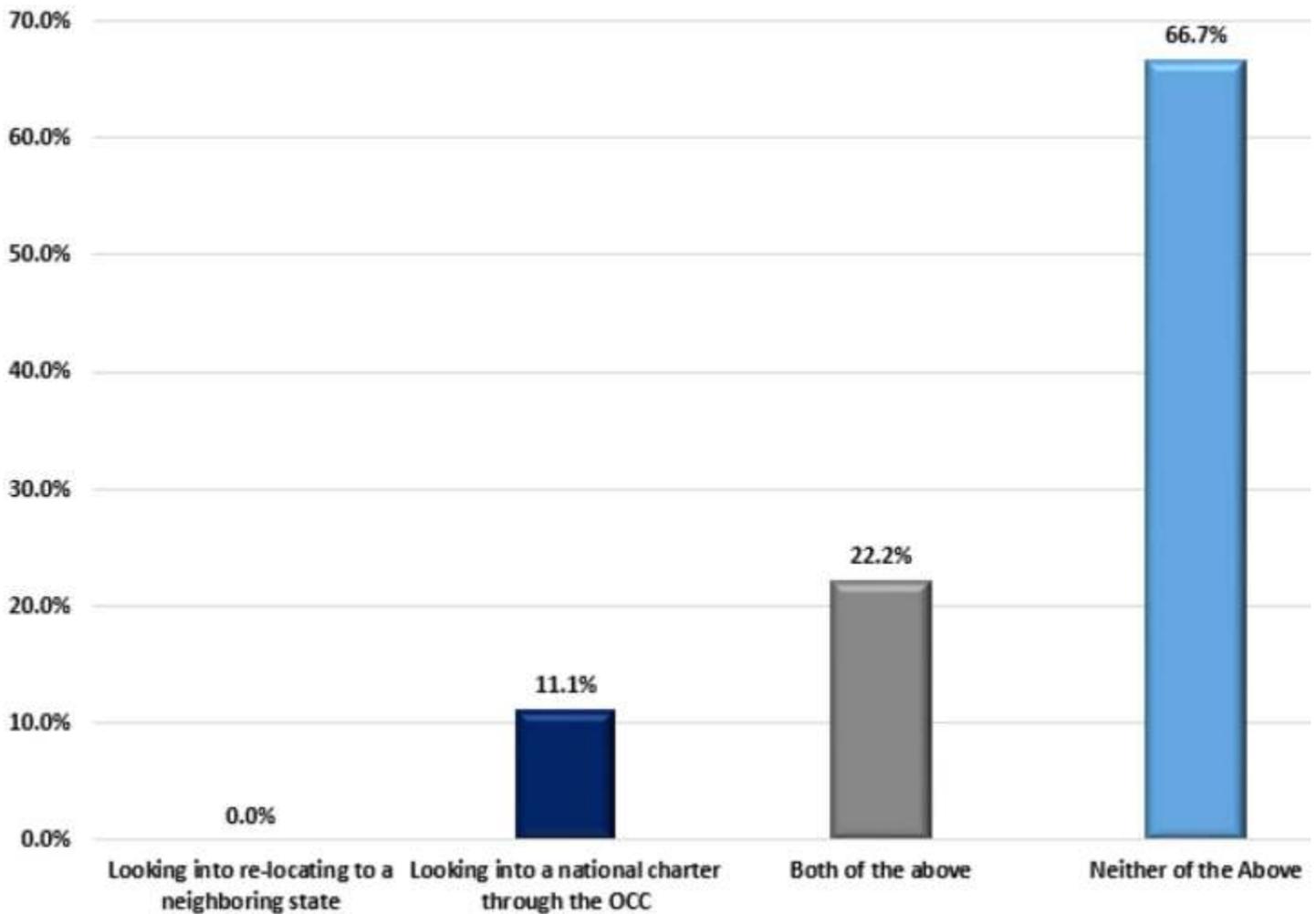


For our commercial bank respondents who have already selected someone to certify their BSA and OFAC programs are working and appropriate for their institution, the results were evenly split. A BSA Officer, Board Member, General Manager/President, and CEO were all tied with 25% of respondents appointing each.



Alternatives to NYS DFS Rule 504 Regulation:

The majority of our commercial bank respondents have not been looking into any alternatives to being regulated by the NYS DFS (66.7%). A small portion of respondents (11.1%) are either looking into a national charter through the OCC, or both that and also looking to relocating to a neighboring state (22.2%).

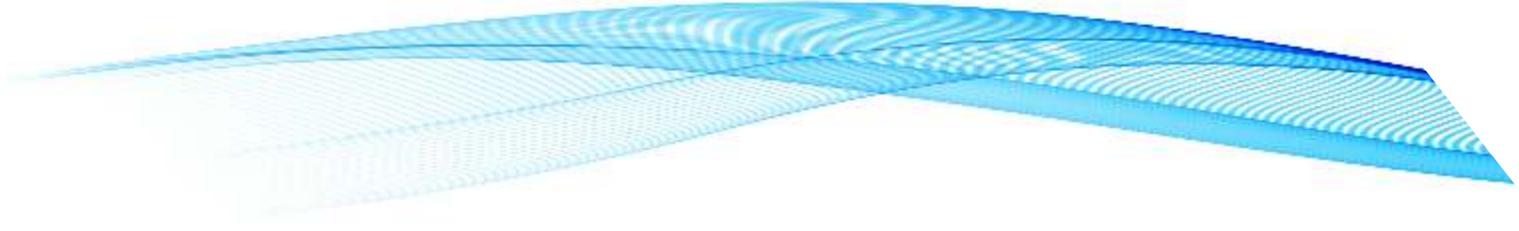




National Charter Through The OCC:

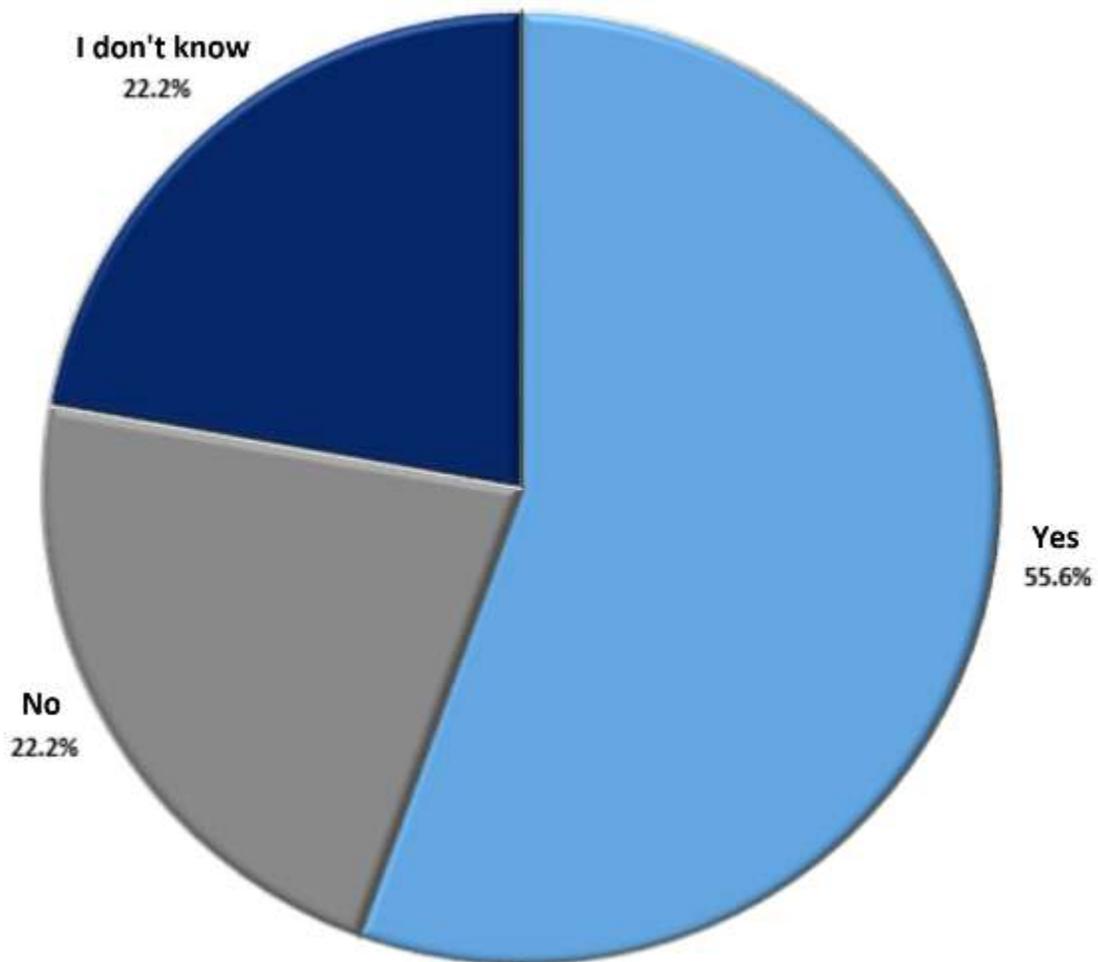
We asked the commercial bank respondents who are considering a national charter through the OCC if they have already applied for one and three quarters (75%) said they have not.





Is Your Program Compliant with Rule 504:

For the commercial bank respondents who are regulated by NYS DFS we asked if they believed their program as it stands today would be compliant with Rule 504. The majority (55.6%) said yes it would, 22.2% said no it wouldn't, and 22.2% they don't know.

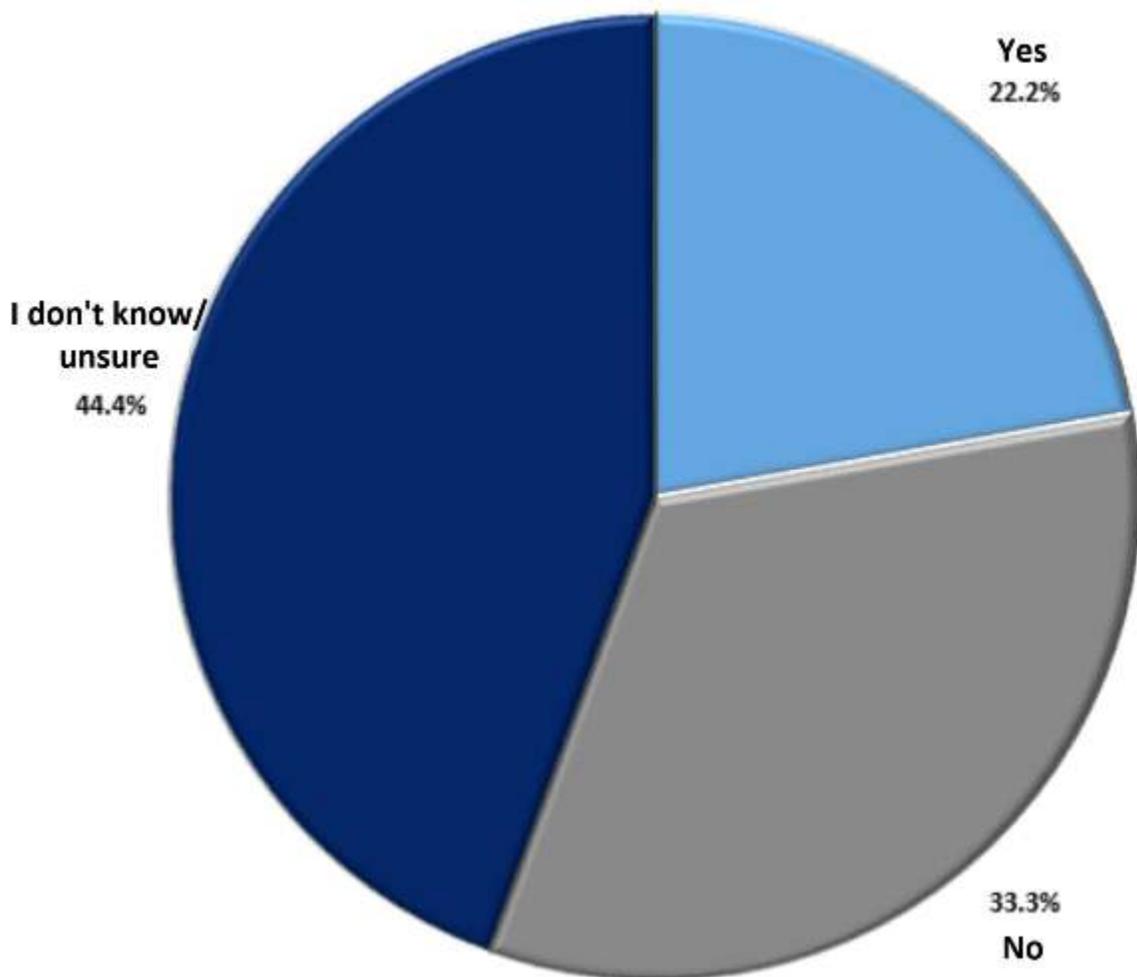


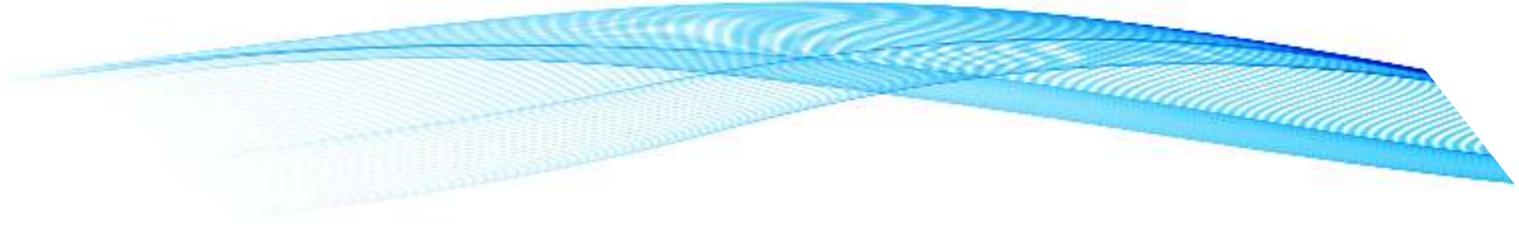


Commercial Banks Not Regulated By NYS DFS

Will Your Regulating Body Adopt Rule 504:

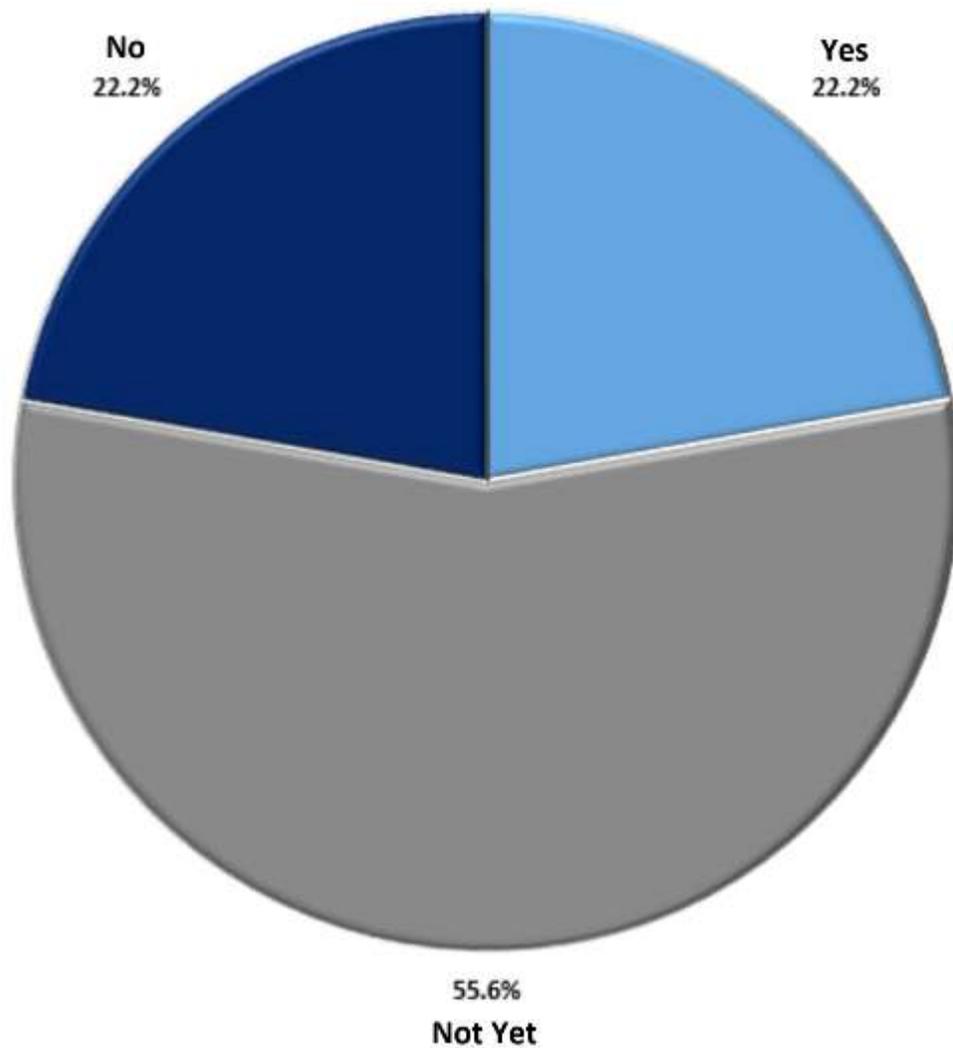
The commercial bank respondents who aren't currently regulated by NYS DFS were asked if they believe their regulating body will adopt Rule 504. The majority said they weren't sure (44.4%)

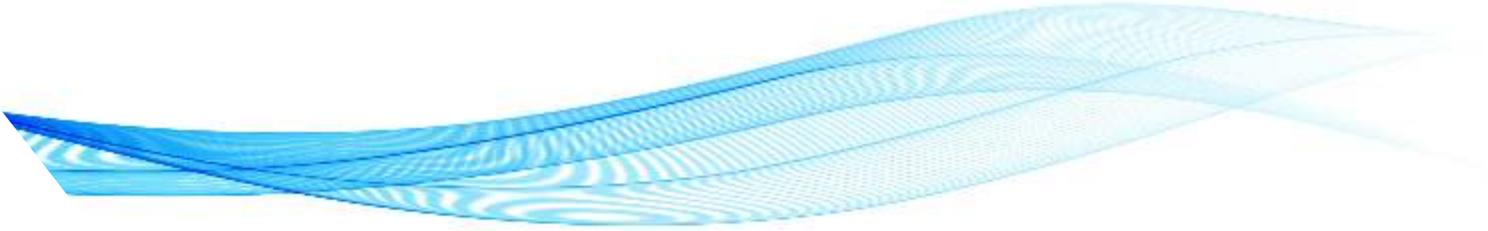




Preemptive adjustments to BSA and OFAC Programs:

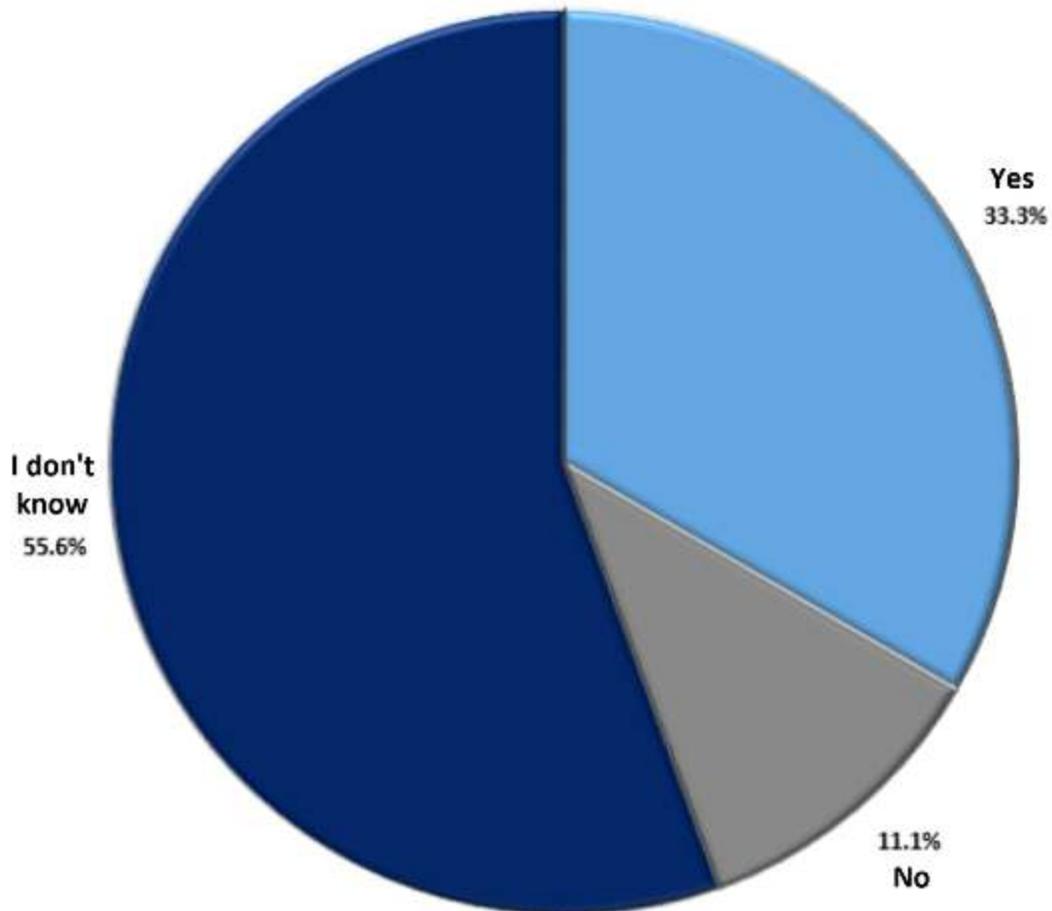
Commercial bank respondents not currently regulated by NYS DFS were asked if they will make any adjustments to their BSA and OFAC programs in case their regulating body adopts Rule 504. The majority said they would not make any changes yet (55.6%).





Would Your Program Be Compliant with Rule 504:

For the commercial bank respondents who are not regulated by NYS DFS we asked if they believed their program, as it stands today, would be compliant with Rule 504. The majority (55.6%) said they didn't know, 33.3% yes they would, and 11.1% no they wouldn't.



Conclusion:



The passing of Rule 504 by the NYS DFS has made one thing clear - no one is sure of anything. This survey, however, was meant to give us a baseline from which to build upon. Over the next couple of years, as this rule begins to take shape in practice, we will see just how it evolves and how the industry addresses it, namely NY state regulated banks.

Overall, our survey participants represent a compliance officer at a commercial or retail community bank over \$1 billion in assets with a medium risk rating. Most of our respondents are not regulated by the NYS DFS, but those that are started right away reviewing and addressing what changes may be necessary to their program. Most of them said that would implement those changes over the next 6 to 15 months.

When considering ways to demonstrate compliance with this rule, respondents said that they maintain up-to-date job descriptions of all job functions necessary and verify that those resumes match the job descriptions required. Likewise, they are verifying that their software is appropriate for their institution by a number of methods (internal review, model validation, annual independent review, etc.). While the majority of affected institutions are utilizing licensed software, those with hosted systems will need to make sure they can comply with the data reconciliation Final Rule 504 requires through a test server or access to their hosted server. More than three quarters of our respondents said they are planning to use external resources to support them in their certification requirement.

Similar to verifying that their software systems are appropriate, banks are verifying their policies and procedures through a number of methods (comparing them to the risk assessment, annual independent review, audit, etc.). The majority of banks have not selected the representative to sign off on their institution's certification, but for those that did, the majority said it would be the BSA Officer or someone on the board. Despite the passing of Final Rule 504, 80% of institutions who are affected and completed our survey, are not considering any alternatives outside of just complying with the rule. For the small



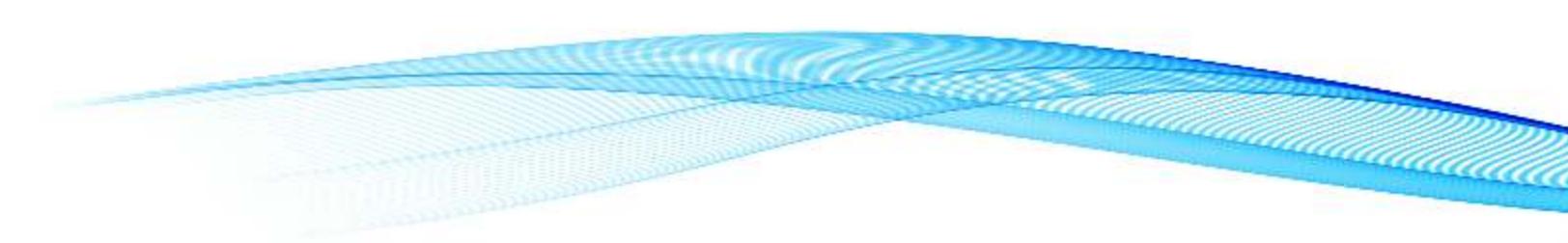
percentage who are considering their options, 15.4% have already applied for an OCC national charter. For those affected, half of them feel they're ready and would already comply, while the other half are either unsure or don't think they're ready to comply.

Finally for the group that is not NYS DFS regulated, they said they weren't sure if their regulating body would adopt Final Rule 504 and most of them are not implementing any changes. The majority, however, felt they were ready to make changes should their regulating body eventually adopt Final Rule 504.

It was quite interesting to see the varied responses, to see what our respondents are concerned with or not, and where they're focusing their efforts. In time, we would like to continue watching this evolve and conduct future surveys on this topic. A more detailed report for retail and commercial banks provides more specific details for those institution types and is available if you visit <http://arcriskandcompliance.com/surveys.html>.

Comparisons:

- Retail banks represented community banks just slightly more than commercial banks (44.4% and 33.3% respectively).
- BSA/AML/OFAC compliance officers were more likely to be from a retail bank than a commercial bank (44.4% and 22.2% respectively).
- When it came to the asset size of the institutions, retail banks were more likely to have \$201 billion to 1 trillion in assets (16.7%) vs. commercial banks that were more often \$51 to 200 billion (22.2%).
- Both retail banks and commercial banks said that their overall risk rating was of medium risk (61.1% and 55.6% respectively).

- 
- More commercial banks than retail banks said they are regulated by the NYS DFS (77.8% and 27.8% respectively).
 - For the institutions that are regulated by NYS DFS, more retail banks than commercial banks said they began to implement changes immediately (100% and 50% respectively).
 - Both retail and commercial banks plan to complete their program changes by the end of 2017 (60% and 55.6% respectively).
 - 100% of retail banks responded that they maintain up-to-date job descriptions, while 88.9% of commercial banks said they do.
 - 60% of retail banks verify these job descriptions to the appropriate resumes of their employees, compared to 66.7% of commercial banks.
 - The vast majority of both retail and commercial banks have been verifying that their AML software is appropriate for their institution (100% and 88.9% respectively).
 - The majority of both retail and commercial bank respondents said they conduct an internal review to verify the appropriateness of their software (80% and 88.9% respectively).
 - 100% of both retail and commercial banks utilize a licensed AML system.
 - Both retail and commercial banks said they plan on utilizing external resources to support them in their certification requirements (60% and 77.8% respectively).
 - Retail banks verify the appropriateness of their policies and procedures by comparing them to their risk assessments (80%). Commercial banks were more split on this response. They had equal responses (55.6%) between comparing policies and procedures to their risk assessments, verifying through annual independent reviews, and conducting an external audit.

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- The majority of retail banks (80%) said they have selected someone to certify that their BSA and OFAC programs are working and appropriate for their institution, as outlined in Rule 504. Only 44.6% of commercial banks responded affirmatively to selecting a sign off representative.
 - Both retail and commercial banks are evenly split between who they have selected to certify their BSA and OFAC programs: BSA officer, board member, general manager/president, and CEO.
 - The majority of both retail and commercial banks are not looking into alternatives to comply with NYS DFS Rule 504 regulation (60% and 66.7% respectively).
 - For the retail and commercial banks who are looking for a national charter with the OCC, the majority of both have not applied for one yet (66.7% and 75% respectively).
 - Both retail and commercial banks believe that as their program stands today, they would be compliant with Rule 504 (60% and 55.6% respectively).
 - For the retail and commercial banks who are not currently regulated by NYS DFS, both were unsure if their regulating body would adopt Rule 504 (46.2% and 44.4% respectively).
 - For the retail and commercial banks who are not currently regulated by NYS DFS, neither have made preemptive adjustments in case their regulating body adopts Rule 504 (61.5% and 55.6% respectively).
 - For the retail and commercial banks who are not currently regulated by NYS DFS, both said they weren't sure if their program would be compliant with Rule 504 (53.8% and 55.6% respectively).

About AML-ology

AML-ology is the study of AML (anti-money laundering) trends and solutions by providing newsletters and survey reports to AML dedicated professionals. A monthly newsletter is sent with a scientific or academic approach to an AML hot topic. A survey is conducted each quarter based on the hot topics being discussed in by the AML community. To sign up to receive the AML-ology newsletter or survey, please visit [here](#).

We provide this report as a value-add to the compliance community to better the anti-money laundering community as a whole. Thank you to everyone who participated. We hope you will participate in future surveys as well.

About ARC Risk and Compliance

ARC Risk and Compliance (www.arcriskandcompliance.com) is a solution provider for anti-money laundering (AML) technology and compliance. We found our start within the anti-money laundering (AML) technology consulting space, but we quickly found that wasn't enough. After visiting a number of organizations, the largest piece of the puzzle that was missing was the bridge between compliance and technology. We knew we wanted to grow and we discovered what was missing.

We needed to find a way to help the compliance department and the IT department within an organization find a common space to discuss their challenges. We're able to speak compliance with the compliance officers and technology with the IT team. That gives us a unique skill set that gives you the best experience in one place.

Many of ARC Risk and Compliance employees and consultants were leaders in designing, developing and deploying the leading software vendors of today: Actimize, eGIFTs, Global Vision, Norkom, Prime Compliance Suite, and so on. Our SME team has a strong compliance background that can assist Banks with regulatory citations and other types of compliance matters.

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"The AML Specialists"