



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 Summary Report



Conducted 4Q 2016

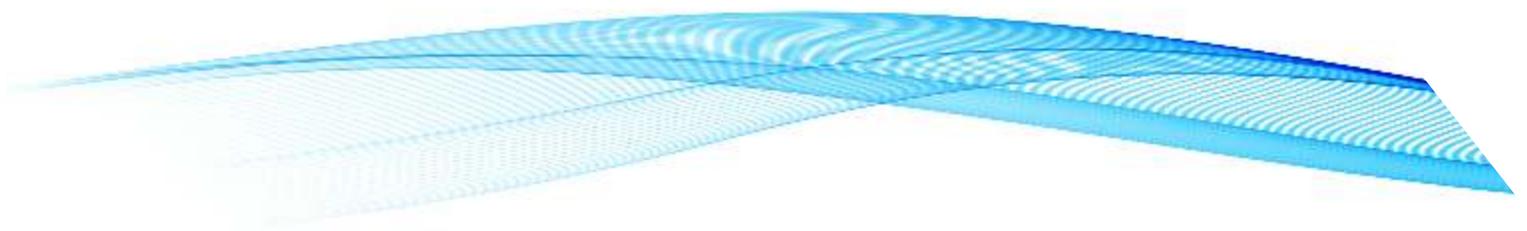


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Purpose of the Survey:

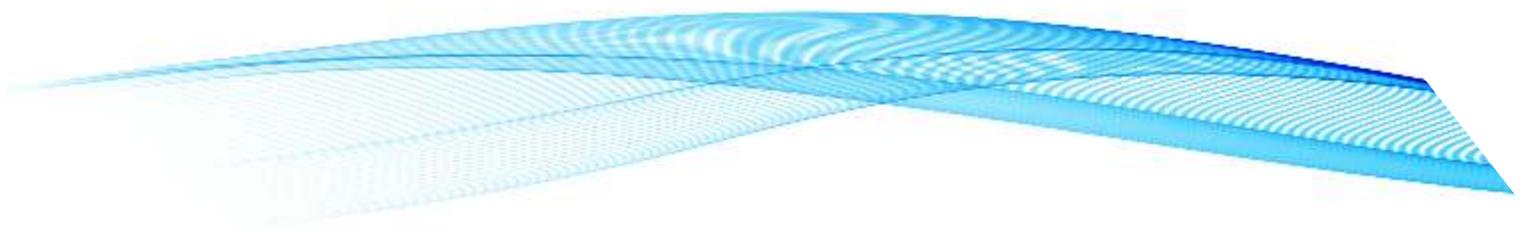
On June 30, 2016, the New York State Department of Financial Services (NYS DFS) issued Final Rule 504, “Banking division transaction monitoring and filtering program requirements and certifications.” The rule takes effect on January 1, 2017 with the first reporting date of April 15, 2018. Even with a 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 overall findings of this survey. A detailed version of this report showing how retail and commercial banks are addressing this issue in their institutions is available. To receive a copy, please send us an [email](#) requesting a detailed copy of the survey results.

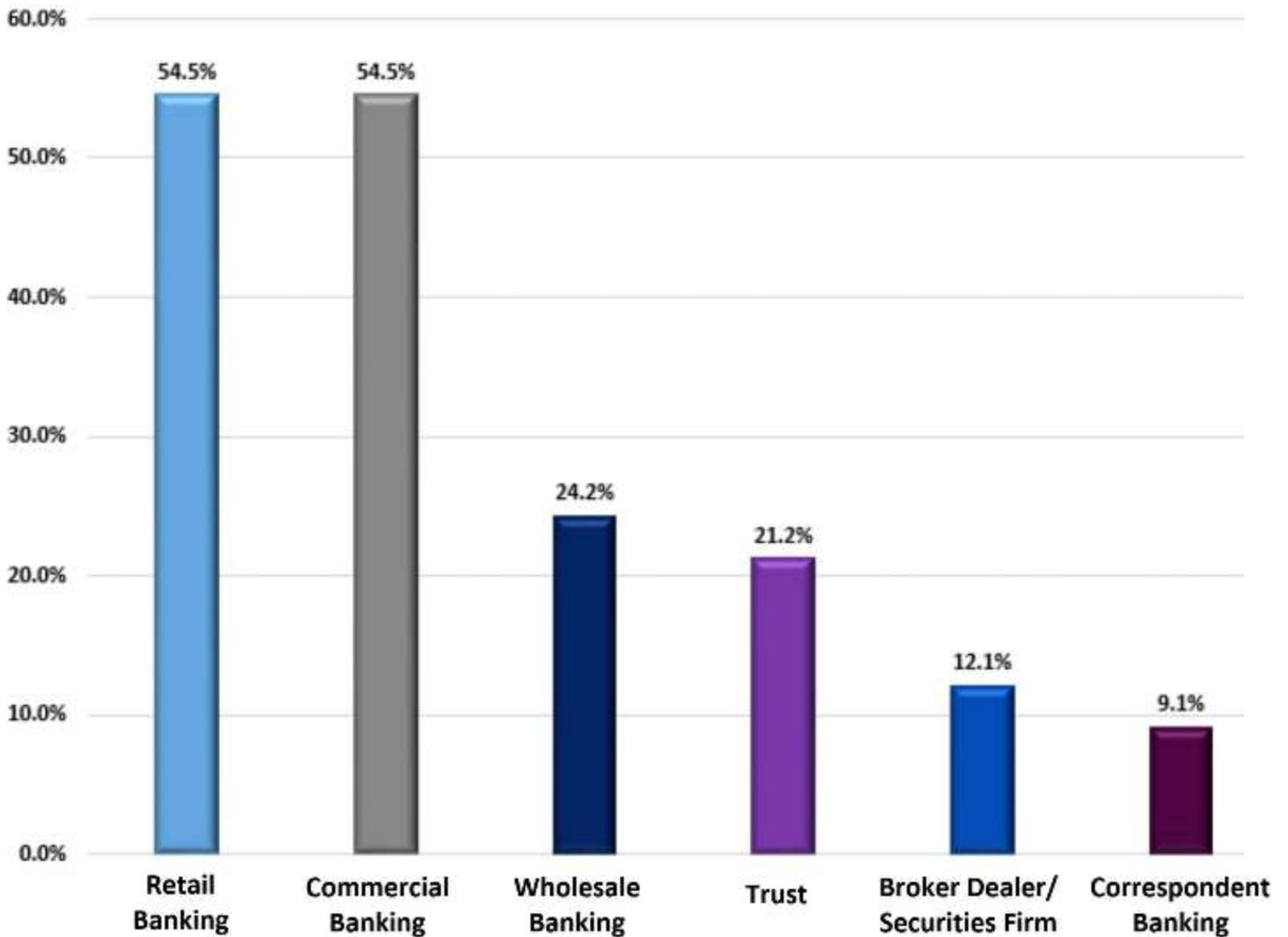




Demographic Results:

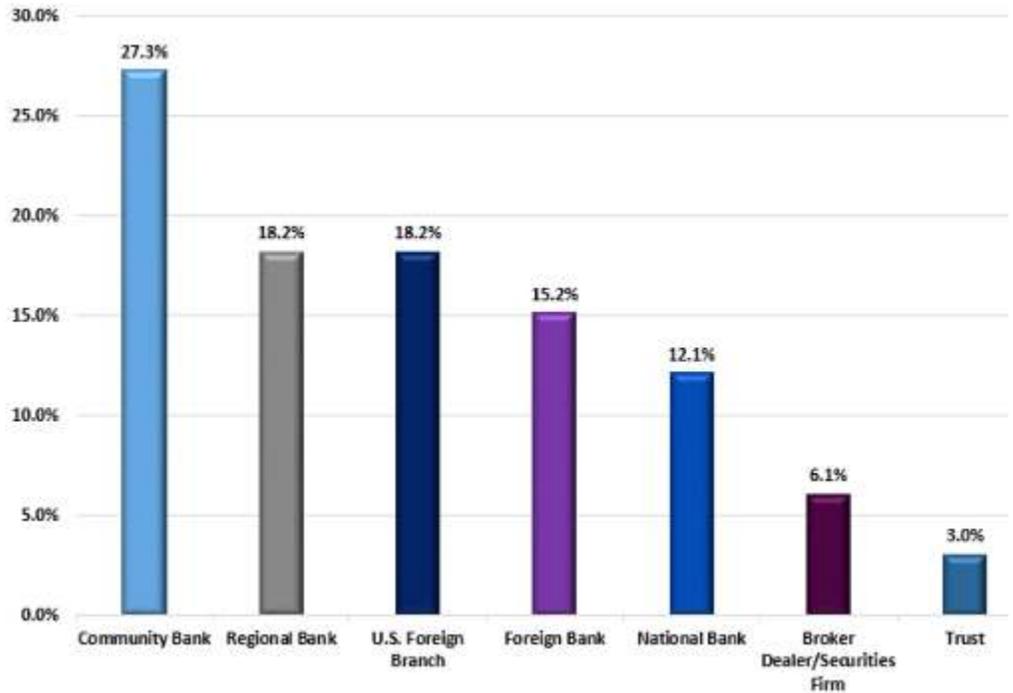
Business Type:

The two largest group of respondents were tied at 54.5% for both retail and commercial banks.



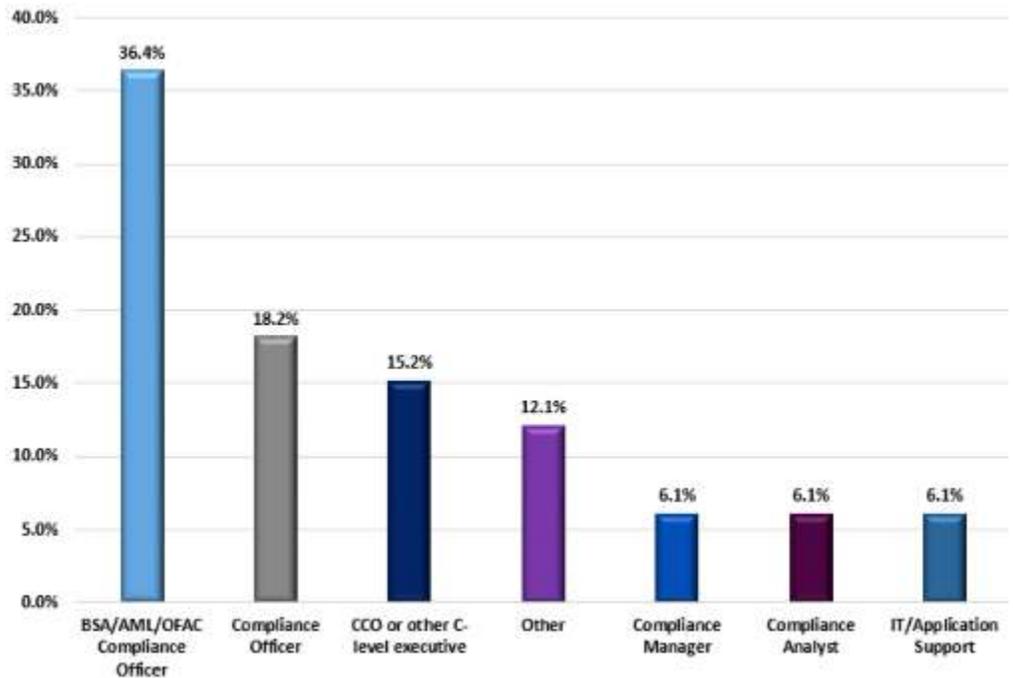
Institution Type:

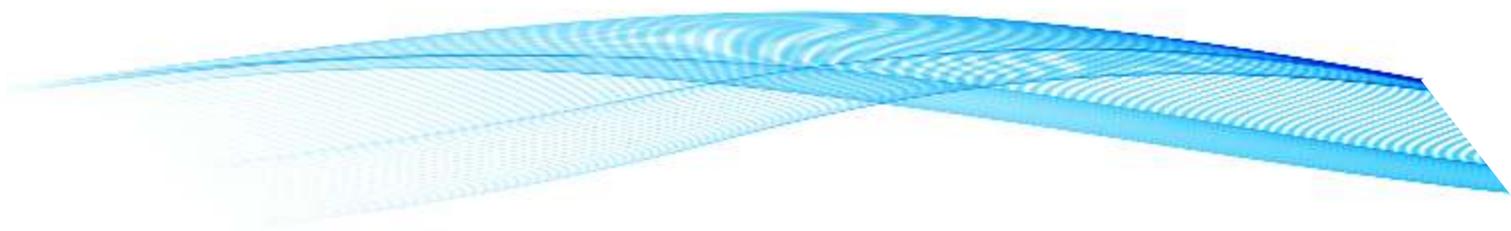
The largest group represented in this survey were community banks (27.3%), followed then by regional banks (18.2%) and U.S. Foreign Branches (18.2%).



Current Position:

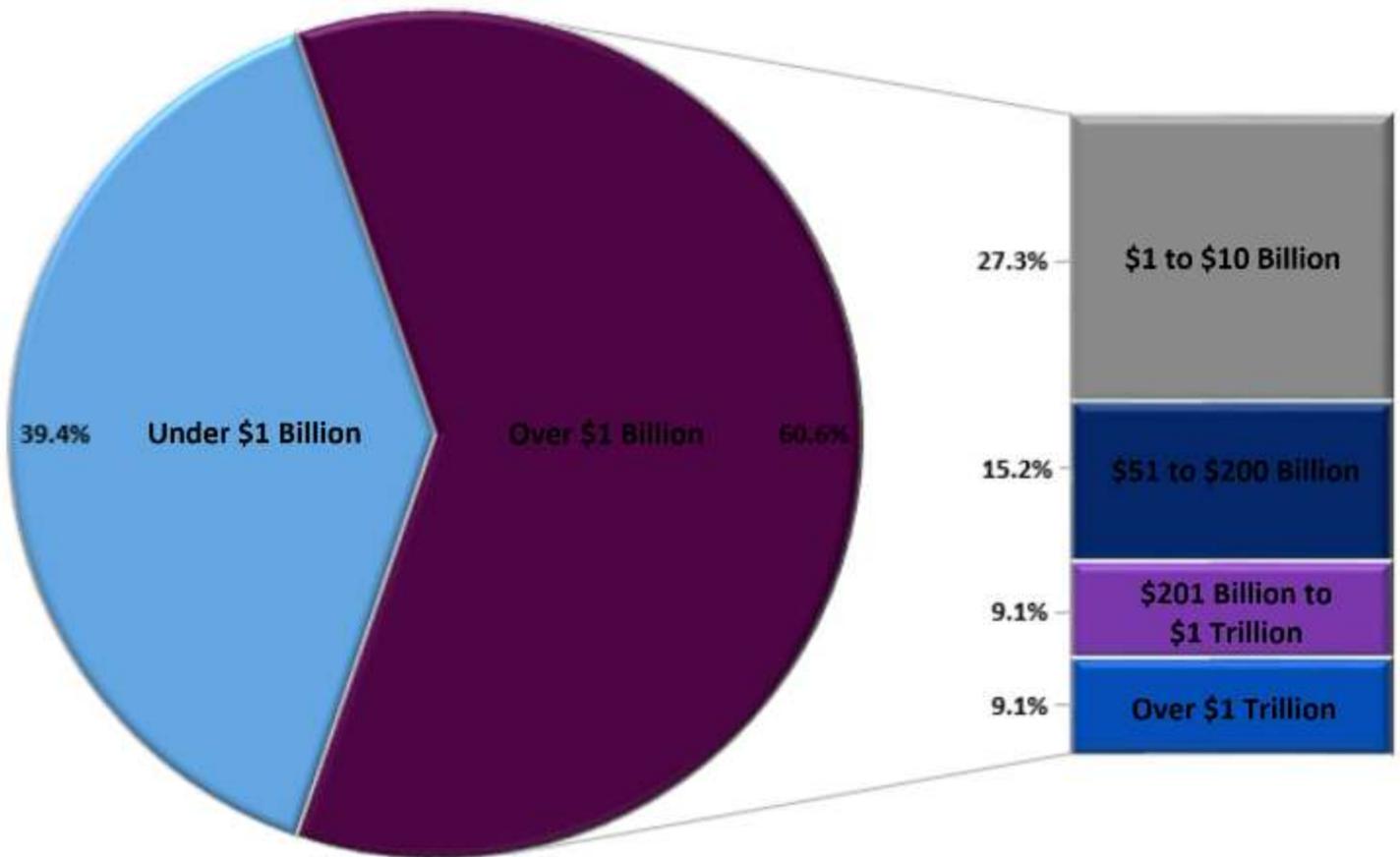
BSA/AML/OFAC Compliance Officer (36.4%) was the most common job title for this survey, followed by simply Compliance Officer (18.2%) and then CCO or other C-level executive (15.2%).





Asset Size:

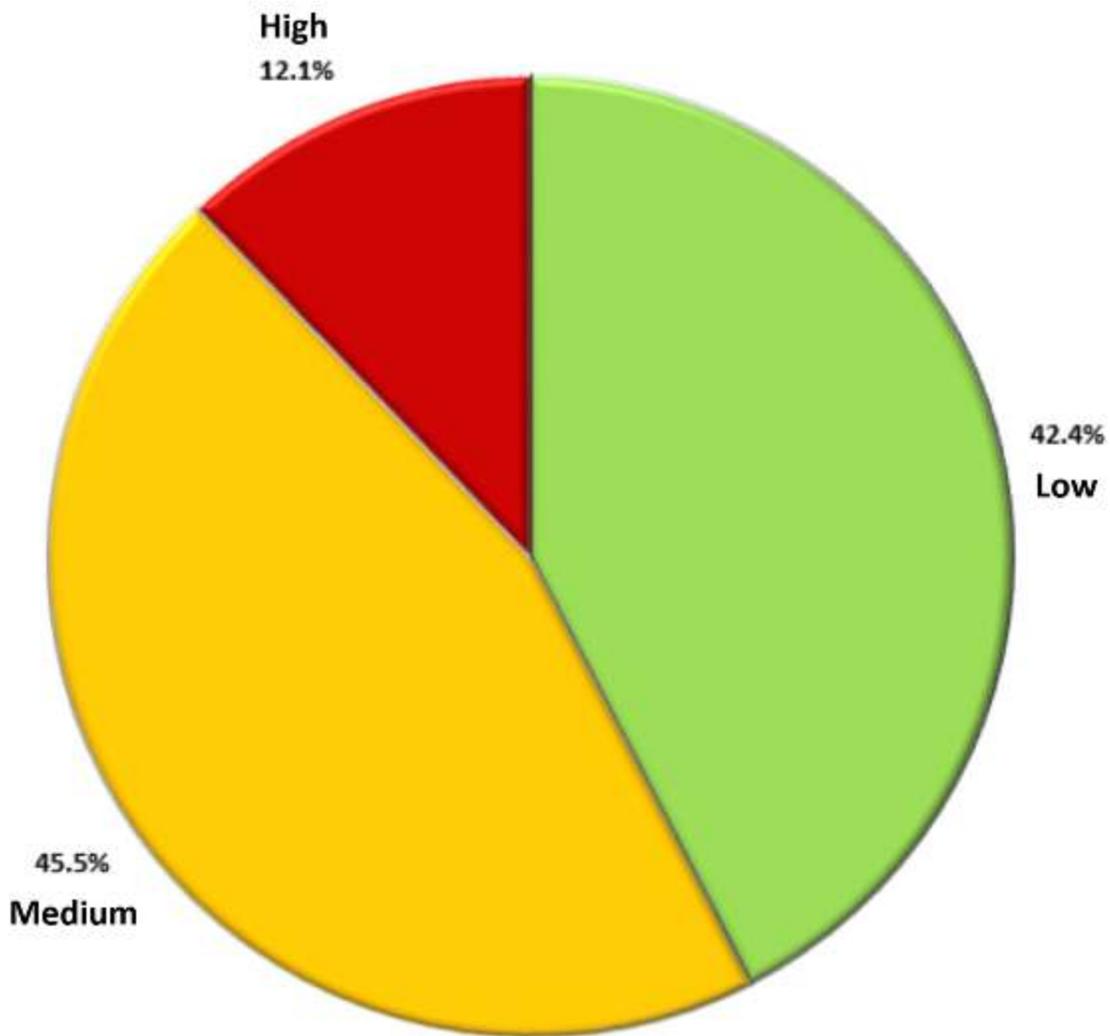
When our respondents were asked about their institutions asset size the majority (60.6%) of our respondents said they were over \$1 billion in assets versus those under \$1 billion (39.4%). However, for the institutions with assets over \$1 billion, the most common asset size was between \$1 to \$10 billion (27.3%) followed by \$51 to \$200 billion (15.2%).





Risk Rating:

The final demographic question we asked our respondents was to describe their institution's overall risk rating. The majority stated that they have a medium risk rating (45.5%) with the next most frequent answer was having a low risk rating (42.4%), and finally a high risk rating (12.1%).



General 504 Questions:

Regulated by the NYS DFS

When asked if our participants are regulated by the NYS DFS just over half said that they are not (54.5%).

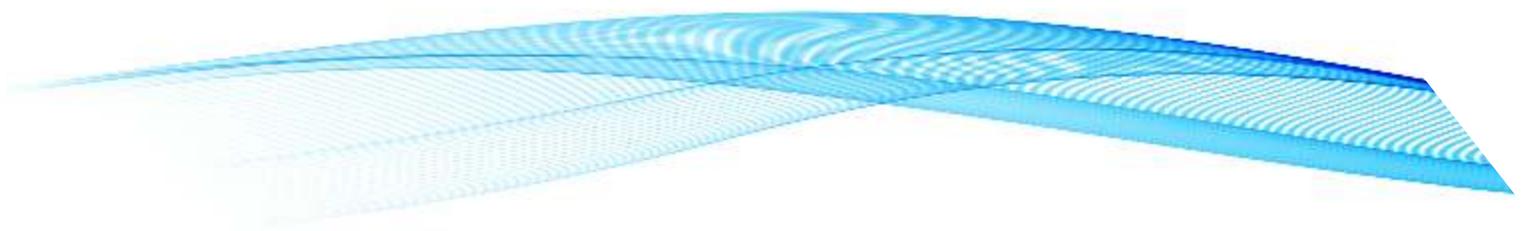




When Did Those Affected Implement Changes

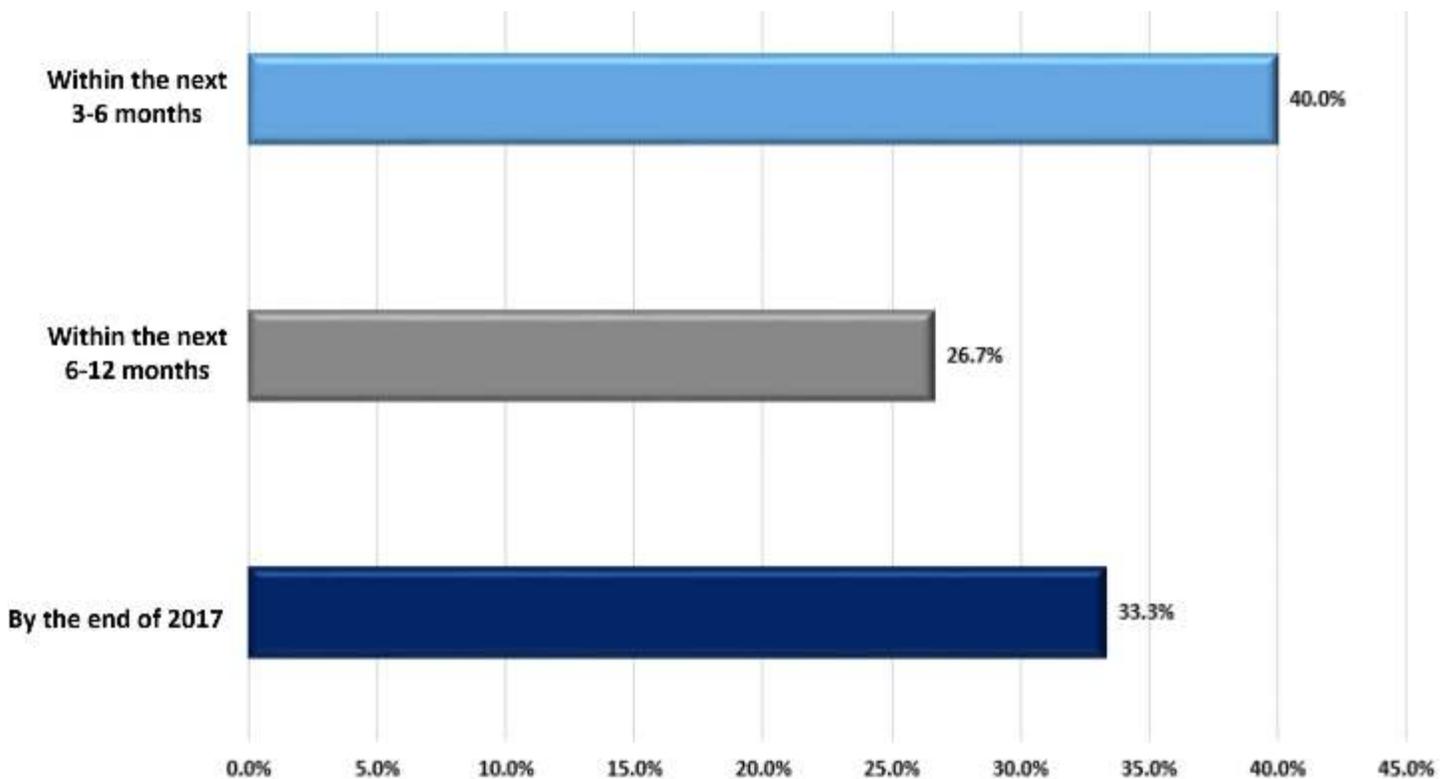
For those affected by Final Rule 504, the majority (73.3%) said they began in June 2016 to address their program and began planning or making adjustments as needed to comply.





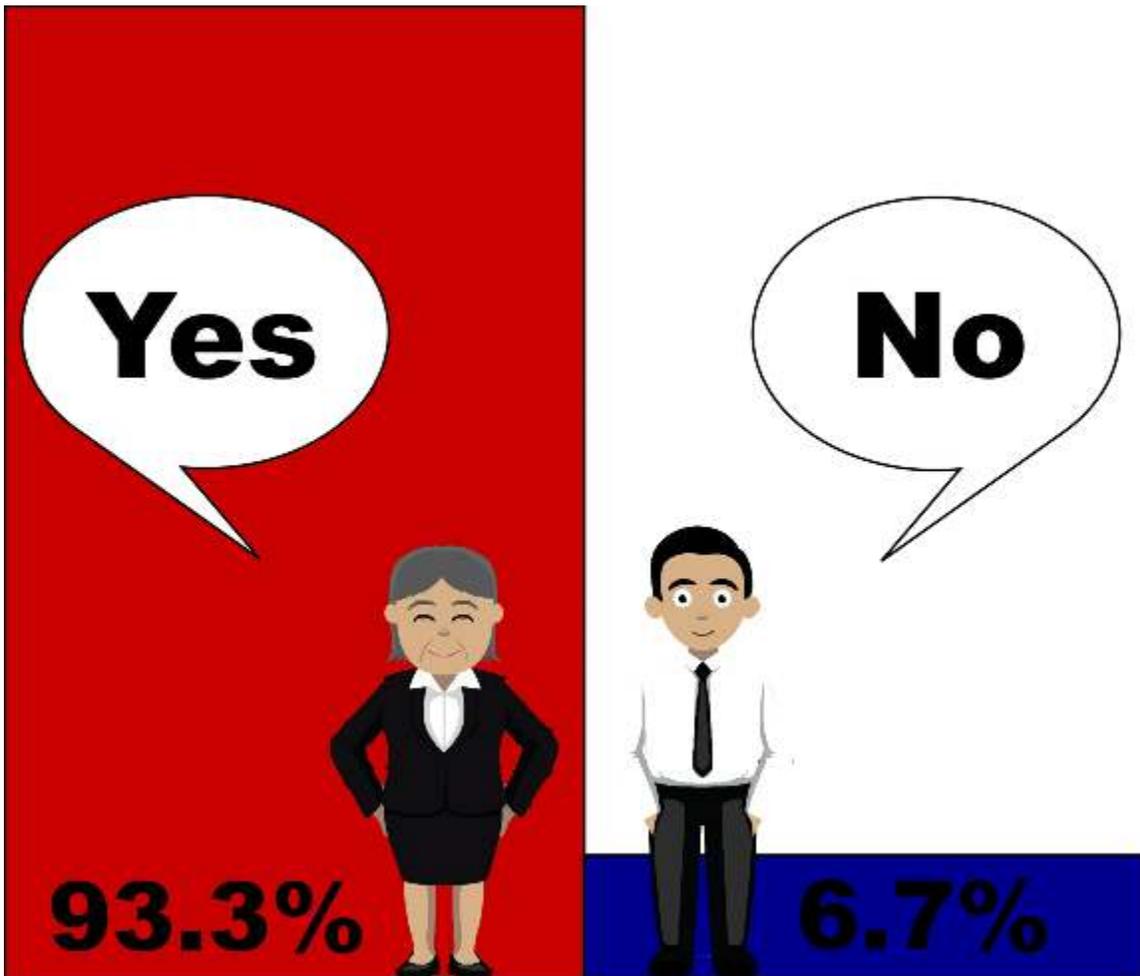
504 Implementation Planning

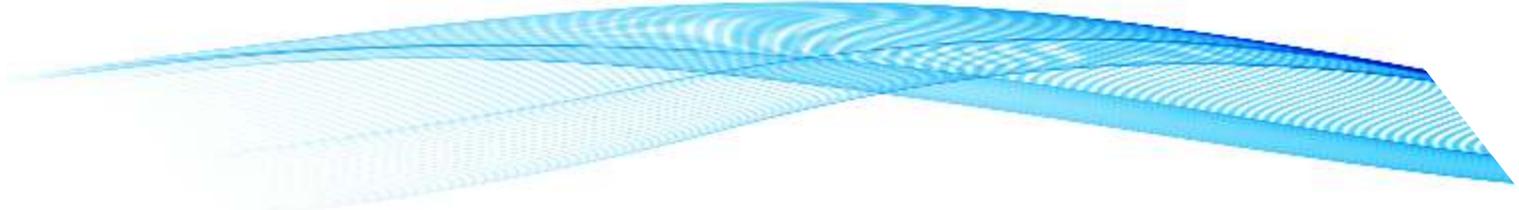
To get a better understanding of our respondents 504 planning phase, 40% said they would make the necessary changes within the next 3-6 months; however, the majority (60%) said within the next 6-15 months.



Maintaining Up-To-Date Job Descriptions

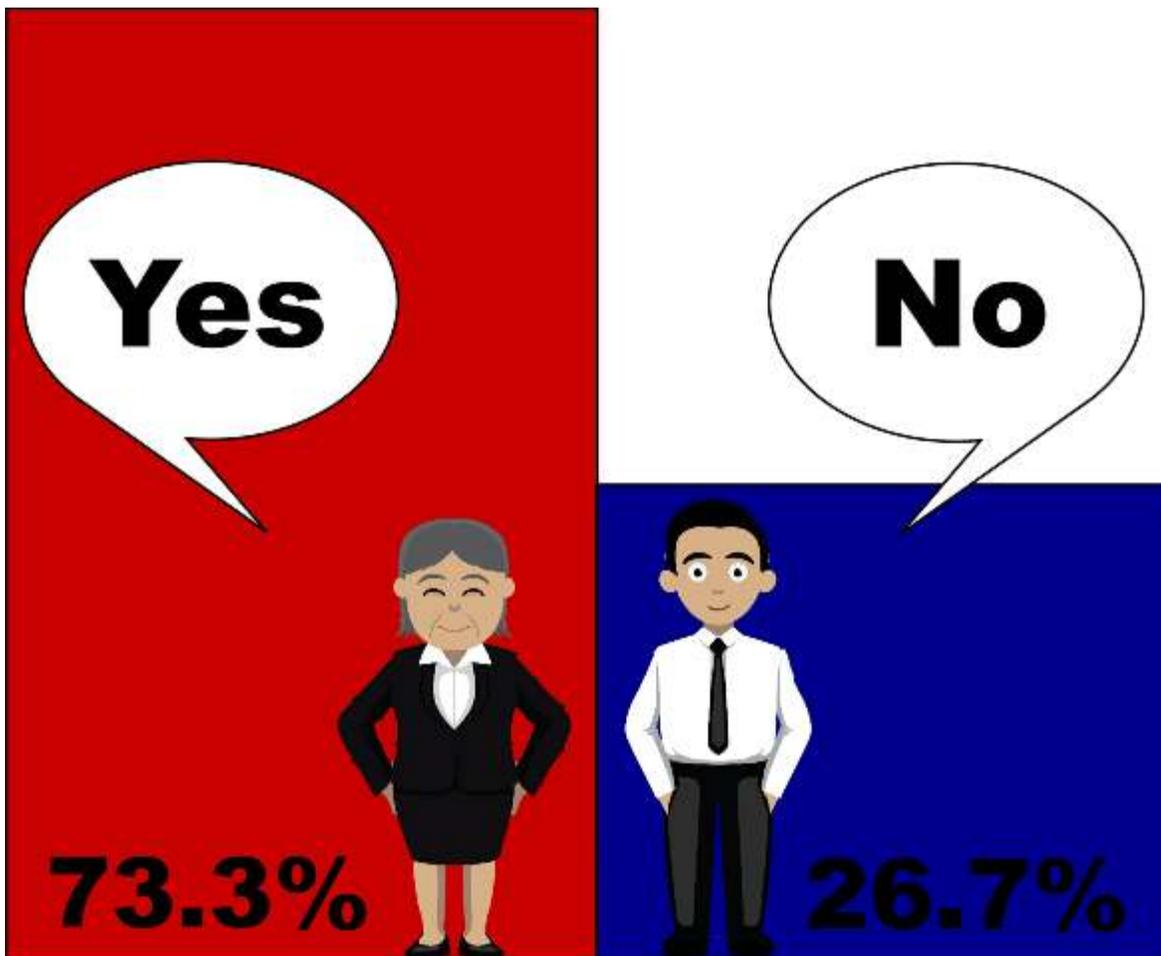
In considering some of the ways to demonstrate compliance with Final Rule 504, we asked if our participants maintain up-to-date job descriptions. The overwhelming majority said that they do (93.3%).





Verifying Job Descriptions to Resumes

Again, when considering ways to demonstrate compliance with Final Rule 504, the majority (73.3%) of our respondents said that they have verified that the employees performing each job description match their resume (skill set).

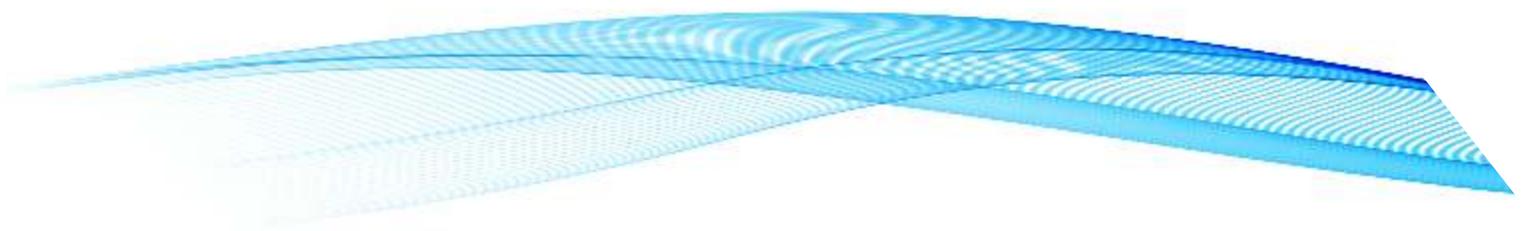




Verifying Appropriateness of AML Software

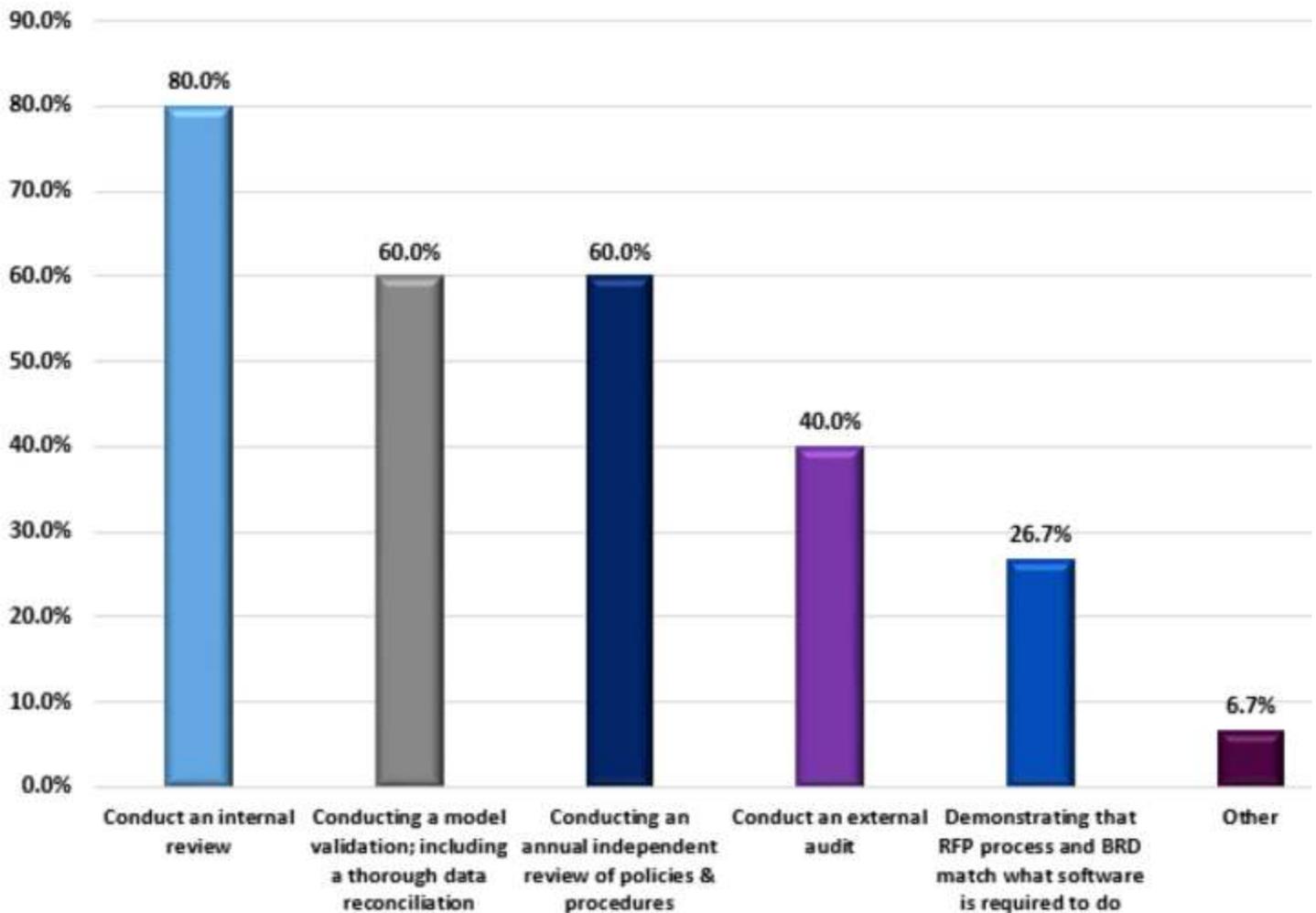
As outlined in Final Rule 504, when asked if our respondents are or have been verifying that their AML software solution is appropriate for their institution the majority said that they are (86.7%).





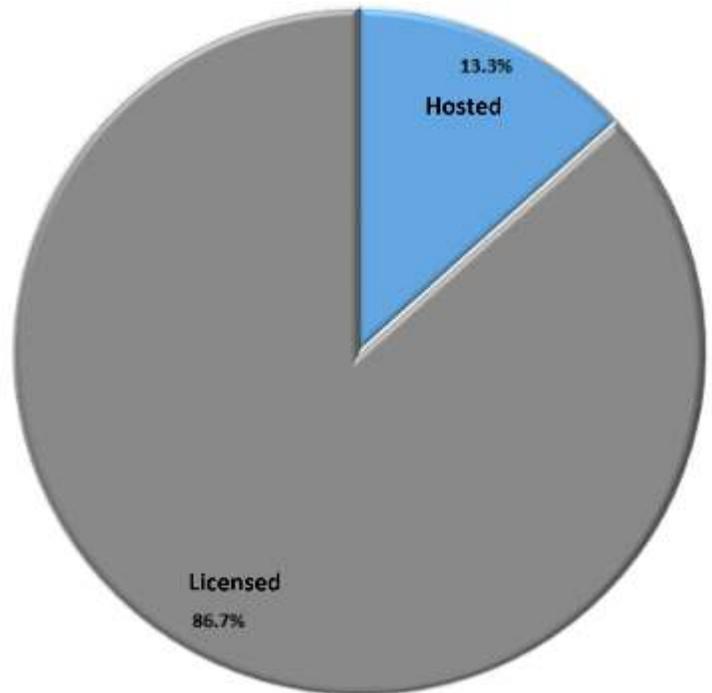
How Participants Are Verifying Appropriateness of AML Software

The majority of our respondents have conducted an internal review (80%) in addition to conducting both an AML model validation and annual independent review (60%). Those who chose the 'other' category (6.7%) noted that they utilize an 'internal audit' to determine the appropriateness of their AML software.



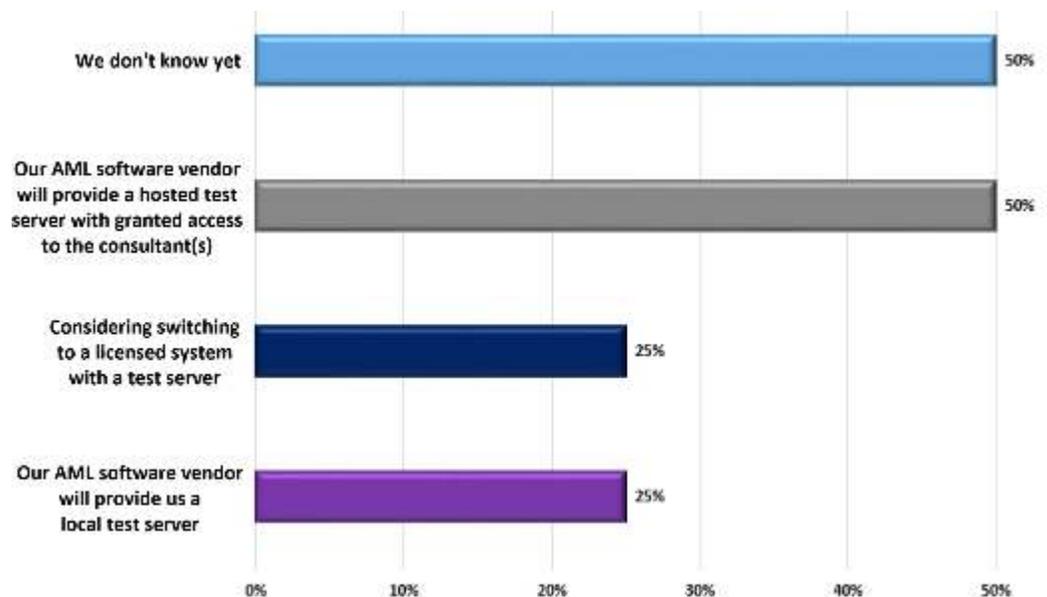
Hosted vs. Licensed AML Software

The majority of respondents have a licensed version of their AML software (86.7%).



Data Reconciliation

When considering ways to demonstrate compliance with Final Rule 504 and the data reconciliation requirements, the answers were quite varied. Most (50%) believe they'll either get a local test server or their hosted solution will grant them access.



Planning External Resources

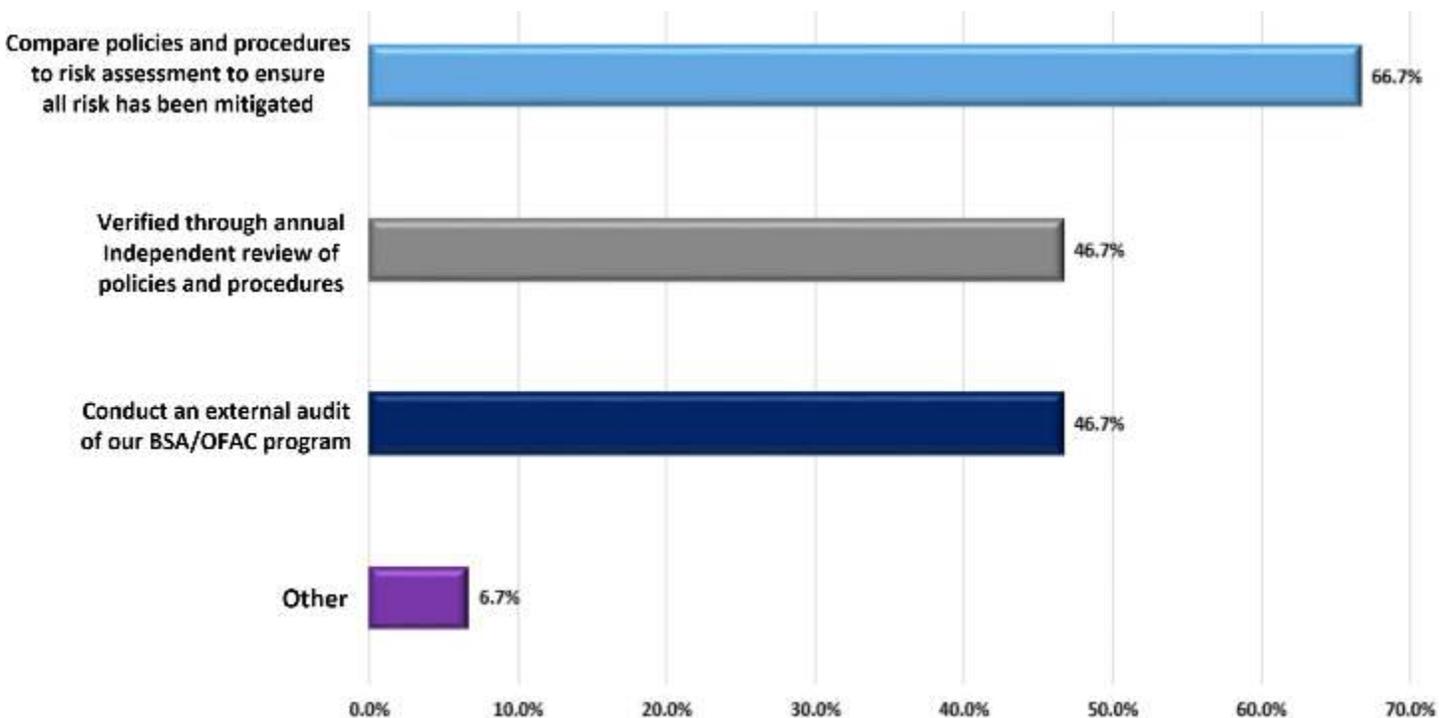
The overwhelming majority (86.7%) of our respondents are planning to use some degree of external resources to support them in their certification requirement.





Verifying Appropriateness of Policies and Procedures

When asked how our respondents are verifying that their policies and procedures are appropriate for their institution, the majority compare them to their risk assessment (66.7%) to ensure each risk has been addressed and mitigated, followed by annual independent review and/or audit of their program (both 46.7%). Those that chose the 'other' category (6.7%) indicated that they 'hired a one time external consulting team'.



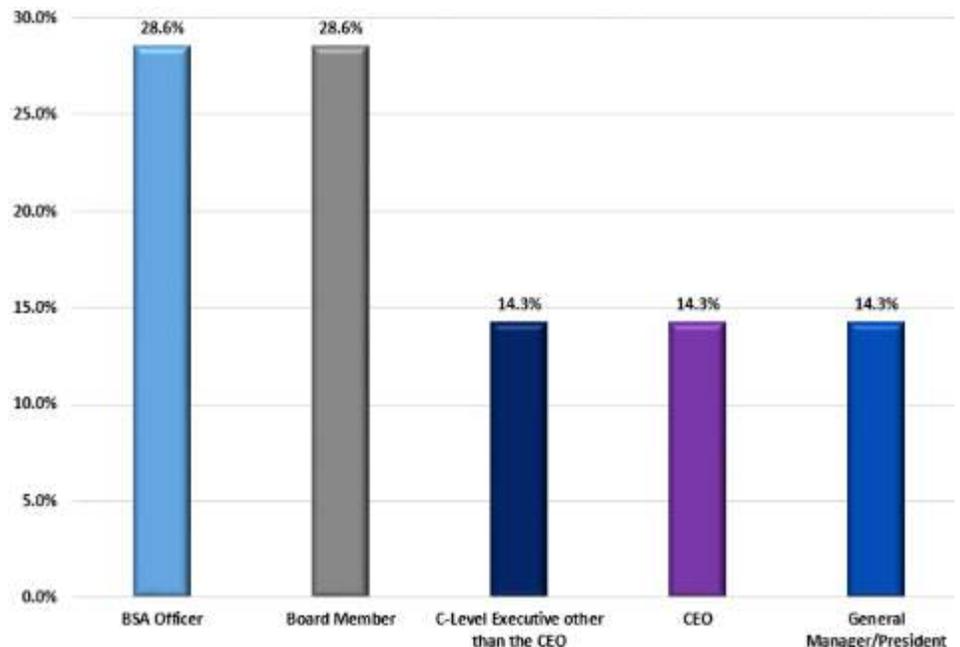
Selecting the Certification Sign off Representative

A key component of Final Rule 504 is selecting someone from the institution to certify the BSA and OFAC systems are working and appropriate. Our respondents are nearly split between having selected someone (46.7%) or not (53.3%).



Who Will Certify on Behalf of the Institution

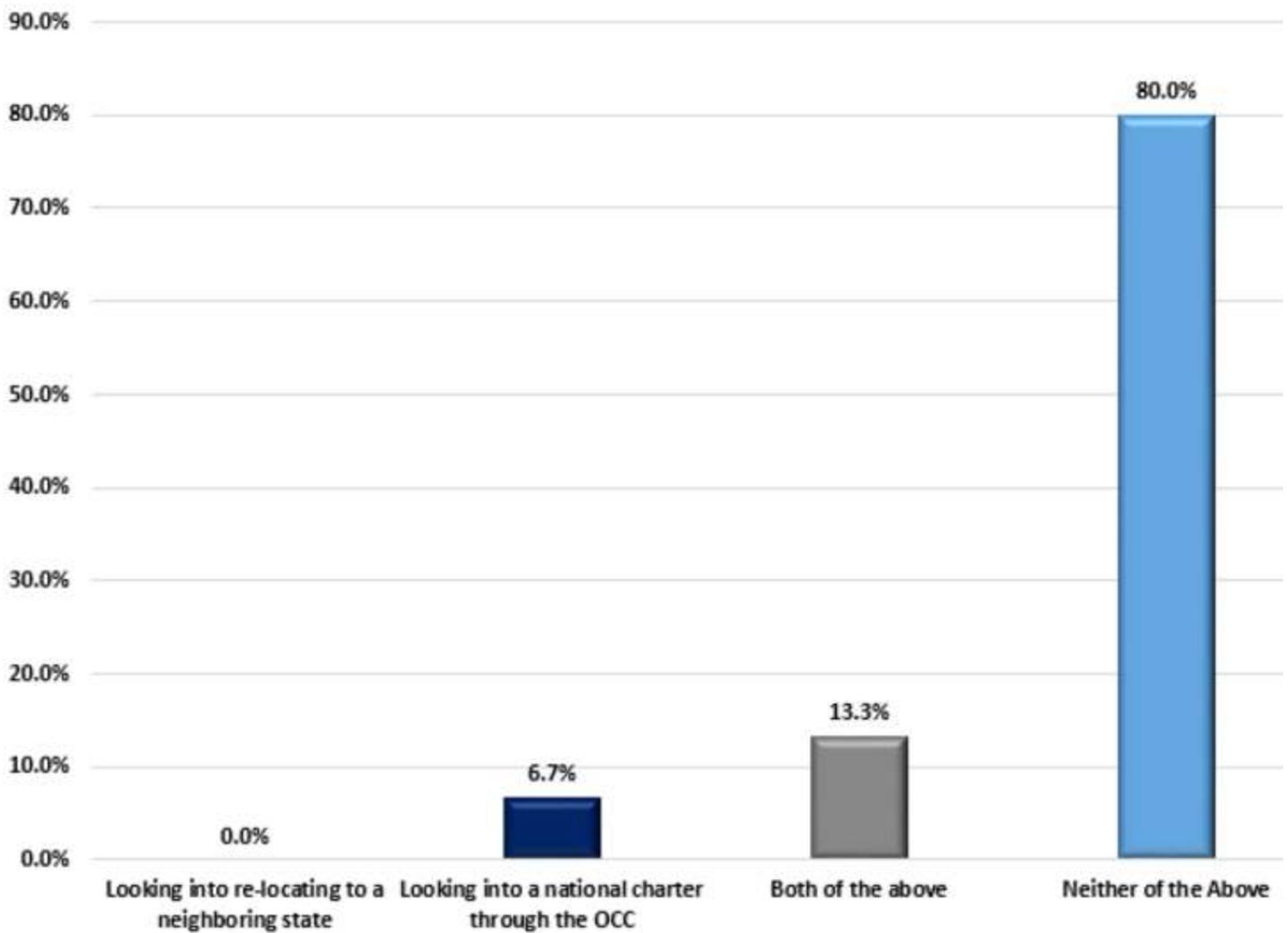
It seems that for those that have selected someone, the BSA Officer or a Board Member are the top choices, (both 28.6%).

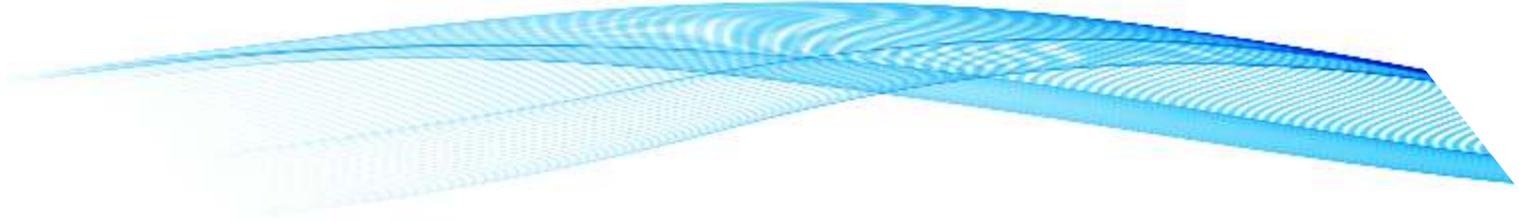




Alternative to NYS DFS Regulation

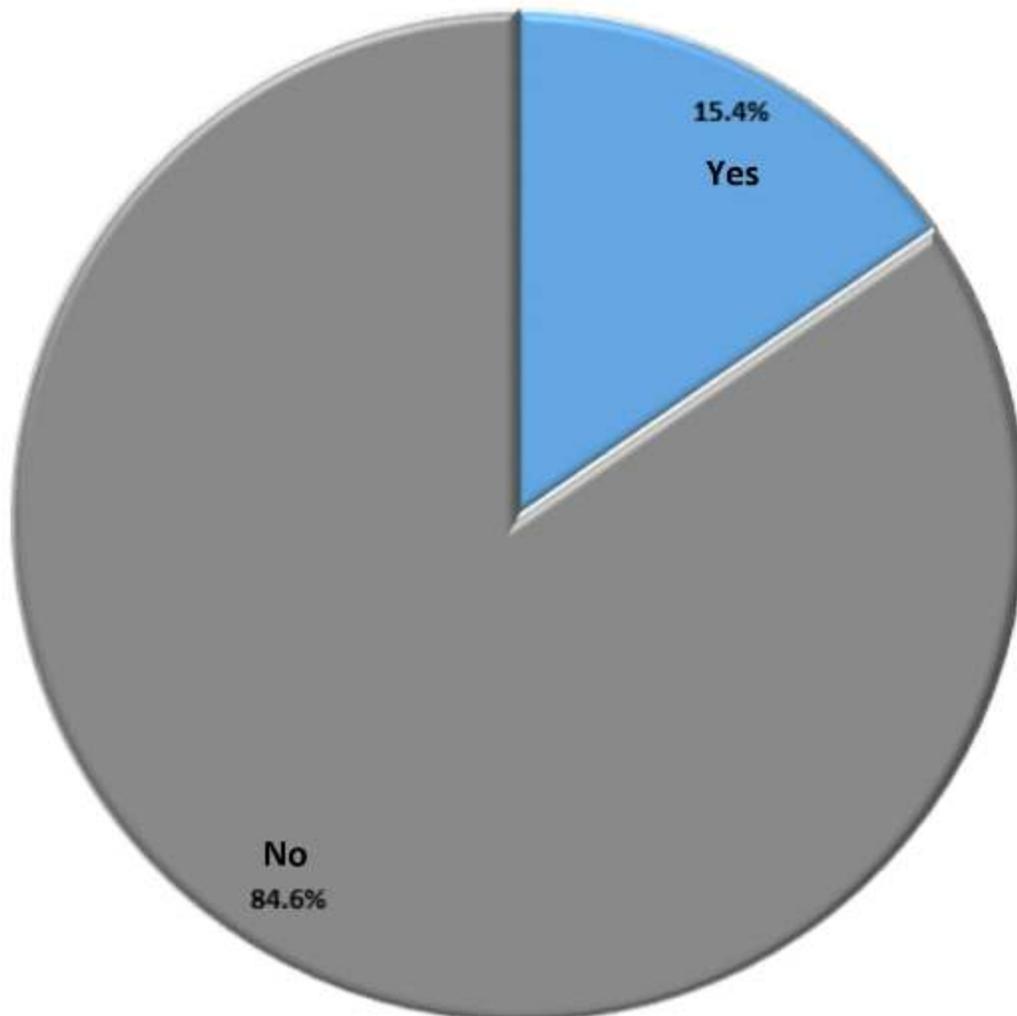
When considering alternatives to complying with Final Rule 504, the majority of respondents are not considering a move to neighboring states or a national charter through the OCC (80%). However just about 20% are considering either looking into a national charter or both options.





Applying for the National OCC Charter

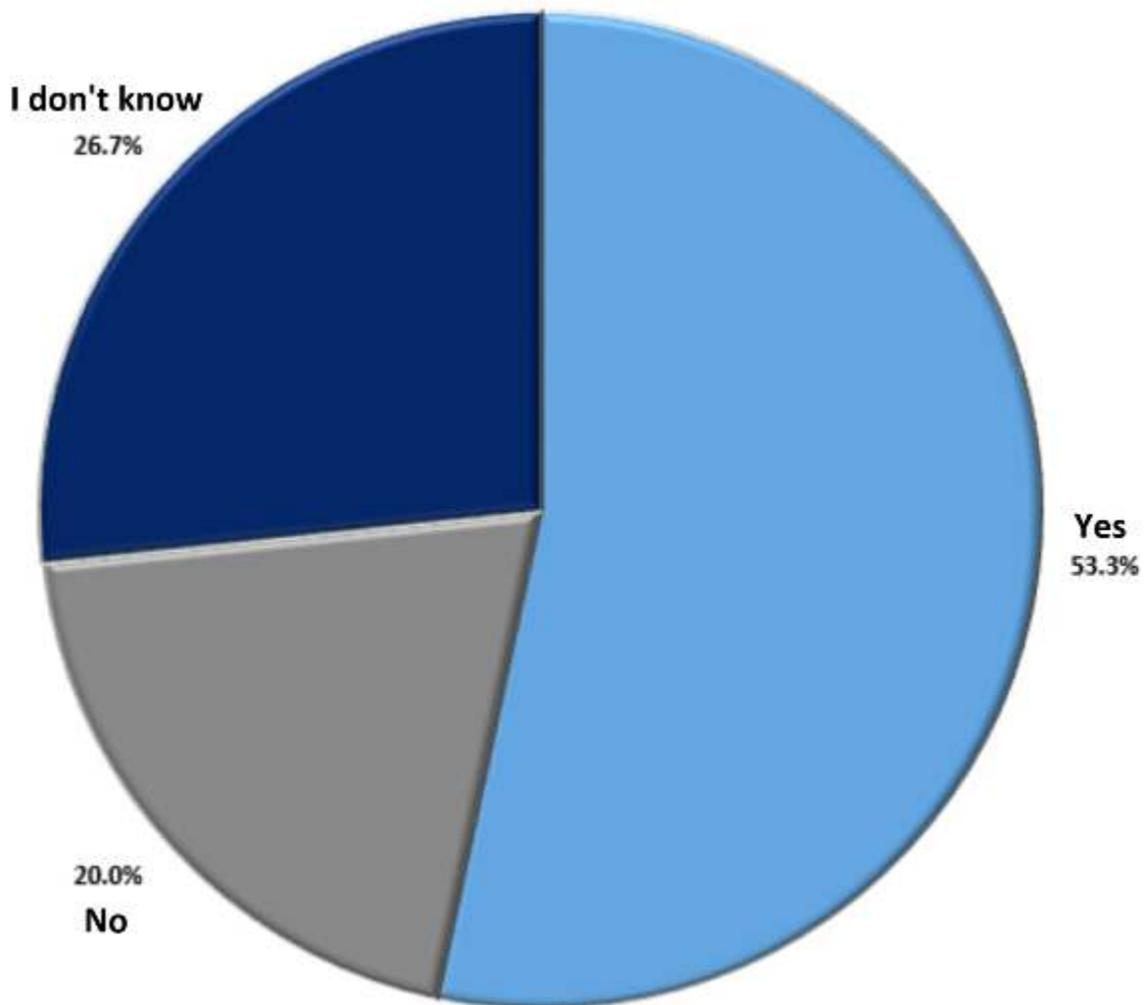
For the 6.7% of our respondents who said they are considering a national charter through the OCC, only 15.4% have said that they have already applied.

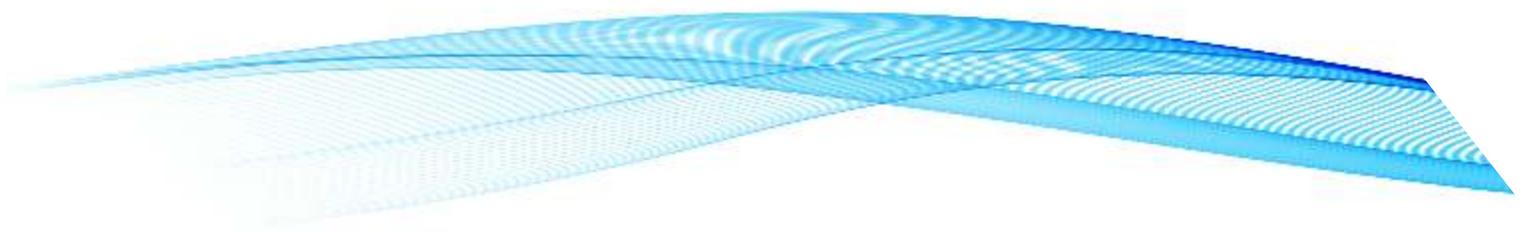




Compliance to Final Rule 504 For Those Affected

When we asked our participants if they believed their program would be compliant today, the majority (53.3%) said they would be but the other half said they either didn't know (26.7%) or weren't compliant (20%).

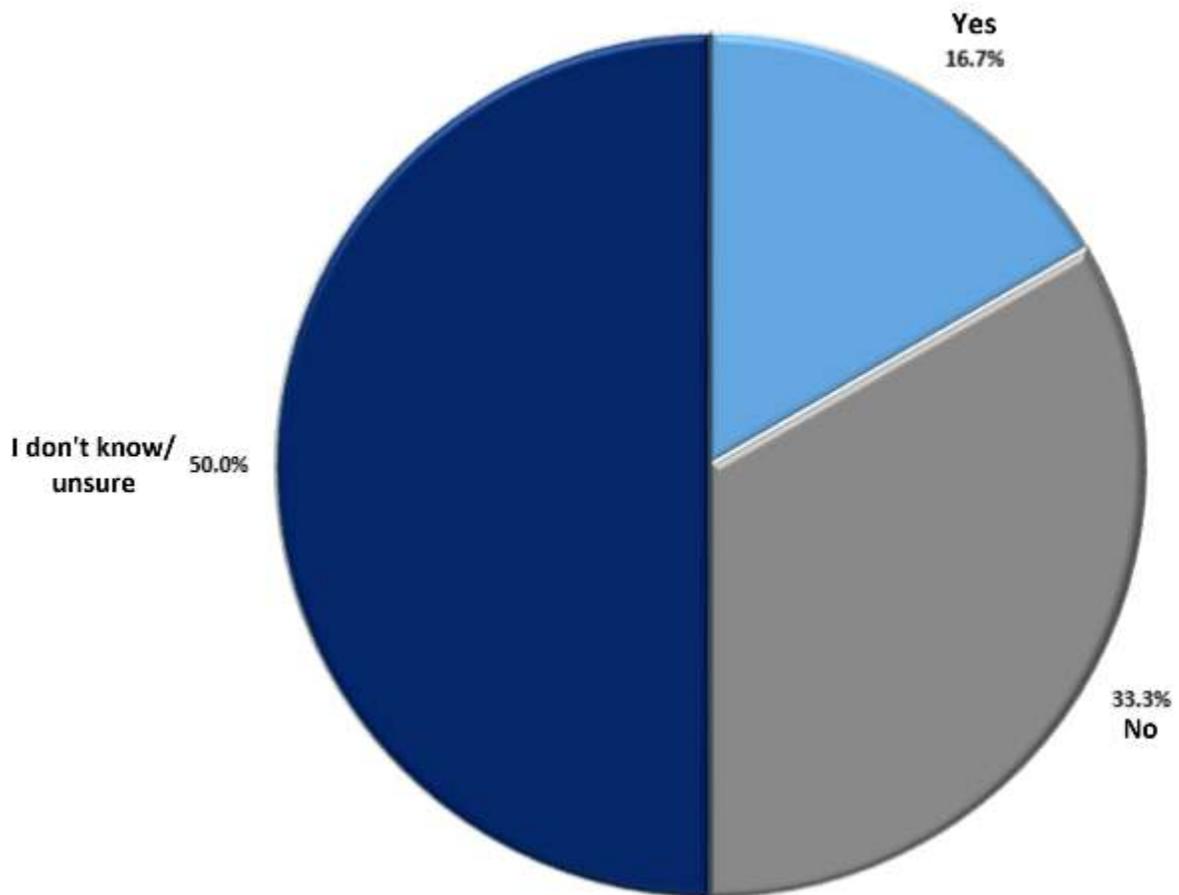


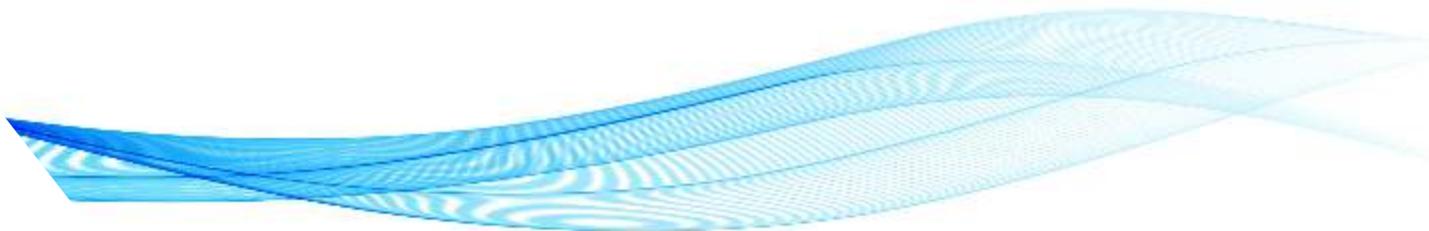


Those Not Regulated By NYS DFS

Will Other Regulating Bodies Adopt Final Rule 504

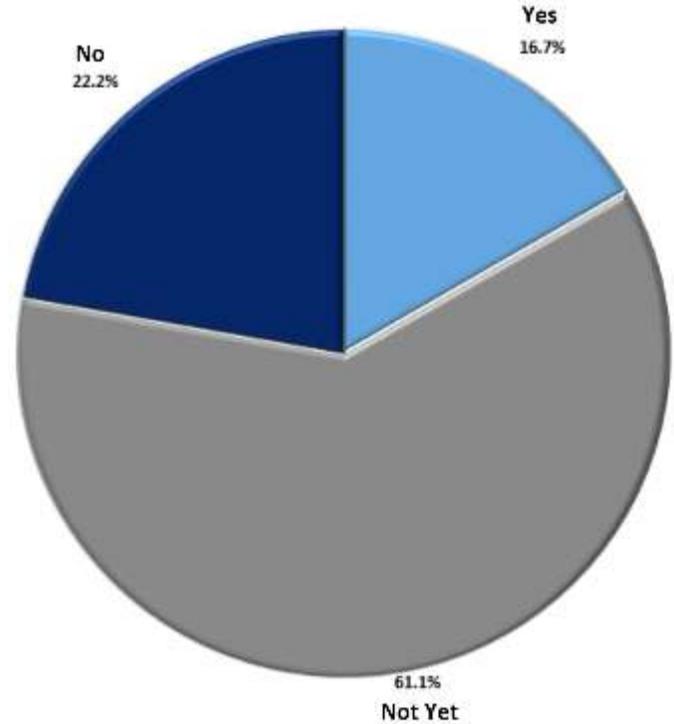
Most of our respondents said they weren't sure if their regulating body would adopt Final Rule 504 (50%), but more felt strongly that they would not (33.3%) versus those who felt they would (16.7%).





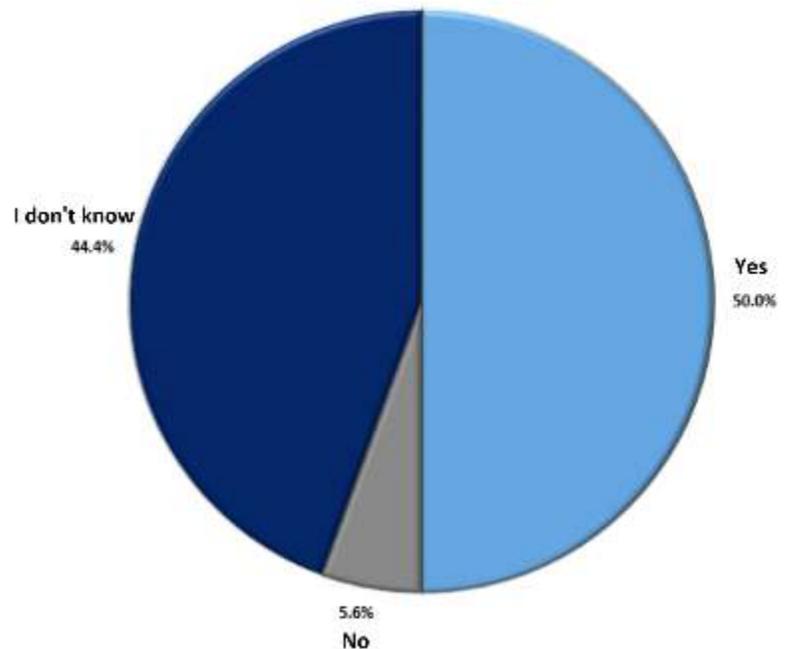
Preemptive changes

The majority of our respondents said they wouldn't make any adjustments yet (61.1%) to their BSA and OFAC programs.



Compliance to Final Rule 504 For Those Not Affected

When we asked the group who are not currently affected by Final Rule 504 if they believed they would be compliant today, the answers were strikingly different. Half of all respondents said 'yes' they would be compliant. 44.4% said they were unsure and 5.6% said 'no'.



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>.

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"