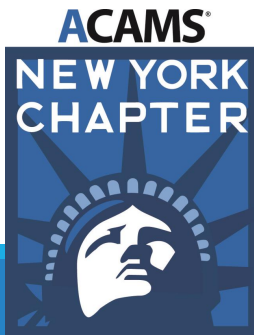


# New York State of Mind: Model Validation and Section 504

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ACAMS NEW YORK CHAPTER LEARNING EVENT  
JANUARY 24, 2019



# New York State of Mind: Model Validation and Section 504

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## Moderator

- Meryl Lutsky, ACAMS New York Chapter Co-Chair

## Panel

- Maleka Ali, CAMS-Audit, President, Arc-Serv
- Lukas Babiak, BSA/AML Lead for International Banking Supervision out of New York, OCC
- Monica LaCroix-Rubin, CAMS, SVP, Chief Compliance Officer, BNB Bank
- Evan Weitz, Managing Director, Head of Controls, Europe & Americas, Financial Crime Compliance, Standard Chartered



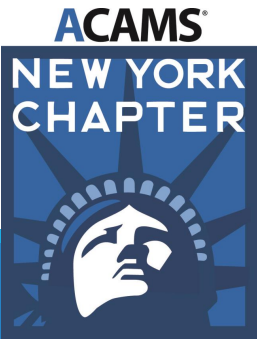
# New York State of Mind: Model Validation and Section 504

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## Agenda

1. NY 504 and Model Validations: Basic Requirements and Common Audit Findings
2. OCC Model Validation Expectations
3. Perspective and experiences from
  - A small institution
  - A mid-size institution
  - A large institution

## Q & A



# How did we get here?

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OCC: Supervisory Guidance on Model Risk Management (OCC bulletin 2011-12 )

- Established model validations requirements

FinCEN: 2014 Guidance outlining the need for financial institution leaders to promote a culture of compliance that is specific to AML compliance obligations.

- Stressed that compliance is not just about policies, procedures or the compliance department.
- Without institutions' leaders showing strong support for compliance with a tone at the top mentality, the program is more likely to fail than succeed.

Benjamin Lawsky, former superintendent of NYDFS: Introduced the regulation for New York's 504

- Emphasized: Senior bank executives attest to adequacy of institutions' BSA/AML monitoring programs.

# Required Attributes for Both Transaction Monitoring and Watchlist Filtering programs:

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Based on comprehensive and ongoing risk assessment

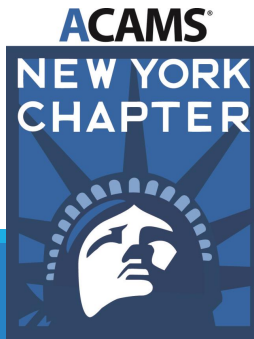
Requires end-to-end and before-and-after implementation testing

Identify relevant data sources, validate integrity and quality of data, and ensure data is accurately mapped and transferred from sources to all automated systems

Provide and certify governance and management oversight of programs and all changes.

Programs must be appropriately funded and staffed by qualified personnel or outside consultants and include appropriate and periodic training for all participants

Document areas needing improvement, along with remedial efforts and make documentation available for inspection by examiners



# Required Attributes for Transaction Monitoring Programs:

Periodically reviewed and updated at risk-based intervals

Match AML risks at the institution.

- Each institution is unique
- Don't rely on default settings or mirror the bank down the street

While it is universally accepted that you cannot catch everything.....

- Program must include scenarios with threshold values and amounts reasonably designed to identify potential suspicious activities. ***In other words, is it doing what it is supposed to do?***

Reviews of governance, data mapping, transcodes, scenario logic, data input and program output

Documentation detailing detection scenarios and assumptions for parameters and thresholds

Procedures detailing investigation and decision-making process

Ongoing analysis of relevance of scenarios, rules, thresholds, parameters



# Attributes: Watchlist Filtering Programs

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Filtering program reasonably designed to catch transactions in violation of OFAC

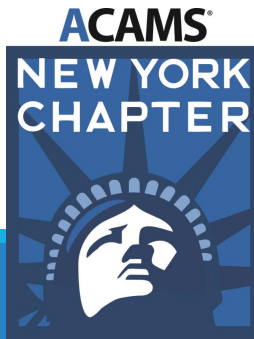
Technology, processes or tools reasonably designed for matching names and accounts, based on the risks, transaction and product profiles of institution

Review data matching criteria to determine:

- Whether OFAC list and system's settings map to institution's risks
- Evaluate logic of matching technology or tools, and test data input and program output

Ongoing analysis of logic and performance of technology/tools used

Maintain program documentation that articulates the reasoning and design of the filtering program tools, processes and/or technology



# Next Steps for Institutions

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- Examiners taking an aggressive approach
  - Reviews & updates may include:
    - Gap analysis
    - Updated risk assessment
    - Enhanced documentation
    - Further testing & validation
    - Development of a well-documented certification process





# COMMON FINDINGS

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Default Settings

No below/above the line testing

Lack of documentation

No evidence of validation

Exclusion of customers, products, services

Unsupported Sampling Methodology

Validator really doesn't understand tools



# Common Data Problems

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NAICS codes-Business Type

Tin Codes

Non Resident aliens

Signer information

Relationship codes

Beneficiaries

Employees

Missing data



# Is Critical Data Missing

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## Common Missing Data

International wires

Activity to Loans/Certificates

Monetary instrument Sales

Armored Car Deposit Services



# Does it work? Are they using it?

- Adequate
- Performance
- Used correctly
- Reliable information



Data integrity from end to end is one concern, but there's more to validation



# Program Efficiency Reviews

*Are they using the  
software correctly?*

—

*Are they finding  
suspicious activity?*



- Automation brings powerful tools, but are they all turned on?
- Recognition of evolving crime trends?



# Optimization/Tuning

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## Meaningful investigations

A “meaningful” investigation could result in a “no-SAR” decision



All alerts need not result in an investigation

Effectiveness & investigation will differ based on intended purpose of scenario

# Validation Includes (AML & OFAC)

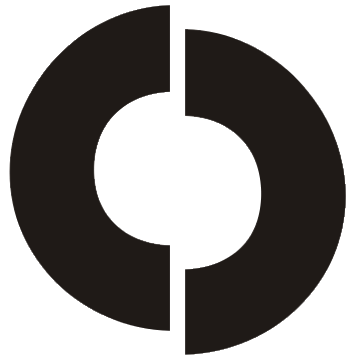
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- **VALIDATION**
  - **Data Integrity**
  - **Rules Algorithm Testing**
  - **Program Tuning and Efficiency Reviews and evaluations**



# Model Validations

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Comptroller of the Currency  
Administrator of National Banks

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US Department of the Treasury





# 504 and Model Validations from a Small Bank's Perspective

# 504 and Model Validations from a Mid-Size Bank's Perspective

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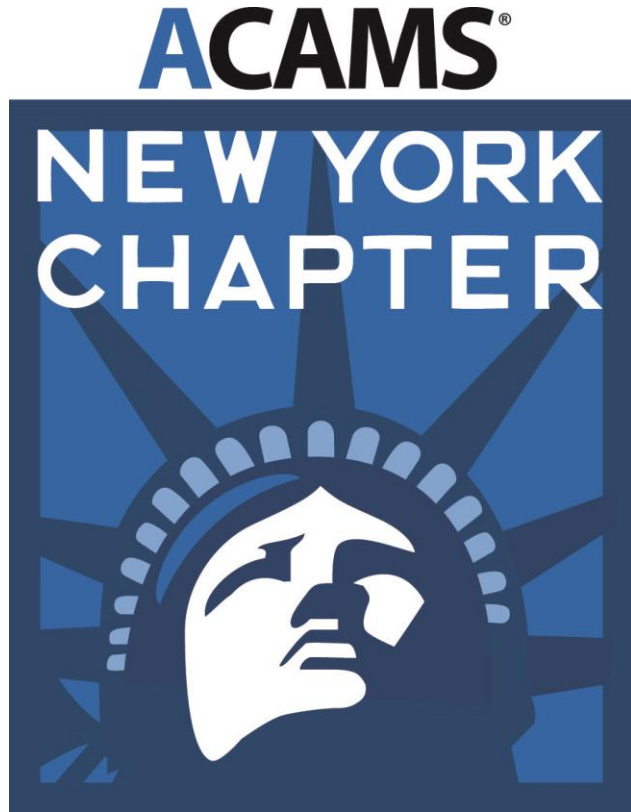
## Attestation Process

- Identified stakeholders for each section of the regulation
- Stakeholders signed sub-attestations for their areas of responsibility
- Who is responsible for...
  - Core System Transaction Codes
  - Transfer of Data to AML Software
  - Vendor Management
  - Training

## Discussions With the Board

- Resources and Budget





# 504/Model Validation from a Big Bank's Perspective

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Q & A

