

MEMO# 13507

May 14, 2001

SEC STAFF REMARKS ON ANTI-MONEY LAUNDERING COMPLIANCE

[13507] May 14, 2001 TO: COMPLIANCE ADVISORY COMMITTEE No. 20-01 INTERNATIONAL COMMITTEE No. 35-01 SEC RULES MEMBERS No. 40-01 TRANSFER AGENT ADVISORY COMMITTEE No. 34-01 RE: SEC STAFF REMARKS ON ANTI-MONEY LAUNDERING COMPLIANCE Lori Richards, Director of the SEC's Office of Compliance Inspections and Examinations ("OCIE"), delivered remarks entitled "Money Laundering - It's on the SEC's Radar Screen" at a recent conference focusing on anti-money laundering compliance for broker-dealers. The text of her remarks is attached and is summarized below. Ms. Richards first spoke about the SEC's interest in money laundering prevention, noting the risks to the securities markets and to individual firms that could result if securities firms are used for money laundering. After commenting that the SEC's interest in combating money laundering is not new, she indicated that the SEC intends to refocus examination attention on money laundering with two goals in mind. The first goal is to ensure that "all firms in the securities industry" institute anti-money laundering policies and procedures. The second goal is to spur firms that already have anti-money laundering programs to ensure they are "top-notch" and are being implemented effectively. According to Ms. Richards, OCIE staff members have been conducting "fact-finding" examinations of broker-dealers to learn about existing money laundering compliance programs and have begun meeting with industry groups to get their ideas. Together with the New York Stock Exchange and the National Association of Securities Dealers, Inc., OCIE is developing a new joint examination module for money laundering. A joint "sweep" of broker-dealers will be conducted later this year to help assess what steps are needed to improve money laundering compliance and help identify firms that are at risk. Ms. Richards briefly outlined the existing anti-money laundering laws applicable to broker-dealers, as well as SEC and SRO rules and interpretations that assist in money laundering detection. She then described what firms can expect in a money laundering examination. She indicated that the primary focus will be on policies, procedures and controls relating to money laundering. In terms of procedures, she noted that "there is no one-size-fits- all template," but rather a firm should conduct a risk assessment of its own business and customers to develop an overall strategy appropriate for its business. She emphasized that 2firms should have written policies and procedures containing the basic elements of their anti- money laundering compliance programs. Examiners also will look at how a firm determines what is unusual or suspicious activity, what steps are taken once an unusual activity is identified, whether anti-money laundering training is provided for employees, and how the anti-money laundering program is audited or tested. In terms of monitoring and risk indicators, the "best practice would be for a broker- dealer's policy to contain appropriate parameters and methods of monitoring so that suspicious customer activity can be detected and appropriate action can be taken." Ms. Richards then provided a non-exhaustive list of 'common sense' risk indicators that

may arise either during the account opening process or as part of customer account activity and that may be used to trigger additional scrutiny. Ms. Richards mentioned that some additional or different questions might be asked in examinations of clearing firms or firms that specialize in online brokerage. She noted that online brokers open customer accounts “never seeing or speaking with the customer.” Such firms will be asked what information they obtain before accepting accounts and executing transactions, when they use databases and other publicly available information to confirm customer information and verify customer identity, and under what circumstances they contact customers by phone to verify information or seek information about transactions. There are several steps firms can take, if they have not already done so, to prepare for a visit from securities regulators, Ms. Richards said. These include designating a compliance officer or committee responsible for the firm’s money laundering compliance program, developing written policies and procedures, ensuring management support for the firm’s anti- money laundering efforts, covering all aspects of the firm’s business, training employees and auditing the program. The text of Ms. Richards’ remarks is also available on the SEC’s website at <http://www.sec.gov/news/speech/spch486.htm>. Frances M. Stadler Deputy Senior Counsel

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