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BSA-AML-RISK-BASED APPROACH TO ASSESSING CUSTOMER RELATIONSHIPS AND CONDUCTING CUSTOMER DUE DILIGENCE

The Federal Banking Agencies have issued a joint statement to remind banks of the risk-based approach to assessing customer relationships and conducting customer due diligence (CDD). The statement does not alter existing Bank Secrecy Act/Anti-Money Laundering (BSA/AML) legal or regulatory requirements, nor does it establish new supervisory expectations.

The Agencies recognize that it is important for customers engaged in lawful activities to have access to financial services. Therefore, the Agencies are reinforcing a longstanding position that no customer type presents a single level of uniform risk or a particular risk profile related to money laundering, terrorist financing, or other illicit financial activity.

Banks must apply a risk-based approach to CDD, including when developing the risk profiles of their customers. More specifically, banks must adopt appropriate risk-based procedures for conducting ongoing CDD that, among other things, enable banks to: (i) understand the nature and purpose of customer relationships for the purpose of developing a customer risk profile, and (ii) conduct ongoing monitoring to identify and report suspicious transactions and, on a risk basis, to maintain and update customer information.

Customer relationships present varying levels of money laundering, terrorist financing, and other illicit financial activity risks. The potential risk to a bank depends on the presence or absence of numerous factors, including facts and circumstances specific to the customer relationship. Not all customers of a particular type automatically represent a uniformly higher risk of money laundering, terrorist financing, or other illicit financial activity.

Banks that operate in compliance with applicable BSA/AML legal and regulatory requirements, and effectively manage and mitigate risks related to the unique characteristics of customer relationships, are neither prohibited nor discouraged from providing banking services to customers of any specific class or type. As a general matter, the Agencies do not direct banks to open, close, or maintain specific accounts. The Agencies continue to encourage banks to manage customer relationships and mitigate risks based on customer relationships, rather than decline to provide banking services to entire categories of customers.

In addition, the Agencies recognize that banks choose whether to enter into or maintain business relationships based on their business objectives and other relevant factors, such as the products and services sought by the customer, the geographic locations where the customer will conduct or transact business, and banks' ability to manage risks effectively.

The statement addresses the Agencies' perspective on assessing customer relationships as well as CDD requirements. It applies to all customer types referenced in the *Federal Financial Institutions Examination Council (FFIEC) Bank Secrecy Act/Anti-Money-Laundering Examination Manual* and also applies to any customer type not specifically addressed in the *FFIEC BSA/AML Examination Manual*.

The foregoing Compliance Update is for informational purposes only, and does not constitute legal advice. As a reminder, the NBA general counsel is the attorney for the Nebraska Bankers Association, not its member banks. The general counsel is available to assist members with finding resources to help answer their questions. However, for specific legal advice about specific situations, members must consult and retain their own attorney.