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MEMORANDUM

July 6, 2016

To Our Clients and Friends

Re: NY DFS Issues Transaction Monitoring and Filtering Program Regulation

The New York Department of Financial Services (DFS) has adopted a regulation that requires banks and nonbank institutions regulated by the DFS (Regulated Institutions) to maintain programs to monitor and filter transactions to prevent potential Bank Secrecy Act (BSA)/anti-money laundering (AML) violations and to prevent transactions with sanctioned entities. The regulation will become effective January 1, 2017.

The regulation requires Regulated Institutions to maintain a reasonably designed Transaction Monitoring Program, which among other requirements, must be based on a risk assessment of the institution and appropriately match BSA/AML risks to the business, its products/services and its customers/counterparties. The program must be reviewed periodically, and must include documented BSA/AML detection scenarios and the protocols outlining the program's investigatory methods and processes.

All Regulated Institutions must also maintain a reasonably designed Watch List Filtering Program, which is accurately documented based on the risk assessment of the institution, and includes identification matching technology for names and accounts. Both the Watch List Filtering Program and the Transaction Monitoring Program must be subjected to pre and post implementation testing, ongoing analysis and documentation of remediation.

The regulation outlines additional specifications for both programs, including instituting identification and validation of data sources, data extraction and loading processes, management oversight, program funding, qualified personnel to manage the programs, periodic program training, and a vendor selection process, as applicable.

Beginning April 15, 2018, Regulated Institutions will be required each year to adopt and submit to the Superintendent a board resolution or senior officers' compliance finding in a form specified by the DFS. The annual resolution or finding must state that all documents submitted have been reviewed by the board of directors or senior officers to certify compliance with the regulation. Supporting records, schedules and data must be maintained for at least five years.

A copy of the DFS regulation is available on our website at <http://www.schwartzandballen.com/news.html>

If you have any questions, please call Gilbert Schwartz, Robert Ballen, Tom Fox, or Heidi Wicker at (202) 776-0700.