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**MEMORANDUM**

April 12, 2021

To Our Clients and Friends

Re: Agencies' Statement on Model Risk Management for Bank BSA/AML Compliance Systems

The Federal Reserve Board, the FDIC, and the Comptroller of the Currency have issued a statement addressing how the risk management principles described in the agencies' "Supervisory Guidance on Model Risk Management" (the "MRMG") relate to systems or models used by banks to assist in compliance with requirements of the Bank Secrecy Act and its implementing regulations.

The statement clarifies the following:

- The MRMG does not have the force of law. It is nonbinding and provides principles that may help banks manage their BSA/AML compliance program. Banks may use some or all of the principles outlined in the MRMG in their risk management processes.
- The MRMG is not intended as a set of testing procedures and does not establish any requirement or expectation that banks perform duplicative testing processes for complying with BSA/AML requirements.
- Certain processes and systems used in BSA/AML compliance may not be models. A Bank is to determine whether a system used for BSA/AML compliance is a model. When making this determination, a bank may consider the MRMG definition of a model<sup>1</sup> and the three components that characterize models.<sup>2</sup>
- The principles outlined in the MRMG provide flexibility for banks in developing, implementing, and updating models.
- Banks may use third-party models for BSA/AML compliance-related activities. When doing so, banks may consider the principles discussed in the agencies' third-party risk management issuances and the aspects of the MRMG that address third-party models.

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<sup>1</sup> The MRMG defines a "model" as "a quantitative method, system, or approach that applies statistical, economic, financial, or mathematical theories, techniques, and assumptions to process input data into quantitative estimates." "Supervisory Guidance on Model Risk Management," Federal Reserve SR Letter 11-7; OCC Bulletin 2011-12; and FDIC FIL 22-2017.

<sup>2</sup> The three components are an information input component, which delivers assumptions and data to the model; a processing component, which transforms inputs into estimates; and a reporting component, which translates the estimates into useful business information.

## **SCHWARTZ & BALLEEN LLP**

The agencies are also requesting comment on the extent to which the principles outlined in the MRMG support compliance with BSA/AML and OFAC requirements. Comments are due by June 11, 2021.

Copies of the statement and the request for information are available on our website at <http://schwartzandballen.com/news.html>.

For more information, please call Gilbert Schwartz, Robert Ballen, Heidi Wicker, or Victor Razon at (202) 776-0700.