A TIMELY BIMONTHLY INFORMATION AND IDEA STATEMENT

FINANCIAL INSTITUTIONS INSIGHTS

Delivering bimonthly information critical to community banking professionals while tackling issues ranging from IT security to regulatory compliance to operational improvements

In this issue:

RSM Anti-Money Laundering Survey

Best practices and benchmarking for your AML program

Download the full report

The RSM Anti-Money Laundering (AML) Survey was developed to help banks understand best practices and benchmark their AML compliance efforts against peers. This comprehensive resource provides a detailed analysis of AML functional structures, staffing levels and certifications, costs, risk tolerance, performance of key compliance processes, technology and training.

Emerging risks and increased regulatory scrutiny and enforcement are putting intense pressure on AML compliance programs, and banks need to continuously enhance their strategies to address necessary changes. AML processes that were sufficient in the past may not be effective today, and new expectations based on risks observed at other institutions can lead to regulatory gaps and control deficiencies.

AML regulations are challenging for banks, and knowing how institutions of similar size, complexity and risk structure AML compliance activities and manage evolving regulations can help identify opportunities and keep AML programs relevant.

AML Survey discovers key compliance trends and processes

Our survey helps banks understand how peers are reacting to AML challenges and how to implement a more effective AML compliance program.

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5 steps to improve financial institution budgeting and forecasting

In a majority of financial institutions, the traditional budget process is a comprehensive estimate of revenue and expenditures for the fiscal year. It summarizes estimated activity by way of interest income/expense and non-interest income, people costs, operating expense and budgeted balance sheet by department. It's often top-down then bottom-up. Semi-annual and/or monthly forecasts utilize similar processes.

Today's institutions still need a budget. It establishes/prioritizes the institution's strategies, goals, objectives and tactics. Additionally, it sets operational and financial key performance indicators (KPIs) and accountability for employees. Chances are your institution has changed. Has your budgeting methodology kept up? As you start thinking about your next budget cycle, here are some things to consider:

- How has our business changed? How will we compete? Do we have new products?
- Will our current systems meet our current and future needs?
- How will we align our resources with strategy? How will we measure progress?
- How will we ensure accountability? How do we encourage desired behaviors?
- Are we budgeting at the appropriate entity/account level?
- When we forecast, do we need to do "all" accounts or just measurable changes?
- How do we adjust for the changes in our customers, economy or business?
- Are department heads managing to the budget?
- Do center managers have access to the budget reporting to allow for identifying and addressing variances?

If your current planning, budgeting and forecasting activities are not adding clear value to your institution, there is a better way. Financial institution leaders were challenged to rethink conventional assumptions and learn about processes and technologies that can help institutions improve budget planning and performance against strategic objectives.

To read the complete article, go to: http://rsmus.com/our-insights/newsletters/financial-institutions-insights/5-steps-to-improve-financial-institution-budgeting-and-forecasting.html

Data analysis and predictive modeling: A new approach to risk culture

By: Peter Brady, Principal

Download article

Bad news often comes in waves. In the early 1990s, several corporate scandals led to the Sarbanes-Oxley Act of 2002; while later in the early 2000s, systematic risk from poor lending practices led to the Great Recession. Now, new names are emerging after a surge of control failures, fraud and regulatory breaches. The same question that plagued organizations nearly 20 years ago is relevant once again for financial services organizations: "How could this happen to us?"

Unfortunately, sometimes good people can do bad things, and controls implemented by management can fail to keep these bad things from becoming corporate disasters. Even worse, management can unknowingly create the environment that encourages bad behavior.

However, internal audit can implement a data-driven, predictive model to more effectively assess an organization's risk culture. This model includes three key objectives:

- **Taking a more practical approach to assessing risk culture:** Look at the impact the culture has across things that can be measured.
- **Identifying toxic culture from the ground up:** Organizations typically assess tone at the top, or even tone in the middle, but culture deficiencies can often be identified at lower levels of the organization.
- **Implementing a scoring mechanism to compare cultures across different parts of the business:** An organization can look for clues in day-to-day data to predict cultural health and associated risk across teams.

Learn how internal audit teams can understand risk drivers within their organization and change the perspective on risk culture. A better model to assessing risk culture can improve the overall health of the business and reduce the potential of unwanted and embarrassing headlines.

Balancing AML programs with global competitiveness

Download white paper

U.S. banks have eliminated existing and prospective foreign clients over the past several years as they sought to reduce money-laundering risk. Rather than simply rejecting foreign clients, however, banks can lay a foundation for doing overseas business by conducting a gap analysis.

A gap analysis compares the foreign bank's AML practices with U.S. requirements. Combined with proper use of beneficial ownership information and updated monitoring systems, such an analysis can help banks expand overseas business while avoiding regulatory entanglements.

A gap analysis answers the following questions:

- To what extent is the foreign bank's AML program in line with U.S. expectations?
- Does the foreign bank's AML program comply with the home country's own standards?
- Does the bank's AML program do what it was designed to do, based on a mini-audit of a sample of transactions?

By focusing on risk mitigation through an appropriate control framework, a gap analysis can document the steps a bank takes to improve its comfort level with a foreign client.

To learn more about mitigating AML risks through a gap analysis, download our white paper.

How the regulatory environment is reshaping data governance

By: Dan Meers, Director

Data governance, like other forms of governance, often starts with a basic understanding of the assets and behaviors to be governed based on the risk to them absent controls when governance is not effectively applied. Data is no different than many other asset types, except it is more fungible, and more exposed to leakage, duplication and loss of control.

The cash in your pocket is under your physical control and you are relatively well aware of how much you have. For someone to take control of it, they must literally acquire it physically. That is not the case with data, where it can be accessed and duplicated without your knowledge and used in ways beyond your control if you don't control it yourself.

While that kind of risk is often considered cybersecurity, the truth is that if you don't know what data you have, where you have it and how it is controlled, then your risk for cyber and other data loss or negative impacts goes up substantially.

Data governance has evolved into a discipline that has special meaning in highly regulated industries, particularly financial services. Over 30 years ago, then-Citibank CEO Walter Wriston said that "Information about money is becoming almost as valuable as money itself." Mr. Wriston and his bank not only pioneered ATMs, but also the ATM network and understood that the velocity of money was driving a velocity of data. He also understood that the data was sensitive and needed to be controlled and leveraged.

To read the complete article, go to: http://rsmus.com/what-we-do/industries/financial-institutions/how-the-regulatory-environment-is-reshaping-data-governance.html

Foreign financial institutions must update FATCA agreements by Oct. 24

By: Kyle Brown, Manager

The IRS has recently updated the Foreign Account Tax Compliance Act (FATCA) frequently asked questions (FAQs) webpage (see FATCA FAQs), giving foreign financial institutions (FFI) otherwise in compliance with their FFI agreements until Oct. 24, 2017, to renew their agreements in order to continue to be treated as participating FFIs. Prior to this, FFIs were required to renew their agreements by July 31, 2017, or risk being treated as a nonparticipating FFI as of Jan. 1, 2017.

As part of the new FATCA regime, withholding agents are generally required to withhold at a rate of 30 percent on certain payments made to an FFI. However, FFIs that have entered into an FFI agreement — so-called "participating FFIs"— will not be subject to the general 30 percent withholding rate. These agreements generally require the FFIs to report to the U.S. certain information about their U.S. account holders, and may need to be renewed from time to time.

FFIs that fail to renew their agreements by the new deadline — now Oct. 24, 2017 — will be treated as having terminated their agreements as Jan. 1, 2017, and will subsequently be removed from the IRS' list of approved FFIs.

Institutions can use the FATCA registration website to determine whether their agreements are required to be updated, and if so, may use the same website to update their registration and submit to renew their FFI agreements.

With September right around the corner, it's important for FFIs to assess their agreements and, if necessary, update and renew them as soon as possible. Those who fail to do so by the new October 24 deadline will likely face a steep, and potentially unexpected, withholding rate on certain U.S. source income.

AML and regulatory compliance webcast series—Fall 2017

Results of the 2017 RSM AML Survey

RECORDED WEBCAST | September 28, 2017

Join us as we share results of the 2017 RSM Anti-Money Laundering (AML) Survey. AML remains a top concern and challenge for financial institutions, and as regulations continue to evolve and become more complex, new risks emerge.

The AML survey was conducted to help banks benchmark their AML efforts against their peers. Ultimately, the survey provides data that enables institutions to better evaluate the performance of their AML departments by comparing themselves to similar banks across several key metrics. Those metrics include:

- AML functional structure
- Staffing levels and certifications
- Costs
- Risk tolerance
- Performance of key compliance processes
- Technology
- Training

This infographic provides highlights of the survey results and top trends. We share further results and industry best practices on the webcast.

Download webcast slides

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