

Compliance Related Testing – Banking



US Patriot and Bank Secrecy

The U.S. Patriot Act was passed in 2001. One of its stipulations, namely 'Title III – International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001', deals with provisions to facilitate prevention, detection and prosecution of international money laundering. It amends some of the provisions of the Money Laundering Control Act and the Bank Secrecy Act.

The Bank Secrecy Act (BSA) enacted in 1970, lays down the guidelines by which financial institutions are to maintain appropriate records and file certain reports involving currency transactions in order to identify and prevent money laundering. BSA has been revised at least eleven times, in response to unethical events and evolving trends that show significant compliance failures.

Responsibilities of Financial Institutions

Adherence to the 'Record Keeping' norms and to set up adequate controls to monitor compliance.

To file the following reports:

- Currency Transaction Report (CTR)
- Report of International Transportation of Currency or Monetary Instruments (CMIR)
- Report of Foreign Bank and Financial Accounts (FBAR)
- Suspicious Activity Report (SAR)
- Designation of Exempt Person
- To implement the customer identification program as prescribed by the BSA
- To conduct independent testing to ensure compliance
- Training of personnel responsible for ensuring compliance
- Continual update of the IT systems to incorporate the changes to ensure conformance

Our Credentials

- Extensive knowledge and experience in the Anti-Money Laundering (AML) domain
- Testing to certify the system based on KYC (Know your Customer), EDD (Enhanced Due Diligence) and CDD (Customer Due Diligence) requirements
- Transactions and risk monitoring procedures
- Customer segmentation based on the NAICS code (North American Industry Classification System)
- Alert Management, Case Management, SAR Management
- OFAC (Office of Foreign Asset Control) validations
- Comprehensive compliance testing services
 - Review of the organizational adherence to regulatory requirements and standards
- Identification of high risk areas and designing scenarios to ensure coverage by effectively mapping them to regulatory requirements
 - Enabling various financial institutions to achieve conformance to regulatory requirements and changes introduced by various legal acts and regulatory bodies like FFEIC, FATCA, Dodd Frank, etc., through testing the implementation of the new regulatory compliance requirements
 - Validation of compliance requirements and regulatory changes implementations for reputed US Banks, a leading multinational bank in the Middle East and one of the largest banks in Europe
 - Availability of a combination of deep domain knowledge and testing expertise, critical to success in compliance related software testing mandates

Foreign Accounts Tax Compliance – FATCA

The Foreign Account Tax Compliance Act (FATCA) was enacted to curb under-reporting of income and assets by U.S. tax payers. It aims at improving tax compliance involving foreign financial assets and offshore accounts.

Under FATCA, U.S. taxpayers, Foreign Financial Institutions (FFI) or a Non-Financial Foreign Entity (NFFE) are required to provide information directly to the IRS, on financial accounts, held by U.S. taxpayers or foreign entities in which U.S. taxpayers hold a substantial ownership interest. A withholding tax of 30% will apply to withhold able payments made to FFIs and NFFEs that do not comply with FATCA.

Complying with FATCA

Banks and financial institutions need to make significant changes to their IT systems to ensure that they are ready for the introduction of the new regulations by Jan 1st 2014. The B2B and B2C layers will be impacted by the FATCA regulations.

The key processes that need to be in place for a complying FFI are:

1. Signing of an agreement with IRS to obtain the Global Intermediary Identification Number (GIIN).
2. Assessment of product for classification as per FATCA definition.
3. Capturing of customer (individuals & entities) information for FATCA requirements by obtaining W8/W9 forms. Draft forms for non-U.S. persons released (without instructions):
 - Form W-8BEN (individuals)
 - Form W-8BEN-E (entities)
 - Form W-8ECI (entities with effectively connected income)
 - Form W-8IMY (entities that are intermediaries)
 - Form W-8EXP (exempt recipients)
4. Classification of existing customer portfolios for FATCA reporting
5. Compliance with enhanced payee documentation requirements
6. Obtaining a waiver from the customers to disclose to the IRS following intergovernmental agreements (IGAs)
7. Handling of withholding exemptions allowed by the Act
8. Issuance of withholding certificates
9. Refunds, credits and reimbursements
10. Annual reporting of US taxpayers to IRS
11. Withholding of 30% as tax on any “withholdable payment” made to its proprietary account for failing to comply with FATCA

The adherence to the above process will impact the following:

- KYC processes and systems
- Payments and transaction processes and systems
- Reporting systems
- Changes to existing products

Our Credentials

SQS's compliance testing services include reviews of the organizational adherence to regulatory requirements and standards. It also involves identifying high risk areas and designing scenarios to ensure coverage of the rules by effectively mapping them to regulatory requirements.

Our expertise in testing the implementation of the new regulatory compliance requirements introduced by various legal acts and regulatory bodies like FFEIC, FATCA, Dodd Frank, etc., has helped various financial institutions achieve conformance to regulatory changes.

A combination of domain knowledge and testing expertise is critical to success in compliance related software testing mandates.

Our track record includes the validation of implementation of compliance requirements and regulatory changes for reputed US Banks, a leading multinational bank in the Middle East and one of the largest banks in Europe.

Customer speak

“Feedback on SQS has been exceptional!! The entire team has been a pleasure to deal with, in terms of technical ability and AML expertise. The feedback from the management has been excellent and testing resources have really been an asset for driving such engagements to successful closures. All the engagements are completed on time, the business and IT are kept well informed and all tasks are handled quickly and in a very professional manner.

We look forward to working with SQS on the upcoming AML releases/business processing testing and SIT (System Integration Testing) engagements”.

Executive Director –
Risk Advisory Consulting for a major American Bank

Contact

For further information, or if you have any other questions, please do not hesitate to send us an e-mail: info@sqs.com