# Banks Overreacting to Compliance Risk, Global AML Regulators Say

by Ian McKendry
OCT 23, 2014 6:15pm ET

WASHINGTON — The Financial Action Task Force sounded an alarm Thursday that banks are overreacting in their response to recent anti-money-laundering enforcement actions by cutting off whole swathes of businesses.

The international regulatory group, which sets guidelines to combat money laundering and terrorism financing, acknowledged that "recent supervisory and enforcement actions have raised the consciousness of banks and their boards about these issues."

But they said terminating relationships with entire types of businesses in order to avoid compliance risk was not the answer.

"It is important to put into context that these were extremely egregious cases involving banks who deliberately broke the law, in some cases for more than a decade, and had significant fundamental AML/CFT failings," the regulatory body said. "What is not in line with the FATF standards is the wholesale cutting loose of entire classes of customer, without taking into account, seriously and comprehensively, their level of risk or risk mitigation measures for individual customers within a particular sector."

Daniel Glaser, Treasury assistant secretary for terrorist financing, raised similar concerns in an Oct. 8 blogpost.

"We take seriously concerns that some money transmitters are having difficulty obtaining or maintaining bank accounts and that some banks are no longer providing banking services to money transmitters, regardless of risk," Glaser said. "Such a development can erode both financial inclusion and financial transparency and work against the efficiency of financial systems."

Stuart Hoegner, a lawyer with the Gaming Counsel Professional Corporation, which specializes in cross-border transactions for the gaming and betting sector and crypto-currency, said it was significant that the FATF was raising the issue. He called them the "gold standard" of international anti-laundering and terror-financing guidelines.

"In my view the FATF gets it," Hoegner said, referencing the fact that the group called for a risk-based, case-by-case approach to managing compliance risks associated with AML.
But John Byrne, executive vice president for the Association of Certified Anti-Money Laundering Specialists and a former top AML official at Bank of America, was more critical of the FATF statement.

"What is a glaring omission from this paper is any categorization that part of the reason for this is concern about regulatory oversight," Byrne said, adding that the FATF statement focused on the outcome and not the cause.

"It has been the reaction of the private sector to what I would consider to be changing and sometimes confusing regulatory expectations and has resulted in a number of institutions making a tough decision in exiting relationships," Byrne said.

He said it misses an opportunity to say what the regulatory community should do.

"That is where this is not a complete document in my opinion," Byrne said.

David Landsman, executive director of the National Money Transmitters Association, agreed that statement was "too little, too late."

"More guidance is not what is necessary, what is necessary is fundamental revision of the risk-based approach," he said.