

How small banks may avoid Bank Secrecy Act (BSA) and Anti-Money Laundering (AML) validation setbacks



The Federal Reserve, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have all published guidance explaining how risk managers should meet Bank Secrecy Act (BSA) and Anti-Money Laundering (AML) compliance requirements.

As more banks have started using BSA and AML models for operational efficiency, the need for an effective model risk management framework has emerged. SR 11-7 or the Guidance on Model Risk Management by the Fed and OCC outlines the regulatory expectations on banks' model risk management framework, including the elements which should be subject to required model validations. Model risk management expectations for BSA and AML models were further clarified in SR 21-8 or the Interagency Statement on Model Risk Management for Bank Systems Supporting BSA and AML Compliance.

This article explores BSA/AML model validation approaches and challenges.