



**The 2020 National AML & CFT Strategy: Priorities for
Financial Services Organizations**

The 2020 National Strategy for Combating Terrorist and Other Illicit Financing Overview

The 2020 National Strategy for Combating Terrorist and Other Illicit Financing (“2020 Strategy”) was released in February 2020 by the U.S. Department of the Treasury (“Treasury”). The 2020 Strategy builds on the 2018 National Strategy for Combating Terrorist and Other Illicit Financing ([2018 Strategy](#)) and its three supporting national risk assessments on money laundering, terrorist financing, and proliferation financing. The 2020 Strategy thoroughly outlines the key priorities for the United States’ Anti-Money Laundering and Countering the Financing of Terrorism (“AML/CFT”) Regime, and it outlines a road map of how the Treasury will stay ahead of illicit finance threats.

Prepared by the Office of Terrorist Financing and Financial Crimes, in consultation with regulators and law enforcement, such as the U.S. Securities and Exchange Commission (“SEC”) and the U.S. Department of Homeland Security (“DHS”), the 2020 Strategy will assist financial services organizations in identifying areas

2020 Strategy: Key Considerations for Financial Services Organizations

The 2020 Strategy articulates three strategic priorities:

1. Increase Transparency and Close AML/CFT Procedural Gaps
2. Continue to Improve the Efficiency and Effectiveness of Regulatory Framework for Financial Institutions
3. Enhancing the current AML/CFT operational framework in the U.S.

Increase Transparency and Close AML/CFT Procedural Gaps

To ensure that money laundering and terrorist financing is combatted effectively now and in the future, the 2020 Strategy aims to enforce measures on how to close financial service organization’s AML/CFT program gaps. The 2020 Strategy outlines four key actions:

1. Require companies and other legal entities to report to the government their beneficial owners at the time they are formed and when their ownership changes.
2. Support legislation to minimize the risks of the laundering of illicit proceeds through real estate purchases.
3. Finalize regulations that require banks without a federal functional regulator to implement an AML program, customer identification, and beneficial ownership requirements.
4. Revise, clarify and update the regulatory framework to expand coverage of digital assets.

For the first priority, the Treasury will focus on closing the beneficial ownership gap and tightening regulation for real estate, designated non-financial businesses and professions (i.e. investment advisers and attorneys), and digital assets. To best foster responsible innovation and best protect the financial system from emerging risks, it is essential, per the 2020 Strategy, that the regulatory and supervisory framework be updated in light of emerging technologies.

Continue to Improve the Efficiency and Effectiveness of Regulatory Framework for Financial Institutions

Financial services organizations should be leveraging new technologies and other responsible innovative compliance approaches to more effectively and efficiently detect illicit activity and report the information that law enforcement and the national security community needs. These

innovation solutions will be vital to evolve an organizations AML/CFT regime, and create a more robust risk-based approach.

The Treasury is pursuing the following initiatives to further this priority:

1. Improve efficiency of existing reporting obligations.
2. Emphasize the risk-focused approach to supervision.
3. Foster responsible innovation. New ways of using existing tools or adopting new technologies can help banks identify and report money laundering, terrorist financing, and other illicit financial activity.

In order to ensure that financial institutions adopt a risk-based approach, the 2020 Strategy highlights areas where U.S. regulators should provide a greater supervisory focus. The objective is for U.S. regulators to incentivize financial institutions to better align resources based on their organization's priority AML risks. To provide greater supervisory focus, the 2020 Strategy guides U.S. regulators to update BSA/AML regulations and enhance regulatory tools, such as the FFIEC examination manual. Having U.S. regulators streamline reporting practices in areas that help facilitate investigations and examinations, establishes a precedent for financial institutions to implement a risk-based approach, and better protect weaknesses relating to illicit financing.

Enhancing the current AML/CFT operational framework in the U.S

Under the third priority, to enhance the current AML/CFT operational framework in the U.S., the U.S. Treasury outlines the following five key actions to achieve success:

1. Improve communication to regulators of priority illicit finance threats, vulnerabilities, and risks.
2. Expand the use of Artificial Intelligence and Data Analytics.
3. Creatively and effectively deploy targeted measures to disrupt illicit finance activity.
4. Enhance use of public-private partnerships and other information sharing.
5. Support global AML/CFT implementation by robust information sharing and joint action with foreign partners, and by leading efforts at FATF to combat illicit finance.

With these objectives in mind, certain financial services organizations without a federal functional regulator, such as private banks and credit unions, may see their day-to-day operations impacted. Due to the 2020 Strategy and ongoing regulatory efforts, financial service organizations will see the current AML/CFT regulatory gap disappear, bringing them under the full suite of regulatory obligations, similar to banks with a federal functional regulator under the BSA.

Areas of Focus for Financial Services Organizations in 2020

The 2020 Strategy outlines five areas of heightened scrutiny for financial services organizations:

1. Beneficial Ownership
2. Compliance Weaknesses
3. Digital Assets
4. Modernization of the AML/CFT Regime
5. Supporting Global AML/CFT Implementation and Regulations

Beneficial Ownership

The 2020 Strategy focuses on the challenges that law enforcement face when the true beneficiaries of illicit proceeds are concealed by shell companies. Money laundering schemes often involve

transactions conducted through multiple layers of shell corporate structures to evade detection. Dissecting these layers takes significant time, resources, and expenses.

In May of 2018, FinCEN issued a Customer Due Diligence (“CDD”) Rule which requires covered financial institutions to identify and verify the identities of beneficial owners of legal entity customers at the time of opening and at certain points thereafter. However, as the Treasury has no current authority to require disclosure of beneficial ownership at time of company formation, there are still serious vulnerabilities with this lack of transparency.

To mitigate these risks, the 2020 Strategy states that Treasury will work with Congress to support proposals to “require the collection of beneficial ownership information of legal entities” such as the Corporate Transparency Act. The stated goal is to have such legislation passed in 2020.

Compliance Weaknesses

The 2020 Strategy recognizes that due to the size of the financial services industry and the volume of transactions it processes, it is inevitable that there will be some compliance deficiencies. However, the 2020 Strategy emphasizes the importance of strengthening these weaknesses that continue to pose a vulnerability that illicit actors may exploit.

The 2020 Strategy stresses the importance of improved communication of illicit finance risks at the national level as well as Financial Institution specific risk information. The 2020 Strategy notes that Treasury and law enforcement officials will continue to issue updated illicit finance risk information via more frequent publications and targeted outreach.

Digital Assets

The 2020 Strategy outlines that the term digital assets can vary in reference, including digital currencies (including certain convertible virtual currencies (CVCs), and all cryptocurrencies such as Bitcoin), as well as digital assets that are securities, commodities, and derivatives—all of which are categories that may overlap. The digital component of these assets poses a layer of anonymity that criminals look to exploit.

A major potential area of concern is the impending introduction of national digital currencies, including central bank digital currencies. There are a growing number of national governments, encompassing a wide variety of economic models, interested in creating this. However, the 2020 Strategy notes that if national digital currencies are developed without AML/CFT controls, in addition to being vulnerable to criminal misuse, may also facilitate US sanctions program evasion.

The 2020 Strategy highlights the fact that U.S. authorities cannot address all global gaps in supervision. As a way to cover some of the gaps, in 2018-2019 the U.S. succeeded in getting the FATF Standards — which 205 countries around the world have agreed to comply with — to require countries to effectively regulate and supervise digital assets and digital asset service providers for AML/CFT. The U.S. expects all digital asset service providers to address consumer and investor protections, cybersecurity, and international efforts to counter tax evasion, money laundering, and financing of terrorism concerns before bringing products or services to market. This addition to the FATF Standards ensures that other nations will work with the U.S. government to ensure that digital asset activities are subject to effective regulation and supervision globally.

Modernization of the AML/CFT Regime

The 2020 Strategy calls for modernization to the extent that they seek to leverage new technologies and other responsible innovative compliance approaches to more effectively and efficiently detect illicit activity. Various proposals have been contemplated by Congress and by the Financial Crimes Enforcement Network (FinCEN) with intent to reform the current BSA/AML regime, and embrace technological innovation in compliance.

The 2020 Strategy also states the value data analytics has to regulators and law enforcement. Data analytics has been especially helpful in identifying areas of non-compliance through algorithms and models. The 2020 Strategy suggests the government should continue this practice to create a more modern regime.

Supporting Global AML/CFT Implementation and Regulations

To support global efforts at AML/CFT implementation, the 2020 Strategy proposes to work to ensure that other countries understand and incorporate the Financial Action Task Force (FATF) standards to their domestic legal regime, especially as it continues to lead the global standard for combating AML/CFT.

Overall, the 2020 Strategy continues to emphasize the Treasury's goal of responding to international calls for transparency, promoting efficient communications between private and public as well as international groups, and ensuring that law enforcement keeps pace with the technological changes in financial transactions.

NEXT STEPS

The 2020 Strategy identifies the most significant illicit finance threats, vulnerabilities, and risks facing the financial service industry in the United States. The priorities and vulnerabilities highlighted above can help inform financial institutions of their own risk assessments, as these vulnerabilities can have a direct impact on their policies and procedures. Further, there is an emphasis on financial services organizations working closer than ever with government agencies to detect and mitigate illicit activities within the U.S. Financial System. In anticipation of the initiatives set out by the 2020 Strategy, Sia Partners recommends the following next steps for financial services organizations:

- Establish clear communication channels with all relevant regulators
- Ensure beneficial ownership of your institution and your clients is not obscured and is fully transparent. This includes trusts and offshore entities
- Enhance your organization's AML/CFT policies and procedures
- Train pertinent employees on the beneficial ownership transparency and regulatory reporting obligations

Sia Partners has extensive experience in assisting our clients with compliance, risk and regulatory matters. Sia Partners has AML/CFT capabilities and former US regulators on staff that can be utilized to navigate these vulnerabilities outlined by the 2020 Strategy. Sia Partners remains current on U.S. regulations and industry best practices, in order to provide the most accurate and necessary assistance on all compliance matters for our clients.

Your Contacts

DANIEL CONNOR

CEO US

Daniel.Connor@sia-partners.com

+1 (862) 596-0649

DANIELLE BUTTINGER

Junior Consultant

Danielle.Buttinger@sia-partners.com

+1 (754) 209-4741

JONATHAN GOLD

Manager

Jonathan.Gold@sia-partners.com

+1 (914) 320-4039

RICARDO GIRON

Junior Consultant

Ricardo.Giron@sia-partners.com

+1 (561) 531-3227

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