



## An AML Compliance Utility?\*

Jim Sivon

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Anti-money laundering compliance is a major issue for the federal banking agencies. Indeed, some would say that the agencies have adopted a zero tolerance for lapses or failures in AML compliance. As a result, every bank must incur significant costs to implement AML compliance programs. These programs are all designed to achieve the same goal — to detect and report money laundering, terrorist financing and other suspicious activities. This makes me wonder if some sort of industry “utility” could be established to house much of the software and hardware needed to support AML compliance. Ideally, such a utility could reduce the compliance burden and costs incurred by individual institutions. Also, it could facilitate AML enforcement since the banking agencies could focus heightened attention on the operations of the utility.

To test the practicality of this idea, I asked a couple of knowledgeable individuals to give me their reaction: one is a former regulator who now has a legal practice specializing in AML compliance, and the other is a former banker who had experience in addressing AML matters within his bank. Both thought the idea was intriguing, but both raised a number of hurdles. For example, they both noted that an effective AML compliance program will vary from bank to bank according to the bank’s business and risk profile. Thus, it would be challenging to design a system that could serve the industry as a whole. Both also highlighted the challenge of information security and privacy. To this list of concerns, I also would assume that some institutions, particularly larger banks that have invested heavily in existing compliance systems, might be reluctant to support a collective compliance effort. Moreover, in order for an AML compliance utility to have any viability, it would need some sort of blessing by the regulators.

In sum, there are some serious practical hurdles to this idea. Yet, the idea may deserve some further consideration. The current system is far from perfect. It is costly; compliance is uneven; regulatory expectations may vary from time to time and from agency to agency; and it is difficult to measure the effectiveness of the system. Moreover, there are many examples of industry utilities that have emerged to address a common need. There are clearinghouses for checks, payments, and securities trades. Fannie Mae and Freddie Mac also are in the process of establishing a centralized securitization platform that will consolidate key systems associated with the delivery of mortgage loans and issuance of agency MBS, a multi-trillion dollar market. These other entities engage in complex transactions and must address security and privacy concerns. Thus, it should be possible to centralize some of the systems associated with AML compliance.

*Jim Sivon is a partner with the law firm of **Barnett Sivon & Natter, P.C.***

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