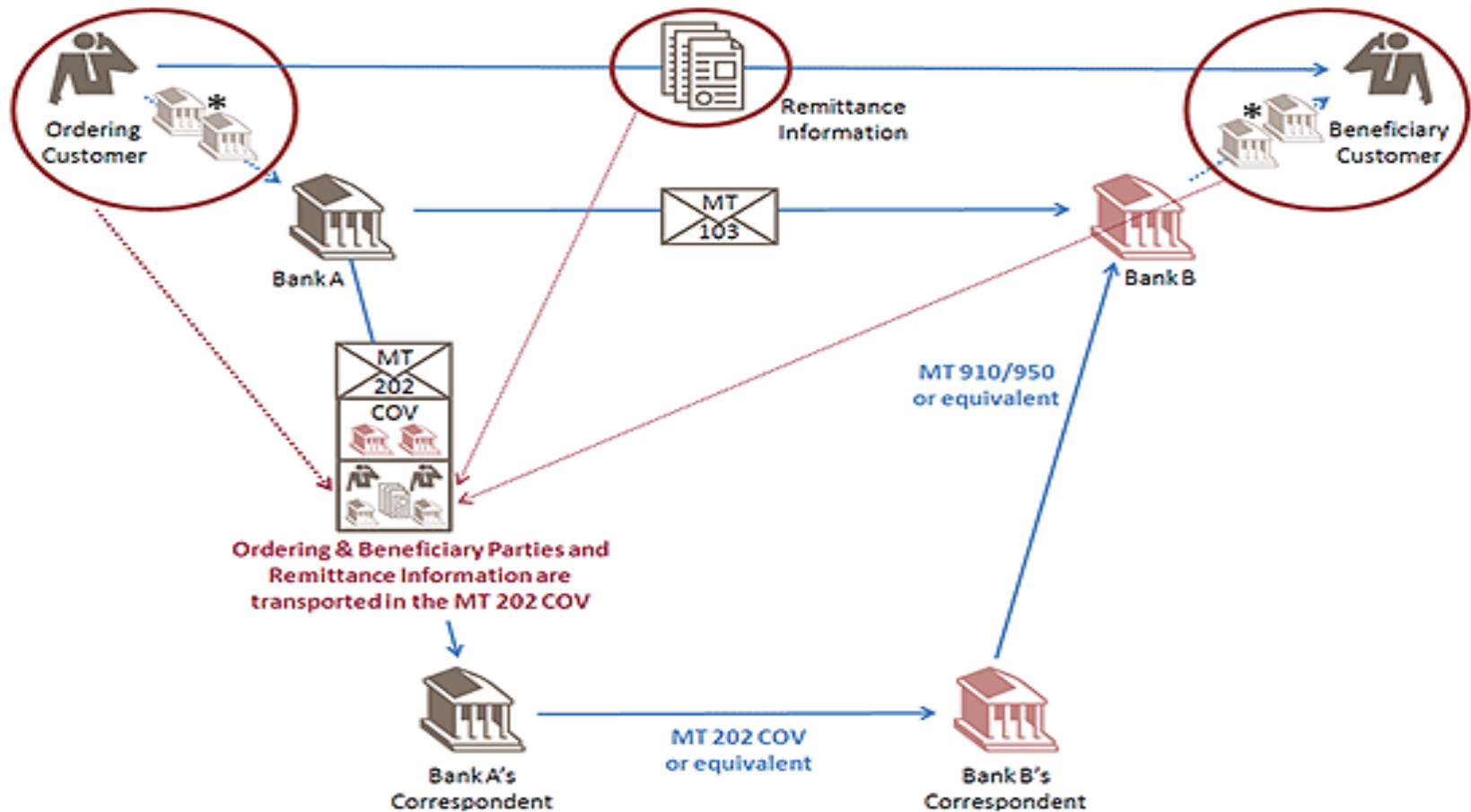


15th Annual International Anti-Money Laundering Conference

March 15-17, 2010 | The Westin Diplomat | Hollywood, Florida

Transparency in Cross-Border Payments

Post-202 Cov message paths



Transparency in cross-border payments

Wire-specific differences

| Bank to Bank MT202 Cov Message Types. | | | |
|--|-----------------------------------|--|---|
| MT202 Cov Field Tags (FED Instr) | | Pre-202 COV Search Engine Display fields | Post-202 COV Search Engine Display fields |
| 1120 | Instruction Date | 12/1/2009 | 12/1/2009 |
| 1520 | Value/payment date | 12/1/2009 | 12/1/2009 |
| 3600 | CTRCOV* | B | B |
| 1520 | Amount | \$5,997.00 | \$5,997.00 |
| 3600 | CTRCOV | | |
| 3320 | Debit Reference | xxxxxxxxxxxxxxxxxxx | xxxxxxxxxxxxxxxxxxx |
| 4320 | Credit Reference | xxxxxxxxxxxxxxxxxxx | xxxxxxxxxxxxxxxxxxx |
| 3100 | Debit Party | 111111111 Foreign Bank #1 | 111111111 Foreign Bank #1 |
| 3400 | ABA of Receiving US Correspondent | 222222222 USD clearing bank | N/A Since receiving US Correspondent Bank |
| 4200 | SWIFT of Credit Party (XXXXXXXX) | 333333333 Foreign Bank #2 | 333333333 Foreign Bank #2 |
| 5000 | Order Party | FOREIGN BANK #1 | Information from field tag 6100/50K |
| 6500 | Bank to Bank Info | /BNF/COVER THRU CHASUS33XXX | /BNF/COVER THRU CHASUS33XXX |
| Originator/Beneficiary information starts from following field tags: | | | |
| 6000 | Details of Payment | | INV. NO. xxxxxxxxxx. |
| 6100/50K | Order Party | | /Originator account # Originator name, address |
| 6200/52A | Order Bank | | XXXXXXXX** |
| 6300/57A | Credit Party | | N/A since same information is found in field tag 4200 |
| 6310/59 | Beneficiary | | / Beneficiary account # Beneficiary name, address. |

Transparency in cross-border payments

Needles in a world of haystacks

Define “the needle”

Build risk models based on ML/TF typologies – the role of originators and beneficiaries

“Choosing the haystack”

Locate the “choke point” that best highlights ML/TF typologies – the role of geography corridors

“Looking for the needle”

Look for specific electronic transaction characteristics – wire analysis

“Finding the needle”

Investigate and report – investigative tools

“Needle finding machines”

Automate process – job aids

Transparency in cross-border payments

“The Needle” - Building ML/TF risk models

FFI Transaction Review

| | | | | | |
|---|-----------------|------------------------|----------------------|-------------------------|-------------|
| TS customer | Region | TS Account Reviewed | TS Customer Reviewed | | |
| FFI customer demographics | FFI's Customer | FFI's Customer address | FFI's Customer city | FFI's Customer country | |
| FFI customer transaction details | Debit/Credit | FFI's Customer value | Value rank | FFI's Customer volume | Volume rank |
| FFI's customer risk assessment | Risk assessment | Transaction comment | Action required OER | Action required comment | |

Transparency in cross-border payments

“The Needle” - Building ML/TF risk models

FFI Overall Risk Assessment

| | | | |
|---------------------------------|--------|---------------|------------|
| TS customer demographics | KYC ID | Customer Name | Sub-region |
|---------------------------------|--------|---------------|------------|

| | | | | |
|---|-------------------------------|-------------|-------------------------------|------------------------------|
| TS customer overall transactions | Overall Magnitude in millions | 3rd party % | 3rd party credits in millions | 3rd party debits in millions |
|---|-------------------------------|-------------|-------------------------------|------------------------------|

| | | | | |
|------------------------------------|------------------|------------------------------|----------|--------------|
| TS customer risk assessment | Quantity of Risk | Proposed level of monitoring | Comments | Action steps |
|------------------------------------|------------------|------------------------------|----------|--------------|

Transparency in cross-border payments

“Haystacks” - Locate the “choke point”

- Home
- Alias Search
- Audit Trail**
- Reports ▶
- Admin ▶
- Logout

Enter search criteria below:

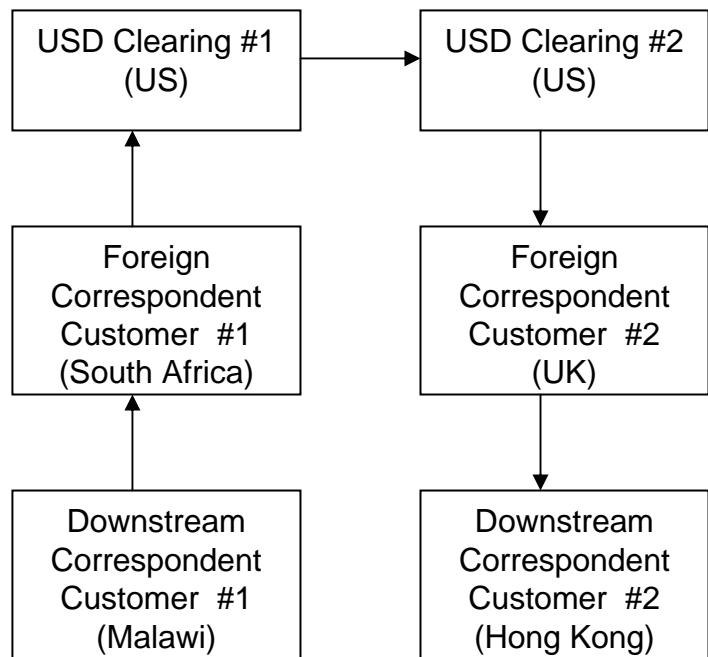
Country: Country is Null
*Congo, Dem. Rep.
*Cyprus, Souther
*Korea, Rep. Sout Malawi From Date:

Search Terms: Not In:

| | Address | Country |
|-------|---|---------|
| /044: | IK LTD, MALAWI CRN.VICTORIA AVENUE GLYN JONES ROADS,PO BOX 1111 | MW H001 |
| /044: | | MW Z127 |
| /062: | OS BANK LIMITED | MW Z127 |
| AC0: | MZUZU BRANCH PO BOX 104 MZUZU MALAWI AFRICA | MW E053 |
| AC3: | ANT BANK CAPITAL CITY, PO BOX 30890 LILONGWE 3, MALAWI | MW E026 |
| AC3: | ANT BANK FIRST HOUSE GLYN JONES ROAD | MW Z211 |
| AC3: | ANT BANK LTD BLANTYRE MALAWI FMERM/MW | MW Z977 |
| AC3: | D . . | MW Z211 |
| AC3: | INGS BANK P O BOX 521 BLANTYRE | MW Z127 |
| AC3: | INGS BANK PO BOX 521 BLANTYRE | MW E026 |
| ACC: | CO BANK PRIVATE BAG 389 CHICHIRI,BLANTYRE 3, MALAWI | |
| ACC: | M HENDERSON ST. BR.,PRIVATE BAG 150 BLANTYRE, MALAWI | |
| ACN: | 1 PO BOX 30317 CAPITAL CITY, LILONGWE 3 | |
| ACN: | L CITY CENTRE, P.O. BOX 30371 LILONGWE, MALAWI | |
| ACN: | L ZOMBA BRANCH, P.O. BOX 13 ZOMBA, MALAWI | |
| ACS: | . CITY BRANCH, P.O. BOX 30386 LILONGWE 3, MALAWI | |
| BAN: | | |
| CBM: | BANK MALAWI CAPITAL CITY BRANCH LILONGWE MW | |

Transparency in cross-border payments

“Haystacks” - Locate the “choke point”



Transparency in cross-border payments
 “Haystacks” - Locate the “choke point”

| | A | B | C | D | E | F | G | H |
|----|---------------|---------------|-----------|-------------|-----------|---------|-------------|-------------|
| 1 | txn type id | 3PTYNC | | | | | | |
| 2 | | | | | | | | |
| 3 | Sum of amount | alias bene co | | | | | | |
| 4 | ordr_pty_id | GB | HK | JP | SG | TH | US | Grand Total |
| 5 | Originator #1 | \$2,908,039 | | | | | | \$2,908,039 |
| 6 | Originator #2 | | \$121,266 | \$1,409,807 | | \$5,856 | | \$1,536,929 |
| 7 | Originator #3 | | | | | | \$1,383,519 | \$1,383,519 |
| 8 | Originator #4 | | | | | | \$873,774 | \$873,774 |
| 9 | Originator #5 | | | | | | \$821,260 | \$821,260 |
| 10 | Originator #6 | \$748,796 | | | | | | \$748,796 |
| 11 | Originator #7 | | | | | | \$399,962 | \$399,962 |
| 12 | Originator #8 | | | | \$249,527 | | | \$249,527 |
| 13 | Grand Total | \$3,656,835 | \$121,266 | \$1,409,807 | \$249,527 | \$5,856 | \$3,478,514 | \$8,921,806 |
| 14 | | | | | | | | |
| 15 | | | | | | | | |
| 16 | | | | | | | | |

Transparency in cross-border payments

“Looking” - Focus on specific electronic characteristics

Country To Country Filter Parameters

Parameters' Tag
Create New Tag: Select Existing Tag:

Ordering Countries
Abu Dhabi (UAE) | Afghanistan | Ajman(UAE) | Albania

Beneficiary Countries
Abu Dhabi (UAE) | Afghanistan | Ajman(UAE) | Albania

Individual Value
Individual Value Threshold:

Transaction Types
3PTYC | 3PTYC | BTB | LC

Run Parameters
One Originator To Many | Many To One Beneficiary | Country To Country OB Pair

Aggregate Value/Value Thresholds
One Originator To Many:
Many To One Beneficiary:
Country To Country OB Pair:

Aggregate Volume/Volume Thresholds
One Originator To Many:
Many To One Beneficiary:
Country To Country OB Pair:

Report
Number Of Rows: 10000 Expires In 1 Days
Report Columns: All Columns | aml_rec_id | transaction_id | value_date

“Finding” - Investigate and report

- Text search engine
- Normalization (parties, banks, countries)
- Reference tables
- Rules-based job aids (e.g. round dollars)
- Desk-top application training (e.g. pivot tables)
- Report templates

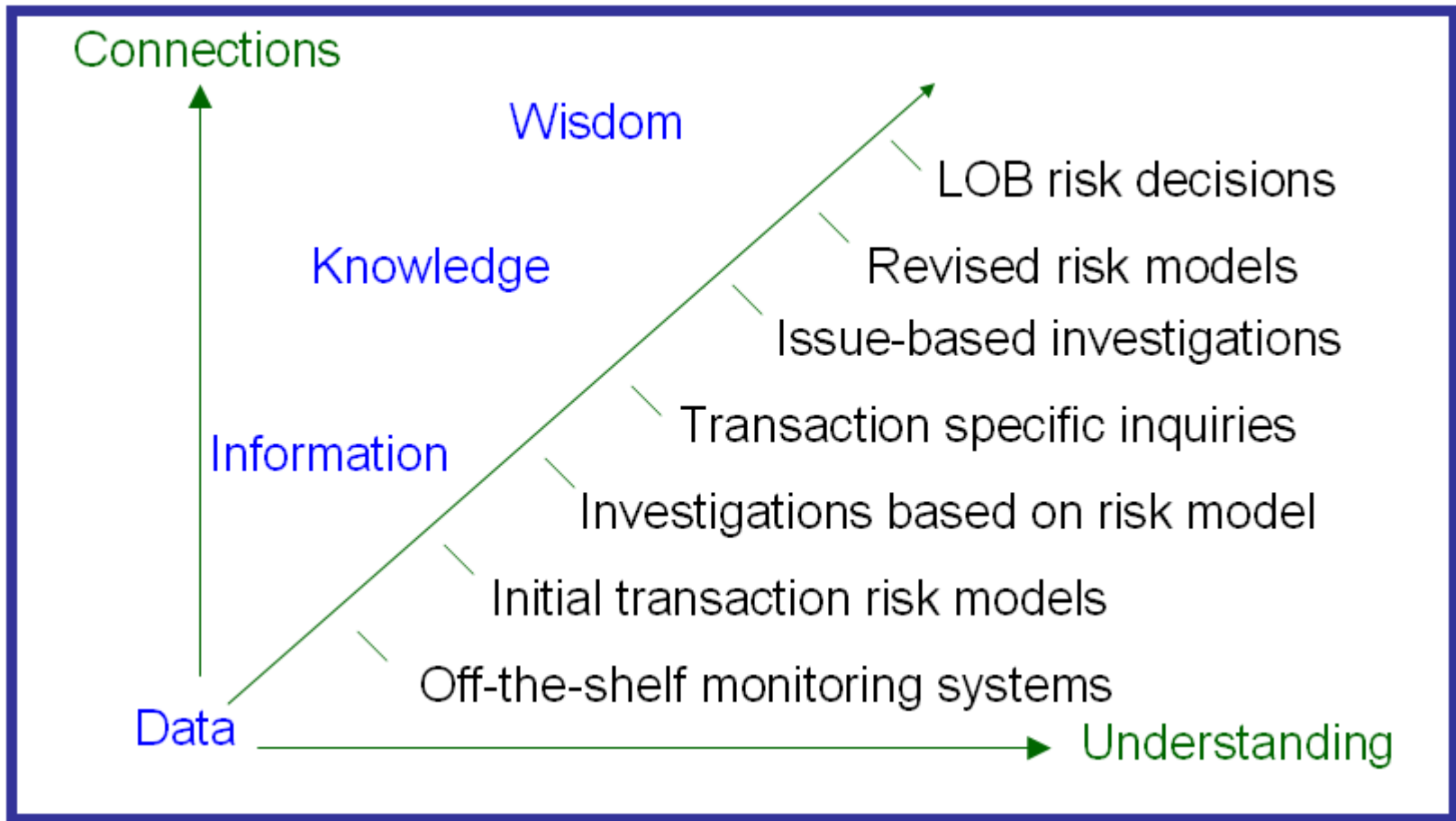
“Needle finding machine” - Automate process

- Country-to-country Filter (alerting engine)
- Country-to-country Tool (search tool)
- Vendor automated monitoring systems
 - AML-C (Bank/Country)
 - AML-R (Customer/Accounts)
 - BLUs (rules)
- Bank review job aids
- Alias Table
- Text search engine
- Wire analysis job aids

The “Data-Information-Knowledge-Wisdom” (DIKW) Hierarchy

- **Data** is a raw fact without interpretation or context.
- **Information** is data that has been given meaning by way of relational connection. This "meaning" can be useful, but does not have to be.
- **Knowledge** is the appropriate collection of information with the intent to be useful. When someone "memorizes" information (as less-aspiring test-bound students often do), then they have amassed knowledge but does not provide for an integration that permits further knowledge.
- **Understanding** is a cognitive and analytical process that permits someone to synthesize new knowledge from the previously held knowledge. The difference between understanding and knowledge is the difference between "learning" and "memorizing".
- **Wisdom** is the process by which we also discern, or judge, between right and wrong, good and bad.
- **Noise** is data that does not help the reader understand the overall message or pattern. Noise can creates inefficiencies since it forces the reader to self-filter the data in order to glean essential kernels of information. It can also confuse or mislead the readers.

Monitoring as function of DIKW hierarchy



Future issues

“What an intermediary bank should do if it becomes aware that an originator’s bank is using the incorrect payment message format:

It is premature at this early stage to set forth the steps to be taken in the event that an intermediary bank becomes aware that an originator’s bank is not using the correct message format. Use of the incorrect message format is not in itself necessarily suspicious and may simply be due to operational circumstances or misunderstandings.

Over time, as the use of the new message format becomes more settled, an intermediary bank may, using a risk-based approach, consider making appropriate inquiries of correspondents that use MT 202s in transactions in which the intermediary knows that the correspondent bank should use MT 202 COVs.” The Wolfsberg Group and the Clearing House Association LLC, August 2009