

U.S. federal banking agencies issue statement and RFI on model risk management principles and AML compliance

April 14, 2021

The U.S. federal banking agencies,¹ (the **FBA**s), have issued an **interagency statement** addressing industry questions on model risk management and anti-money laundering (**AML**) compliance. Specifically, the statement clarifies the purpose of the “**Supervisory Guidance on Model Risk Management**” (the **MRM Guidance**) and how the MRM Guidance’s risk management principles should be applied to bank AML compliance systems. The FBAs also published a **request for information (RFI)** on the extent to which the MRM Guidance supports AML and sanctions compliance.

The interagency statement and RFI appear to be the FBAs’ response to bankers’ concerns that the application of the MRM Guidance in the AML context has been unduly burdensome and has had unintended consequences, including impeding the implementation of system enhancements and stifling innovation. It is properly viewed as another in a series of AML reform measures that have been taken by the FBAs and FinCEN to increase the effectiveness and efficiency of AML compliance programs.

Overview

Key takeaways from the interagency statement are:

- The MRM Guidance does not establish any supervisory expectations that banks have duplicative processes for complying with AML regulatory requirements.
- The determination by a bank of whether a system used for AML compliance is considered a model is bank-specific. Regardless of how an AML system is characterized, sound risk management is important, and banks may use the principles discussed in the MRM Guidance to establish, implement, and maintain their risk management framework.
- Banks may choose to use a third-party AML model. Should banks choose to do so, they may consider the principles discussed in the FBA’s issuances related to third-party risk management and the aspects of the MRM Guidance that address third-party models.
- The FBAs recognize that not all banks use models such as those described in the MRM guidance. The FBAs clarify that the MRM Guidance is intended to be a useful resource to guide a bank’s model risk management framework and support AML compliance.

Concurrently with the issuance of the interagency statement, the FBAs announced an RFI on the extent to which the principles discussed in the MRM Guidance support AML and sanctions compliance. The RFI will help the FBAs gather important information about bank practices relating to AML and sanctions compliance, which will in turn allow the FBAs to determine whether additional explanation or clarification would increase transparency, effectiveness or efficiency.

The RFI was published in the Federal Register on April 12, 2021 and comments are due by June 11, 2021. Given the issues that have been raised by the use of the MRM Guidance in the AML context, we expect there to be significant comment and debate on this topic, specifically addressing the challenges that banks have faced in applying the MRM Guidance’s risk management principles to AML compliance programs, and the resulting impact on AML compliance system enhancements and implementation of more innovative approaches to AML and sanctions compliance.

¹ The federal banking agencies are the Board of Governors of the Federal Reserve System, the Officer of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

If you have any questions regarding the matters covered in this publication, please contact any of the lawyers listed below or your usual Davis Polk contact.

Greg D. Andres	+1 212 540 4724	greg.andres@davispolk.com
Robert A. Cohen	+1 202 962 7047	robert.cohen@davispolk.com
Luigi L. De Ghenghi	+1 212 450 4296	luigi.deghenghi@davispolk.com
Tatiana R. Martins	+1 212 450 4085	tatiana.martins@davispolk.com
Paul J. Nathanson	+1 202 962 7055	paul.nathanson@davispolk.com
John B. Reynolds	+1 202 962 7143	john.reynolds@davispolk.com
Will Schisa	+1 202 962 7129	will.schisa@davispolk.com
Daniel P. Stipano	+1 202 962 7012	dan.stipano@davispolk.com
Kendall Howell	+1 202 962 7068	kendall.howell@davispolk.com