



Executive Summary:

The Board Can Improve Documentation of Office of Foreign Assets Control Examinations

2017-SR-B-003

March 15, 2017

Purpose

We evaluated the Board of Governors of the Federal Reserve System's (Board) supervision activities for foreign banking organizations (FBOs) following high-profile enforcement actions related to Office of Foreign Assets Control (OFAC) violations. From 2010 to 2014, OFAC issued seven civil money penalties totaling almost \$1.7 billion and the Board issued four civil money penalties totaling \$788 million related to U.S. sanctions programs. For example, French bank BNP Paribas faced civil money penalties after apparently processing certain U.S. dollar-denominated funds transfers involving parties subject to OFAC regulations that omitted or concealed relevant information. Our objective was to assess the Board's approach to evaluating FBOs' OFAC compliance.

Background

OFAC administers and enforces U.S. economic and trade sanctions programs primarily against countries and groups of individuals, such as terrorists and narcotics traffickers, to help accomplish foreign policy and national security goals. OFAC regulations require financial institutions to comply with sanctions programs by blocking or rejecting accounts and transactions that involve any persons, entities, or countries included on OFAC's specially designated nationals and blocked persons list. OFAC is responsible for identifying sanctions violations, and the Board assesses the OFAC compliance programs of FBOs' U.S. operations. Under delegated authority from the Board, supervision employees at each of the 12 Federal Reserve Banks conduct OFAC compliance examinations of financial institutions.

Findings

The OFAC examinations we reviewed did not always include documentation to adequately explain the rationale for the examination approach or the basis for conclusions. While the *Examination Manual for U.S. Branches and Agencies of Foreign Banking Organizations* includes guidance on what to include in examination workpapers and the *Bank Secrecy Act/Anti-Money Laundering Examination Manual* includes OFAC examination procedures, there are no guidance or minimum expectations specific to how OFAC examinations should be documented. Thorough, consistent documentation would help ensure effective knowledge transfer for frequently changing examination teams, consistent supervision of banking organizations, and efficient work processes for Reserve Bank examiners.

We also found data reliability concerns in the National Examination Database regarding whether OFAC had been reviewed. These data reliability concerns may have occurred because there is no established definition of what it means to review OFAC and because Reserve Banks do not have consistent data entry procedures. In addition, the National Examination Database does not capture data that would indicate the extent of coverage of OFAC examinations.

Recommendations

Our report contains recommendations designed to strengthen the Board's supervision of OFAC compliance. In response to our draft report, the Director of the Board's Division of Supervision and Regulation concurs with these recommendations and notes that efforts are underway to address them. We will follow up to ensure that the recommendations are fully addressed.