BSA/AML Key Updates & Compliance Readiness – 2026

Noory Song | Managing Director | Baker Tilly

What is AML/CFT?

• Overview of the Bank Secrecy Act (BSA)

The **Bank Secrecy Act (BSA)**, enacted in 1970, is a foundational U.S. law designed to prevent financial institutions from being used to facilitate money laundering and other illicit activity. The **Anti-Money Laundering Act of 2020 (AMLA)** represents the most significant recent update, strengthening requirements, expanding information sharing, and increasing penalties for noncompliance.

BSA requirements are commonly referred to as anti-money laundering (AML), AML/BSA, or more recently AML/CFT to reflect the focus on countering the financing of terrorism.

These frameworks require financial institutions to identify, monitor, and report suspicious or potentially illicit activity through established regulatory processes, supported by effective, risk-based compliance programs.

The **Financial Crimes Enforcement Network (FinCEN)**, a bureau of the U.S. Department of the Treasury, administers and enforces BSA regulations, serves as the central repository for regulatory reporting, and acts as a key partner to law enforcement and regulatory agencies.

• What is Suspicious Activity?

The **Financial Crimes Enforcement Network (FinCEN)** describes suspicious activity as transactions or patterns of behavior that may indicate illegal activity or a violation of laws and regulations.

Characteristics include:

- Unusual transactions
- Complex structures – use of multiple accounts
- Rapid movement of funds
- Inconsistent information – Customer documentation issues

• Office of Foreign Assets Control (OFAC)

The **Office of Foreign Assets Control (OFAC)** is a bureau of the U.S. Department of the Treasury responsible for administering and enforcing economic and trade sanctions.

These sanctions target individuals, entities, and countries associated with terrorism, illicit activity, and national security threats. U.S. financial institutions, including FHLBs, are required to comply with OFAC regulations by identifying and blocking prohibited transactions and relationships, commonly referred to as sanctions compliance.

Institutions must maintain risk-based screening programs designed to detect sanctioned parties and appropriately block or reject transactions, while also reporting such activity to regulators. Strong governance and oversight supports effective compliance and helps manage regulatory and reputational risk.

What is Money Laundering?

Definition: Money laundering involves disguising financial assets so they can be used without detection of the illegal activity that produced them.

Key Characteristics:

- Makes illegally obtained funds appear legitimate
- Conceals the source, ownership, movement, or purpose of funds
- Can involve fraud, corruption, drug trafficking, terrorist financing,
- sanctions evasion, or other financial crimes
- Often uses banks, shell companies, trade, cross-border payments,
- and digital assets

Risks:

- Threatens the stability and reputation of financial institutions.
- Triggers regulatory scrutiny and enforcement actions.

Takeaway:

Anti-Money Laundering programs protect the bank's license, reputation, correspondent relationships, and access to the financial system.

Question

What are the three stages of money laundering?

Stages of Money Laundering

Stage 1: Placement

- **The point of entry.** Illicit funds are introduced into the financial system so they can be deposited, transferred, exchanged, or converted.
- Examples: cash deposits, third-party payments, money mules, crypto on/off ramps

Stage 2: Layering

- **The concealment phase.** Funds are moved through multiple transactions, entities, accounts, or jurisdictions to obscure their criminal source and break the audit trail.
- Examples: shell companies, pass-through accounts, FX transactions, trade payments, rapid cross-border transfers

Stage 3: Integration

- **The appearance of legitimacy.** Funds are reintroduced into the economy as apparently lawful income, assets, investments, or business activity.
- Examples: business revenue, loans, investments, real estate, luxury assets

Sanctions and the Office of Foreign Assets Control (OFAC)

What are Sanctions?

Definition: Sanctions are legal restrictions imposed to advance national security, foreign policy, or international security objectives.

Key Characteristics:

- May target **countries, governments, individuals, entities, vessels, sectors, or activities**
- Can be **comprehensive** or **targeted**, depending on the sanctions program
- Can require asset blocking/freezing, transaction rejection, trade restrictions,
- or limits on certain dealings
- Can require asset blocking/freezing, transaction rejection, trade restrictions,
- or limits on certain dealings

Bank Obligations:

- Screen customers, counterparties, transactions, and relevant trade parties
- Block or reject prohibited transactions where required
- Escalate potential matches, report as required, and maintain records

Regulatory Framework

Key Regulatory Agencies in the U.S.

Financial Crimes Enforcement Network (FinCEN)

- Administers and enforces the Bank Secrecy Act (BSA).
- Collects and analyzes financial data to detect and prevent money laundering.

Federal Reserve Board (FRB)

- Supervises U.S. operations of foreign banking organizations.
- Conducts AML compliance examinations and enforces BSA requirements.

Federal Deposit Insurance Corporation (FDIC)

- Oversees AML compliance for insured institutions.
- Enforces suspicious activity reporting and AML program requirements.

Office of the Comptroller of the Currency (OCC)

- Regulates national banks and federal savings associations.
- Conducts BSA/AML examinations and issues enforcement actions.

New York State Department of Financial Services (NYDFS)

- Regulates financial institutions operating in New York.

Office of Foreign Assets Control (OFAC)

- Administers and enforces economic and trade sanctions based on U.S. foreign policy and national security goals.

Key Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) Regulations in the U.S.

1970

Bank Secrecy Act (BSA)

- Foundation of AML compliance in the U.S.
- Requires financial institutions to report suspicious activity and maintain records.

2001

USA PATRIOT Act

- Expanded BSA requirements post-9/11.
- Introduced Customer Identification Program (CIP) and enhanced due diligence.

2020

Anti-Money Laundering Act (AMLA)

- Modernized AML framework.
- Strengthened FinCEN's authority and introduced beneficial ownership registry.

Bank Secrecy Act (BSA)

Purpose: Requires financial institutions to help detect and prevent money laundering, terrorist financing, and other illicit finance activity

Core Requirements:

- Maintain a written, risk-based AML program
- File required reports, including Suspicious Activity Reports and Currency Transaction Reports
- Keep records that support regulatory reporting and law enforcement investigations

Program Expectations:

- Internal controls, independent testing, designated AML officer, training, and customer due diligence
- Ongoing monitoring to identify and report suspicious activity
- Risk-based updating of customer information

Takeaway: The BSA is not just a filing rule — it requires an effective, risk-based program with clear governance, resources, oversight, and accountability.

U.S. AML/CFT Regulatory Developments

Trend:

- Shift from “check-the-box” compliance to risk-based, effective programs
- Greater focus on higher-risk activity, data quality, governance, and evidence of oversight

Key Developments:

- **FinCEN AML/CFT Program Reform**: 2026 proposal refocuses AML/CFT programs on effectiveness and higher-risk activity
- **FinCEN AML/CFT Priorities**: Continue to inform risk assessments, monitoring, customer risk, and board reporting
- **NYDFS Part 504**: Transaction monitoring and sanctions filtering expectations, annual certification, and documentation support
- **FATF Mutual Evaluations**: Increased focus on effectiveness, technical compliance, beneficial ownership, sanctions, and proliferation financing

Takeaway: Regulators expect AML/CFT programs to be effective in practice, not just well-written on paper. Ongoing monitoring to identify and report suspicious activity

AML/CFT and OFAC/Sanctions Enforcement Actions

Penalties for non-compliance

Institutional Consequences:

- Civil money penalties, consent orders, monitors, and remediation mandates
- Business restrictions, growth limits, reputational damage, and correspondent banking impact
- Increased examination scrutiny and potential enforcement escalation

Individual Accountability:

- Personal fines, enforcement actions, industry bars, termination, or criminal exposure
- Egregious BSA violations can result in a **10-year bar** from serving on a U.S. financial institution board

Anti-Money Laundering Act of 2020 (AMLA):

- AMLA increased focus on accountability, whistleblower incentives, and stronger enforcement
- Violations of UBAA's AML/OFAC policies may result in internal discipline and regulatory escalation

Recent AML/CFT Enforcement Actions in the U.S.

TD Bank (2024) – Fined approximately **$3.09B** across U.S. agencies for AML failures, including inadequate oversight, transaction monitoring weaknesses, and failures that allowed illicit proceeds to move through the bank.

Bank of America (2024) – OCC cease-and-desist order for BSA and sanctions compliance deficiencies, including suspicious activity reporting, customer due diligence, governance, testing, and training gaps.

Danske Bank (2022) – Fined **$2.06 billion** for laundering over $200 billion through its Estonian branch, with major failures in AML oversight and reporting.

Paxful (2025)– Fined **$3.5M** by FinCEN for willful BSA violations involving a virtual currency platform, including failure to register, maintain an effective AML program, and file suspicious activity reports.

USAA Federal Savings Bank (2023) – Fined **$140 million** for inadequate AML staffing, delayed SARs, and failure to manage alerts and monitoring systems.

Recent OFAC Enforcement Actions in the U.S.

State Street Bank & Trust (2024) – Fined **$7.45 million** with OFAC for apparent Ukraine-/Russia-related sanctions violations involving redated or reissued invoices and payments outside permitted debt restrictions.

American Express National Bank (2022) – Settled **$430,500** with OFAC for 214 apparent Foreign Narcotics Kingpin sanctions violations involving transactions tied to an account with a designated supplemental card holder.

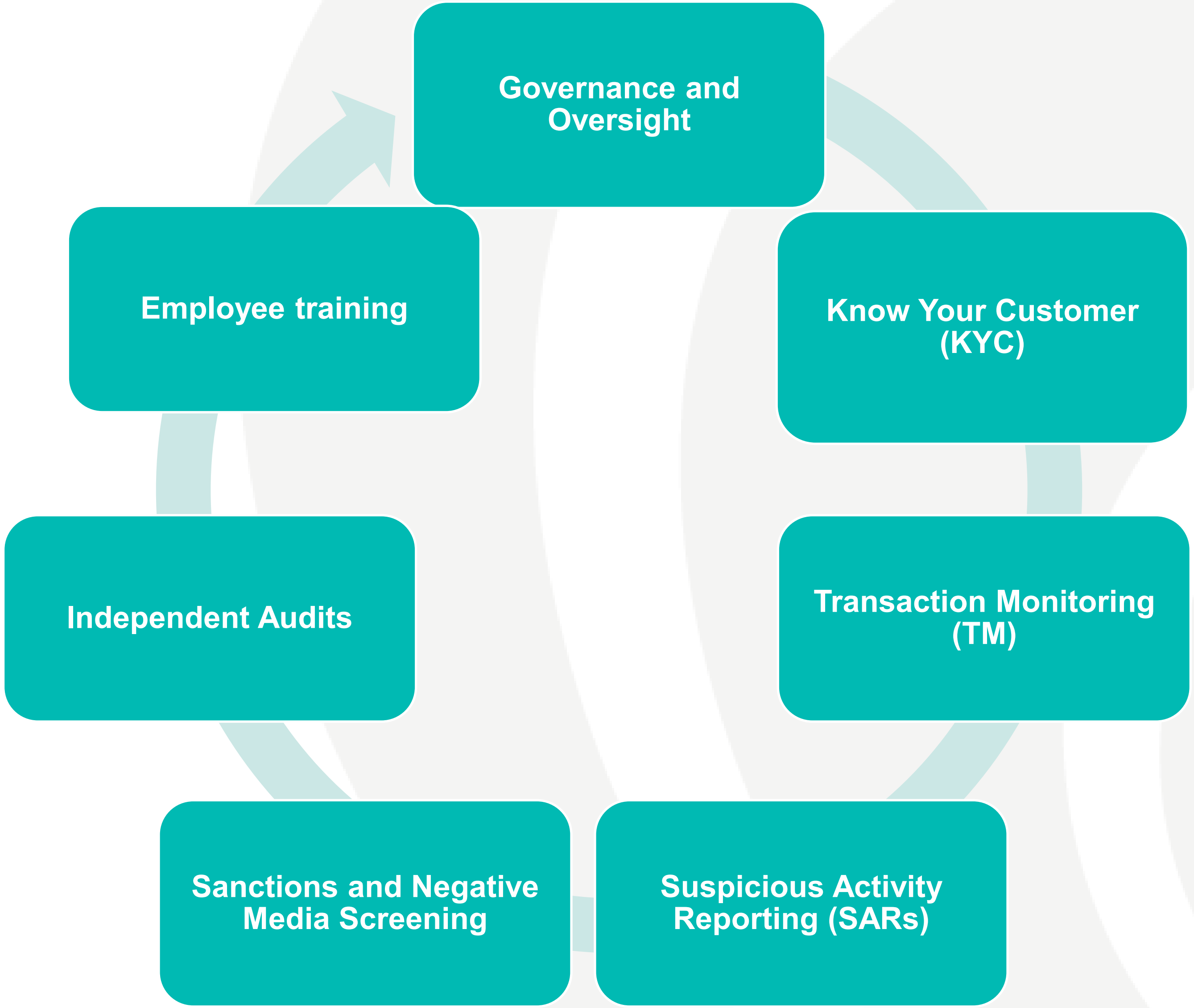
Wells Fargo (2023) – Settled **$30M** with OFAC for apparent Iran, Syria, and Sudan sanctions violations involving trade finance software used by a foreign bank to process sanctioned transactions.

AML/CFT and OFAC/Sanctions Program

The Five Pillars of an AML/CFT and Sanctions Program:

- Designate a BSA Compliance Officer
- Develop Internal Policies, Procedures, and Controls
- Complete ongoing and relevant training of employees
- Ensure independent testing is conducted
- Complete Customer Due Diligence

Key Components of an AML/CFT and Sanctions Program



Emerging AML and Sanctions Risks

Crypto/Virtual Asset Service Providers (VASPs)	• Rapid, cross-border transactions with limited transparency are increasingly used to evade sanctions and obscure illicit financial flows. Decentralized platforms and weak controls around onboarding and transaction monitoring heighten exposure to money laundering risks.
Sanctions Evasion via Supply-Chain Intermediaries	• Third-party vendors and transshipment points are increasingly used to obscure the true origin, destination, or end-user of goods. This tactic complicates due diligence and enables illicit actors to bypass controls by layering their involvement in global supply chains.
Trade-Based Money Laundering (TBML)	• Illicit actors manipulate trade flows by misrepresenting the value or nature of goods—such as under- or over-invoicing shipments or disguising dual-use items. These tactics obscure the movement of funds and goods, making it difficult to detect and trace criminal activity.
Third-Party Payment Processors and Fintech Correspondents	• Payment processors and fintech correspondents can obscure the flow of funds by layering transactions across multiple platforms and jurisdictions. Limited transparency and inconsistent AML controls across providers increase the risk of facilitating illicit financial activity.

Board Responsibilities

Supervisory Roles & Responsibilities

Your Role in AML & Sanctions Compliance:

- **Set Tone at the Top**: Promote a strong compliance culture.
- **Provide Oversight**: Ensure AML/OFAC program meets U.S. regulatory standards.
- **Approve Policies & Program Annually**: Confirm alignment with risk appetite and risk profile.
- **Ensure Accountability**: Designate qualified BSA Officer and monitor independence.
- **Support Resources**: Adequate staffing, technology, and training.

How Can the SC Be Effective?

Driving Impactful Oversight:

- **Engage Proactively**: Ask management about emerging risks and program gaps.
- **Challenge Assumptions**: Validate risk assessments and control effectiveness.
- **Monitor Key Indicators**: Compliance metrics, audit results, regulatory feedback.
- **Support Strategic Investment**: Approve resources for technology and skilled staff.
- **Stay Current**: Understand U.S. regulatory expectations and Heightened Standards (depending on agency).

What should the Board be Aware Of?

Critical Information for Oversight:

- **Risk Profile**: High-risk Geographies, products, and customer segments
- **Compliance Performance**: SAR timeliness, alert clearance, audit remediation.
- **Regulatory Landscape**: OCC priorities, sanctions updates, enforcement trends
- **Program Health**: Training completion, independent testing results, technology performance
- **Emerging Threats**: New typologies, geopolitical risks, fintech exposure

Regulatory Expectations

Why Board Oversight Matters:

- **Regulatory Heightened Standards**: Require active board involvement in risk governance.
- **Personal Accountability**: Board members can be cited in enforcement actions.
- **Consequences of Weak Oversight**: Civil money penalties, reputational damage, and restrictions on business growth.
- **Demonstrate Informed Oversight**: Decisions should be documented and based on risk data and regulatory standards.

What to expect in 2026 (and beyond)...

- **Shift to Risk-Based Priorities**
  - Regulatory shifts require credit unions to dedicate more BSA/AML/CFT resources toward higher-risk customers and activities, reducing the burden of monitoring lower-risk accounts.
  - Board and Committee members should prepare to review updated risk assessments that accurately reflect the credit union's current membership demographics and service risks.
- **Enforcement & Program Requirements**
  - Programs must be officially established and maintained. Regulators have clarified that only "significant or systemic failures" will result in major enforcement actions, protecting credit unions from penalties based solely on minor or technical implementation errors.
  - Heightened oversight on whether management explicitly documents decisions and allocates resources to areas with the highest exposure.
- **U.S.-Based Officer Mandate**
  - FinCEN rules explicitly state that the credit union's designated AML/CFT compliance officer must be located in the U.S. and actively accessible to examiners.
  - Ensure internal audit functions verify that the designated officer has both the independence and resources necessary to fulfill the role.
- **Evolving Supervisory Focus**
  - NCUA examiners continue to review payment system controls and have elevated scrutiny on digital assets, AI adoption, stablecoin issuance and areas of BaaS.
  - Regular reviews of management’s innovation frameworks and monitoring systems to ensure deviations from normal transaction patterns are caught.

Questions?

Noory.Song@bakertilly.com

Resources

- Financial Crimes Enforcement Network (FinCEN)

FinCEN issues regulations and guidelines to financial institutions to prevent and detect money laundering and other financial crimes.

- Federal Financial Institutions Examination Council (FFIEC)

The FFIEC BSA/AML InfoBase provides electronic versions of the BSA/AML Examination Manual and related examination procedures.

- Office of Foreign Assets Control (OFAC)

OFAC administers and enforces economic, and trade sanctions based on U.S. foreign policy and national security goals.