



WHITE PAPER:

Why AML Standards and Processes Are the Keys to Your Compliance Program

tier of security for their belongings and for the safety of their loved ones. More recently, some are even installing surveillance cameras in doorbells that let you know who is on your doorstep, even when you are thousands of miles away. Are these actions done out of obligation? No, individuals install these systems to manage and mitigate the risk associated with owning a home and to protect their families. Similarly, including some measure of an AML process in your risk management practices for your firm is a prudent and proactive way to protect your firm and clients.

Regardless of whether AML procedures are statutorily required, allowing a client to utilize your firm to assist them with their money laundering activities will most certainly put you in a position you don't want to be in. Avoiding the costly and complex investigations and legal battles (as well as the potential reputational risk) that may result from AML issues will make you happy you had AML screening in place at your firm.

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THE SHIFTING REGULATORY LANDSCAPE

Regulators are becoming more aware that RIAs are the doorway into some of the largest financial institutions in the world. While they are currently excluded from that definition and, therefore, not subject to many of the rules and obligations facing investment companies and broker dealers, it may only be a matter of time before that changes.

Impending regulatory efforts by the Financial Crimes Enforcement Network (FinCEN) seeks to bring RIAs into the definition of Financial Institutions and require them to implement a full Anti-Money Laundering program (minus the customer identification process, which will follow shortly thereafter). Additionally, the political climate led by a very pro-American and pro-protectionist administration intent upon protecting American citizens, may support FinCEN's efforts to expand the definition to include RIAs, and guarantee greater security for investors.

Firms defined as financial institutions by FinCEN are subject to the SEC's intense focus on anti-money laundering programs. In fact, AML was listed as one of the top priorities for the SEC for each of the last six years. This focus has helped to reiterate the importance of a strong AML program and has led to some great regulatory guidance by way of enforcement.

How will you prepare for what may be inevitable?

TAKING ACTION: IMPLEMENTING AML PRACTICES

Whether we agree or disagree on the implementation of at least the bare minimum of AML processes now versus waiting until they become required, the fact remains that you

INTRODUCTION

While current regulations do not legally require federally registered investment advisors to implement an Anti-Money Laundering (AML) program designed to deter money laundering and terrorist financing activities, does that mean they shouldn't? Is there no benefit beyond satisfying a regulatory requirement? For some, maybe. But for others, incorporating some measure of AML procedures into their daily processes supports their larger risk management efforts in protecting their practice, strengthening the firm's compliance program, and helping to prepare for additional regulatory mandates that may be on the horizon.

This white paper will provide a brief overview of the reasons many firms are beginning to incorporate formal AML standards and processes into their compliance programs, as well as the benefits of doing so.

CONTRACTUAL OBLIGATIONS

As an initial matter, firms are increasingly facing contractual obligations with their strategic business partners that require AML reviews and certification that those tasks have been performed. Because of the complex and costly legal issues that can result when a client is found to have engaged in money laundering, more and more large financial institutions are requiring AML procedures to be in place before doing business with an RIA, even if that RIA doesn't legally need to undertake such procedures. In these instances, the financial institutions aren't willing to assume full responsibility for the customer verification process. Instead, they may look to you as the party who is introducing the client to their platform and expect you to perform the initial verification before approving client access to their platform. It's a best practice to review and determine the contractual requirements for each relationship.

Similarly, if there are entities you rely on to perform these duties on your behalf, does your agreement with them clearly spell out their responsibilities, including how often they will provide certification confirming their execution? Clearing firms and custodians are required to protect and provide safekeeping for the assets they shepherd through the global financial system and have an obligation to help manage the risk associated with their business, including the dispersion of risk that comes with the activities.

And what better way to do that than through the contracts they have with those persons who are the doorway into their financial institutions? It is in this way that they can better manage these associated risks.

RISK MANAGEMENT

Is it practical to put in place some elements of an AML program to protect your clients and your practice from these risks? Certainly, there are no requirements you lock the doors of your home, but you do. In fact, most invest in an alarm system as a second

know less about your clients than those who are conducting this screening. If you are not conducting AML screening, you may be willfully blind to the additional risk exposure resulting from your decision.

In addition to understanding the risk caused by not conducting AML screening on your clients, there's an additional reason to consider it and that's the ease by which such screening can be conducted through use of the right tools. Never has there been more tools available to a firm interested in conducting AML screening to ensure their process is as effective and efficient as possible. Through the right tool, effective AML screening can be as easy as the click of a few buttons.

HOW ORION CAN HELP

More and more advisory firms are recognizing the need to proactively incorporate AML screening into their compliance processes and taking steps to do so. And Orion is here to help.

Through the Verify tool integrated within Orion's Compass application, advisors can access third-parties who deliver leading content and technology to expedite the AML screening process. This tool allows an advisor to screen client information against not only the OFAC sanction list, but also other important domestic and international data points and analytics. Through Verify, a firm can incorporate these AML reviews into their client onboarding process, as well as track, process, and refer to results all through the Orion system.

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Contact Orion to get more details today.

For more details of the upcoming tools and a demo of the recently released tools, please contact the Orion Compliance team at Compliance@orionadvisor.com.

