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PARTICIPANTS:

**Moderator:**

SATISH KINI  
Partner  
Debevoise & Plimpton, LLP

**Panelists:**

FREDERICK REYNOLDS  
Global Head of Financial Crime Legal  
Barclays

ANDREA SHARRIN  
Associate Director, Policy Division,  
Financial Crimes Enforcement Network (FinCEN)

DR. GARY SHIFFMAN  
Chief Executive Officer, Giant Oak

RICK SMALL  
Executive Vice President, Director Financial  
Crimes, BB&T

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## P R O C E E D I N G S

MR. KINI: Systems processes that could make the regime work a lot more effectively. I think we are stuck between an old regular regime and supervising against that regime and new wave, potentially bad activity, criminal activity, whatever you want to call it and new ways to conduct that. But we sort of got stuck in the middle of we still have to comply with everything that's out there and everything that's out there, in my opinion, is reactive, not proactive anymore. So, I think it's to teach to the initial question is a flawed, again, I wouldn't say necessarily flawed, but really in need of significant uphill.

SPEAKER: Do you -- give us an example or two or maybe where you see --

MR. KINI: Yeah.

SPEAKER: -- where are the challenges?

MR. KINI: So, really the easy example of in my opinion is CIP, Customer Identification Program requirements. So, as most of you know, we have a very specific requirement today. It's actually two parts. We have to collect identifying information from our customers and if we're talking about individuals, their

name and address, date of birth, some type of tax (inaudible), social security number, passport number, something like that. And then the second prong is, we have to verify identity so that we have a reasonable belief that we have assured identity of that customer.

The information we collect by regulation, we have to collect from the customer. There's so much technology available today that would let us collect that identifying information from other than the client, that it would be much more effective and reasonable. And let me give you an example. So, in the normal process, we collect that information, we then do our, what we would call our business self-monitoring to make sure that we collected it and we got right. Let's say for instance, that after we collected it, we determined that the name and the address aren't a match. With an automated technology solution, we could probably determine if it wasn't, at least the nature that maybe we got an (inaudible) from the customer and now, they have a new address. So, that's why they're not specifically mentioned. We could rectify that through an automated process without ever gone back to the customer. The way in which, at least the regulation has

been interpreted in my view and many others is, we can't do that today. We have to go get that information from the customer. So, to me, that's a very simple example of where automation today would significantly improve and vastly benefit, not just us, but everyone that's interested in that information because we will have accurate data; we won't have a lot of wasted utility by employees of the institution having to go through and do all this work when you could do in an automated fashion using a technology solution. So, that, that's one example.

DR. SHIFFMAN: Your example there, is a specific one to a regulatory issue. A lot of times when we talk about BSA, we usually talk about supervisory issues. I don't know if anybody on the panel -- is that or is the enhancements to effectiveness is really a supervisory challenges; is it regulatory challenges; is it a mixture of both. Rick, do you want to leave that or take that one?

MR. SMALL: Yeah, I think it's all of the above. There are certain things that you, as the regulators, wanted to allow a change that would have to be a (inaudible) regulation where you all are attached

to (inaudible), so I think there's some concern there, but I think there's also constraints in expectations of what regulators are going to look when we're in the process. I think, Gary, you made a an excellent point that (inaudible) tends to look at effectiveness as meaning, are you providing the key information that they need to perform the law enforcement mission, whereas, regulators tend to focus on are you complying with the exact dictates of the regulation and the statute. So, I think defining -- better defining in some ways, what is the outcome that we want from the system? Why are we collecting all this information? Why are we doing what we do? I think that's critical to really get a common regime of why we're doing it and I think if we do that, then I think there could be some regulatory change where the focus again, is not on, have you very certainly complied in the audit sense with all the regulations, but are you providing valuable information to law enforcement? And I think if you talked to law enforcement questions, if you (inaudible) their focus is on getting information that helps them do their job and their incentive on whether you use less technical requirements and more concerned about are you getting

the clarification that the technical requirements are important because that tends to be a proxy to show are you providing that information? But I think more focus on what information are you providing, candidly, not so much how many SARS, for instance, are you finding. Are you finding in a good (inaudible), are you finding starts that are not promoting law enforcement investigations, are you finding signs of advancing that, or as opposed to how many are you finding and did you find in all these categories?

SPEAKER: And that seems like a lot of the goal to say, okay, I'm finding SARS, but how is that something to be measured? Obviously, one, right now the default seems to be among the supervisors. Okay, let's see if you're modeling this number and your peer institutions are filing X or your numbers have changed in various ways. Why is that? How -- is it a -- is there a way we can say, all right, are you filing (inaudible)? Is that a standard that we can ask to be adopted?

SPEAKER: So, I think there is. I think one of the challenges is that there is not currently a mechanism, or at least a very good mechanism for law

enforcement to input into that value question. So, very often, this is the fault of the system, not of regulators. You have regulators going in trying to judge whether the bank has done what they need to do and again, it tends to be in a very audit-like basis. What there is not typically, is there's not a form for FBI or Homeland Security or others to weigh in and say, we actually think that this bank has provided very valuable information. And there are some metrics that you can look at. There's instances where we worked cooperatively with law enforcement and rather than simply (inaudible) star, we've used Section 314(a) to communicate information of law enforcement and we can show that law enforcement came with two suspects after a coalition of banks looked at information, worked with law enforcement and responded back, we were able to get them to bring in 30 suspects. So, there's real identifiable data out there that shows that some techniques are better than others. I think the trick is showing holistically, can you implement that technique across the board and can you demonstrate that you're making the financial system and the institutions safer. And I think for our part, that's what we have to show

that the institution and the financial systems' safer because of these new ways of doing things. And you know, I think Eric will talk about some of the technology solutions that are out there, but there are some things where we can do our jobs much more effectively. So, we've got to demonstrate that, that really makes us and the financial system safer on the regulatory side, there has to be an acceptance that some of the lower level things that we do now, we really don't contribute, or contribute very little to safety, soundness within the financial system and to stop financial crime. Those things may fall away because they're just not very effective and you're going to lose something, but it's not.

SPEAKER: And to allow those things to fall away, is that something that the current regime would allow, or do you think we need regulatory (inaudible) change, or is it there?

SPEAKER: So, I'll, let me hear from my brother (inaudible) as well, but I think you could do a lot of it under the current regime, but I think what you have to have those, you have regulators on the same page because the challenge is going to be that if you have

regulatory arbitrage where the SEC views it one way, (inaudible) views it another, the Fed views it another, that's the challenging, certainly for large institutions that include it because you're open to all of these regulators, whereas, if there's sort of a consistent view of what success looks like then I think institutions can very quickly pivot and reach that success.

SPEAKER: Andrea, Eric talked about the economy between the supervisors and law enforcement and the different uses of this enrollment to be played to talk to supervisors of that going on. What is -- what are you doing with respect to (inaudible), there's a lot of talk about it examinations that are not less than ideal from the perspective of financial institutions. Is that a role for consent of trying to prove that process?

MS. SHARRIN: Absolutely. We work very, very closely with our Prudential regulator, Park Manage. We actually have a working group with the FPAs, the principals meet on regulatory reform issues once a month. We are undertaking a significant regulatory reform initiative where we are taking a little bit, the

BSA, the laws, regulations, that's to make determinations about, you know, there is new technology, there are new approaches, innovative approaches on how to develop quality information that can be used and more information that be used by law enforcement and want to make sure that the regulations don't offer this barrier to allowing that to happen and rather, are easier to encourage, right, and I think you'll see more from regulators along those lines. One thing we, eventually I'll get to your question, one thing that we do make available to institutions, so some institutions haven't taken advantage of this, they'll come to us and they'll say, we have this really great idea and we want to test this out. We'll nervous about being paid by our regulator because either we're exposing a gap or it fails, whereas, an entirely successful or it's successful and -- but it costs a lot of money and on balance, we don't want to do it. So, what we have done and we are looking at those issues with out counterparts at the Aetna agencies, but we will provide, where appropriate, an administrative drawing to say, yes, what you're doing, it does comply, if there's a question, or if you need to receive some form of an exception from

complying with a specific rule on a very limited basis to allow you to test something, we will work with the national regulator to grant that relief and we have that authority, FinCEN has that authority to grant accepted relief. That said, institutions will always, always, always have to meet (inaudible) obligations. At very minimum, you will have to comply with your obligations. So, you can't just plop into something new without ever testing it, right. With respect to examiners and looking at how institutions are examined, I think we are really, in government thinking about how do we measure effectiveness and how do we incorporate effectiveness, into the, whether it's the supervisory process or how do we enable institutions to be recognized when they do have a very good program, notwithstanding some deficiencies, which, if you have efficiencies, you have to be accountable for those efficiencies. I mean, that's not going to go away, but on top of that to be recognized when there is good work and the good work is even sometimes above and beyond what you're required to do and we want to find a way to do that. And to do that in a way that makes sense for the variety of types and sizes of institutions that we have. A lot of the issues

we've talked with that are mostly relevant to large financial institutions. And you have to be careful, right, when you put out guidance that says, or a statement that says, it would be great if you would do that. Then, suddenly smaller institutions are like, well, does that mean I have to? And it comes from a good place, right, it's like, no, no, we want to show our support for those who are doing it and then the message gets all screwed up and they're like, how could you have done that? So, there's always a balance that you have to have in figuring out the best way to go about doing these things. So, there is a role for FinCEN. FinCEN is engaged with the regulators who are looking at these issues and we've made really good progress. Some of what you've already seen, for example, the CIP, the exemption for a preview finance (inaudible) evaluate that with the OCC did lead to a joint guidance. We did some in a connection with beneficial ownership. You saw some recent guidance that talked about a joint guidance, talking about sharing resources. So, we are doing a lot of that. And then, the final point I'll make, before I suck up all of the time is, we do actually train examiners and brief

examiners. So, for example, we worked with the FBAs to provide webinars and trainings for examiners all across the country as it relates to how you go about dealing with the new CDD rule and the approach that they should have considered taking when we issue a new guidance. We will need to talk to the examiners. Whether it's conference calls and all of them need to join and do it on a periodic basis and then, we have the regular training programs that (inaudible) if you ever want to see that FinCEN participates in and other participate in. So, that is a very long-winded answer, but I hope helpful and touches on some of the other stuff we talked about. So --

SPEAKER: No, that's very helpful. I'm going to bring Gary, you entered that conversation because there's been, (Inaudible) can start off with talking about technology and what can be accomplished with technology. And there's a lot of terms that are thrown around, machine learning, artificial intelligence and I know that's not all of what we talked about with technology. Those are two concepts that a lot of people use, myself included, not fully understanding what it is that those mean and do; how they can be helpful, how

they can be tested; how they can be shown to examiners for law enforcement to be actually effective, so maybe I could ask you to start there and help us to --

SPEAKER: I just want to answer that in about two minutes (laughter). Let me take a step back and sort of say, I love being on this panel. I am neither banking or regulator, so I'll go back to the opening question and say a little bit more forcefully. The current system is woefully inadequate and I'm somebody who spent --

SPEAKER: A rare criticism.

SPEAKER: -- me for inadequate, so we'll go on.

SPEAKER: No, I think it was, it wasn't inadequate.

SPEAKER: So, having said that, I spent most of my career in the national security world and I love consent, I love the data, but given the context in which we live today and given the state of technology it's woefully inadequate. We could be doing so much better and we could be doing so much more. So, it's inadequate in the sense that we have these discussions about policies and about regulations without technology in the

room. And technology really informs what's possible and what's capable and to the extent that we keep having these discussions without understanding what's possible and what's capable, we're going to continue to fall short of what we could be doing as it relates to anti-money laundering, counter-terrorist financing, these types of things. So, I come at it from that perspective. I'm a technologist and I'm interested in finding terrorists and money launderers, not bank compliance, but finding terrorists and money launderers from a technology perspective. And if you take a moment and walk around in those shoes, you might be able to see what I see, which is we have tremendous opportunity that we're not taking advantage of right now. And so, I'd like to sort of leave that's the big thing.

Getting into the specifics and we'll get to the technology. Just building on the great comments already stated. If you think about SARS, and Frederick started talking about this, if you think about SARS, think about SARS -- well, (inaudible) there's a SAR in input or an output, right. Regulators measure the amount of SARS produced, but not the quality of the SARS, but the numbers are SARS. SAR our yield tends to

be a metric of success. What if 90 percent of the SARs are bad SARs? What if 95 percent of the SARs are bad SARs, so, we're measuring the SAR as an output from the bank. What if we think about a system that we were to design to say, well, let's find money launderers and drug traffickers and terrorists. So, then the SAR becomes an input, so now, I want to know not how many SARs, but how good are the SARs? I mean, we don't do that today. So, using technology, we can do that, we can get better at that. And Frederick started to talk about that and Rick started to talk about that as well. So, think about that question. Is a SAR an output or an input because that changes your worldview perspective on all of this. Machine learning is machine learning is, you take a machine and you teach it something, right, machine learning, it's very little. Machines learn exactly what you've showed them that they don't learn what you don't show them, machines don't do inference well. People do inference, machines don't do inference. So, if you take a machine and you give it a whole bunch of SARs and they're 95 percent wrong, guess what the machine learns, right? So, if we were to get good data, not more data, just good data to feed the machine, we

might be able to train machines to be more efficient at finding money laundering, drug trafficking, terrorism with fewer false positives. That's the core of how machine learning works. It's a very little process, very simple. There's nothing magic about machine learning. It learns what you teach it. We need to therefore, generate good data to do that. I'm going to pick up another point that the other panel (inaudible). We want law enforcement and national security in the loop, right. We need that feedback. We need a mechanism so that when all of the SARs (inaudible), so the bank sends a SAR to FinCEN, law enforcement uses it and says, hey, that's an awesome SAR. The bank needs to know that, or the banking system needs to know that because that's what you want to use to train your machines. Find more of this, don't find more of this. We're really do that. So, so the takeaway on machine learning it's very literal and it's only as good as the data. Three components to machine learning. There's the algorithm, they are the people involved, and there's the data. Algorithms are commodities. You can get them for free online. People, not commodities, but it takes about five people, right. The banks can afford that.

It's really all about the data. The only scarcity in good machine learning is the data. You find good data, you're going to have an awesome machine learning environment. You're going to have great algorithms, you can have crappy data, you're not. So, we need to focus on how we generate good, high quality data and I'll pause there.

SPEAKER: Well, let me ask you, but I don't know, but if you had a reaction, so, I just want to come back on a few things real quick, because one of the things that I'm thinking that we lost sight of, the regulatory regime we have today, it's not all about mining information to the government. We have a huge component of the regulatory scheme. It's not managing risk within the organization, so it has nothing to do with the output or (inaudible) depending on your point of view, but it's about managing risk and there's value in that. We should be able to manage our risks within the institution. One of the issues, and it goes back to Satish's your first question, the way that we're directed to manage risk today by the regulatory scheme is outdated, so we need to think about what the risk is and reevaluate that measure differently. The other

thing, and I know a lot of folks talk about this, I have not seen in years regulators counting numbers of SARS in the comparison. That used to be the issue and I think more around today and not all regulators because some are really great in understanding the nuances and things that we need to do going forward, but the issue that I see today is again, because of the regulatory scheme, we're challenged on why did you not file on this activity? Why did you not file on that exhibit on that activity, as opposed to, let me understand how you identify the risk and your thought process around making decisions on whether it's a risk or not. So, those are the types of things -- I just don't want to lose focus on, it's not about the count, they're always considered and it's not about getting information to the government (inaudible).

SPEAKER: That's useful and is the solution to that problem, those issues, what Andrea was talking about in terms of dialogue with the supervisors or does that mean legislative change to get to a better place.

SPEAKER: So, I'd love to say that legislation would fix it all. I don't think it will. And we can talk about what we've seen this past year. I'm thinking

in kind of surround potential changes and requirements like raising thresholds that would have a significant impact. I have a different view if it would any impact at all for most institutions. And so, yes, thinking different regulatory schemes would be great, but there needs to be that discussion first around what the risk is today and what we're managing against today. I think that's got to be the initial thought process. And then, I go back to my point about not missing sight of managing risk internally. There are great potential technology solutions around today, that would help us manage our own risk and it would help us demonstrate that we're managing the risks, but the regulatory scheme and the way it's being implemented don't get us to that place.

MS. SHARRIN: I actually, on that last point, will you say the regulatory scheme? I think you mean regulations, right?

SPEAKER: Mm-hmm and rates.

MS. SHARRIN: And rates (inaudible). So, when you talk about managing risk, right, and it's -- there might be -- if there could be better approach, risk-based approach to supervision, right? But what

regulation do you need when you say regulations are serving us a barrier to effective risk management?

SPEAKER: So, I'm saying that the way that the regulations are being implemented, directly implemented was contrary to a lot of risks today, but if you want specific regulations, so we have a SAR regulation that I think could use a lot of change in terms of what it is that (inaudible) to be looking at today, if you want to identify. You think about when that was put in place, in 1996 was the second iteration of the rule that started in 1984. So, really isn't -- hasn't been any change at all since 1996. So, we need to think, I believe, think about what it is we're trying to manage against -- in today's environment and has that changed from 1996. So that that's one area.

SPEAKER: Two fingers, just to jump in. We have an initiative that we're working related to the VPI on a technology solution that allows for training better models, better technology in the absence of changing laws or regulation. So, does it -- I'm not going to defend regulations as they are, but you can also make tremendous progress in the absence of changing regulations.

SPEAKER: I agree. Absolutely.

MS. SHARRIN: Yeah. And I agree, the regulations need to be looked at, but I will say, that doesn't mean they need to be changed because the issue might not be the language of the regulation, right, it might be how we're thinking about implementing it. So, when I hear people say, well, this hasn't changed in 70 years, I want to say, well, a couple of things. We look at all; we're required to look at every regulation that requires us to -- that allows us to, (inaudible) keeping reporting requirements and assess it, see what the burden is, solicit comments from the public or in that burden. We do that every three years under the Paperwork Reduction Act. We have modernized Fitzsimmons system, was systems four-year process that pinched in 2014 to digitize as much of the information to allow law enforcement and FinCEN to use the information in a much more sophisticated way. And we had changed the SAR form a number of times over the course of -- since we've had that, including most recently to make it a little bit more easy to include some cyber information. I know that's a different can of worms, but we are open to change. I think we should be careful to not just to

say, well it's been around a long time, therefore, it needs to be changed and having specific examples of, well here's the issue that's getting in the way of us doing whatever job, I think is where we would benefit most as regulators.

SPEAKER: And just to be clear, I don't think I said, it's been around for a long time, so it needs to be changed. I said, it's been around for a long time and we need to look at it.

MS. SHARRIN: Yeah.

SPEAKER: So, the clearing house, that create BPI data, the clearinghouse that put out the white paper in February 2017 that some of us were able to contribute to, and one of the needs for reform of the white paper laid out was the idea that banks are individually accountable and liable and so, there's this disincentive for collaboration and sharing. And there are good reasons for that, privacy, all of that. But if you go back to what I said about technology, that that's an algorithm string by the best data, one bank only has the data in that bank and can't benefit from the data from other banks. So, there's -- just sort of a technology perspective, there's this big obstacle that we're

putting in our way towards building a better system by inhibiting sharing across ranks. No reason to think that all banks are going to be equally good at that law enforcement task. If they should be doing good at all. And that's another debate. But we are imposing these expectations on banks and then we're telling them that they have to work individually and not collaboratively at it. And that's an area that there's been a lot of discussion about 314 being the Patriot Act and other regulatory relief that might be required to allow and facilitate banks working together. Again, I think there's a technology solution to that as well that doesn't require a regulatory or legislative relief. But I think that's an area that has been pointed out in the past that needs some attention.

SPEAKER: I think the key to some of this is to look at where you have significant expense on areas that are really subject to being improved by technology. So, where you have very low functions; where you have things where frankly, computers can do better than people, I think that's an excellent place to use technology in those spaces, get an uplift and not necessarily, say like, okay, well, I've gotten rid of a

hundred people, but to say how many of those hundred people better. So, instead of just giving a very basic function that can be done better by computer, can I kind of use those resources and then opt to do higher level work, to do, as Barry said, the more intuitive sort of work that are not terribly bad and try to be that better. And I think one of the unique things about this space is that unlike some regulatory barriers, where there may be actual areas of difference between the government and banks in terms of what the right results is. I think generally speaking, the government and financial institutions could agree what the right results here is. The right result is to make banks safer, harden them from money laundering and terrorism and to make the financial system and the country, and the world financial system safer from money laundering and terrorism. And so I think it's a unique space because we all have very much the same goals. The only debate that is going on is, what's the best way to achieve that and how can we actually make ourselves better and safer. I think a great example of where this ties into technology where it ties into Rick's point of looking at the long history of BSA. Is there a certain

thing, for instance, we file SARS on today? It may be that a small portion of that data is useful. So, maybe that I'm looking at it like there is some portion of the evidence that's useful, but the usefulness of actually going through and detecting it to be doing an investigation, writing a SAR narrative, filing a SAR, that in of itself, is not terribly useful, but because SAR regime was born out of the '70s and the '80s when literally companies were typing SARS, sending them to an IRS center in Detroit who then with that fat finger them into a system, (laughter) that's a reality that we used to live in. We don't live in that reality anymore. And so there is an ability for some of those categories where some of the data is useful, but the whole process, the whole SAR process is not that useful. Why don't we all augment that? So, instead of having people looking at those things, why doesn't that become almost sort of CTR like, where it's an automated file into the agency. The information goes to them. They now have the information and the technology to split it. You don't need people to do that. So, I think there are some areas there where, again, it's, I agree with you, is not the regulation itself, it's only in the regulation

(inaudible) that's keeping us from doing it. But it's how we're implementing that regulation and I think that there's some exciting areas and I know to give FinCEN credit, I think that they really led the way of talking about a lot of these areas to say, isn't there a way we can do it; are there efficiencies you can drive, so that in those areas you take your resources you're currently spending on that low value activity, you automate it and you put things like terrorism, human trafficking, major drug trafficking, things like that and really push your resources where they're doing most good.

MS. SHARRIN: In addition to talking about it, we've actually taken some steps to put our money where our mouths is, so to speak, and are looking at ways in which an automated process might help with reporting, streamlining, and reporting on certain SARs. It's not - - can't be possible with every SAR. In the analysis you have to go through when you consider our pilot program, for example, about something like that is the stuff that you, it's always a value judgment. We get this, but we lose this, and you always have to analyze is what you're losing okay, right? Is that something that we can afford not to have that information? So, if the

answer's yes, well, then that's a great opportunity. If the answer is no, then it might not be right for that kind of change yet. So, that's what we're thinking about you, for example, one potential type of SAR that institutions spent a lot of time on and report at high levels are SARs related to structuring activity and on a lot of that information, is technical in nature and less about some of the other things that you might incorporate into the analysis. So, those are the kinds of things we're thinking about. How do we not lose, what otherwise would go into an analysis, but into a narrative? How can we not lose that information at this critical, but have them enable institutions to be able to implement automated systems to reduce the burden on their compliance staff and allow them to go and work on those regiments you're talking about, more sophisticated investigations. A lot of larger institutions have created financial intelligence units that has collaborated with on their 314 and 310 and it's been exceptionally valuable for all the parties involved. So, we are looking at that and really trying to put our money where our mouths are on that and we would ask everybody, if you have those kinds of ideas from an

institution, come and talk to us. And we channel our director now, Ken -- and (inaudible) Kenneth Longo and I'm going to say, but you got to make the system safe, right. You can't just have something that's going to reduce costs, you have to have something that's going to make the system better.

SPEAKER? And I think a key, just to throw out this, is to think asking the question correctly is critical because having been in law enforcement for a number of years and if you go to FBI, or go to IRS, or CI, or Homeland Security and say, would it be helpful to have this data? I can guarantee, the answer will always be yes. There's no question, it's always going to be yes. Now, but that's not really the question because as much as we'd love to, we don't believe in a world of infinite resources and infinite ability to do everything and we do live in a risk-based system. And so the question instead of do you want this, right, which is always going to result in yes, but the question really needs to be would you rather have X or would you rather have Y? And I think when you start asking those questions that is a much more nuanced discussion and a much more interesting discussion. Would you rather

focus resources on high priority cases where we take your target pool from two to 30, we take suspects who you haven't shown you the ring that's operating in this area, or would you rather have us provide this type of information? And I think if you asked those questions, that's where you get a much more nuanced answer. And law enforcement in my experience says, I would much rather have you take me for two to 30 suspects and show me where all the money's going and show me the (inaudible). And so that's why I think we have to be careful when we talk about it to make sure we ask that right question and we don't sort of ask a false narrative question, which is always going to be something (inaudible).

So, I actually have this instruction as a great example of my point about revisiting regulation. So, we have a requirement to report cash transactions over \$10,000 and then subsequently, had a requirement that says it's illegal to avoid that; to take action to avoid that requirement. Is that something -- so, two questions I have. Do we still really need the cash reporting requirements today and I'll come back to that and if so do we still really need the avoiding it.

Whereas, rather than automating the SAR files instruction because I would guess based on SAR findings, that I didn't want structuring, none of it turns into criminal activity that is prosecuted. I would ask a different question. Should we think about having banks provide data dumps of cash activity at whatever threshold the government might want; the government can then look across banks where I think you'll really see the structuring if that's what we're looking for because if somebody is really trying to do bad activity, they will do it at multiple banks and get a much better view of what is going on with those cash transactions. That, to me, is kind of out-of-the-box thinking rather than just looking at let's get out, to people are having trouble because their filing too many SARS structuring, how can we address that and I don't know if I'm right or wrong on this, but it would be great for somebody to start thinking about it that way. Instead of just picking off little pieces that are causing issues.

SPEAKER: Well, I think to Gary's point, that's where I think it needs account bank systems and the data is critical because if you look at any particular institution, the customer knowing that you're

monitoring them because everyone knows they're monitored, is even half aware they're being monitored, so they know we're monitoring them. So, they're going to keep their activity in mind with what is expected for that customer type. But what they're going to do is they're going to go to five or six different banks and give you that same activity for being in compliance at five or six banks. And the thing the individual banks are necessarily when you detect it, because they don't know that their customers to the other banks. To Gary's point, if you're looking across the banks, and to Rick's point, if you're aggregating that data, then essentially what you've done is you can eliminate the criminal requirement structuring, but what you have is you have an implicit structuring because they're trying to avoid monitoring detection systems (inaudible) for the internal controls and by doing that they're essentially structuring across institutions and by FinCEN having the data or by another technology solution, you can actually then detect that activity much better than you could by saying let's look for structuring within an institution.

SPEAKER: So, it's all about the data and I couldn't find the table more forcefully on that. So,

that's absolutely right. To collaborate, you don't need actually -- you don't have to create a big pool of data to collaborate, but there are other ways to collaborate. There are several collaborative initiatives ongoing. One of them I'm involved with a and there's two others that I know of that are working on ways to do within the current regulatory regime, allow for the information of data sharing and exchange so that way you can train better models, concrete -- that's one concrete step forward that we need to focus on. The other concrete step is with inner links (inaudible), so outside of this context of collaboration, right, is, as Andrea said, you've got banks who want to run experiments. So, the term I use is a sandbox, you want to encourage a sandbox, remember, I said it takes about five people, some of machines and a bunch data to do this. So, it's not a massive investment to do a sandbox. Everybody should be doing sandboxes, but if you look at the long arc of sort of technological evolution, there are always periods of overlap. You don't see a new technology come in and the old technology go away the same day. So, my advice to all of you is tell your board that it's going to cost a little bit more in the short-term and just get

them comfortable with that idea. You're going to run some experiments, you're going to have some sandboxes. You're going to invite the regulators over to look at what you're doing in the basement while you're currently running your existing system. So, you're going to be no worse than current standards, however bad I think those are, you're going to be no worse than that. (Laughter) But you're going to have experiments running in the basement that's going to likely be much better and then, you you're your regulator empirically, this is not a theory empirically, here's the old system, here's the new system and then you get permission to shut one down. But I don't see a way in the short-term of saving money. I see a way of saving money or just being more efficient in the medium-term, but not in the short-term.

SPEAKER: Let me ask you a question, which is I think you had earlier said, this is not an area in which government and industry disagree. We're all on the same page and yet, legislative reform doesn't seem imminent. It's gotten soft. A lot of times it's gotten soft because of threshold issues. One of the ways in which legislation always seems to start or pass, traditionally started as we need to raise violent

thresholds, CTR size. Those are antiquated numbers, et cetera. Is that the most important piece of form? What is the top of the top of the legislative performed agenda from your view and would that vary from your institution to other designees?

SPEAKER: So, I think starting with the last question, I think it's certainly does. I mean, different institutions are going to have different priorities as to what's most important to them. I think going back to first principles that we've talked about, you have to look at what's not terribly effective, right? Where do we have, where are we generating information, where are we doing and really to kind off this point, it's was not making us safer. So, you've got to first look at that and say, what things are we currently doing that really aren't making us safer? What things are we doing that take a lot of resources? And if you could start from those two principles, you can start to come up with some solutions legislatively. It's the things you could do that help. I think that people tend to gravitate towards this idea of thresholds because it's an easy one to understand it. The thresholds have been there for a long time. They

haven't changed. It was back in the day when you could buy a car for a thousand dollars and so, there's this sort of mantra as to why it sort of makes sense. But I think it ignores the fundamental reality of how those things operate in the space and frankly, this is probably mostly true from large banks and small banks. And there may be some very small banks or this would not play out as true, but I think by and large, this is true, which is most of the work you're going to do in the investigation is going to be on the front end. So, you're going to be spending money on your detection technology. You're to be sending resources on the type of technology; you're going to say resources on false positives and we'll need those, once you get past the false positives, you're going to have your works come out. You're going to investigate those alerts and then right after you said 95 percent of your time and money, you're going to understand this above or below 10,000, or above or below 20,000, or above or below 30,000. So, I think it sounds attractive conceptually, I don't think it's really going to make a huge difference in terms of resources because most of the resources that are going in, are going to be spent before you're at a point of

actually understanding what the real dollar volume involved in the conduct is. And frankly, for most institutions, as long as you've already done 95 percent of the work, if it's about a SAR, you're probably going to file it anyway. So, you're probably not even going to say that it's five percent. So, I do think while it's an interesting concept and I understand why people are attracted to it, I do think it sort of misses the research point and I think there are much more effective ways to probably drive those resource shifting -- I wouldn't really call it resource saving, but I think resource shifting from lower value activities to higher value activities.

MS. SHARRIN: Yeah, I think that's absolutely the right way to be looking at it. We do hear a lot about thresholds and we do talk to law enforcement about CTRs and the thresholds and what if this, what if that. If you just raised it to, a lot of people talk about it. Well, let's raise it to the (inaudible) index. Well, that's not really the way crimes are committed. It's not like, you know, well, you've only brought in this much and the proceeds and the consumer price index, we won't be able to iron them out. That's not how they do

that. And if you talk to law enforcement, they will tell you that if you raise your, for example, CTR threshold, to a person, they lose and it went to 68 plus percent of the information that they need and cash transactions, given how little people use cash today comparatively, the fact that there aren't the cash transactions actually makes it more interesting. The fact that they're dealing in \$10,000 in cash. So, there's lots of different ways to, to look at the issue. And we have to sort of figure all that out, but whenever you have a specific, like a threshold, I'm always hesitant to say rate is lower. It's not the right, you have to look at it, but you have to always keep in mind what the end game and what you're trying to achieve. And how can you get that information better and does this relationship -- is this going to help us get there and at what cost.

MR. KINI: Well, by my wife, we have about five minutes left, so I do want to take a little bit of time for any questions from the audience for the panel before -- otherwise I will ask and run out the clock. But anyway, any questions from the audience?

MR. HUDSON: Yeah. Eric Hudson, Brookings, so

this is a question for Andrea. There's a growing number of states, I think, yesterday adds Massachusetts to the list that are depositing revenue from state cannabis. Each of these states has a bank. Each of these banks has to file CTRs because often the money's in cash in SARS. What I struggled with, holding aside all of the other policies, what legal tools do you and Gregory have to go after a state government? (Laughter) How does that work?

MS. SHARRIN: Thank you very much for that question. I pass to Dillon (laughter). No, I -- I'm going to talk about FinCEN because that's what I can talk about. I can't talk about DOJ, at least not anymore. I will not do that. FinCEN doesn't go after people, right, so, what we do is collect information so that we can ensure transparency in the financial industry and ensure that we have the data that we need to help law enforcement with critical investigations. And that was what was behind the, I guess it's 2014, it was, look, we're not going to say this is right, this is wrong. I mean, clearly there are federal laws that say this is illegal to deal with, but what we can say is that if you do this, here's what you, as an institution

need to do in terms of reporting. And I (inaudible) was still out there and that is sort of FinCEN's role on how we look at it and we're evaluating, it does, of is this (inaudible), we don't have anything, I can tell you that. But it is out there and is about creating transparency. So, a lot of people come to us and they'll say, what is FinCEN going to do about this problem, but it's not something that you can do anything about. I mean, the sense of if there is a disparity in the state and federal law, I can't change that, right? If there is a state that is arguably facilitating illegal activity. I can't do anything about that, right. All I can say is if you're going to engage in marijuana related business use, how do you have to comply with your FinCEN obligations? That's literally all I -- we have that we can do around that.

MR. KINI: Other questions from the audience. We have a couple of minutes left. Okay, got one in the back.

SPEAKER: Gary, for purely as a thought -- sorry. (inaudible) which I think you can do very easily. Hold aside, all legal considerations --

DR. SHIFFMAN: Got it.

SPEAKER: And as a technologist, what kind of public utility could be financial sector with large, create that would share all the data that you were talking about, which is now siloed individual institutions and do all the modeling and then presume the output of that process -- maybe used the wrong word (inaudible), goes to FinCEN or the government or whatever?

DR. SHIFFMAN: So, data, as a technologist, data or big data or MSE data sticky, data likes to say where it is. It doesn't move around. So, why try to build the regime where we have to move data. The law doesn't like it, people don't like it. Technology, algorithms are light, (inaudible), so, that's where I think the solution lies. So, I'm behind an initiative that's called the Utility, which is about this idea of move the technology and not the data. And I think that's a much simpler way to do it. The other alternative -- like you have to get all the relevant data into the same room together, to work, right, how do you do it? Well, you can take all of the data from all of the banks all around the world and move it into one place and some people would like to do that, they'll

make a ton of money off of it. But there's all kinds icky-ness and I think that's the legal word (laughter). The other alternative is leave the data at rest and move the technology (inaudible) and that works just as well, all you need is data and an algorithm to be together.

MR. KINI: You have a question? All right.

SPEAKER: If it wasn't for me, I'd looking in the crystal ball 10 years from now. You're back on this panel. We talking about the same stuff, or do we have a different legal regulatory technology landscape that allows us to be talking about something very different. And here, I'll start with you.

MS. SHARRIN: By then we will have achieved peace and happiness (laughter) and these will no longer be necessary (laughter). I would say by then we will have a further (inaudible) regime that does account for a new way of payment systems; new technology and ways in which all of us can use.

SPEAKER: Yeah, I think (inaudible) with that, not to age myself, but I've been doing this for quite some time and I have to say, I think there's never been more energy and agreements around change right now, both within the United States and internationally. But I'm

here for some, so, I do think we're going to be most not because politics or anything else, just because I do think that there's a growing consensus between the history between governments and instead of everybody taking their hat off and come to the party and just intellectually saying things do we need to change. We can make this better, that we do think you'll see some change over the next 10 years and probably fairly significant changes.

MR. KINI: Great. Yeah. So, so you don't have to date yourself because I'm pretty sure when I started doing this, you were still in high school. So, I would say, I mean, I'm optimistically, well, hold that, we will make some changes, but if you ask me this in 1998, what I thought would be different in 2008, I would have said a lot and changed a whole lot; of 2008 to 2018, I think we've seen some changes, but not as much as I would have hoped for. So, I am hopeful to Frederick's point and add to Henry's point that the technology is a lot different today than it was then and we had a lot of opportunities to (inaudible), so, I'm going to keep my fingers crossed.

SPEAKER: Technology was much faster than

policy, but policy doesn't move. It's not immune to it. None of us predicted this 10 years ago or the apps on it or Google or all of the things going on in their life. This is an amazing moment in history. In artificial intelligence, it's the third wave of artificial intelligence. It's impacting every aspect of our lives. You'd be foolish to think it's not going to happen to VSA.

MR. KINI: All right, that's a perhaps note on which we will end. Thank you all. (Applause)

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