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Policy Division
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Re: Request for Information and Comment: Extent to Which Model Risk Management Principles Support Compliance with Bank Secrecy Act/Anti-Money Laundering and Office of Foreign Assets Control Requirements (Docket No. OCC—2020—0047; OP—1744; RIN 3064—ZA23; FINCEN—2021—0004)

To whom it may concern:

UBS appreciates the opportunity to respond to the Interagency Statement on Model Risk Management for Bank Systems Supporting Bank Secrecy Act/Anti-Money Laundering Compliance dated April 9, 2021 ("Statement") issued by the Federal Reserve, OCC and FDIC and the Request for Information and Comment ("IFR") issued jointly with the National Credit Union Administration and Financial Crimes Enforcement Network ("FinCEN") that is noted above. UBS broadly supports the Agencies' efforts to clarify the intersection between existing guidance[1] and its applicability to supervised firms' advancements in Bank Secrecy Act/Anti-Money Laundering ("BSA/AML") and Office of Foreign Assets Control ("OFAC") compliance processes.

In addition to this letter, UBS has participated in the comment letter processes undertaken and supports the issues raised by the Bank Policy Institute. Of particular note, we are supportive of the proposal's identification of the need for further recognition/clarification of the flexibility in firms' processes to identify and validate models applied to BSA/AML and sanctions. Furthermore, the clarification to be contemplated should also be extended to firms' use of Artificial Intelligence and Machine Learning as it applies to the BSA/AML and sanctions tools.

In this letter, we have focused our comments on suggested changes to the Model Risk Management Guidance (i.e., SR 11-7 or "MRMG") that would serve to embed the broad objectives of the Statement.

Enhancements and Re-issuance of MRMG

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[1] "Supervisory Guidance on Model Risk Management," Federal Reserve SR Letter 11-7; OCC Bulletin 2011-12; and FDIC FIL 22-2017 ("MRMG")

Given that the MRMG is over ten years old and was developed primarily for a different set of risks (e.g., market, credit and pricing risk and forecasting of stressed capital and liquidity) and circumstances, the terminology used and referenced are largely built upon the prevailing issues at the time and may not adequately address advances in the scope, complexity and covered risks of models deployed by supervised firms. This is particularly true for the BSA/AML models, which rely heavily on the expert judgment of the practitioners and are not intended to predict suspicious activity but rather identify transactions for further investigation. The Statement correctly recognizes that BSA/AML models may be different than the traditional models (e.g., credit risk, market risk) contemplated in the MRMG. Hence the Agencies should formally adopt changes to the MRMG and/or provide additional guidance to reflect the range of industry practice in accordance with the objectives noted in the Statement. Such changes would be beneficial to supervised firms as they manage the model risks associated with BSA/AML models and examiners as they review the internal practices of such firms.

While the MRMG appropriately identifies key model development methods that reasonably transcend to methods applied BSA/AML and sanctions models, certain steps noted in the MRMG discussion of effective validation may not be equally applicable and unduly effect the expectations place upon internal processes. For example, the MRMG discussion of benchmarking and outcomes analysis would not be typically relevant to BSA/AML or sanctions models. With respect to the former, most firms rely on process verification through frequent output monitoring and off-line transaction testing to ensure that the model is working as intended. With respect to the latter, BSA/AML tools are not intended to be predictive but rather identify suspicious patterns for further investigation and would not be subject to backtesting. Instead, firms may apply a variety of outcomes analysis methods including rules relevance, investigations triggers/volumes and overrides results. Given the unique characteristics of BSA/AML models, revisions to the MRMG should address these nuances particularly if supervisors intend to broaden the applicability of such guidance.

The Statement refers to the "flexibility" afforded by the MRMG principles; however, in the absence of additional guidance, banks often find it difficult to have a complete understanding of regulatory expectations. As is typically the case for previously issued supervisory guidance, Agencies make frequent use of examples or range of practices to clarify supervisory expectations or observed sound industry practices. In other cases, guidance is used to expand upon or clarify expectations as they relate to regulations. In the context of existing BSA/AML and OFAC compliance requirements, further clarity of expectations through revisions to MRMG would be warranted particularly as BSA and OFAC rules identify "reasonably designed risk-based programs" and sanctions programs that are "risk-based," respectively. Furthermore, as "tailoring" has been an applied method for other regulations, the Agencies should also consider "tailoring" the MRMG to provide greater transparency and ensure that existing guidance fully reflects industry advances and the needs of financial markets participants, both supervised firms and their clients/customers.

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We would welcome additional discussions on the topics raised in this letter and stand ready to support the Agencies' objectives of modernizing existing guidance to align with industry developments and innovations in compliance monitoring tools.

Yours sincerely,

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