



ANNUAL COMPLIANCE REVIEW

2018

The CDD year: beneficial ownership goes operational, Europe wakes up

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A Note from the Founder

On May 11, 2018, the FinCEN Customer Due Diligence rule took effect. Every covered US financial institution was required to collect, verify, and retain beneficial ownership information on legal entity customers at account opening. The rule had been on the books since 2016. The two-year implementation runway had been used by some institutions to build production-grade systems and by others to draft policy memos. The first six months after May 11 separated the prepared from the unprepared in front of the regulator.

If 2017 was about waiting to see whether the regulatory framework would change, 2018 was about discovering that the framework was already changing in ways the political discourse had obscured. The CDD rule represented the largest expansion of US AML obligation in fifteen years. ABLV Bank's Section 311 designation in February showed Treasury's continued willingness to use the most aggressive correspondent-banking tool. The Danske Bank Estonia revelations in September became the year-end shock that reframed the entire European supervisory conversation.

What this review captures is what compliance leaders should have learned in 2018 (and many learned the hard way through enforcement), what the supervisory baseline now looked like in practice, and where the trend lines pointed for 2019. The honest answer is that 2018 was the year compliance budgets had to grow whether the institution wanted them to or not.

Trends and Year-over-Year Comparison

Compared to 2017, the shift was from anticipation to consequence. The CDD rule's effective date converted a planning problem into an operational one overnight. Programs that had built proper BOI collection workflows operated cleanly. Programs that bolted BOI questions onto existing onboarding forms produced files that examiners began calling out within weeks.

The European story was the bigger trend. Danske Bank Estonia (the bank's whistleblower disclosure leaked in September 2018, revealing approximately 200 billion EUR of suspect flows) put the entire EU correspondent-banking framework under scrutiny. ING settled in September for 775 million EUR for Dutch AML failures. ABLV Bank was effectively shut down in February by FinCEN's Section 311 finding. The combination of these cases triggered the EU's 2018 commitment to a stronger supranational AML supervisor, work that would eventually produce AMLA in 2024.

Trend moving into 2019: the regulator was now operating on the assumption that BOI was collected (and would test that assumption hard); the European supervisory framework was about to be rebuilt; and the size of headline AML cases was about to grow significantly.

The Five Most Important Items of 2018

This is the short list. If a Chief Compliance Officer reads nothing else in this review, these are the five developments that mattered most in 2018, why they mattered, and what they meant for a working AML program.

1. FinCEN Customer Due Diligence rule takes effect

The CDD rule (effective May 11, 2018) required covered financial institutions to identify and verify the beneficial owners of legal entity customers at account opening. The rule defined beneficial owner as any individual owning 25 percent or more of the entity, or a single control person. A standard certification form was provided as a template.

The operational impact was substantial. Onboarding workflows had to be re-engineered. Data fields had to be added to core systems. Existing customer reviews had to be triaged for renewal events that would trigger BOI re-collection. Examiner attention focused early on whether the BOI was being verified at all, then whether it was being verified to a reasonable standard, then whether trigger-event re-collection was working. Institutions that had treated the two-year implementation runway as a planning exercise rather than a build exercise paid for it in 2018 examination cycles.

2. FinCEN designates ABLV Bank under Section 311

On February 13, 2018, FinCEN proposed to designate Latvian bank ABLV as an institution of primary money laundering concern under Section 311 of the USA PATRIOT Act. The finding cited illicit financial activity involving North Korean sanctions evasion and a broader pattern of facilitating money laundering for sanctioned parties. Within weeks, ABLV had lost correspondent banking access and entered liquidation.

The case was instructive in two ways. First, it showed that Section 311 remained an active tool with the operational power to shut down a foreign bank without a criminal trial. Second, it reframed the European correspondent banking conversation. Latvian, Estonian, Cypriot, and Maltese banks all came under more aggressive scrutiny from US clearing partners in the months that followed, with several losing correspondent relationships proactively.

3. Danske Bank Estonia branch scandal breaks publicly

Through September and October 2018, Danske Bank's internal Estonia branch investigation became public. The findings indicated that approximately 200 billion EUR of transactions through the Estonian branch between 2007 and 2015 were potentially suspicious. The bank's CEO resigned. The board commissioned a full external investigation. The DOJ, SEC, and Danish authorities all opened parallel cases.

The 2022 resolution would total over 2 billion dollars, but the 2018 disclosure was the inflection point. For the European supervisory framework, the case answered a question that had been on the table for years: can the existing patchwork of national AML supervisors handle a transnational case at this scale? The answer was no, and the institutional response (eventually AMLA) was set in motion.

4. ING settles for 775 million EUR

On September 4, 2018, ING entered a settlement with Dutch authorities paying 675 million EUR in fines plus 100 million EUR in disgorgement. The findings spanned 2010 to 2016 and involved systematic failures to

identify and report suspicious activity, particularly in client groups including Russian telecommunications and Asian textile importers. The CFO resigned in October.

ING was a precedent-setting case because it was the largest Dutch AML resolution in history and because the bank had publicly emphasized its strong compliance posture in investor communications during much of the relevant period. The case became the basis for examiner skepticism about self-reported compliance maturity claims, and it influenced disclosure practices across the European banking sector.

5. US Bancorp pays 613 million dollars

On February 15, 2018, US Bancorp entered a global resolution paying 613 million dollars across the DOJ (528 million), OCC (75 million), Federal Reserve (15 million), and FinCEN (185 million, with credit against DOJ payments). The bank admitted that for years it had artificially capped its BSA transaction monitoring alerts to manage staffing, knowing this would suppress SAR filings.

The cap-on-alerts finding was particularly damaging because it was a deliberate management decision, not an oversight. The case made it explicit that artificially constraining the volume of work a BSA program can do is itself a BSA violation. Other institutions immediately reviewed their own alert-handling practices for similar patterns, and several quietly raised analyst headcount and recalibrated detection thresholds in the months that followed.

Other Material Developments

Beyond the top five, 2018 produced a set of regulatory, enforcement, and supervisory developments that did not dominate the headlines but materially affected how compliance programs are designed and tested. The items below are the ones that came up most in the program reviews and customer conversations we ran throughout the year.

EU 5th AML Directive adopted

The Fifth Anti-Money Laundering Directive (5AMLD) was adopted in May 2018 with a transposition deadline of January 10, 2020. The directive extended AML obligations to cryptocurrency exchanges and wallet providers, tightened beneficial ownership transparency, and required member states to enable interconnection of national beneficial ownership registers.

Mashreqbank pays 40 million dollars to NYDFS

Mashreqbank's New York branch paid 40 million dollars in October 2018 for transaction monitoring deficiencies. The case extended a pattern of NYDFS attention on Gulf-region correspondent banks doing business through New York, and signaled that the regulator would treat foreign-branch BSA failures with the same severity as domestic-bank cases.

Iran sanctions snap back after US JCPOA withdrawal

On May 8, 2018, the United States announced withdrawal from the Joint Comprehensive Plan of Action. Sanctions snap-back occurred in two waves, on August 7 and November 5, 2018. The full Iran sanctions regime came back into force, including secondary sanctions targeting non-US persons. European banks faced acute pressure as the EU attempted to preserve trade through the INSTEX vehicle while the US enforced the renewed restrictions.

Goldman Sachs 1MDB investigation accelerates

DOJ filed charges against former Goldman Sachs employees in connection with the 1MDB scandal in November 2018. The eventual 2.9 billion dollar Goldman Sachs resolution would not come until 2020, but the 2018 charges marked the case's move from investigation to public enforcement. Other banks with 1MDB-adjacent activity received supervisory inquiries during the year.

FATF mutual evaluation of the UK

FATF published its 2018 mutual evaluation of the United Kingdom, finding the UK's AML regime substantially effective but with continued weaknesses in beneficial ownership transparency at Crown Dependencies and Overseas Territories. The findings directly informed the 2018 Sanctions and Anti-Money Laundering Act and the UK's later push for public BOI registers in the Overseas Territories.

OCC issues semiannual BSA risk report focus

The OCC's 2018 supervisory letters and risk reports emphasized BSA program governance, model validation, and BSA officer authority. Recurring themes included BSA officer reporting lines, the integration of internal audit findings into program remediation, and board-level metrics. The pattern would persist as a multi-year supervisory focus.

FinCEN Convertible Virtual Currency advisory

FinCEN issued an advisory in May 2018 (FIN-2018-A005) addressing red flags for ransomware and convertible virtual currency money laundering. The advisory specifically identified mixer services as elevated-risk and recommended SAR filing protocols for crypto-adjacent flows. It was a precursor to the 2019 FinCEN crypto guidance and the eventual 2022 Tornado Cash sanctions designation.

FATF gray-list Iran and increase North Korea pressure

FATF maintained Iran on its high-risk jurisdiction list throughout 2018, with North Korea remaining the only counter-measure-eligible jurisdiction. Other jurisdictions added or removed from the gray list during the year shifted correspondent banking EDD calculations at the margin.

Sanctions and Anti-Money Laundering Act 2018 (UK)

The UK enacted the Sanctions and Anti-Money Laundering Act 2018 in May, providing the post-Brexit statutory foundation for UK sanctions and AML regimes independent of the EU framework. The Act laid the groundwork for OFSI to operate as an autonomous UK sanctions authority and clarified the UK's ability to make its own sanctions designations.

Notable Fines and Enforcement Actions

The table below lists the headline AML, BSA, and sanctions enforcement actions of 2018, along with the regulator and the penalty amount. Where the action involved multiple regulators in a coordinated resolution, the combined amount is shown and the agencies are listed in the regulator column. This is not exhaustive: it is the set of cases that drove the most attention from compliance teams and boards during the year.

Company	Regulator	Amount	Notes
US Bancorp	DOJ / OCC / Fed / FinCEN	613 million USD	BSA cap-on-alerts case, February 2018
ING	Dutch Public Prosecution Service	775 million EUR	Systemic AML failures 2010-2016, September 2018
Rabobank	DOJ	369 million USD	BSA and obstruction case, February 2018
Western Union (continued)	FinCEN	60 million USD	Additional civil penalty under prior resolution
Mashreqbank NY	NYDFS	40 million USD	Transaction monitoring deficiencies
Societe Generale	DOJ / OFAC	1.4 billion USD	Libya and Iran sanctions case, June 2018
ABLV Bank	FinCEN Section 311	Effective shutdown	Latvian bank designated, lost correspondent access
Goldman Sachs (precursor)	DOJ / SEC / MAS	Investigation accelerates	1MDB charges against ex-employees, November 2018
Standard Chartered (precursor)	Investigation ongoing	\$1.1B settlement to come in 2019	Iran sanctions case progressing
Multiple community banks	OCC / FDIC	Various consent orders	BSA model validation findings dominant

Closing Note

If 2017 was a year of waiting and 2018 was a year of consequence, 2019 would be a year of escalation. Standard Chartered, Westpac, and the continued Danske Bank investigation pipeline would all deliver larger numbers and broader supervisory consequences. The themes set in 2018 (CDD operational reality, European supervisory limits, cap-on-alerts as a BSA violation) would carry forward as supervisory frameworks for years.

The single most important step a compliance program could take coming out of 2018 was to assume that the bar had moved permanently up. The bar did move. Programs built to the new bar held. Programs built to the 2016 bar did not.

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