CSBS

September 8, 2026

Benjamin W. McDonough, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551
Docket No. R—1835
RIN 7100–AG78

Re: *Anti-Money Laundering and Countering the Financing of Terrorism Programs*

Dear Mr. McDonough:

The Conference of State Bank Supervisors ("CSBS")[1] provides the following comments on the Federal Reserve Board's proposal to reform anti-money laundering and countering the financing of terrorism ("AML/CFT") program requirements ("program rule").[2] The Federal Reserve's proposed program rule is intended to align with changes to AML/CFT program requirements proposed by the Financial Crimes Enforcement Network ("FinCEN")[3] and the Office of the Comptroller of the Currency ("OCC"), Federal Deposit Insurance Corporation ("FDIC"), and the National Credit Union Administration ("NCUA") (collectively, the "agencies") in April 2026.[4]

The proposal aims to modernize Bank Secrecy Act ("BSA") requirements, promote a principles- and risk-based AML/CFT regime, bring greater supervisory consistency, and focus on material AML/CFT program risks. CSBS supports these objectives and offers the following considerations and recommendations:

- Formally distinguishing between and separately evaluating AML/CFT program design and program implementation would benefit financial institutions and supervisors.
- A risk-based AML/CFT regime should support both the prioritization of higher risk activities and deemphasis of lower risk activities.
- The Federal Reserve should refrain from adopting a mandatory consultation process with FinCEN for AML/CFT enforcement actions and significant supervisory actions.

[1] CSBS is the nationwide organization of state banking and financial regulators from all 50 states, the District of Columbia, and the U.S. territories. The views presented in this letter may not reflect the policy of individual states.
[2] Federal Reserve, Notice of Proposed Rulemaking, *Anti-Money Laundering and Countering the Financing of Terrorism Programs*, 91 Fed. Reg. 42363 (July 9, 2026).
[3] FinCEN, Proposed Rule, *Anti-Money Laundering and Countering the Financing of Terrorism Programs*, 91 Fed. Reg. 18704 (Apr. 10, 2026).
[4] OCC, FDIC, and NCUA, Notice of Proposed Rulemaking, *Anti-Money Laundering and Countering the Financing of Terrorism Programs*, 91 Fed. Reg. 18304 (Apr. 10, 2026).

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I. Formally distinguishing between and separately evaluating AML/CFT program design and program implementation would benefit financial institutions and supervisors.

The proposal would require financial institutions to 1) establish an AML/CFT program incorporating the four existing AML pillars;[5] and 2) maintain the AML/CFT program by implementing it in all material respects. This two-pronged framework appropriately distinguishes between program design and program execution, and evaluating AML/CFT programs accordingly should improve both AML/CFT program compliance and supervision.

For example, the two-pronged framework should assist institutions as they evaluate whether their AML/CFT programs are reasonably designed, aligned with their risk profiles, and kept current (*i.e.,* properly established), as well as how well they implement their programs on a day-to-day basis (*i.e.*, materially maintained). Similarly, the proposed framework would promote more effective AML/CFT supervision by formally distinguishing between failures of program design, which are often more substantive and significant, and the more isolated and technical issues that typically arise during program implementation.

II. A risk-based AML/CFT regime should support both the prioritization of higher risk activities and deemphasis of lower risk activities.

The Federal Reserve correctly acknowledges that a risk-based AML/CFT framework should lead financial institutions to heighten their focus and resources on higher risk activities and customers, while simultaneously reallocating focus and resources away from lower risk activities and customers. Indeed, Congress envisioned this exact type of risk-based resource allocation in the AML Act of 2020.[6] Unfortunately, the AML/CFT regime has often been administered in an additive manner, with financial institutions expected to invest in additional monitoring, documentation, and reporting to meet evolving risks, yet criticized and second-guessed when they reduce low yield processes in lower risk areas.

The success of transitioning to a risk-based AML/CFT regime will ultimately turn on how the proposed reforms are implemented during the supervisory process. CSBS encourages the Federal Reserve to work with state regulators to implement supervisory practices that enable financial institutions to direct resources toward higher risk activities while appropriately reducing emphasis on lower risk activities. Successful implementation will require meaningful updates to the FFIEC BSA/AML Examination Manual, extensive examiner training, and ongoing communication and coordination among state supervisors and the Federal Reserve.

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[5] The four pillars comprise: 1) internal controls; 2) independent testing; 3) designation of an AML compliance officer; and 4) ongoing employee training. *See* 31 U.S.C. § 5318(h)(1).

[6] 31 U.S.C. § 5318(h)(2)(B)(iv)(II).

III. The Federal Reserve should refrain from adopting a mandatory consultation process with FinCEN for AML/CFT enforcement actions and significant supervisory actions.

In their April 2026 proposals, FinCEN and the agencies proposed a new mandatory notice and consultation process whereby the FDIC, OCC, and NCUA would consult with FinCEN before initiating an AML/CFT enforcement action or significant AML/CFT supervisory action against a financial institution.[7] The Federal Reserve proposal does not include a similar consultation process, and CSBS encourages the Federal Reserve to refrain from adopting a mandatory consultation process in a final rule.[8]

FinCEN and the agencies state that a mandatory notice and consultation process would promote consistency in AML/CFT enforcement and supervision. However, involving FinCEN more deeply in the supervisory process through a mandatory consultation requirement could significantly reduce examination efficiency and lead to other unintended consequences.[9]

If the Federal Reserve chooses to establish a supervisory consultation process with FinCEN, it should adopt an optional process. Under this optional approach, a financial institution could ask the Federal Reserve to consult with FinCEN before finalizing a significant supervisory action that may conflict with a risk-based AML/CFT framework.[10] An optional consultation process would better balance the benefit of FinCEN providing a broader view of AML/CFT program consistency, without making FinCEN a mandatory participant in every one of the Federal Reserve's significant supervisory communications.

Conclusion

CSBS supports efforts by the Federal Reserve to advance a risk-based AML/CFT framework and focus supervisory attention on material AML/CFT program risks. Formally distinguishing between program design and implementation, implementing risk-based AML/CFT supervision, and declining to adopt a mandatory supervisory consultation process with FinCEN will advance these objectives along with increased supervisory efficiency and effectiveness.

Sincerely,

Brandon Milhorn
President and CEO

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[7] A "significant AML/CFT supervisory action" is broadly defined to include any written communication or other formal supervisory determination by FinCEN or a federal functional regulator, such as a Matter Requiring Attention ("MRA"), that identifies deficiencies, weaknesses, violations, or unsafe or unsound practices related to an AML/CFT requirement; communicates supervisory expectations related to addressing identified issues; and contemplates significant or programmatic action by the financial institution. *See* FinCEN, *supra* note 3 (proposed 31 C.F.R § 1020.221(a)(3)). *See also* Agencies, *supra* note 4 (proposed 12 C.F.R §§ 21.21(a)(4), 326.8(a)(4), and 748.2(a)(5)).
[8] *See* Federal Reserve, *supra* note 2, at 42376 (Question 23).
[9] FinCEN and the agencies acknowledge their proposed notice and consultation requirement would add "costs," "logistical burdens," and "delays in exam report issuance." *See* FinCEN, *supra* note 3, at 18725-18726. *See also* Agencies, *supra* note 4, at 18319. *See also* CSBS, Comment Letter to FinCEN and Agencies re: *Anti-Money Laundering and Countering the Financing of Terrorism Programs* (June 9, 2026).
[10] FinCEN and the agencies are also considering an optional consultation framework as an alternative approach. *See* FinCEN, *supra* note 3, at 18725 (Question 24). *See also* Agencies, *supra* note 4, at 18319 (Question 23).