

## AML and Sanctions Model Validation, Tuning, and Testing

The rapid evolution of the digital landscape has created an enormous increase in data and data sources, creating unique compliance risk challenges to financial institutions. Even technology that was cutting edge only a few years ago, suddenly no longer meets today's business needs. K2 Integrity helps clients identify the right tools and technology—at the right cost—to ensure that enterprise-wide anti-money laundering (AML) and due diligence programs respond to compliance requirements and do what they need to do completely, correctly, and efficiently.

K2 Integrity will evaluate the effectiveness of a financial institution's existing technology and processes, apply best practices, and make 'fine-tuning' recommendations that build both operational and technological efficiency.

### Sanctions Filtering/Screening and AML Transaction Monitoring System Reviews

We focus on AML monitoring and sanctions screening system reviews to assess the financial institution's automated platforms and to independently evaluate the soundness and efficacy of the model design and the model's ability to appropriately detect unusual and potentially suspicious activity. The assessments are designed to align with the annual New York Department of Financial Services 504 transaction monitoring certification requirements, and include review of the following:

- **Conceptual Soundness:** Validating the reasonability and accuracy of the model theory, estimation, and assumptions.
- **Data Quality:** Validating the appropriateness and integrity of the data used to develop and implement the model and any underlying assumptions.
- **Implementation Accuracy:** Validating the accuracy of the implementation of the model using SQL scripts to replicate the model.
- **Outcomes Analysis:** Validating the model results via an analysis of the model tuning methodology and evaluating the adequacy of the alert output review and management processes.
- **Ongoing Model Governance:** Reviewing the model governance processes, including ongoing risk and performance monitoring processes, and systems change management controls.
- **Sanctions List Management Review:** Assess the list management processes, protocols, and controls; assess the completeness, accuracy, and timeliness of the sanctions' lists used for filtering/screening, including measures to identify "shadow" Specially Designated Nationals.
- **Sanctions Screening and Alert Review:** Test the sanctions screening system configuration and capabilities for alert generation on transactional data; and test the sensitivity of the sanctions filter calibration to determine the optimal platform settings to mitigate sanctions risk.