

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

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| In the Matter of |) | |
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| ISRAEL DISCOUNT BANK |) | |
| OF NEW YORK |) | CONSENT ORDER |
| New York, New York |) | |
| |) | FDIC-22-0151b |
| (INSURED STATE NONMEMBER BANK) |) | |
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The Federal Deposit Insurance Corporation (FDIC) is the appropriate Federal banking agency for Israel Discount Bank of New York, New York, New York (Bank), under section 3(q) of the Federal Deposit Insurance Act (Act), 12 U.S.C. § 1813(q).

The Bank, by and through its duly elected and acting board of directors (Board), has executed a STIPULATION AND CONSENT TO THE ISSUANCE OF A CONSENT ORDER (CONSENT AGREEMENT), dated May 24, 2023, that is accepted by the FDIC. With the CONSENT AGREEMENT, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices or violations of law or regulation relating to, among other things, deficiencies and weaknesses in the Bank’s Anti-Money Laundering/Countering the Financing of Terrorism Program (AML/CFT Program), to the issuance of this CONSENT ORDER (ORDER) by the FDIC.

Having determined that the requirements for issuance of an order under section 8(b) of the Act, 12 U.S.C. § 1818(b), have been satisfied, the FDIC hereby orders that:

BOARD SUPERVISION

1. The Board must (i) increase, consistent with the role and expertise expected for directors of banks of comparable size and risk, its supervision and direction of management, and its oversight and monitoring of the Bank's AML/CFT Program; (ii) assume full responsibility for the approval, implementation, and adherence to sound AML/CFT policies, procedures, and processes reasonably designed to assure and monitor the Bank's compliance with the Bank Secrecy Act, 31 U.S.C. § 5311 *et seq.*, 12 U.S.C. § 1829b, 12 U.S.C. §§ 1951-1959 and 12 U.S.C. § 1818(s), and its implementing regulations, 31 C.F.R. chapter X, 12 C.F.R. § 326.8 and 12 C.F.R. part 353 (collectively, the BSA); (iii) ensure complete and timely compliance with this ORDER; and (iv) ensure it receives all of the information and documentation, including reports from the AML/CFT Officer, defined below, and the AML/CFT compliance committee required by paragraph 4 of this ORDER (AML/CFT Compliance Committee), necessary to fulfill its duties and responsibilities under this paragraph of the ORDER.

AML/CFT PROGRAM

2. The Bank must ensure that its written AML/CFT Program is reasonably designed to assure and monitor the Bank's compliance with the BSA. At a minimum, the AML/CFT Program must (i) be commensurate with the Bank's money laundering (ML), terrorist financing (TF), and other illicit financial activity risk profile (ML/TF Risk Profile); (ii) address the deficiencies and weaknesses identified in the August 16, 2022 AML/CFT Target Review (2022 AML/CFT Target Review) issued jointly by the FDIC and the New York State Department of Financial Services; (iii) comply with the requirements of this ORDER; (iv) include procedures for monitoring the performance of and the Bank's adherence to the AML/CFT Program with

processes for documenting, tracking, and reporting such performance and adherence; and (v) include procedures for periodically reviewing and revising the AML/CFT Program to ensure that it is and continues to be reasonably designed to assure and monitor the Bank's compliance with the BSA.

(a) **AML/CFT Risk Assessment:** The Bank must ensure that:

(i) within 90 days from the effective date of this ORDER, appropriate written policies, procedures, and processes regarding AML/CFT risk assessments (AML/CFT Risk Assessments) and their timing are developed, adopted, and implemented. These policies, procedures, and processes must, at a minimum, require (a) the reassessment of the Bank's ML/TF Risk Profile when appropriate; and, (b) appropriate risk-mitigation strategies using current data and information and with satisfactory documentation supporting the resulting AML/CFT Risk Assessment; and

(ii) within 180 days from the effective date of this ORDER, the AML/CFT Risk Assessment accurately reflects the Bank's ML/TF Risk Profile, appropriately considers all pertinent information including the Bank's products, services, customers, transactions, and geographic locations and includes a detailed qualitative and quantitative analysis of the ML/TF risks within each identified category; and appropriate risk-mitigating strategies for the ML/TF risks identified in the AML/CFT Risk Assessment are developed, adopted, and implemented.

(b) **System of AML/CFT Internal Controls:** Within 180 days from the effective date of this ORDER, the Bank must ensure that it has a system of internal controls in place that monitors and assures compliance with the BSA (AML/CFT Internal Controls). The AML/CFT Internal Controls must take into appropriate consideration the Bank's size, complexity, and organizational structure; AML/CFT Risk Assessment; ML/TF Risk Profile; and the deficiencies

and weaknesses identified in the 2022 AML/CFT Target Review. At a minimum, such system of AML/CFT Internal Controls must include written policies, procedures, and processes addressing the following areas:

(i) Suspicious Activity Monitoring and Reporting: The Bank must ensure that:

(A) its policies, procedures, processes, and systems for monitoring, detecting, and reporting suspicious activity (i) are revised to satisfactorily address the deficiencies and weaknesses identified in the 2022 AML/CFT Target Review related to suspicious activity monitoring and reporting; (ii) ensure the timely detection, investigation, and reporting of suspicious activity with the filing of accurate and complete suspicious activity reports (SARs); (iii) address all stages of suspicious activity monitoring, including alert reviews, investigations, requests for information, case reviews, escalations, case closings, the filing of SARs, and SAR follow-ups and are comprehensive, clear, and consistent; and (iv) require appropriate levels of documentation, analysis, and support for each stage of the suspicious activity monitoring and reporting process;

(B) a comprehensive review of the data used to monitor, detect, and report suspicious activity is conducted and that (i) all identified data gaps are appropriately addressed; (ii) all customer and transaction data is accurate, complete and consistent; and (iii) models and methodologies are appropriately updated as data gaps are resolved and new data becomes available; and

(C) a comprehensive review and validation of all systems and models used by the Bank to monitor, detect, and report suspicious activity is conducted and that (i) system and model documentation and related policies, procedures, and processes accurately

reflect the thresholds and scenarios in use; and (ii) policies, procedures, and processes requiring the periodic review and validation of these systems and models based on the current AML/CFT Risk Assessment and ML/TF Risk Profile are developed, adopted, and implemented. Decisions to adjust or not adjust system or model parameters resulting from these reviews must be reflected in a well-documented and appropriately supported written analysis.

(ii) Customer Due Diligence: The Bank must ensure that customer due diligence (CDD) policies, procedures, and processes for new and existing customers are adopted, and implemented that, at a minimum:

(A) satisfactorily address the deficiencies and weaknesses identified in the 2022 AML/CFT Target Review pertaining to CDD;

(B) are consistent with the ML/TF Risk Profile and AML/CFT Risk Assessment and require an increased focus on customers identified by the Bank as posing a heightened risk of ML, TF, or other illicit financial activities;

(C) establish a standardized methodology designed to ensure the risk level of the Bank's customers is appropriately identified and assessed based on the potential for ML, TF, or other illicit financial activity posed by the customer's activities, with appropriate consideration given to the nature and purpose of the account, including the anticipated type and volume of account activity, types of products and services offered, and locations and markets served by the customer (Customer Risk Profile);

(D) ensure the Bank has sufficient customer information to understand the nature and purpose of customer relationships for purposes of developing a Customer Risk Profile and address the means by which information will be requested and collected from customers;

(E) ensure an appropriate level of ongoing monitoring commensurate with Customer Risk Profiles to ensure that the Bank can accurately identify those customers the Bank has reason to believe pose a heightened risk of ML, TF, or other illicit financial activities and require additional due diligence;

(F) establish when, what, and how additional customer information will be collected for customers the Bank has identified as posing a heightened risk of ML, TF, or other illicit financial activities, taking into account the Customer Risk Profile and the specific risks posed by the customer;

(G) establish whether and when customer information, including information regarding the beneficial owner(s) of legal entity customers, should be updated to ensure that customer information is current and accurate;

(H) establish standards for conducting and documenting analysis associated with the due diligence process, including guidance for resolving issues when insufficient or inaccurate information is obtained;

(I) establish specific staff responsibilities, including who is responsible for requesting and collecting information from account officers and/or customers, determining whether collected customer information is sufficient, and reviewing and/or authorizing changes to Customer Risk Profiles and/or CDD information; and

(J) establish processes to appropriately address any backlogs and better ensure the timely identification and accurate reporting of known or suspected criminal violation of federal law or a suspicious transaction related to a money laundering activity or a violation of the BSA, as required by the suspicious activity reporting provisions of part 353 of the FDIC's Rules and Regulations, 12 C.F.R. part 353.

(c) **AML/CFT Independent Testing**: Within 120 days from the effective date of this ORDER, the Bank must ensure that policies, procedures, and processes requiring the independent testing of the AML/CFT Program's adequacy and the Bank's compliance with the BSA (AML/CFT Independent Testing Procedures) are developed, adopted, and implemented. These AML/CFT Independent Testing Procedures must require, at a minimum, that:

(i) the testing evaluate the overall adequacy and effectiveness of the AML/CFT Program, including policies, procedures, and processes, and whether such policies, procedures, and processes are satisfactorily adhered to by the Board, Bank management, staff, agents and consultants;

(ii) the testing include a review of the AML/CFT Risk Assessment and ML/TF Profile;

(iii) the testing include appropriate risk-based transaction testing to verify the Bank's compliance with the BSA;

(iv) the testing evaluate Bank management's efforts to resolve apparent violations and deficiencies noted in previous audits and regulatory examinations;

(v) the testing include a review of the AML/CFT Training Program, defined below in paragraph 2(e), for adequacy, accuracy, and completeness;

(vi) the testing include a review of the effectiveness of the suspicious activity monitoring systems used for compliance with the BSA;

(vii) the testing assess the effectiveness of the Bank's policy and the overall process for identifying and reporting suspicious activity, including a review of SAR related documentation to determine its accuracy, timeliness, and completeness;

(viii) the testing assess the quality, completeness, reliability, and accuracy of management information systems, models, and data used in the AML/CFT Program;

(ix) the testing be satisfactorily documented describing in appropriate detail the scope of the testing procedures performed, each step of the testing process, including the escalation and exclusion process for issues or concerns, and reflecting the results of the testing in a report (AML/CFT Audit Report) that, at a minimum, includes:

(A) a root cause analysis for each identified issue or concern;

(B) whether the identified issue or concern is new or is a previously identified issue or concern that remains outstanding;

(C) the employee(s) or business line responsible for the identified issue or concern; the gap in the policy, procedure or process that allowed for the identified issue or concern;

(D) whether the identified issue or concern was attributable to a shortfall in resources, including staffing or systems; and

(E) management's response to the identified issue or concern noting concurrence or disagreement with the finding, an explanation for the existence of the issue or concern, and managements plans for and timing of remediation of the issue or concern; and

(x) actions taken by the Board to address any identified issues, concerns, or recommendations made in each AML/CFT Audit Report be documented with such actions and related discussions recorded in the minutes of the Board meetings.

(d) **AML/CFT Officer and Resources:** The Bank must ensure that it has a designated individual or individuals with qualifications commensurate with the AML/CFT Risk Assessment, ML/TF Risk Profile, size, and complexity of the Bank (AML/CFT Officer) in place.

The AML/CFT Officer must have sufficient delegated authority and suitable resources, including staffing and systems, to effectively coordinate and monitor day-to-day compliance, and administer all aspects of the AML/CFT Program, including the Bank's compliance with BSA regulatory requirements. Within 180 days of the effective date of this ORDER, the Bank must, at a minimum, ensure that:

(i) a review of the Bank's AML/CFT related resources, including staffing and systems, (AML/CFT Resources Review) is performed. The AML/CFT Resources Review must include an analysis of the adequacy and appropriateness of current resource levels and be documented and supported both qualitatively and quantitatively in a written report (AML/CFT Resources Report). The AML/CFT Resources Report must be submitted to the AML/CFT Compliance Committee upon completion. The AML/CFT Resources Review must, at a minimum, consider the Bank's size and growth plans, complexity and organizational structure; geographic locations; customers; products and services offered; systems; the AML/CFT Risk Assessment; the ML/TF Risk Profile; and the deficiencies and weaknesses identified in the 2022 AML/CFT Target Review;

(ii) policies, procedures, and processes requiring the AML/CFT Officer to conduct periodic risk based AML/CFT Resources Reviews and prepare a AML/CFT Resources Report upon completion of every AML/CFT Resources Review are developed, adopted, and implemented;

(iii) it has an adequate level of AML/CFT related resources, including staffing and systems, to implement the AML/CFT Program and ensure compliance with the BSA in place;

(iv) the designated AML/CFT Officer has sufficient delegated authority to effectively coordinate, monitor, and ensure compliance with the BSA; and

(v) policies, procedures, and processes requiring the AML/CFT Officer to periodically prepare and submit an action plan to address and correct all identified AML/CFT Program weaknesses and deficiencies (AML/CFT Action Plan) to the AML/CFT Compliance Committee and to the Bank's Internal Audit Department (IAD) are developed, adopted, and implemented. The AML/CFT Action Plan must, at a minimum:

(A) list and describe in detail all identified weaknesses and deficiencies;

(B) establish and describe in detail the means by which each identified weakness and deficiency will be addressed and corrected;

(C) identify the parties responsible for implementing corrective action;

(D) establish a timeframe for executing and completing each corrective action;

(E) provide the status of any weakness or deficiency where corrective action has not been completed; and

(F) establish the manner and process for testing the corrective action once completed to ensure it appropriately addressed the identified weakness or deficiency;

(vi) if agents, consultants, or other third parties are utilized, policies, procedures and processes regarding the retention, use, and oversight of agents, consultants, or other third parties and their respective staffs for AML/CFT related services (AML/CFT Consultants) are developed, adopted, and implemented. These policies, procedures and processes must require, at a minimum:

(A) selection criteria for identifying and retaining qualified AML/CFT Consultants with appropriate expertise;

(B) appropriate written agreements or contracts with the AML/CFT Consultants clearly establishing the services to be provided and/or work to be performed with appropriate qualification and performance standards and metrics along with timelines for completion;

(C) appropriate monitoring of AML/CFT Consultants while providing services and/or performing assigned work;

(D) appropriate review of the services provided and/or work performed to ensure the services and/or work met established timelines, and qualification and performance standards and metrics; and

(E) the AML/CFT Officer to periodically prepare and submit a report regarding the AML/CFT Consultants currently retained by the Bank, the services and work being provided or performed by each AML/CFT Consultant, and the status and quality of the services and/or work; and

(vii) policies, procedures, and processes requiring the AML/CFT Officer to report directly to the Board or the AML/CFT Compliance Committee with regard to all matters related to the BSA are developed, adopted, and implemented.

(e) **AML/CFT Training:** The Bank must ensure that all appropriate personnel are aware of, and can comply with, the requirements of the BSA applicable to the individual's specific responsibilities to assure the Bank's compliance with the BSA. The Bank must ensure that within 180 days from the effective date of this ORDER, effective training programs on all relevant aspects of laws, regulations, and Bank policies, procedures, and processes relating to the

BSA (AML/CFT Training Program) for the Board, Bank management, and other Bank staff (collectively, Bank Personnel) are developed, adopted, and implemented. The AML/CFT Training Program must be designed to ensure that training is tailored to address the specific compliance responsibilities of the group or individual for which the training is being provided and ensure that those being trained are aware of, and can comply with, the requirements of the BSA on an ongoing basis and, at a minimum, include:

- (i) an overview of the BSA for new Bank Personnel along with specific training designed for their specific duties and responsibilities upon hiring;
- (ii) a requirement for periodic knowledge checks of those trained to assess the effectiveness of the training;
- (iii) a requirement for periodic training, updated as appropriate and tailored to address the specific duties and responsibilities of those trained, regarding the Bank's AML/CFT policies, procedures, and processes, and any changes in them; changes in the Bank's ML/TF Risk Profile; new rules and requirements as they arise for appropriate Bank Personnel; and to address the results of knowledge checks; and
- (iv) a requirement that the Bank fully document the AML/CFT Training Program including training materials, dates of the training sessions, attendance records, and knowledge check results.

LOOK BACK REVIEW

3. (a) Within 60 days from the effective date of this ORDER, the Bank must submit a proposed engagement letter or contract for review and non-objection to retain a qualified firm acceptable to the Deputy Regional Director to conduct a review of all accounts and transaction activity for the time period beginning May 1, 2021, and ending December 31, 2022 to determine

whether reportable transactions and suspicious activity involving any accounts or transactions within or through the Bank were properly identified and reported in accordance with the applicable reporting requirements (Initial Look Back Review). The Initial Look Back Review engagement letter or contract must, at a minimum:

(i) describe the work to be performed under the engagement letter or contract with a written protocol of such work;

(ii) provide for unrestricted access to work papers of the third party by the FDIC; and

(iii) require that the Initial Look Back Review be completed and summarized in a written report (Initial Look Back Report) and delivered to the Bank within 180 days of the Deputy Regional Director's non-objection to the proposed engagement letter or contract, with a copy delivered simultaneously to the Deputy Regional Director for review and non-objection.

(b) Within 30 days of delivery of the Initial Look Back Report the Bank must prepare and file any additional SARs and currency transaction reports necessary based upon the Initial Look Back Review and Report and provide a schedule of the BSA Identification Numbers assigned to them by Financial Crime Enforcement Network (FinCEN) to the Deputy Regional Director.

(c) The Deputy Regional Director may, in her sole discretion after reviewing the results of the Initial Look Back Review, provide written notification (Additional Look Back Review Notification) to the Bank requiring the firm selected to do the Initial Look Back Review or another qualified firm proposed by the Bank and acceptable to the Deputy Regional Director (Additional Look Back Review Firm) to review all accounts and transaction activity for additional time periods to determine whether reportable transactions and suspicious activity

involving any accounts or transactions within or through the Bank were properly identified and reported in accordance with the applicable reporting requirements and in a manner consistent with the written notification sent to the Bank (Additional Look Back Review). The Additional Look Back Review Firm must complete the Additional Look Back Review, summarize it in a written report (Additional Look Back Report), and deliver it to the Bank within the timeframe established in the Additional Look Back Review Notification, with a copy delivered simultaneously to the Deputy Regional Director for review and non-objection. Within 30 days of delivery of the Additional Look Back Report the Bank must prepare and file any additional SARs and currency transaction reports necessary based upon the Additional Look Back Review and Report and provide a schedule of the BSA Identification Numbers assigned to them by FinCEN to the Deputy Regional Director.

DIRECTORS' AML/CFT COMPLIANCE COMMITTEE

4. The Board must maintain its previously established AML/CFT Compliance Committee. The AML/CFT Compliance Committee must be comprised of a majority of members who are not now, and have not previously been, involved in the daily operations of the Bank. The AML/CFT Compliance Committee will have the responsibility of overseeing the Bank's compliance with this ORDER, the BSA, and the Bank's AML/CFT Program. The AML/CFT Compliance Committee must receive appropriately detailed monthly reports from the AML/CFT Officer regarding the Bank's compliance with this ORDER, the BSA, and the Bank's AML/CFT Program, including the AML/CFT Action Plan with the status of each corrective action. The AML/CFT Compliance Committee must present an appropriately detailed written report to the Board at each regularly scheduled Board meeting regarding the Bank's compliance with this

ORDER, the BSA, and the AML/CFT Program. This report must be recorded in the appropriate minutes of the Board meeting and retained in the Bank's records. The existence of the AML/CFT Compliance Committee does not diminish the responsibility or liability of the full Board to ensure timely compliance with this ORDER and the BSA, or the Bank's adherence to the AML/CFT Program.

CORRECTIVE ACTION

5. Within 180 days from the effective date of this ORDER, the Bank must take all steps necessary, consistent with other provisions of this ORDER and sound banking practices, to eliminate and correct any unsafe or unsound banking practices identified and any violations of law or regulation cited in the 2022 AML/CFT Target Review. The Bank must take all steps necessary to ensure future compliance with all applicable laws and regulations.

PROGRESS REPORTS

6. Within 45 days of the end of each calendar quarter following the effective date of this ORDER, the Board must furnish to the Deputy Regional Director written progress reports detailing the form, manner, and results of any actions taken to secure compliance with this ORDER. All progress reports and other written responses to this ORDER must be reviewed and approved by the Board and be made a part of the Board minutes.

NOTICE TO PARENT HOLDING COMPANY

7. Within 30 days from the effective date of this ORDER, the Board must provide either a copy of this ORDER or an accurate and complete description of all material aspects of the ORDER to its parent holding company.

OTHER ACTIONS

8. The provisions of this ORDER do not bar, estop, or otherwise prevent the FDIC or any other federal or state agency or department from taking any other action against the Bank or any of the Bank's current or former institution-affiliated parties.

This ORDER is effective on the date of issuance and its provisions will remain effective and enforceable until a provision is modified, terminated, suspended, or set aside in writing by the FDIC. The provisions of this ORDER are binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

Issued Under Delegated Authority.

Dated: May 24, 2023

By: */s/* Jessica A. Kaemingk
Deputy Regional Director
New York Region
Federal Deposit Insurance Corporation