



## Controlling Banks' and Financial Systems' Exposure to Money Laundering and Terrorist Financing Risks

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All banks' financial soundness depends primarily on their ability to effectively identify, measure, monitor and control risk. Most financial risks, such as credit, market and interest rate risk, can be measured directly or estimated with reasonable certainty. Industry control measures for these risks are well-developed. However, some risks, such as operational risk, can be more difficult to measure. Nevertheless, these risks can have a materially adverse impact on a bank's financial performance and reputation if not properly controlled.

Bank systems and control weaknesses and failures can cause sizeable losses and impose other costs, such as litigation settlements, damage awards, and regulatory fines; not to mention the direct and indirect cost of a regulatory enforcement action. These occurrences can induce adverse customer reactions, such as abnormal deposit outflows, and negative investor reactions, such as a sustained decline in a bank's stock price, adversely impacting a bank's reputation and franchise value.

Preventing banks from being used to facilitate financial crimes, especially money laundering (ML) and terrorist financing (TF), is a critical operational risk control priority. Adverse publicity from involvement in illicit activities, even unwittingly, can severely erode public trust and confidence in individual banks, and have spillover effects that can impact public perceptions of financial system integrity more generally. ML- and TF-related control failures can even call into question the competency of a jurisdiction's regulatory oversight. The importance of preventing ML and TF is also evident by the close attention it receives from multiple international standard-setting and assessment bodies, and domestic authorities.

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