INDEPENDENT COMMUNITY BANKERS OF AMERICA, RHONDA THOMAS-WHITLEY

Proposal and Comment Information

Title: Anti-Money Laundering and Countering the Financing of Terrorism Programs, R-1835

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ICBA's comment letter.

September 8, 2026

Benjamin W. McDonough
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

RE: Anti-Money Laundering and Countering the Financing of Terrorism Programs, [Docket No. R–1835] RIN 7100–AG78

Dear Secretary McDonough:

The Independent Community Bankers of America ("ICBA"),[1] appreciates the opportunity to comment on the Board of Governors of the Federal Reserve System's ("the Board") Notice of Proposed Rulemaking ("NPRM" or "proposed rule") concerning amendments to Anti-Money Laundering and Countering the Financing of Terrorism ("AML/CFT") program requirements.[2] The amended regulatory requirements are pursuant to the Anti-Money Laundering Act of 2020 ("AML Act").[3]

ICBA supports a risk-based, effectiveness-oriented framework that better targets illicit finance risk while preserving flexibility for community banks. For Board supervised community banks, however, the success of this framework will depend on whether the final rule recognizes the operational realities of smaller, relationship-based institutions and avoids layering on expectations better suited to large, complex organizations.

Background

Since enactment of the Bank Secrecy Act in 1970, Congress and regulators have steadily expanded AML requirements through reporting, customer due diligence, suspicious activity monitoring, and formal compliance program obligations. The AML Act sought to modernize that framework by promoting AML/CFT programs that are effective, risk-based, and reasonably designed, while encouraging financial institutions ("FIs") to allocate resources more efficiently and focus on outcomes that are more useful to law enforcement and national security agencies. Since then, FinCEN has taken several steps to implement that mandate, including the 2020 advance notice of proposed rulemaking on "effective

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[2] Anti-Money Laundering and Countering the Financing of Terrorism Programs, 91 Fed. Reg. 42363 (July 9, 2026) (to be codified at 12 C.F.R. pt. 208).
[3] William M. (Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021, Pub. L. No. 116-283, §§ 6001–6511, 134 Stat. 3388, 4547–4633 (2021).

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and reasonably designed" programs,[4] the 2021 issuance of the AML/CFT Priorities,[5] the 2022 BSA modernization request for information,[6] and the 2024 proposed rule that would have expressly required mandatory risk assessment processes and review of the Priorities.[7]

In April of 2026, the Financial Crimes Enforcement Network ("FinCEN") issued a proposed rule ("NPR") that would fundamentally reform AML/CFT program requirements[8] and continues the implementation of the AML Act's directive to promote effective, risk-based, and reasonably designed programs while modernizing supervision and enhancing FinCEN's role in certain supervisory and enforcement actions.

FinCEN's NPR was followed by a joint notice of proposed rulemaking issued by the Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, and National Credit Union Administration ("joint agencies") that would amend their AML/CFT program requirements to align with FinCEN's proposed changes. The joint agency proposal would require banks to establish and maintain effective, risk-based AML/CFT programs reasonably designed to identify, assess, and mitigate illicit finance risk, while also modernizing supervision by enhancing FinCEN's role in certain supervisory and enforcement actions.

The Board did not join the other agencies and instead issued this separate proposed rule. Under the Board's proposal, Board-supervised banks would be required to establish and maintain effective AML/CFT programs that are reasonably designed to identify, assess, and mitigate illicit finance risks and to better achieve the purposes of the BSA, including the development of highly useful information for law enforcement and national security agencies. The proposal is intended to align with FinCEN's April 2026 AML/CFT program proposal and the corresponding April 2026 proposals issued by the joint agencies and would incorporate key program elements such as a risk assessment process, internal policies, procedures, and controls, independent testing, designated AML/CFT personnel, employee training, customer due diligence requirements, and consideration of FinCEN's national AML/CFT Priorities. Unlike FinCEN's proposal and the April 2026 banking agency proposal, however, the Board's NPRM does not include a FinCEN notice-and-consultation framework for significant AML/CFT supervisory or enforcement actions.

Executive Summary

Community banks follow well established rules and regulations to develop, monitor, and maintain effective and reasonably designed AML/CFT programs. The Board's proposal would require supervised banks to establish and maintain AML/CFT programs that are reasonably designed to identify, assess, and mitigate illicit finance risks and to better achieve the purposes of the Bank Secrecy Act. Community bankers remain committed to supporting balanced, effective measures that protect the financial system from money laundering, terrorist financing, fraud, and related illicit finance threats. At the same time, modernization must reduce outdated, inefficient, and duplicative obligations rather than reinforce a

[4] Anti-Money Laundering Program Effectiveness, 85 Fed. Reg. 58023 (proposed Sept. 17, 2020).
[5] Anti-Money Laundering and Countering the Financing of Terrorism National Priorities, (June 30, 2021), https://www.occ.treas.gov/news-issuances/bulletins/2021/bulletin-2021-29b.pdf.
[6] Review of Bank Secrecy Act Regulations and Guidance, 86 Fed. Reg. 71201 (Dec. 15, 2021).
[7] Anti-Money Laundering and Countering the Financing of Terrorism Programs, 89 Fed. Reg. 55428 (proposed July 3, 2024).
[8] Anti-Money Laundering and Countering the Financing of Terrorism Programs, 91 Fed. Reg. 18704 (Apr. 10, 2026) (to be codified at 31 C.F.R. pts. 1010, 1020–1030).

framework that too often diverts limited community bank resources away from customer-facing activities and toward documentation-heavy compliance exercises.

Since Congress first enacted anti-money laundering laws in 1970 and terrorist financing requirements were added after 2001, the burdens placed on financial institutions have increasingly produced a system in which banks are expected not only to detect and report suspicious activity, but also to document, explain, and defend compliance decisions to examiners. The Board's proposal recognizes the need for effective, risk-based AML/CFT programs that generate highly useful information for law enforcement and national security agencies. ICBA supports that objective, but the final rule must ensure that effectiveness is measured by outcomes and risk management—not by the volume of forms submitted, files maintained, or low-risk activity documented solely to satisfy examiner expectations.

Community banks are committed to combating money laundering, terrorist financing, fraud, and related illicit finance threats. They are also uniquely positioned to identify unusual activity because they know their customers, local businesses, and communities. That local knowledge is one of the most important risk-management tools available to a community bank. The Board's proposal should preserve this strength by allowing Board-supervised community banks to maintain AML/CFT programs that are tailored to their size, risk profile, products, services, customers, and geographic footprint, rather than pushing them toward a large-bank compliance model built around excessive formalization, rigid process layering, or documentation for its own sake. ICBA appreciates the Board's effort to align its AML/CFT program requirements with FinCEN's modernization framework and the April 2026 proposals issued by the OCC, FDIC, and NCUA, but alignment must produce meaningful improvements for community banks and law enforcement alike.

ICBA has consistently urged the federal banking agencies, in coordination with FinCEN, to move away from a check-the-box compliance model, provide meaningful flexibility for community banks, reduce duplicative and low-value burden, improve examiner consistency, and focus regulatory expectations on highly useful outcomes rather than paperwork volume alone. Those principles are especially important here because the Board's proposal is intended to conform its AML/CFT program requirements to FinCEN's AML Act implementation and related changes proposed by the other federal banking agencies. Because the Board specifically states that it intends to align its rule with FinCEN's framework and the parallel agency rulemakings, the final rule should remain fully aligned, risk-based, and appropriately tailored to Board-supervised community banks. It should not introduce overlapping, inconsistent, or differently framed obligations that would create additional complexity for institutions with lean compliance staffs and limited implementation capacity. By omitting the FinCEN notice-and-consultation framework included in FinCEN's and the joint agencies' proposals for significant AML/CFT supervisory or enforcement actions, the Board's proposal falls short of the alignment it seeks to achieve. Without comparable guardrails, inconsistent expectations across parallel rulemakings could increase burden, undermine supervisory consistency, and weaken the goal of a more efficient, risk-based framework.

Accordingly, ICBA urges the Board to adopt the following changes and clarifications to ensure the final rule is practical, risk-based, appropriately tailored to Board-supervised community banks, and fully aligned with FinCEN's framework and the parallel agency rulemakings:

- Clarify that an "effective" AML/CFT program is one that is risk-based and reasonably designed in all material respects—not a perfect program—and that isolated technical deficiencies should not be treated as program failure.

- Preserve a truly risk-based framework that allows Board-supervised community banks to use streamlined, practical, and appropriately documented internal controls and risk assessment processes tailored to their size, complexity, business model, and risk profile.
- Require AML/CFT Priorities to be incorporated through a bank's risk assessment process in a proportionate manner and make clear that the Priorities should inform—not dictate—program design, controls, monitoring, or documentation.
- Align the Board's final rule with FinCEN's and the joint agencies' parallel rulemakings by incorporating the same notice-and-consultation framework for significant AML/CFT supervisory or enforcement actions.
- Reduce examiner-driven process expansion by providing clear, uniform guidance that distinguishes routine supervisory feedback from significant AML/CFT supervisory or enforcement actions and respects reasonable, documented community bank judgments.
- Provide Board-supervised community banks at least 24 months to implement the final rule, coordinated with FinCEN and the other federal banking agencies, to allow sufficient time for policy, procedure, control, training, vendor, and documentation updates.

ICBA's Comments

"Effective'' AML/CFT Program

ICBA supports the Federal Reserve Board's recognition that an AML/CFT program should be effective, risk-based, and reasonably designed to identify, assess, and mitigate illicit finance risk, including by directing more attention and resources to higher-risk customers and activities consistent with the bank's own risk profile.[9] That approach is consistent with the AML Act of 2020 and is particularly important for community banks, which should not be evaluated by the volume of alerts, reports, or documentation they generate. A community bank should be permitted to allocate fewer resources to lower-risk activity when its risk assessment processes support that judgment, without fear that examiners will later criticize the bank simply because it did not apply the same intensity of controls across all products, customers, and transactions.

The Board's proposal should be finalized in a manner that gives practical meaning to an effective, risk-based, and reasonably designed AML/CFT program by recognizing that community banks may tailor controls, documentation, monitoring, and resource allocation to the risks presented by their customers, products, services, geographic footprint, and overall business model. As ICBA explained in our comments to FinCEN and the joint banking agencies, an effective program should not be equated with a perfect program, and minor or technical deficiencies should not be treated as evidence of program failure.

ICBA appreciates that the Board's proposal recognizes effectiveness as tied to program design and implementation in all material respects, rather than to a guarantee that every instance of illicit activity will be detected or prevented. The final rule should make this point explicit. For community banks supervised by the Board, effectiveness should be assessed based on whether the bank has established and maintained a program that is reasonable in light of its size, complexity, business activities, customer base, geographic footprint, and risk profile—not on whether a reviewer can identify

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[9] Anti-Money Laundering and Countering the Financing of Terrorism Programs, supra note 2, at 42365.

an isolated control lapse, technical error, documentation gap, or retrospective improvement opportunity. A contrary standard would equate effectiveness with perfection and would predictably drive defensive compliance, excessive documentation, and over-reporting instead of meaningful risk management.

Consistent with ICBA's prior responses to FinCEN and the joint agencies, the FRB should also make clear in the final rule and preamble that examiner review must respect reasonable, documented bank judgments regarding risk prioritization, resource allocation, and control design. Examiners should evaluate whether a state member bank's AML/CFT approach is reasonable, risk-based, and appropriately tailored to the institution's operations and risk profile—not whether the examiner would have designed the program differently, required additional documentation, or applied a large-bank compliance model to a community bank. This clarification is essential to ensure that the Board's effectiveness standard promotes meaningful risk management rather than examiner-driven process expansion.

Establishing and Maintaining an AML/CFT Program

The proposed rule would require each Board-supervised bank to establish, implement, and maintain an effective, risk-based, and reasonably designed AML/CFT program.[10] The Board distinguishes between a bank's obligation to establish the required components of an AML/CFT program and its ongoing obligation to maintain that program by implementing those components in a manner reasonably designed to identify, assess, and mitigate illicit finance risk and to better achieve the purposes of the BSA.[11] The Board asserts that "separating program establishment from program maintenance provides needed clarity regarding whether a supervisory concern relates to deficiencies stemming from the program's design, on the one hand, or failures in the program's operation, on the other."[12]

ICBA supports this distinction because it recognizes that a program's design and required elements should be evaluated separately from day-to-day implementation. Properly applied, this approach should help prevent isolated operational errors, documentation gaps, or examiner preferences from being treated as failures to establish an AML/CFT program. The final rule should make clear that a bank has failed to establish a program only where a required program component is absent or materially deficient in design—not merely because an examiner believes the bank could have adopted more detailed procedures, additional controls, or a different compliance structure.

Likewise, the Board should define a failure to maintain an effective AML/CFT program in a manner that is consistent with the proposed rule's emphasis on effectiveness, materiality, and risk-based supervision. A maintenance failure should be limited to significant or systemic implementation breakdowns that materially impair a bank's ability to identify, assess, monitor, investigate, or report suspicious activity or otherwise mitigate illicit finance risk. It should not encompass isolated backlogs, technical lapses, one-off training issues, or other immaterial matters that do not compromise the overall functioning of the program. This clarification is essential to ensure that the final rule advances the AML Act's modernization goals and does not perpetuate zero-tolerance process criticism or examiner-driven expansion of AML/CFT obligations.

[10] *Id.* at 42368
[11] *Id.*
[12] *Id.*

Internal Policies, Procedures, and Controls

The proposed rule would require Board-supervised banks to maintain risk-based internal policies, procedures, and controls that identify, assess, document, and mitigate money laundering and terrorist financing risks, allocate greater attention and resources to higher-risk customers and activities, and support ongoing customer due diligence.[13]

ICBA supports risk-based internal policies, procedures, and controls that are reasonably designed to address a bank's identified money laundering and terrorist financing risks. Community banks already maintain such controls as part of well-established AML/CFT compliance programs. However, the final rule should expressly state that these controls may be scaled to the size, complexity, business model, and risk profile of each Board-supervised community bank. Community banks should not be expected to adopt large-bank systems, governance structures, or documentation practices where simpler, well-documented controls effectively address the risks presented by their customers, products, services, and geographic footprint. The Board should also confirm that examiners must evaluate internal controls based on whether they reasonably support a bank's risk-based AML/CFT program and compliance with the Bank Secrecy Act, rather than whether the examiner would have required additional procedures or more formalized documentation.

Risk Assessment Processes

Under the proposed rule, Board-supervised banks to identify, assess, and document money laundering and terrorist financing risks through risk assessment processes that are reasonably designed and tailored to the bank's risk profile.[14] The proposal would provide banks flexibility in how they document those processes and would not require a single, consolidated risk assessment document solely to comply with the rule. Instead, Board-supervised banks may rely on multiple risk assessment processes, as appropriate within their AML/CFT programs, and would be evaluated based on the totality of those processes rather than the existence or sufficiency of one standalone document.

ICBA supports the proposal's recognition that banks vary significantly in size, structure, complexity, and risk profile and that community banks should not be evaluated as though they were larger, more complex institutions for purposes of AML/CFT program design.[15] That feature of the proposal is especially important for community banks, which generally operate with more limited business lines, traditional products and services, narrower geographic footprints, and customer bases centered in the local communities they serve. A community bank should not need model-driven scoring, expansive taxonomies, or a large-bank compliance infrastructure to demonstrate that it understands its own risks. Community banks know their customers, products, and local markets exceptionally well, and that knowledge remains one of the most valuable tools for identifying unusual or higher-risk activity. The final rule should preserve room for these practical, relationship-based approaches and make clear that local knowledge and sound judgment are legitimate components of a reasonably designed AML/CFT program.

We appreciate that the proposal adopts a more flexible approach by referring to "risk assessment

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[13] *Id.* at 42369
[14] *Id.*
[15] *Id.* at 42370

processes" rather than prescribing methodologies.[16] That approach is preferable to a one-size-fits-all annual exercise. Community banks often identify, assess, and mitigate risk through a combination of onboarding practices, product-level controls, suspicious activity monitoring, internal discussions, audit findings, and staff's direct knowledge of local activity. The agencies should expressly confirm that these integrated, practical processes can satisfy the rule when they are reasonably designed and appropriately documented.

ICBA urges clarification on the proposal's requirement that risk assessment processes be updated promptly when changes significantly affect a bank's risk profile.[17] As drafted, that standard is overly broad and risks inconsistent supervisory interpretation. The final rule should expressly convey that updates are not expected on an arbitrary basis in the absence of a material change in risk. Instead, the final rule should explain that "promptly" means within a reasonable, risk-based timeframe that accounts for the nature and significance of the change, as well as the institution's size, complexity, available resources, and the operational steps required to implement appropriate controls. Although the proposal notes that the agencies are not prescribing a specific timeframe for updating risk assessment processes, additional clarity would help avoid inconsistent examiner expectations. For community banks, updates will often align with the ordinary course of risk review, audit, and examination activity.

Incorporation of AML/CFT Priorities

The Board proposes to require Board-supervised banks, as part of their AML/CFT risk assessment processes, to review and, as appropriate, incorporate FinCEN's national AML/CFT Priorities into their AML/CFT programs.[18]

The Board's proposal would require Board-supervised banks to incorporate FinCEN's national AML/CFT Priorities into their risk assessment processes. ICBA supports the Board's objective of ensuring that AML/CFT programs reflect relevant national illicit finance threats and that banks allocate compliance resources based on risk. However, the final rule and preamble should make clear that the Priorities are intended to inform a bank's risk assessment and resource allocation—not to require every Board-supervised bank to address every listed threat with the same level of intensity or documentation.

The current AML/CFT Priorities, issued by FinCEN in 2021, include cybercrime, corruption, terrorist financing, fraud, transnational criminal organization activity, drug trafficking organization activity, human trafficking and human smuggling, and proliferation financing. ICBA appreciates the importance of these national priorities, but the categories are broad and may not apply equally to every Board-supervised community bank. The Board should avoid implementing this requirement in a manner that converts the Priorities into a universal checklist. Instead, the final rule should preserve each bank's ability to determine, based on its own products, services, customers, delivery channels, geographic footprint, and other relevant risks, whether and how a particular Priority is relevant to its AML/CFT program.

Although the Board's proposal contemplates incorporation of the AML/CFT Priorities through the risk assessment process, that requirement must remain practical and scalable for community banks. The final rule should clarify that a bank may incorporate the Priorities in a manner proportionate to its risk

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[16] *Id.*
[17] *Id. at* 42371
[18] *Id. at 42370*

profile and should not be expected to conduct extensive analysis or develop new controls for priorities that are not relevant to its business model or customer base. Without clear implementation guidance, community banks may feel compelled to devote resources to broadly stated national threats that have little or no connection to their actual risk exposure.
A risk-based framework depends on the ability to identify, assess, and mitigate risk in a way that is practical, consistent, and tied to the bank's actual operations. The Board should coordinate with FinCEN and the other federal banking agencies to provide clear, uniform implementation guidance for incorporating the Priorities into risk assessment processes. Such guidance should include examples of proportionate approaches for banks with limited product offerings, local customer bases, and low exposure to certain national illicit finance threats. This would help community banks integrate the Priorities efficiently while maintaining resources for the risks most relevant to their institutions.

Absent clearer guidance, the Priorities requirement could be interpreted by examiners as an expectation that each Board-supervised bank must address every listed Priority in its risk assessment and AML/CFT program. That outcome would be inconsistent with the Board's stated emphasis on effective, risk-based AML/CFT programs and risk-based allocation of compliance resources. It would also increase the risk of inconsistent examinations and unnecessary burden for community banks that reasonably determine that certain Priorities are not material to their products, customers, geographies, or activities.

The Board should state clearly in the final rule or preamble that the AML/CFT Priorities are to be considered through a Board-supervised bank's risk assessment process and used to inform, as appropriate, the design and allocation of AML/CFT program resources. The Priorities should not be interpreted as requiring every Board-supervised community bank to adopt new controls, expand monitoring, or create additional documentation for each national priority regardless of its relevance to the bank's risk profile. Without this clarification, the Priorities requirement could undermine the Board's stated emphasis on effective, risk-based AML/CFT programs by encouraging examiner expectations that are broader than the risks presented by a community bank's products, services, customers, and geographic footprint.

ICBA supports the Board's effort to align its AML/CFT program requirements with FinCEN's modernization framework and recognizes the value of national threat information in helping banks identify and assess relevant illicit finance risks. However, the final rule should preserve a Board-supervised bank's discretion to determine whether, and to what extent, a particular AML/CFT Priority is relevant to its business model and risk exposure. A community bank should be permitted to document that certain priorities are not applicable, or are already adequately addressed through existing policies, procedures, and controls, without being expected to build additional processes solely to demonstrate consideration. This approach would better reflect the Board's proposal to promote effective, risk-based programs that identify, assess, and mitigate illicit finance risks while avoiding unnecessary burden on low-risk community banks.

Designation and Duties of the AML/CFT Officer

The Board has long required banks to designate one or more individuals to coordinate and monitor day-to-day compliance.[19] The BSA separately requires banks to designate a compliance officer, and the

[19] *Id*. at 42372

AML Act did not change that requirement. Consistent with existing program requirements, the proposed rule would require each bank to designate an AML/CFT officer responsible for establishing and implementing the program and for coordinating and monitoring day-to-day compliance with the BSA and FinCEN's implementing regulations. The proposal also reflects the Boards' view that the designated officer should be qualified for the role and not overburdened with other responsibilities.[20] While designating an AML/CFT officer is not a new requirement, the Board are now explicitly proposing that BSA officers be qualified and unburdened with other responsibilities.

The notion that an AML/CFT officer with additional job duties would not be considered qualified is troubling and arbitrary. Just as AML/CFT programs are risk based, bank staffing in the AML/CFT program is also tailored to risk. By ignoring asset size, market, and delivery channels, the Proposed Rule's one-size-fits-all approach to staffing fails to take into consideration the unique profiles of community banks across the country. It is not uncommon for an AML/CFT officer at a community bank to also serve as a compliance officer, bank president, teller, loan officer, chief financial officer, or another role, depending on a bank's profile and footprint. Community banks, especially smaller banks, often rely on their personnel to perform multiple functions within a bank.

As written, the proposed rule improperly suggests that an AML/CFT officer may be deemed unqualified simply because that individual also performs other responsibilities within the institution. The Board should remove that concept from the final rule. For community banks, particularly smaller and rural institutions, it is both common and appropriate for a qualified AML/CFT officer to serve in additional roles, provided the individual has the authority, expertise, training, and capacity necessary to administer the program effectively. The mere presence of other duties does not negate years of experience, professional judgment, industry certifications, or demonstrated competence. A contrary standard would arbitrarily penalize community banks for operating with lean staffing models, disregard the risk-based nature of community bank compliance programs, and unnecessarily pressure smaller institutions into a one-size-fits-all staffing structure. ICBA strongly urges the agencies to revise this provision to make clear that qualification should turn on capability and effectiveness—not on whether the officer holds other responsibilities.

Written AML/CFT Program and Approval

Banks subject to Board supervision are currently required to obtain board approval of their AML/CFT programs under the Board's existing rule. The proposal would retain the requirement that a bank's written AML/CFT program be approved, while expanding the range of permissible approvers.[21] The proposed rule would require each bank to establish and maintain a written AML/CFT program and would permit that program to be approved by the board of directors, an appropriate board committee, an equivalent governing body, or appropriate senior management, while preserving the board's broader oversight responsibilities.[22] ICBA appreciates that the proposal preserves some flexibility by recognizing that different financial institutions may use different approval structures. That flexibility is especially important because governance frameworks vary significantly across institution types, legal structures, and organizational models. For community banks in particular, this flexibility is appropriate and should be retained in the final rule.

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[20] *Id.* at 42373
[21] *Id.* at 42374
[22] *Id.*

ICBA supports an approach that gives institutions flexibility to align program approval processes and oversight with their own governance structures, rather than layering prescriptive expectations about who must approve the program and how those responsibilities must be assigned. A more flexible framework would better reflect the differences among institutions, avoid unnecessary governance mandates, and allow community banks to meet AML/CFT obligations in a manner that is practical, accountable, and consistent with existing legal and supervisory requirements. ICBA believes the final rule should focus on whether an institution has established and maintained an effective AML/CFT framework, rather than on prescribing formal approval mechanics that may vary across institutions.

That point is particularly important for community banks, where boards already play a substantial oversight role in BSA/AML compliance. Existing expectations already require boards to oversee the compliance framework, review risk, and audit information, and help ensure that appropriate resources are devoted to AML/CFT compliance. Imposing additional prescriptive governance requirements that do not materially improve program effectiveness would add burden without commensurate benefit.

This approach is also consistent with Congress's mandate that FinCEN identify and address regulations and guidance that are outdated, redundant, or otherwise inconsistent with a more risk-based AML/CFT regime.

Supervision and Enforcement

The Boards' proposed rule would establish a new supervision and enforcement framework for AML/CFT programs that reflects the AML Act's emphasis on effectiveness and risk-based supervision.[23]

ICBA supports the Board's objective of modernizing AML/CFT supervision so that supervisory expectations are more consistent, risk-based, and focused on program effectiveness rather than rigid process adherence. Community banks have long reported that uncertainty in examiner expectations drives defensive compliance spending, excessive documentation, and an overemphasis on low-value process tasks. They have also experienced inconsistent and unduly subjective examinations, with similarly situated institutions receiving different findings, documentation demands, or supervisory reactions depending on the examiner, agency, or region involved. A more consistent supervisory framework would therefore advance the AML Act's goal of a more effective and appropriately tailored AML/CFT regime.

Notice and Consultation Framework

Unlike FinCEN's proposal and the joint agencies' proposed rule, the Board's proposal does not include a separate FinCEN notice-and-consultation requirement for significant AML/CFT supervisory or enforcement actions and seeks comment on this omission.[24]

ICBA is concerned that, unlike FinCEN's proposal and the joint agencies' proposed rule, the Board's proposal does not include a FinCEN notice-and-consultation framework for significant AML/CFT

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[23] *Id.* at 42374
[24] *Id.* at 42375

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supervisory or enforcement actions. That omission weakens the modernization framework and risks perpetuating the inconsistent supervisory expectations that community banks have long experienced. Community banks have reported that uncertainty in examiner expectations drives defensive compliance spending, excessive documentation, and an overemphasis on low-value process tasks. They have also experienced inconsistent and unduly subjective examinations, with similarly situated institutions receiving different findings, documentation demands, or supervisory reactions depending on the examiner, agency, or region involved. ICBA therefore urges the Board to incorporate a notice-and-consultation process, or otherwise establish comparable procedural guardrails, to promote consistency, reinforce FinCEN's statutory role as administrator of the BSA, and ensure that significant supervisory and enforcement actions are grounded in a uniform, risk-based interpretation of AML/CFT program requirements.

To preserve consistency with FinCEN's framework and the joint agencies' parallel rulemaking, ICBA urges the Board to incorporate the same notice-and-consultation process for significant AML/CFT supervisory or enforcement actions, or to adopt comparable procedural guardrails that achieve the same purpose. Such alignment would promote greater consistency, transparency, and accountability in AML/CFT supervision and enforcement while reinforcing FinCEN's statutory role as administrator of the BSA. The Board should also clarify that ordinary examination dialogue, examiner observations, informal recommendations, and routine supervisory communications remain distinct from significant AML/CFT supervisory or enforcement actions. Clear procedural guardrails would help prevent routine supervisory feedback from escalating into formal consequences without appropriate review and would ensure that community banks are not subject to materially different AML/CFT expectations based on examiner, agency, or regional variation.

Operational Impact on Community Banks

Although the Boards' proposed rule would apply to all covered institutions, its operational effects will differ significantly depending on a bank's size, complexity, and risk profile. The Board should expressly recognize that community banks face disproportionate implementation burdens when regulatory expectations are developed for larger institutions with more complex operations, larger compliance staffs, and more sophisticated systems. Community banks maintain traditional business models, limited geographic footprints, and long-standing customer relationships, and they often detect unusual activity through local knowledge rather than expansive compliance infrastructure. The final rule and related examination processes should therefore be tailored so that community banks are not effectively held to large-bank standards through supervisory practice, documentation demands, or informal examiner expectations. Modernization should reduce low-value burden and permit community banks to focus compliance resources on genuinely higher-risk activity rather than forcing additional effort toward formalistic process layering or defensive paperwork.

Related Modernization Issues and Burden Reduction

ICBA has consistently emphasized that program modernization must be paired with meaningful burden reduction across the broader BSA framework to be effective. Community banks continue to devote substantial resources to suspicious activity investigations, report preparation, CTR filing, beneficial ownership collection, documentation retention, and examiner-driven process enhancements that often do not generate a commensurate law enforcement benefit. As ICBA noted in its 2024 comments on the burdens surrounding suspicious activity reporting ("SAR"), the current system increasingly measures

effort rather than value and filing volumes can dilute the usefulness of reports.[25]
Accordingly, the Board should use this rulemaking, and coordinate with FinCEN to support broader reforms long advocated by ICBA, including higher SAR and Currency Transaction Reporting thresholds, removal of duplicative beneficial ownership obligations for banks, stronger information-sharing and feedback loops, and greater parity for nonbank entities performing bank-like functions. Without these reforms, community banks may bear the cost of implementing a new effectiveness framework while still carrying outdated legacy requirements that drain resources from genuinely higher-risk activity.

Implementation

The Board is proposing an effective date of 12 months from the date of issuance of the final rule for implementation.[26] ICBA contends that this time allotment is wholly insufficient.

Because the proposed rule would require Board-supervised banks to review final AML/CFT program requirements, assess changes to existing risk assessment processes and program governance, and make any necessary updates to policies, procedures, controls, training, and documentation, the Board should provide a sufficient and coordinated implementation period. Community banks will need adequate time to review the final requirements, assess impacts on existing programs, update policies, and procedures where necessary, coordinate with core processors and other service providers, and train personnel. As FinCEN recognized in its related 2026 proposed rule, the proposal would materially reshape AML/CFT compliance by requiring institutions to revisit core elements of program design and supervision, including risk assessment processes, governance, documentation, and implementation expectations. That recognition underscores why an additional 12 months beyond the proposed implementation period would be appropriate for community banks, particularly those that rely more heavily on manual processes, lean internal staffing, and third-party vendors. A phased and coordinated implementation process will be especially important if the final rules modify existing expectations regarding risk assessments, customer due diligence, or supervisory standards. ICBA therefore urges the agencies to provide community banks at least 24 months to implement the final rule. ICBA also supports preserving flexibility for banks to determine how best to deploy compliance resources and whether to adopt technological tools, automated monitoring solutions, or other innovations. The final rule should avoid language that could be interpreted to require particular systems, staffing models, or vendor solutions. Community banks should be able to meet regulatory expectations through approaches that are commensurate with their risk and operations, including manual or less complex processes where appropriate. Regulatory modernization should expand options for community banks, not narrow them.

Conclusion

ICBA appreciates the Board's efforts to modernize AML/CFT program requirements and supports a risk-based, flexible framework aligned with community bank business models. ICBA urges the Board to ensure that the final rule avoids prescriptive expectations, aligns with FinCEN's forthcoming AML/CFT program rule, reduces examiner subjectivity, incorporates a FinCEN consultation framework, provides

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[25] *See* independent Community Bankers of America, Comment Letter on Suspicious Activity Report Renewal Without Change, at 1 (July 1, 2024).
[26] See Anti-Money Laundering and Countering the Financing of Terrorism Programs, supra note 24, at 42375.

flexibility for low-risk institutions, and adopts realistic implementation timelines.

ICBA remains committed to working with the Board, FinCEN, and other agencies to strengthen the financial system while preserving the vitality of community banks.

Sincerely,

/s/

Rhonda Thomas-Whitley
Senior Vice President, Regulatory Counsel