R. McCONNELL GROUP PLLC

A BOARD GUIDE

AML & KYC

Preventing the misuse of the company for illicit finance

A risk-based AML program: customer due diligence, sanctions screening, suspicious-activity monitoring and reporting, recordkeeping, independent review, and board governance

2026 | R. McConnell Group PLLC

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WHY IT MATTERS

Why AML & KYC Matter

Illicit money looks for the path of least control

Legal obligation

A risk-based AML program is required to meet anti-money-laundering and sanctions law

Prevent illicit misuse

Controls keep the company from being used to launder money or finance terrorism

Board accountability

Directors retain ultimate responsibility and approve the program at least annually

Protect the franchise

Effective controls shield licenses, reputation, and the right to operate

THE MANDATE The program is reasonably designed to prevent the company from facilitating money laundering or terrorist financing

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PROGRAM PILLARS

The Risk-Based Framework

Five elements identify, control, and report illicit-finance risk

Risk assessment

Periodic, documented assessment of products, customers, channels, and geographies

Customer due diligence

KYC procedures verify identity on a risk-weighted basis at onboarding

Ongoing monitoring

Systems detect activity presenting heightened risk or raising suspicion

Sanctions screening

Customers are screened against sanctions lists at onboarding and updates

Recordkeeping

Risk, training, and activity records are retained and available to regulators

Independent review

An independent test of the program occurs at least every eighteen months

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SUSPICIOUS ACTIVITY

Detect, Decide, Report

Monitoring turns signals into timely filings where warranted

Automated triggers
Risk-based models, thresholds, and velocity rules flag unusual transactions

Review & decision
Flagged activity is reviewed to determine whether it is truly suspicious

Reporting threshold
Suspicious activity at or above the set dollar threshold is reported

Filing deadline
Reports are filed with the regulator within 30 days of the determination

Typologies updated
Known industry typologies refine detection over time

Tuning cadence
Triggers and signals are reassessed at least every eighteen months

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KYC

What Customer Due Diligence Examines

Identity, risk, and ongoing review form the backbone

- Identity collection
- Identity verification
- Risk weighting
- Sanctions check
- Data validation
- Ongoing monitoring
- Account suspension
- Periodic refresh
- Record retention

RED FLAGS

Transactions with no business purpose, structuring to evade rules, or links to crime warrant escalation

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KEY TERMS

Definitions

Know Your Customer (KYC)

Procedures to verify identity and understand the nature of a customer’s activity

Suspicious activity report

A regulatory filing when activity is known or suspected to involve illicit funds

Sanctions screening

Checking customers against government sanctions lists at onboarding and updates

Risk-based approach

Allocating controls in proportion to assessed money-laundering and sanctions risk

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FOR THE BOARD

Questions the Board Should Ask

A few questions test the AML program’s health

1. **Did the board approve the AML program this year?**
   Annual board approval is a baseline governance and legal expectation

2. **Is the independent review current and remediated?**
   Independent testing validates the program and surfaces gaps

3. **Are sanctions lists screened at onboarding and updates?**
   Stale screening is a primary source of sanctions exposure

4. **How fast do suspicions become timely filings?**
   Late or missed reporting is a direct enforcement risk