



# Department of the Treasury Financial Crimes Enforcement Network

October 10, 2007

## **Suggestions for Addressing Common Errors Noted in Suspicious Activity Reporting**

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The Financial Crimes Enforcement Network (“FinCEN”) has noticed common errors in the filing of Suspicious Activity Reports (“SARs”). Although these errors were noted primarily through studying Suspicious Activity Reports by Money Services Business (Form 109) filings, we believe that publishing an explanation of ten of the most common errors and ways much of them readily can be mitigated could be informative to financial institutions in other industries in their efforts to implement simple strategies to provide accurate and complete information in their SAR filings. We also expect that SAR filers who are trained on the requirements would already have available the information necessary to complete the SAR properly, meaning that significant improvements to the SAR filing could be made without significant additional efforts beyond those already undertaken for the investigation and decision to file a SAR which may contain errors.

It is critical that the information provided in a SAR filing be as accurate and complete as possible.<sup>1</sup> SAR information provides a valuable tool to FinCEN, law enforcement, regulatory authorities, and intelligence agencies (collectively referred to as “users”)<sup>2</sup>, allowing the observation of larger patterns of suspicious activity, which might not have otherwise been detected. When combined with other sources, the information generated from SAR filings also plays an important role for law enforcement agencies in identifying potentially illegal activities, such as money laundering and terrorist financing, and assists in detecting and preventing the flow of illicit funds through our financial system.

We have identified three areas where financial institutions should concentrate efforts to ensure information contained in the SAR is complete: (1) SAR narratives, (2) certain critical fields that allow users to analyze quickly where activity has occurred, and (3) fields that identify the type, category and character of the suspicious activity.

### **(1) The Importance of Complete SAR Narratives**

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<sup>1</sup> See, *Guidance on Preparing A Complete & Sufficient Suspicious Activity Report Narrative*, November 2003, pg. 3, at [http://www.fincen.gov/sarnarrcompleguidfinal\\_112003.pdf](http://www.fincen.gov/sarnarrcompleguidfinal_112003.pdf). Also see *The SAR Activity Review Trends, Tips and Issues*, Issue 2, June 2001, pg. 35. at: <http://www.fincen.gov/sarreview2issue4web.pdf#page=35>.

<sup>2</sup> See, 31 U.S.C. 5311 and 5319. It is the purpose of the Bank Secrecy Act (BSA) to require certain reports where they have a high degree of usefulness in criminal, tax, or regulatory investigations or proceedings, or in the conduct of intelligence or counterintelligence activities, including analysis, to protect against international terrorism and to make such reports available for use in a manner consistent with that objective.

In general, an accurate and complete SAR narrative should identify the five essential elements - *who? what? when? where? and why?* - of the suspicious activity being reported.<sup>3</sup> SAR narratives should describe, as fully as possible, why the activity or transaction is unusual for the customer, taking into consideration the types of products and services offered by your industry and the nature and typical activities of similar customers.<sup>4</sup> Explaining why the transaction is suspicious is critical. The following are common responses received in the SAR narrative field which do **not** allow users to fully utilize the information submitted.

**Empty Narrative Field:** The narrative field in the form must explain *why* the transaction was suspicious. If the narrative field is left blank, the information in the SAR only addresses the “who/what/when/where” of the transaction. Each SAR filing must have a narrative that accurately explains the nature and circumstances of the suspicious activity. Otherwise, the information contained in the SAR is of limited utility.

**Failure to Explain Information in Supporting Documents:** All SAR Form Instructions specifically state that the attachment of supporting documentation is prohibited. Supporting documents cannot be uploaded into the database and should not be used as a substitute for the narrative, since law enforcement, FinCEN and other intelligence agencies cannot readily view the documents or the information contained therein. The information appearing in any such supporting documentation should be reasonably described in the narrative and must be maintained for five years to be made available upon specific request.

**Inadequate Narratives:** Any narrative that does not accurately and completely explain the nature and circumstances of the suspicious activity is an inadequate narrative. In general, most inadequate narratives merely repeat data in the form’s fixed fields (for example, “John Doe sent two money transfers on 1/1/2007.”, or “Wired \$2,000 to Mexico.”). Restating the information found in critical fields does not sufficiently illustrate *why* the transaction was suspicious, considering the nature and expected activities of the institution’s customers.

## (2) Responses in Fields of Critical Value

The responses provided in fields of critical value, marked by an asterisk (\*) in most SAR forms, are examined by users to track activity and follow-up on leads provided in SARs. This information is also used by FinCEN to develop analytical products that are distributed to law enforcement, regulators and other intelligence agencies, as well as to provide general feedback to financial institutions<sup>5</sup>. The quality of this information is of

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<sup>3</sup> See, *Guidance on Preparing A Complete & Sufficient Suspicious Activity Report Narrative*, November 2003, pg. 3, at [http://www.fincen.gov/sarnarrcompletdguidfinal\\_112003.pdf](http://www.fincen.gov/sarnarrcompletdguidfinal_112003.pdf).

<sup>4</sup> *Id.* at 4.

<sup>5</sup> See, e.g., *The Role of Domestic Shell Companies in Financial Crime and Money Laundering: Limited Liability Companies*, November 2006, at [http://www.fincen.gov/LLCAssessment\\_FINAL.pdf](http://www.fincen.gov/LLCAssessment_FINAL.pdf). See also, *Mortgage Loan Fraud: An Industry Assessment based upon Suspicious Activity Report Analysis*, November 2006, at <http://www.fincen.gov/MortgageLoanFraud.pdf>.

utmost importance; when inaccurate or incomplete information is provided, its utility is diminished significantly. Several common issues arising from reports including inaccurate or incomplete information in critical fields are listed immediately below.

**Inaccurate Special Responses:** As noted in the instructions to the SAR forms, specific responses are required when data is unavailable. Institutions should *not* create their own responses. Special responses (for example, “N/A” or “Same as above”) pose as real data and distort statistics on how often certain items of data are unavailable. It is extremely important that reporting institutions follow the instructions on the form and input the proper responses for unavailable information.

**Missing or Incomplete Filer Employer Identification Number (“EIN”):** The EIN of the reporting institution permits regulators and law enforcement to follow transactions properly through entities that report them. A reporting institution is expected to know its EIN and report it accurately. Invalid or incomplete entries are unacceptable. EIN entries of “000000000” and “999999999” are examples of invalid entries. Incomplete EINs have fewer than nine digits and are usually the result of the preparer entering the EIN with a hyphen in a nine-digit fill-in field, causing the last digit of the number to disappear. Incomplete entries are also created by typographical errors that were not caught in review.

**Missing Filer Telephone Number:** SAR information users must have the ability to contact the reporting financial institution to follow up on any leads relating to possible criminal activity. The telephone numbers of the financial institution, including the specific transaction location, are critical for this reason, and must be included in any SAR filing. To reiterate, hyphens should not be included in the critical fields.

**Invalid Subject Social Security Number (“SSN”)/EIN:** The SAR forms and the E-filing manual provide specific instructions regarding acceptable entries in the SSN/EIN fields when the respective number is unknown. Consult the form instructions or the E-filing instructions when completing these sections. Entries of “000000000” and “999999999” are examples of invalid entries that cause an inaccurate record of the activity, which is of no value to those who utilize SAR information.

**Incomplete Subject Information; Government Issued Identification:** The method used to identify the subject should be as complete as possible. A driver’s license or passport provides law enforcement with the information necessary to find out *who* a subject is and *where* a subject may be located. The exclusion of an identification number when the issuer is known is an example of a commonly received incomplete response. If a government issued identification card or document was used during the transaction, then both the number and issuer of the identification card or document should be provided.

### **(3) Identifying the Category and Character of Suspicious Activity**

By filling out SARs as accurately and completely as possible, financial institutions help mitigate their risk by maintaining a strong component of their anti-money laundering (“AML”) programs. Employee training in the recognition of suspicious activity and the proper filing of SARs protects the financial institution and aids law enforcement in apprehending criminals. Possible characterizations of suspicious activity and their descriptions can be found in SAR Activity Review Issue 7.<sup>6</sup> The following are common responses received in the SAR fields which identify the type of suspicious activity. The lack of accurate and complete information addressed below hinders the usage of SAR information.

**Missing Category, Type, or Characterization of Suspicious Activity:** It is important for users to know *why* the activity is being reported and how the activity may relate to ongoing investigations. The category, type, or characterization of suspicious activity is important in this regard. This field should never be blank. If none of the available options appear to apply to the particular activity that is being reported, then the “other” box should be checked, and a brief and informative description should be entered in the “other” text field, if provided, or in the narrative.

**Incorrect Characterization of Suspicious Activity:** In order to provide accurate information to all users, FinCEN reviews narratives and other SAR data to verify that the category of suspicious activity appears correct. Many times, the characterization of suspicious activity appears incorrect or has not been selected. In these cases, there is no information in the SAR to substantiate the checked selections. For example, an institution may report that a customer comes in frequently to purchase monetary instruments below the \$3,000 recordkeeping threshold, indicating the potential that the customer could be “structuring” transactions; however, the narrative does not provide any information about previous transactions, and there are no prior SARs filed on the subject of the SAR.

## **Conclusion**

When accurate and complete, SARs are an important tool in combating financial crimes. When completed correctly, the forms provide its users with important information that can be used to analyze broad sets of data and to apprehend suspected criminals and terrorists. When the SAR forms are filled out incorrectly or are incomplete, they generally do not provide useful and adequate information, and in some cases, distort information reviewed by FinCEN and other users. Further, by filling out SARs as accurately and completely as possible, financial institutions also maintain a picture of the identified, suspicious transactions flowing through them, which may be of use in their AML program for risk mitigation purposes.

In our continuing effort to make BSA compliance more efficient and effective, we are providing below some simple suggestions that may reduce incomplete and/or incorrect SARs. As AML programs are designed on a risk-basis by financial institutions to meet

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<sup>6</sup> See *The SAR Activity Review Trends, Tips and Issues*, Issue 7, August 2004, pg. 45, at <http://www.fincen.gov/sarreviewissue7.pdf#page=45>

their own specific needs, some of the following suggestions may not be directly applicable.

1. *Sign up for BSA E-filing.* This will eliminate errors of omission because preparers *must* enter the required data or a special response in critical fields. Information on signing up for E-filing can be found on [www.fincen.gov](http://www.fincen.gov) by clicking on “BSA E-filing” or by calling 1-888-827-2778 (option 6).
2. *Provide staff and preparers with training on recognizing suspicious activity and avoiding SAR filing errors.* This training will help the financial institution maintain an effective AML compliance program, as well as protect the institution from potential abuse by criminals.
3. *Provide preparers with examples of accurate and complete SAR filings with “John Doe” data in the fields.* This will allow preparers to see the correct format of a completed SAR form and can serve as a reference point for future filings. Please ensure that these sample or mock forms are not filed with FinCEN.
4. *Ensure that preparers know the company EIN, address, telephone number, contact office, etc., for the Reporting Business and Contact for Assistance fields.* This will allow the preparers to provide FinCEN with accurate reporting information, as well as provide law enforcement with accurate contact information should further investigation be required.
5. *Provide preparers with the instructions for completing the form currently in use.* When a new form is released, do not rely on old instructions and training because there likely will be significant changes. While form changes are infrequent, being up-to-date on the most current forms helps financial institutions with their regulatory compliance requirements and enables them to provide FinCEN and other users with the most accurate data possible.
6. *Provide preparers with the FinCEN Regulatory Helpline number, (800) 949-2732, the FinCEN homepage, [www.fincen.gov](http://www.fincen.gov), and the MSB homepage, [www.MSB.gov](http://www.MSB.gov).*
7. *Have a second reviewer to ensure accuracy and completeness.* An additional review of the SAR will help to eliminate errors and omissions.