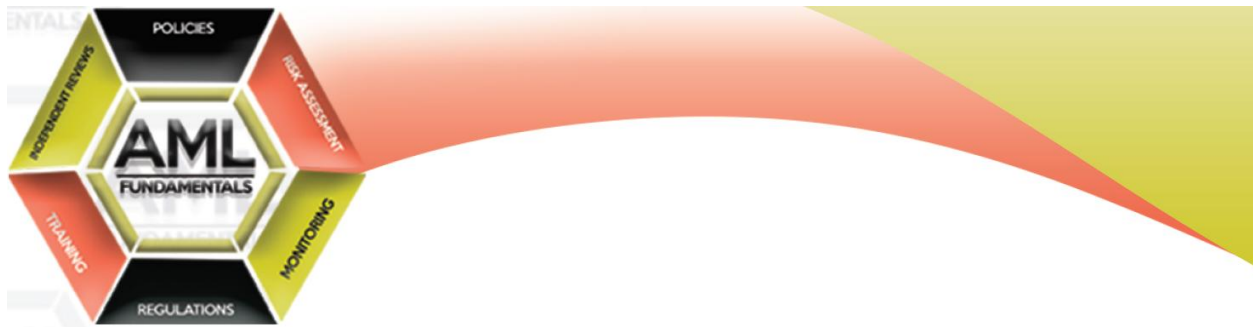




Trends in AML Penalties for Financial Institutions

Understanding the Impact of FATF Recommendations and Lessons from the TD Bank Case

The Financial Action Task Force (FATF) sets global standards to combat money laundering and terrorist financing. FATF Recommendation 8 focuses on customer due diligence (CDD), urging financial institutions to assess and mitigate risks associated with non-profit organizations and legal persons that could be exploited for illicit financing. Institutions must understand the nature and purpose of the business relationship, identify beneficial owners, and monitor transactions.

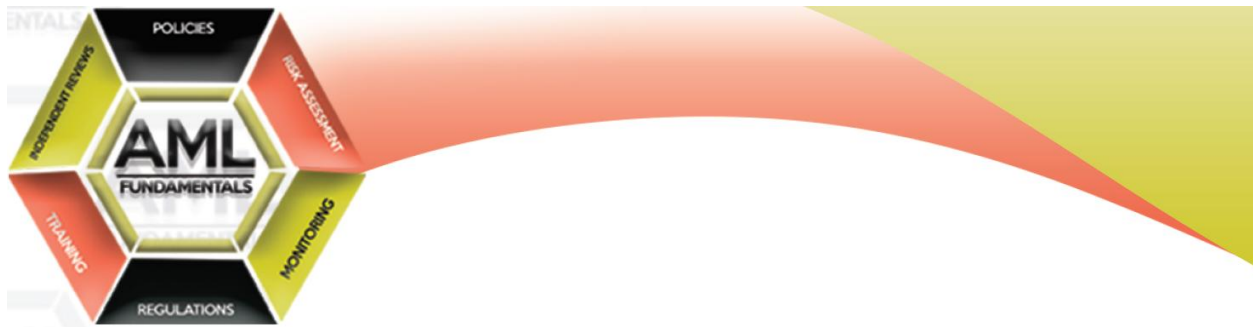
When financial institutions fail to meet this standard, Recommendation 35 applies. It mandates that countries impose “effective, proportionate and dissuasive sanctions” on legal persons for breaches of AML obligations. Penalties may include monetary fines, license restrictions/cancellations, and criminal prosecution, all of which results in reputational damage to an entity. These recommendations devolved into local laws, as jurisdictions seek to conform to the global fight against money laundering, terrorist financing and proliferation financing strives to ensure that institutions are held accountable for weak AML compliance programs that allow illicit finance to enter or move through the financial system.

Recent AML Enforcement: TD Bank and Other Institutions

In recent years, several major financial institutions have faced regulatory action for anti-money laundering (AML) failures. Notably, TD Bank—one of Canada’s largest banks. In 2024 TD Bank was fined \$3.09 billion for systemic compliance and AML governance failures.

Other notable institutions penalized along similar lines include:

- Danske Bank: Fined \$2 billion in 2022 for AML lapses tied to Estonian branches.
- Westpac (Australia): Fined AUD \$1.3 billion in 2020 for AML/CTF breaches involving child exploitation payments.
- HSBC: Paid \$1.9 billion in 2012 for AML failures connected to Mexican drug cartels.



Key Failures in the TD Bank AML Program

TD Bank's exposure to penalties stems from multiple critical failures in its AML program. U.S. law enforcement authorities and media reports have identified the following deficiencies:

- Delayed and Incomplete Suspicious Activity Reporting (SARs): TD Bank allegedly failed to file timely SARs, which allowed suspicious transactions to continue unchecked.
- Weak Transaction Monitoring: The bank's systems failed to detect unusual transaction patterns connected to illicit drug proceeds.
- Inadequate KYC/Customer Due Diligence: The bank allowed high-risk clients to operate accounts with minimal oversight, failing to identify beneficial ownership and transaction purpose.
- Compliance Team Interference: Reports indicate that internal staff raised concerns about suspicious activities, but these alerts were ignored or downplayed.

These failures collectively breached core principles of FATF Recommendation 8, in understanding the customer and the nature of the business relationship. Consequently, leading to enforcement action as per Recommendation 35.

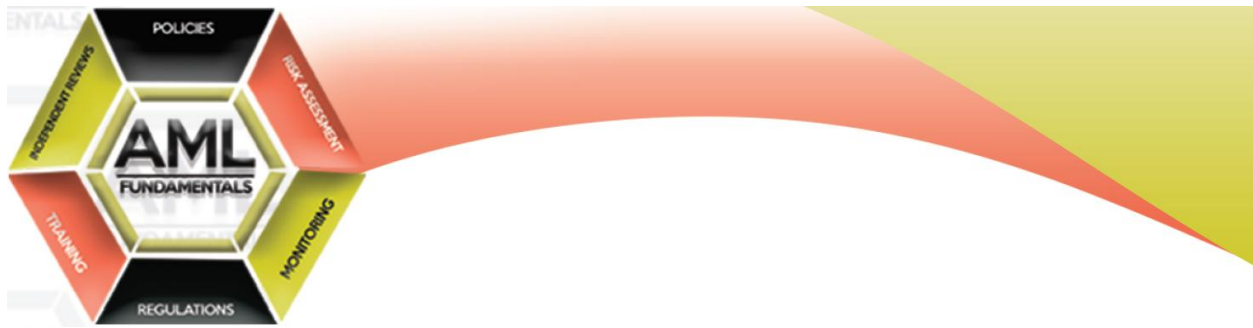
Analysis and Trends: Lessons from the TD Bank Case

The TD Bank case reflects a broader trend in global enforcement, where regulators increasingly hold financial institutions accountable for ineffective AML programs. Three key trends emerge:

Increased Cross-Border Scrutiny

Institutions operating in multiple jurisdictions, like TD Bank, face complex compliance obligations. Weaknesses in one branch (e.g., U.S. operations) can trigger global investigations and reputational risk across the group.

Proactive Regulator Action



Authorities are now more likely to penalize systemic weaknesses rather than waiting for actual money laundering outcomes. Failures in reporting, monitoring, and due diligence are enough to trigger investigations.

Emphasis on Individual Accountability and Culture

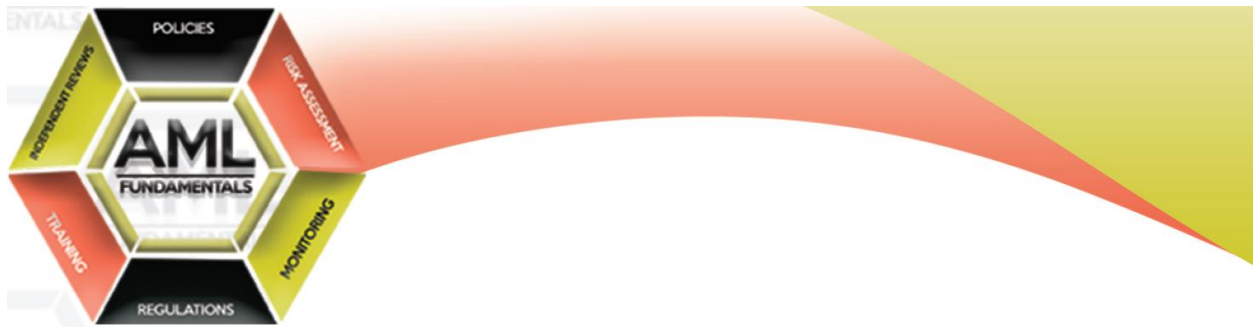
The TD case underscores the importance of a strong compliance culture. Internal alerts were allegedly dismissed, indicating a breakdown in governance. This suggests that tone from the top and internal escalation procedures are as critical as technical controls.

Enforcement Actions – CIMA vs FINCEN

Secondary research aimed at identifying the posture towards enforcement action within the Caribbean space, did not suggest that regulators had a similar appetite where significant fines are levied on financial institutions for AML related breaches, in comparison to their North American and European counterparts. Visits made to the five websites of Caribbean regulators in search of enforcement action notices, except for one, proved futile. From among the country's regulators websites visited which included the Bahamas, Barbados, the Cayman Islands, Jamaica, and Trinidad and Tobago, only the Cayman Islands Monetary Authority (CIMA) website carried a tab which spoke to enforcement actions taken by CIMA. A review of actions taken against licensees between May 2021 and September 2022 saw five entities being fined a cumulative \$4.9 Million Cayman (KYD) dollars, with the largest fine applied to a single entity being \$4.2 Million.

A similar review of the Financial Crimes Enforcement Network (FinCEN) website where enforcement notices were concerned for the comparative period as per CIMA's website, revealed a similar five enforcement actions at a cumulative price tag of USD\$197,475,000.00 (or \$167,477,903.00 KYD), with the largest fine being \$100 Million.

Accounting for the size and depth of the financial landscape between both markets which are incomparable, thus explaining the quantum leap in the value of the fines administered by FinCEN vis-a-vi CIMA, there is one clear intersection which underlines the reasons for the fines which mirror those addressed in the TD



Bank case. Summarily, lapses in customer due diligence, transaction monitoring and reporting and a general failure of effective AML governance.

How Financial Institutions Can Respond

To avoid outcomes like TD Bank's, institutions should focus on the following:

- Strengthen Customer Due Diligence: Identify beneficial ownership, understand customer purpose, and review high-risk relationships regularly.
- Invest in Transaction Monitoring: Ensure systems are calibrated to detect high-risk behavior in real time.
- Act on Internal Alerts: Develop a culture of responsiveness where red flags raised by staff are investigated thoroughly.
- File SARs Promptly: Delays in SAR filings can lead to prolonged criminal activity and harsher penalties.

Conclusion

The case of TD Bank demonstrates the real-world outcomes of AML compliance failures. Effective compliance requires that institutions move beyond box-checking and invest in proactive, risk-based programs.

Penalties for non-compliance are increasing in frequency and severity. Financial institutions must learn from past enforcement actions, adopt a culture of compliance, and prioritize effective risk adjusted customer due diligence to avoid similar outcomes underpinned by the commonality of failures as exhibited in the TD Bank example, and all other comparable cases.

[Fabian E. Sanchez, JP | LinkedIn](#)

CIPM, Intl. Dip. AML, CAMS, CIRM, MBA, BBA

fsanchez@fabian-sanchez.com

amlfundamentals@outlook.com

May 7, 2025