

FEDERAL RESERVE BANK OF SAN FRANCISCO
101 MARKET STREET, SAN FRANCISCO, CALIFORNIA 94105

October 30, 2003

**BANKING SUPERVISION AND REGULATION:
BANK SECRECY ACT EXAMINATION PROCEDURES**

To State Member Banks, Bank
Holding Companies, U.S. Branches
and Agencies of Foreign Banks,
and Others Concerned,
in the Twelfth Federal Reserve District

New Bank Secrecy Act Examination Procedures and the USA PATRIOT Act (SR 03-17)

The USA PATRIOT Act ("Act") established new and enhanced measures to prevent, detect, and prosecute money laundering and terrorism. For the most part, the measures directly affecting banking organizations are implemented through regulations issued by the U.S. Department of the Treasury (31 CFR Part 103) and set forth as amendments to the Bank Secrecy Act (BSA).¹ Since Treasury issued the regulations to implement the requirements of sections 313, 314, and 319 of the Act, the Federal Reserve and the other federal banking agencies have been working together to update their BSA examination procedures. This SR letter notifies supervisory staff and domestic and foreign banking organizations supervised by the Federal Reserve that the new BSA examination procedures have been developed.

As described in more detail in the attached examination procedures and in SR letter 01-29 (please see our [letter dated December 4, 2001](#)), section 313 of the Act prohibits banking organizations from establishing, maintaining, administering, or managing correspondent accounts with "shell" banks (e.g., foreign banks that have no physical presence in any jurisdiction). Section 314 of the Act facilitates the sharing of information regarding suspected terrorist financing and money laundering activities between banking organizations and law enforcement agencies and among banking organizations themselves. Section 319 of the Act requires the maintenance of certain records, including records related to the ownership of foreign banks.

Treasury's regulations implementing sections 313 and 319 of the Act became effective on October 28, 2002 (31 CFR 103.177 and 31 CFR 103.185), and the regulation implementing section 314 of the Act became effective on September 26, 2002 (31 CFR 103.100 and 31 CFR 103.110).

The Federal Reserve has developed the attached BSA examination procedures to evaluate the compliance of banking organizations with these new regulations. The procedures were developed in consultation with the Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, Office of Thrift Supervision, and National Credit Union Administration. The procedures are designed to help banking organizations implement the new BSA requirements and to facilitate a consistent supervisory approach among the financial institutions supervisory agencies.² The examination procedures allow supervision staff to tailor the examination scope according to the reliability of a banking organization's compliance management system and the level of risk assumed by the organization.

¹ SR letter 01-29, dated November 26, 2001, describes the provisions of the USA PATRIOT Act that affect banking organizations.

² The new BSA examination procedures are being shared with state bank regulatory authorities to assist their evaluation of state chartered banking organizations.

The Federal Reserve is incorporating these procedures into an update to its overall Bank Secrecy Act/Anti-Money Laundering examination procedures. As other provisions of the Act are implemented through new regulations, additional procedures will be issued in a similar format.

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Additional Information

All circulars and documents are available on the Internet through the Federal Reserve Bank of San Francisco's Internet site, at <http://www.frbsf.org/banking/letters>. Paper copies of the Board's notice (SR 03-17) are available from our Corporate Services Department. To request copies to be sent by mail, please call (415) 974-2060.

For additional information about the new Bank Secrecy examination procedures, please contact our Banking Supervision and Regulation Department at (415) 974-2896.

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Attachment:

[Bank Secrecy Act Examination Procedures](#)