

**Remarks by  
Donald E. Powell  
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Good afternoon.

Thank you for inviting me to speak today. I'm honored to be here. I'm especially honored to be in the great city of New York.

Today is September 9th. In two days we will pause our daily routines to commemorate the tragedies that occurred here, in Pennsylvania, and at the Pentagon on last September 11. What befell our nation that day was truly like nothing we have ever seen in our history.

Yet, out of that terrible day has grown a renewed sense of what it means to be an American. It has reminded us of the commitment to freedom, openness, and justice that unites us all, regardless of what we look like, what we believe, and where we were born. It has reminded us again of our obligation to honor these things. And to defend them.

Those who are no longer with us have left their legacy - in the lives they lived, in their families' memories, in their bravery, and in their commitment to the every day work that makes our country so prosperous. We remember them and we do them honor.

But the legacy of the living remains to be written. It will be tested on the defining crucible of two simple questions: What did you learn? And can you do your utmost to make sure it never happens again?

I'd like to focus my remarks today on how the events of September 11, 2001 have impacted the banking industry and the regulators. In particular I'd like to concentrate on how we all managed to come together and fashion an effective response to these attacks.

As the magnitude of the disaster sank in, we were forced to work quickly to return life to normal - realizing, of course, that life would never be the same. 9/11 changed our priorities. Overnight, these events elevated the importance of three values that have guided us in the year since: vigilance, preparedness, and teamwork. We have worked these past 12 months to work these values into the way we conduct ourselves as bank regulators - and how we interact with the industry we serve.

We now know the U.S. economy was in recession for months before 9/11. The terrorist attacks, without question, deepened and prolonged the duration of this downturn.

Yet, given the scale of destruction that occurred at the heart of our nation's financial system, global financial markets showed remarkable resilience after the attacks. Despite an unspeakable chain of events - the market was up and running in less than a week. Commercial banks and the regulators remained open. There was no loss of confidence in the U.S. financial system, here or abroad. These are true testaments to the success of the public and private sectors working closely together to address a wide range of unprecedented and significant problems in a very short period of time.

That's not to say the attacks had no consequences. The stock market closure resulted in some large banks reporting capital markets and investment losses due to their inability to execute transactions. Many institutions experienced greater pressure on revenues as equity investing, venture capital, trading, asset management, and fiduciary activities income declined.

These disruptions caused investors and businesses to become more cautious in making longer-term investment decisions. Financial firms exposed to market sensitive revenues saw greater downward pressure on their net income as a result.

We saw problems arise among insurance companies, lodging and gaming companies, and air transportation enterprises. And, consequently financial institutions were suddenly exposed to elevated credit risk in these sectors.

If there was good news to be had from the tragedy, it is that we haven't seen any issues arise that threaten the viability of banks or the system as a whole. Indeed, what we have seen in the last year is many important initiatives that have made our industry even stronger - better prepared and more resilient to the remaining threats.

Earlier this year, after the immediate aftermath of the attacks had subsided, I asked our staff at the FDIC to focus their efforts on learning the lessons of this tragedy and implementing effective solutions to the problems we'd identified. I also asked them to work closely with their colleagues in other government agencies to make this happen. I am proud of how they responded.

The first task was to become more adept at impeding the flow of terrorists' funds. Headlines in the last couple of weeks have reminded us - via a United Nations report - that the terrorists still have the financial ability to inflict more harm on the American people. The General Accounting Office recently released a report indicating that ordinary credit cards may be a vehicle for laundering money. So the possibilities are out there. Our job - yours and ours - is to make sure those terrorist resources are never deployed in another terrorist attack. This is a tall order, but we have to be up to the task. The stakes are just too high.

In addition to the creativity and hard work of the industry these past few months, the Congress has given us some weapons to use in this war. The USA PATRIOT Act, signed last fall, will help us counter the threat these untapped terrorist resources pose to the United States and its citizens. We have been working hard - in concert with our fellow regulators - to make sure this Act is implemented in a timely and effective manner.

The Act is far-reaching, as you know. It expands the anti-money laundering umbrella to industries not previously subject to this sort of regulation. It also marks the first time the United States has taken its money laundering regulations offshore - applying recordkeeping and monitoring requirements to the foreign branches of U.S. banks and foreign institutions operating here.

The FDIC is actively involved in working with the Treasury Department to implement this law. Let me take a few moments and highlight a couple of provisions I know will be of interest to you.

In July, a rule became effective calling for enhanced due-diligence procedures in U.S. banks for private banking accounts opened for foreign individuals - and correspondent accounts opened for foreign banks. The rule specifically requires these procedures to test for money laundering or other illegal activity. I know you have provided thoughtful comments to the Treasury - many of which were shared by other commenters - and I want you to know they are worthy of serious consideration. Your comments should help make the final rule - due in October - as effective as possible while minimizing its impact on legitimate transactions.

Furthermore, your help in developing good principles for combating money laundering reflects your strong support for this effort and I want to tell you how much I appreciate it. Yet, we still face challenges. For example, implementing the rules on customer identification may pose difficulties - what happens when a foreign customer presents documents unfamiliar to bank personnel? How does the bank verify the validity? What confirmation procedures are reasonable, yet effective?

These issues, and others, make battling money laundering a difficult exercise for bankers and regulators alike. Your global experience and your expertise will be invaluable in this effort.

Of course, there are other areas we should look at, as well. Alternative remittance networks, charities and non-governmental organizations all pose unique challenges. Sometimes these networks provide valuable services to people who must deal with economic and military strife, and are unable to use traditional banking channels. While we're not suggesting we eliminate these networks, we do need to subject them to greater supervisory scrutiny than they have today. Certainly more transparency regarding the source and use of funds would be helpful. We are admittedly having difficulty understanding and dealing with this threat. That is why we must continue our work to curtail the misuse of these non-traditional methods of trading money.

Another thing I've asked the FDIC staff to do is to strengthen our existing program to provide technical assistance to foreign governments. In the past year, our staff went to Asia, Eastern Europe and Latin America on missions to help countries in these regions put effective supervisory and money laundering regimes into place. A recent call for volunteers yielded 100 of our supervisory personnel who were willing to work on this project.

This effort is important because the money laundering chain is truly only as strong as its weakest link. To ensure uniform strength, the governments of the world, international organizations, and financial institutions will have to implement best practices regarding openness and transparency in customer due-diligence and transactions. We have been involved in this effort at the FDIC through our seat on the Basel Committee - participating in the issuance of a number of international guidelines on money laundering, terrorism, and customer due-diligence.

We serve on the New York Clearing House Association's task force to assess the state of global communications and information sharing - and how both government and industry can improve in those areas. A notable deliverable from the task force is a widely circulated compilation of best practices put together by reputable financial institutions - including many of your members.

Finally, we have worked in Washington to improve communications between the large number of cabinet agencies, banking regulators, and the White House offices of Homeland Security and Cyberspace Security. This is very important. With the nation's capital full of folks - each with one small piece of the pie - coordinating our efforts can be a difficult task. But we have made progress on this - and more is needed before we have a seamless network of communications between both the government agencies and the private sector. It was our ability to communicate that held us together after September 11 and we need to make sure we protect our communications infrastructure.

We are working to improve the flawed manner in which we currently disseminate alerts to banks. We were all disappointed that a threat against East Coast banks earlier this year was reported on television before the alert cleared the government bureaucratic maze. We can do better in this area and we will.

All of these initiatives - whether undertaken by the FDIC or in concert with the other agencies - are part of a global strategy to combat money laundering and stem the flow of terrorist funds. We are not alone. We are working with other agencies, other countries, our domestic financial industry and with you. Without the active and vigilant participation of the industry, we will not be successful in this effort.

September 11 changed all of our lives. The way we view the world, how we go about our lives, the way we think of our own country - all this is different as a result of that awful day. We must all work to ensure that terrorists do not rule our world, disrupt our economies and menace our families. People around the world have the right to live and

pursue their dreams in peace. Let this be our legacy - our gift - to succeeding generations.

Working together, we can accomplish this - and I am confident we will.

Thank you.

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