



FEDERAL RESERVE BANK
OF DALLAS

WILLIAM H. WALLACE
FIRST VICE PRESIDENT
AND CHIEF OPERATING OFFICER

March 19, 1987

DALLAS, TEXAS 75222

Circular 87-21

TO: The Chief Executive Officer of all
state member banks, bank holding
companies, and others concerned in
the Eleventh Federal Reserve District

SUBJECT

**Procedures for Monitoring Bank Secrecy Act Compliance and Slip Sheet
with Amendments to Regulation H -- Membership of State Banking Institutions in
the Federal Reserve System**

DETAILS

The Board of Governors of the Federal Reserve System has adopted an amendment to Regulation H to assure that regulated institutions establish and maintain procedures to comply with the requirements of the Bank Secrecy Act. These procedures must be established and implemented on or before April 27, 1987.

The slip sheet to Regulation H has been revised to incorporate the new amendment. The new slip sheet should be inserted in Volume 2 of your Regulations Binders.

ENCLOSURES

The material as published in the Federal Register and a slip-sheet to Regulation H are enclosed.

MORE INFORMATION

For more information, please contact David W. Dixon of this Bank's Legal Department at (214) 651-6228.

Sincerely yours,

A handwritten signature in cursive script that reads "William H. Wallace".

DEPARTMENT OF THE TREASURY**Comptroller of the Currency****12 CFR Part 21****[Docket No. 87-2]****FEDERAL RESERVE SYSTEM****12 CFR Part 208****[Docket No. R-0594]****FEDERAL DEPOSIT INSURANCE CORPORATION****12 CFR Part 326****FEDERAL HOME LOAN BANK BOARD****12 CFR Part 563****[Docket No. 87-1]****NATIONAL CREDIT UNION ADMINISTRATION****12 CFR Part 748****Procedures for Monitoring Bank Secrecy Act Compliance**

AGENCIES: Office of the Comptroller of the Currency, Treasury; Board of Governors of the Federal Reserve System; Federal Deposit Insurance Corporation; Federal Home Loan Bank Board; and National Credit Union Administration.

ACTION: Final rule.

SUMMARY: The Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Federal Home Loan Bank Board, and National Credit Union Administration (collectively referred to as the "agencies") are amending their respective regulations to require the financial institutions that they regulate ("regulated institutions") to establish and maintain procedures to assure and monitor compliance with the requirements of subchapter II of chapter 53 of Title 31, United States Code. In its original form, subchapter II was part of Pub. L. 91-508 which requires recordkeeping for and reporting of currency transactions by banks and others and is commonly known as the "Bank Secrecy Act." This action is necessary for the agencies to comply with the requirements of section 1359 of the Anti-Drug Abuse Act of 1986, Pub. L. 99-570. This final rule is effective on January 27, 1987, and is intended to assure that regulated institutions establish and maintain procedures to comply with the requirements of the

Bank Secrecy Act. Because the agencies are acting under a three-month statutory deadline, this final rule establishes only those requirements that we consider to be the minimum necessary for any compliance procedure. The agencies, however, are considering whether to establish more detailed compliance procedures in the near future.

DATE: This final rule is effective January 27, 1987.

ADDRESSES: Office of the Comptroller of the Currency, 490 L'Enfant Plaza East, SW., Washington, DC 20219.

Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue NW., Washington, DC 20551.

Federal Deposit Insurance Corporation, 550 17th Street, NW., Washington, DC 20429.

Federal Home Loan Bank Board, 1700 G Street, NW., Washington, DC 20552.

National Credit Union Administration, 1776 G Street, NW., Washington, DC 20456.

FOR FURTHER INFORMATION CONTACT:

Thomas C. Lehmkuhl, National Bank Examiner, Commercial Activities Division, (202) 447-1164 or Yvonne D. McIntire, Attorney, Legislative and Regulatory Analysis Division, (202) 447-1177, Office of the Comptroller of the Currency.

Sara A. Kelsey, Senior Attorney Legal Division, (202) 452-3236, Conrad G. Bahlke, Attorney, Legal Division, (202) 452-3707, or Richard Schriber, Senior Financial Analyst, (202) 452-2733, Division of Bank Supervision and Regulation, Board of Governors of the Federal Reserve System.

R. Eugene Seitz, Review Examiner, Division of Bank Supervision, (202) 898-6793 or Katharine H. Haygood, Senior Attorney, Legal Division (202) 898-3732, Federal Deposit Insurance Corporation.

John Downing, Attorney, Office of Enforcement, (202) 653-2604, C. Dawn Causey, Attorney, Office of Enforcement, (202) 653-2624, or Francis Raue, Policy Analyst, Office of Regulatory Policy, Oversight, and Supervision, (202) 778-2517, Federal Home Loan Bank Board.

Martin Kushner, Examiner, Office of Examination and Insurance, (202) 357-1065 or John K. Ianno, Staff Attorney, Litigation Division, (202) 357-1030, National Credit Union Administration.

SUPPLEMENTARY INFORMATION:**Background**

Section 1359 of the Anti-Drug Abuse Act of 1986 ("Act"), contains a number of provisions amending section 8 of the Federal Deposit Insurance Act (12 U.S.C. 1818), section 5(d) of the Home Owners'

Loan Act of 1933 (12 U.S.C. 1464(d)), section 407 of the National Housing Act (12 U.S.C. 1730) and section 206 of the Federal Credit Union Act (12 U.S.C. 1786). Specifically, these provisions require the agencies to: (1) Prescribe regulations requiring regulated institutions to establish and maintain procedures reasonably designed to assure and monitor compliance with the Bank Secrecy Act; and (2) review such procedures during the course of their examinations. The regulations requiring regulated institutions to establish procedures are to take effect within three months after enactment—by January 27, 1987. The Act also authorizes the agencies to issue civil money penalties and cease and desist orders in the event that a regulated institution fails to establish such procedures or to correct problems with regard to its procedures after an agency has notified the institution that problems exist.

Agency Action

The agencies are issuing this final rule to require regulated institutions to establish and maintain a program designed to assure and monitor compliance with the requirements of the Bank Secrecy Act and the implementing regulations promulgated thereunder by the Department of the Treasury established at 31 CFR Part 103. An institution's compliance program must, at a minimum, consist of a system of internal controls to assure ongoing compliance and provide for independent testing of compliance by the institution's personnel or by an outside party. The institution shall also designate an individual or individuals responsible for coordinating and monitoring day-to-day compliance and provide training for appropriate personnel.

This final rule becomes effective on January 27, 1987. Institutions must have developed and implemented their compliance programs by April 27, 1987. The Department of the Treasury has advised the agencies that institutions should recognize that compliance with the requirements of this rule, standing alone, will not be considered to be a defense in any criminal prosecution or civil action involving a violation of the Bank Secrecy Act or regulations promulgated thereunder.

Amendment to Regulation H Membership of State Banking Institutions in the Federal Reserve System February 1987*

Effective May 15, 1985, section 208.13 is added to read as follows:

SECTION 208.13—Capital Adequacy

The standards and guidelines by which the capital adequacy of state member banks will be evaluated by the Board are set forth in appendix A to the Board's Regulation Y, 12 CFR 225.

Effective January 27, 1987, section 208.14 is added to read as follows:

SECTION 208.14—Procedures for Monitoring Bank Secrecy Act Compliance

(a) *Purpose.* This section is issued to ensure that all state member banks establish and maintain procedures reasonably designed to ensure and monitor their compliance with the provisions of subchapter II of chapter 53 of title 31, United States Code, the Bank Secrecy Act, and the implementing regulations promulgated thereunder by the Department of Treasury at 31 CFR part 103, requiring recordkeeping and reporting of currency transactions.¹³

¹³ Recordkeeping requirements contained in this section have been approved by the Board under delegated authority from the Office of Management and Budget under the provisions of chapter 35 of title 44, United States Code, and have been assigned OMB No. 7100-0196.

* The complete regulation, as amended effective January 27, 1987, consists of—

- the regulation pamphlet dated May 1982 (see inside cover) and
- this slip sheet.

(b) *Establishment of compliance program.* On or before April 27, 1987, each bank shall develop and provide for the continued administration of a program reasonably designed to ensure and monitor compliance with the recordkeeping and reporting requirements set forth in subchapter II of chapter 53 of title 31, United States Code, the Bank Secrecy Act, and the implementing regulations promulgated thereunder by the Department of Treasury at 31 CFR part 103. The compliance program shall be reduced to writing, approved by the board of directors, and noted in the minutes.

(c) *Contents of compliance program.* The compliance program shall, at a minimum—

- (1) provide for a system of internal controls to ensure ongoing compliance;
- (2) provide for independent testing for compliance to be conducted by bank personnel or by an outside party;
- (3) designate an individual or individuals responsible for coordinating and monitoring day-to-day compliance, and
- (4) provide training for appropriate personnel.