

FEDERAL RESERVE BANK
OF NEW YORK

AT-10841(C)
March 12, 1996

Correction Notice

The salutation on the first page of the enclosed circular has been corrected to include uninsured state-chartered branches, as well as agencies, of foreign banks. Due to an oversight, the salutation in the earlier version of the circular, which was mailed to you on March 7, had omitted that category.

Circulars Division

- CORRECTED COPY -

**FEDERAL RESERVE BANK
OF NEW YORK**

March 7, 1996

**Simplified Reporting of Suspected Crimes
and Suspicious Activities**

*To the Chief Executive Officers of All State Member Banks, Bank Holding Companies,
Uninsured State-Chartered Branches and Agencies of Foreign Banks,
and Edge and Agreement Corporations, in the Second Federal Reserve District:*

Following is the text of a statement issued by the Board of Governors of the Federal Reserve System:

The Federal Reserve Board has announced a final rule to simplify the process for reporting suspected crimes and suspicious activities by banking organizations supervised by the Federal Reserve.

The final rule is effective April 1, 1996.

The rule was developed by the Federal Reserve, the other federal banking agencies, and the Financial Crimes Enforcement Network of the U.S. Department of the Treasury (FinCEN).

The rule significantly reduces reporting burdens, while at the same time enhancing the ability of law enforcement authorities to investigate and prosecute criminal offenses involving our Nation's financial institutions.

The new suspicious activity reporting rule:

- combines the current criminal referral rules of the Federal Reserve and the other federal banking agencies with FinCEN's suspicious activity reporting requirements relating to money laundering offenses;
- creates a uniform reporting form and instructions — the new "Suspicious Activity Report" or "SAR" — for use by banking organizations to report all violations;
- requires the filing of only one form with FinCEN;
- enables a filer, through computer software that will be provided by the Federal Reserve to all of the domestic and foreign banking organizations it supervises, to prepare a SAR on a computer and file it by magnetic media, such as a computer disc or tape;
- raises the thresholds for mandatory reporting in two categories and creates a threshold for the reporting of suspicious transactions related to money laundering and violations of the Bank Secrecy Act in order to reduce the reporting burdens of banking organizations; and
- emphasizes recent changes in the law that provide a safe harbor from civil liability to banking organizations and their employees for reporting of known or suspected criminal offenses or suspicious activities.

Substantially identical suspicious activity reporting rules are being issued by FinCEN, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, and the National Credit Union Administration.

Enclosed is the text of the Board's ruling on this matter, as published in the *Federal Register*. Also enclosed is a copy of the SAR, the new uniform reporting form, for your use beginning on April 1. You may make duplicates of the SAR for your institution's use. The SAR replaces the Federal Reserve's former criminal referral form. The instructions included with the SAR set forth all of the pertinent rules relating to your obligations to report known or suspected federal criminal law violations and suspicious activities.

Through the use of the new SAR, the reporting burden of all financial institutions is substantially reduced. First, the reporting thresholds for non-insider related offenses are significantly increased. Specifically, the threshold for reporting known or suspected violations involving non-insider suspects increases from \$1,000 to \$5,000, and the threshold for reporting known or suspected violations where the institution cannot identify a suspect increases from \$5,000 to \$25,000. In addition, for the first time, there is a \$5,000 threshold for reporting suspicious transactions related to money laundering and violations of the Bank Secrecy Act. Further, you no longer have to submit copies of criminal referrals to several different federal agencies, but, instead, you only need to file the SAR with one agency, FinCEN. Last, you no longer have the burden of including supporting documentation with the report. Instead, you are required to identify and keep, for a period of five years, all supporting documentation relating to a SAR and, if requested by law enforcement authorities, make the documentation available to them.

In order to further assist banking organizations with their new reporting obligations, a software package has been developed to allow them to complete a SAR using a computer rather than completing a paper form. Using the SAR software will allow a banking organization to have the SAR appear on screen, insert the appropriate information and then store the completed SAR on a disk, which can be mailed to FinCEN, in lieu of the paper form. Multiple completed SARs can be stored on one disk and then mailed. On-screen instructions, various help menus and a written instruction manual will easily guide a user through the SAR software. For those banking organizations that so desire, the SAR software will create a database of all completed SARs.

Prior to the April 1, 1996 effective date, the Federal Reserve will provide to each state member bank, uninsured state chartered branch and agency of a foreign bank, Edge and Agreement corporation, as well as to each bank holding company that files a F.R. Y-9C or that owns or controls more than one bank subsidiary, a package containing the SAR software, in both Windows and DOS versions, along with the instruction manual. Those bank holding companies not receiving the SAR software and instruction manual from the Federal Reserve will have access to the SAR-related materials because their subsidiary banks will receive copies of them from either the Federal Deposit Insurance Corporation or the Office of the Comptroller of the Currency.

We strongly encourage those receiving the software to use it to complete SARs and file them on disk, rather than using the paper form. Use of the SAR software will significantly ease reporting obligations and ensure that accurate information is obtained.

For banking organizations that currently submit Currency Transaction Reports (CTRs) using magnetic tape, you should have already received information regarding the inclusion of SARs on the magnetic tape along with the CTRs. If you have not yet received such information you may contact the Internal Revenue Service's Detroit Computing Center at (313) 234-1446.

In the near future, you will be able to retrieve the SAR software from the Federal Reserve's web site on the World Wide Web at "<http://www.bog.frb.fed.us>".

We emphasize that after April 1, 1996, banking organizations can only report known or suspected criminal law violations and suspicious activities pursuant to the Board's, the other banking agencies', and Treasury's regulations by using a paper copy of the enclosed SAR form or the computer software that is provided to you by the Board or the IRS's Detroit Computing Center. No other reports, such as those prepared by internally generated computer programs, are permitted.

In the event you have any questions concerning the new suspicious activity reporting regulations, please contact Joseph L. Galati II, Examining Officer (212-720-7946) or Joseph E. Buckley, Jr., Supervising Examiner (212-720-2393), of the Advisory and Technical Services Function.

CHRISTINE M. CUMMING,
Senior Vice President.

Enclosures