



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

WASHINGTON, D. C. 20551

DIVISION OF BANKING
SUPERVISION AND REGULATION

SR 02-8
March 20, 2002

**TO THE OFFICER IN CHARGE OF SUPERVISION
AT EACH FEDERAL RESERVE BANK**

**SUBJECT: Implementation of Section 327 of the USA Patriot Act in the
Applications Process**

Section 327 of the USA Patriot Act amends section 3(c) of the Bank Holding Company Act and requires that the Federal Reserve take into consideration the effectiveness of an applicant company in combating money laundering activities, including in its overseas branches, when the Board or a Reserve Bank acts on an application filed under section 3 of the Bank Holding Company Act. Section 327 also requires the Federal Reserve and the other federal financial institutions supervisory agencies to consider the effectiveness of an insured depository institution in combating money laundering activities, including in its overseas branches, in connection with any application filed under the Bank Merger Act. The provisions of section 327 apply to all applications filed under either of these two laws after December 31, 2001.

The Federal Reserve has a longstanding practice of considering an applicant's compliance with applicable anti-money laundering laws and regulations in evaluating various applications to acquire an insured depository institution, including bank merger and bank holding company applications, as well as applications filed by foreign banks to establish U.S. banking offices under the Foreign Bank Supervision Enhancement Act. Consistent with this practice, the Federal Reserve will apply the statutory requirements set forth in section 327 of the USA Patriot Act to all such applications.

When evaluating applications filed with the Federal Reserve, Board and Reserve Bank staff should continue to take into account the anti-money laundering record of the applicant organization. In those cases where the applicant is a bank holding company or state member bank, applications analysts must continue to review a Reserve Bank's or state bank supervisor's examination findings relating to compliance with the Bank Secrecy Act and the anti-money laundering program of the applicant organization. Applications analysts should also contact relevant Federal Reserve supervisory staff to obtain their assessment of the global anti-money laundering policies and procedures of any U.S banking organization filing an application or notice with the Federal Reserve under applicable statutes. In addition, in order to ensure compliance with the statutory standards of section 327, Board and Reserve Bank staff should contact pertinent foreign host country supervisors as appropriate to obtain information about an applicant's anti-money laundering activities at its overseas branches or bank subsidiaries. The anti-money laundering compliance record of the depository institution being acquired should also be scrutinized.

In those cases where the applicant is a foreign bank proposing to establish initial or additional U.S. branches, agencies, representative offices, or bank subsidiaries, applications analysts must continue to review information provided by the applicant on

its global anti-money laundering policies and procedures as well as the legal regime for anti-money laundering in its home country. For those applicants with existing U.S. banking operations, analysts should review a Reserve Bank's, state bank supervisor's, the OCC's or the FDIC's examination findings relating to compliance with the Bank Secrecy Act by the applicant's U.S. operations and the anti-money laundering program in place at such U.S. operations. In addition, Board staff should contact the foreign bank's home country supervisor as appropriate to obtain information about how the foreign bank's global anti-money laundering activities are supervised.

In those situations where the applicant is a national or state nonmember bank or savings association, applications analysts should continue to review pertinent examination findings by other regulators to determine the OCC's, FDIC's, OTS's or state bank supervisor's assessment of the effectiveness of the bank's or thrift's global anti-money laundering activities. After reviewing the other regulator's examination findings, Board and Reserve Bank staff should as needed, contact the appropriate examination staff of the other agencies to discuss the insured depository institution's efforts in combating money laundering activities, including the institution's efforts at its overseas branches, and the U.S. regulator's contacts with foreign regulators.

On a case-by-case basis, depending on information contained in examination reports and obtained from other regulators, further information about the effectiveness of an applicant's anti-money laundering activities may be required from the applicant to complete the Federal Reserve's analysis of an application. The applications record maintained by the Board and the Reserve Banks should continue to include documentation relating to the review of an applicant's efforts to combat money laundering activities, including information about contacts with other regulators.

This SR letter should be distributed to Reserve Bank staff responsible for applications. If there are any questions, please contact Betsy Cross, Deputy Associate Director, at (202) 452-2574.

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