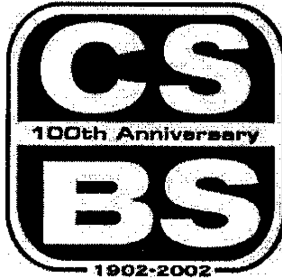

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September 6, 2002

Financial Crimes Enforcement Network
Section 326 Bank Rule Comments
P.O. Box 39
Vienna, Virginia 22183

Dear Sir or Madam :

The Conference of State Bank Supervisors (CSBS) appreciates the opportunity to comment on the proposed regulations issued by the Department of the Treasury and seven other federal financial regulators implementing Section 326 of the USA PATRIOT Act. CSBS is the national organization of state officials responsible for chartering, regulating and supervising the nation's 6,868 state-chartered commercial and savings banks and 419 state-licensed branches and agencies of foreign banks. In preparing our comments, we consulted with the CSBS International Bankers Advisory Board, a group of international bank regulators and international bankers similar to banker advisory groups utilized by the Federal Reserve Board and soon to be established by Chairman Powell at the FDIC.

CSBS applauds the effort to help prevent the use of U.S. financial institutions for the purpose of money laundering and terrorism. CSBS understands the difficulty in pursuing those efforts while not unnecessarily and unduly burdening U.S. financial institutions to the point where such institutions are at a competitive disadvantage with foreign financial institutions. Most U.S. financial institutions have already implemented stringent and effective anti-money laundering programs in compliance with the Bank Secrecy Act. These programs include comprehensive "Know Your Customer" policies and procedures. Accordingly, it is our view that any new requirements imposed by the USA PATRIOT Act on these institutions should be implemented to the extent possible in a manner reasonably calculated to provide meaningful benefits in the fight against money laundering and terrorism without imposing undue burdens or restrictions or unnecessarily increasing the cost of doing business in the United States. In addition, we believe the guidelines in the final rule should be clear and concise in order to avoid any confusion concerning the implementation of Section 326.

Based on the foregoing, CSBS respectfully offers the following specific comments on the proposed regulations requiring financial institutions to establish procedures to identify and verify the identity of customers opening new accounts.

1. Verification Requirements

We respectfully offer two comments concerning the non-documentary verification provisions of the proposed regulations. First, we believe it would be useful to clarify, by example if possible, when non-documentary verification methods should be used "in addition to"

documentary verification methods and to provide guidance for the circumstances in which only some or all of the other verification methods listed in §103.121(b)(ii)(B) are necessary. Second, we note that "logical verification" is referred to in the Section-by-Section Analysis but not in the text of the proposed regulations, which may create some confusion. Accordingly, to the extent that "logical verification" is intended to be a term of art, we suggest that the final regulations provide clarity and guidance on what constitutes logical verification and when it should be used.

We also respectfully request that the final regulations minimize duplication of verification of customer identity among members of the same "family" of financial institutions. We therefore suggest that the final regulations include a provision authorizing reliance on verifications conducted by members of the same "family" of financial institutions.

2. <u>Customer accounts with multiple and frequently-changing signatories</u>

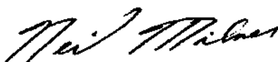
In our view, certain types of accounts do not lend themselves well to a single, simple approach to customer identification and verification requirements. For example, publicly-traded companies, large financial institutions, universities, pension plans and other similar entities all maintain accounts in the normal course of business for which a substantial number of individuals will have authority to sign or act on their behalf. And, such accounts likely will exist for years, if not decades, and represent longstanding relationships between financial institutions and their major customers. Given the complexity of these accounts and the sheer number of signatories involved, they present a special challenge when evaluating the burden on financial institutions in implementing the requirements, as well as the burden of enforcing the requirements during the life of the account. Accordingly, we suggest the drafters of the regulations seek out practical solutions that address the dynamic nature of such account relationships while preventing the use of shell entities to frustrate the effectiveness of the regulations. We would be pleased to participate in this process. Similarly, we believe a practical rule for record retention for these accounts is appropriate.

3. <u>Comparison with government lists</u>

In our reading of the proposed regulations, there is no affirmative obligation for financial institutions to identify and obtain all federal government lists to comply with this provision. To avoid confusion, it would be useful for the final regulations to clarify this obligation. On a broader policy level, we believe that federal agencies should coordinate closely among themselves to minimize the number of lists provided to financial institutions, with the goal of achieving a single, centralized list for all federal agencies.

CSBS appreciates the opportunity to share our thoughts, concerns and suggestions relating to the proposed regulations. Copies of this letter have been provided to the other agencies proposing regulations under Section 326. Please contact Tim Bergan, Senior Vice President, International at 202-728-5725 if you have any questions regarding the points addressed above.

Sincerely,



Neil Milner
President and CEO
Conference of State Bank Supervisors