

DATE: January 8, 2003

SUBJECT: Suspicious Activity Report Filing Requirements for Nonbank Subsidiaries of Bank Holding Companies and State Member Banks (SR Letter 02-24)

HIGHLIGHTS: This SR letter describes compliance with the Board's Suspicious Activity Report (SAR) filing requirements for certain nonbank subsidiaries of bank holding companies and state member banks.

Under the Board's current suspicious activity reporting rules that are set forth in Regulations H, K, and Y, state member banks and bank holding companies and their nonbank subsidiaries and the U.S. offices of foreign banking organizations supervised by the Federal Reserve must file SARs to report known or suspected violations of law and activities relating to suspected money laundering or violations of the Bank Secrecy Act (BSA).

The BSA authorizes the U.S. Department of the Treasury ("Treasury") to adopt suspicious activity reporting requirements for financial institutions. Since the passage of the USA PATRIOT Act, the Treasury has utilized this authority to adopt suspicious activity reporting requirements for securities broker-dealers. These reporting requirements are effective January 1, 2003, and apply to all securities broker-dealers, including those that are subsidiaries of bank holding companies and state member banks, and require reports to be filed on a new SAR-SF form. The Treasury also has adopted a final rule that requires certain money services businesses, such as sellers of traveler's checks and money transmitters, to file reports of suspicious activities. The Treasury also has proposed to impose suspicious activity reporting requirements on insurance companies, and these rules also will apply to insurance companies that are affiliated with a bank holding company or state member bank. Consequently, certain nonbank entities covered by the Board's SAR regulations could be subject to two separate suspicious activity reporting requirements that technically require duplicative filings.

Board staff believes that a nonbank subsidiary of a bank holding company or state member bank that is subject to suspicious activity reporting requirements imposed by a separately applicable Treasury regulation satisfies the Board's SAR filing requirements if the nonbank subsidiary files suspicious activity reports in accordance with the applicable Treasury regulation. Board staff expects that the Board's regulations will be revised in early 2003 to reflect the fact that the Treasury has adopted suspicious activity reporting requirements that apply (or will apply) to certain types of nonbank subsidiaries of bank holding companies and state member banks.

Nonbank subsidiaries of bank holding companies and state member banks that are not subject to a separately applicable Treasury rule under 31 U.S.C. § 5318(g) must continue to file reports of suspicious activities in accordance with the Board's SAR filing requirements. Each appropriate functional regulator will continue to examine the entities it supervises for compliance with the applicable laws and regulations, including SAR filing requirements.

DOCUMENT LOCATION: An electronic version of the December 24, 2002, SR letter 02-24 is available under the "SR Letters" section of the Board of Governors' web site: www.federalreserve.gov/boarddocs/SRLETTERS/2002

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