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**M E M O R A N D U M**

December 11, 2001

To Our Clients and Friends

Re: Interim Guidance on Compliance with USA Patriot Act:  
Foreign Bank Correspondent Accounts

**SUMMARY**

The USA Patriot Act (the “Patriot Act”) amended the Bank Secrecy Act by adding new anti-money laundering provisions that:

- prohibit a covered financial institution from maintaining correspondent accounts for a foreign bank that does not have a physical presence in any country (“shell bank”);
- require a covered financial institution to take reasonable steps to prevent a correspondent account provided to a foreign bank from being used indirectly by the foreign bank to provide banking services to a foreign shell bank; and
- require a covered financial institution that provides correspondent accounts to foreign banks to maintain the names and addresses of the foreign banks’ owners and U.S. agents designated to accept service of process on behalf of the foreign banks.

The U.S. Treasury Department has prepared interim guidance for financial institutions on how to comply with the above requirements, which are effective December 25, 2001.

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### REQUIREMENTS

The Patriot Act provides that a “covered financial institution” may not establish, maintain, administer, or manage a “correspondent account” in the U.S. for, or on behalf of, a “foreign shell bank.” A “covered financial institution” is:

- an “insured bank,” as defined in the Federal Deposit Insurance Act;
- a commercial bank, trust company or private banker;
- an agency or branch of a foreign bank in the United States;
- a thrift institution or credit union; or
- a broker-dealer registered with the Securities and Exchange Commission. (At present, broker-dealers will not be required to maintain records on owners or authorized agents.)

A “correspondent account” is an account established to receive deposits from, make payments on behalf of, or handle other financial transactions related to, a foreign financial institution. The Treasury Department stated that it intends to issue a rule to further define the term “account” to cover accounts at non-bank financial institutions.

A “foreign shell bank” is a foreign bank without a “physical presence” in any country. A “physical presence” is a foreign bank’s place of business that is located at a fixed address and at which the foreign bank:

- employs one or more individuals on a full-time basis;
- maintains operating records related to its banking activities; and
- is subject to inspection by the banking authority that licensed the foreign bank to conduct banking activities.

However, a covered financial institution may continue to provide correspondent services to a foreign shell bank that is an affiliate of a bank that maintains a physical presence in the United States or a foreign country and that is subject to supervision by a banking authority.

A covered financial institution is also required to take reasonable steps to ensure that a correspondent account it establishes, maintains, administers or manages in the United States for a foreign bank is not used by the foreign bank to provide banking services indirectly to a foreign shell bank that is not a regulated affiliate.

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## CERTIFICATION FORM

In order to satisfy the requirement that financial institutions maintain records in the United States identifying the owners of foreign banks, and the names and addresses of U.S. residents authorized to accept service of legal process for records regarding correspondent accounts, the Treasury Department has developed a certification form that financial institutions may provide to foreign banks.

The form requires a foreign bank that maintains a correspondent account with a covered financial institution to certify certain information, including:

- whether or not it is a shell bank;
- its (or its affiliate's) physical address and its regulator;
- that it does not provide banking services to any shell bank;
- the names and addresses of its owners;
- the name and address of its U.S. agent designated to accept service of legal process;
- that it will notify in writing each U.S. financial institution at which it maintains a correspondent account within 30 days of any change in facts or circumstances it has certified; and
- that it understands that a copy of the certification may be provided to the Secretary of the Treasury and the Attorney General.

The Treasury guidelines provide considerable detail regarding what constitutes an "owner" of a foreign financial institution and what level of ownership interest will be required to be reported. A copy of the guidelines can be found at <http://www.schwartzandballen.com/WhatsNew.htm>

If you have any questions concerning the Treasury Department's guidelines, please call Gilbert Schwartz, Robert Ballen or Tom Fox at (202) 776-0700.

87/3 (12-11-01)