

DEPARTMENT OF THE TREASURY
Office of Public Affairs

September 18, 2003

FACT SHEET:

Results of the Notice of Inquiry on Final Regulations Implementing Customer Identity Verification Requirements under Section 326 of the USA PATRIOT Act

Overview:

Following the review of over 34,000 comments received as a result of the July notice of inquiry on certain provisions of the final rules implementing Section 326 of the USA PATRIOT Act, Treasury found that there was no new information presented that was not considered prior to issuing the final rules. Accordingly, Treasury *will not* seek changes to the final rules to prohibit the acceptance of foreign issued identification documents, such as consular IDs, or to require that financial institutions maintain photocopies of identification documents.

Background:

The U.S. Treasury, the Financial Crimes Enforcement Network and the federal financial regulators announced final rules implementing customer identification and verification requirements under Section 326 of the USA PATRIOT Act May 9, 2003.

Treasury published a notice of inquiry in the Federal Register July 1, 2003 initiating a 30-day comment period that concluded July 31, 2003. The notice of inquiry sought comment on two specific issues: (1) whether financial institutions should be required to retain photocopies of identification documents used to verify customers' identities; and (2) whether financial institutions should be prohibited from accepting foreign government issued identification documents other than passports as an acceptable form of identification.

Treasury expects all financial institutions covered by the customer identification regulations to have their customer identification program drafted and approved by October 1, 2003 as scheduled.

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Foreign issued identification documents:

Treasury concluded that the risk-based approach taken by the final rules, combined with the ability to notify financial institutions if concerns arise with specific identification documents, provide an ample mechanism to address any security concerns. There was no need to expressly prohibit specific IDs in the regulations themselves.

- An effective program for identifying new customers must allow financial institutions the flexibility to use methods of identifying and verifying the identity of their customers appropriate to their individual circumstances. For example, some financial institutions open accounts via the Internet, never meeting customers face-to-face.
- Rather than dictating which forms of identification documents financial institutions may accept, the final rule employs a risk-based approach that allows financial institutions flexibility, within certain parameters, to determine which forms of identification they will accept and under what circumstances.
- However, with this flexibility comes responsibility. When an institution decides to accept a particular form of identification, they must assess risks associated with that document and take whatever reasonable steps may be required to minimize that risk.
- Federal regulators will hold financial institutions accountable for the effectiveness of their customer identification programs.
- Additionally, federal regulators have the ability to notify financial institutions of problems with specific identification documents allowing financial institutions to take appropriate steps to address those problems.

Photocopy requirement:

Treasury reaffirmed its original judgment that the maintenance of photocopies in all cases did not provide a security benefit that justified the additional record keeping burden.

- The final rules implementing Section 326 of the PATRIOT Act require that financial institutions maintain records of the steps taken to verify identity, including all relevant information in an identification document, such as address, document number, etc.
- The record keeping may include photocopies of identification documents but does not require it. In some cases financial institutions, at their discretion, may find it prudent to maintain photocopies of identification documents.
- Additionally, some IDs have security features that render photocopies illegible, making copies useless.

Breakdown of Comments:

Total Comments:	34602
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Photocopy Issue:	
Total Comments Received:	10704
Total Comments Requesting No Change to the Final Regulation:	9623
Total Percent in Favor of No Change:	89.90%

Identification Card Issue:	
Total Comments Received:	23898
Total Comments Requesting No Change to the Final Regulation:	19770
Total Percent in Favor of No Change:	82.73%

DEPARTMENT OF THE TREASURY
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April 30, 2003

FACT SHEET:

Final Regulations Implementing Customer Identity Verification Requirements under Section 326 of the USA PATRIOT Act

Overview:

On May 9, 2003, the U.S. Treasury, the Financial Crimes Enforcement Network and the federal financial regulators announced final regulations implementing customer identification and verification requirements under Section 326 of the USA PATRIOT Act. These new regulations will provide another tool to protect the U.S. financial system from money laundering, terrorist financing, identity theft and other forms of fraud.

Background:

On October 26, 2001, President Bush signed into law the USA PATRIOT Act, important legislation providing a wide range of new tools to combat money laundering and the financing of terrorists. In July of 2002, Treasury announced a proposed rule implementing Section 326 of the PATRIOT Act. The final rule incorporates important changes that increase the effectiveness of the rule while eliminating unnecessary burden on regulated institutions.

What it requires:

The rule requires that financial institutions develop a Customer Identification Program (CIP) that implements reasonable procedures to:

- 1) Collect identifying information about customers opening an account
- 2) Verify that the customers are who they say they are
- 3) Maintain records of the information used to verify their identity
- 4) Determine whether the customer appears on any list of suspected terrorists or terrorist organizations

Collecting information:

As part of a Customer Identification Program (CIP), financial institutions will be required to develop procedures to collect relevant identifying information including a customer's name, address, date of birth, and a taxpayer identification number – for individuals, this will likely be a Social Security number. Foreign nationals without a U.S. taxpayer identification number could provide a similar government-issued identification number, such as a passport number.

Verifying identity:

A CIP is also required to include procedures to verify the identity of customers opening accounts. Most financial institutions will use traditional documentation such as a driver's license or passport. However, the final rule recognizes that in some instances institutions cannot readily verify identity through more traditional means, and allows them the flexibility to utilize alternate methods to effectively verify the identity of customers.

Maintaining records:

As part of a CIP, financial institutions must maintain records including customer information and methods taken to verify the customer's identity.

Checking terrorist lists:

Institutions must also implement procedures to check customers against lists of suspected terrorists and terrorist organizations when such lists are identified by Treasury in consultation with the federal functional regulators.

Reliance on other financial institutions:

The final rule also contains a provision that permits a financial institution to rely on another regulated U.S. financial institution to perform any part of the financial institution's CIP. For example, in the securities industry it is common to have an introducing broker – who has opened an account for a customer – conduct securities trades on behalf of the customer through a clearing broker. Under this regulation, the introducing broker is required to identify and verify the identity of their customers and the clearing broker can rely on that information without having to conduct a second redundant verification, provided certain criteria are met.

The following financial institutions are covered under the rule:

- Banks and trust companies
- Savings associations
- Credit unions
- Securities brokers and dealers
- Mutual funds
- Futures commission merchants and futures introducing brokers

The regulations were developed jointly by:

- The Department of the Treasury
- Treasury's Financial Crimes Enforcement Network
- The Board of Governors of the Federal Reserve System
- The Commodity Futures Trading Commission
- The Federal Deposit Insurance Corporation
- The National Credit Union Administration
- The Office of the Comptroller of the Currency
- The Office of Thrift Supervision
- The Securities and Exchange Commission