

DEPARTMENT OF THE TREASURY
Office of Public Affairs

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FACT SHEET:

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

Today's Action:

The U.S. Treasury, the Financial Crimes Enforcement Network and the federal financial regulators today 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 and is today announcing a final rule incorporating 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