



**BOARD OF GOVERNORS**  
OF THE  
**FEDERAL RESERVE SYSTEM**  
WASHINGTON, D. C. 20551

DIVISION OF BANKING  
SUPERVISION AND  
REGULATION

**SR 06-10**  
**July 17, 2006**

**TO THE OFFICER IN CHARGE OF SUPERVISION AND  
APPROPRIATE SUPERVISORY AND EXAMINATION  
STAFF AT EACH FEDERAL RESERVE BANK AND  
EACH DOMESTIC AND FOREIGN BANKING  
ORGANIZATION SUPERVISED BY THE FEDERAL  
RESERVE**

**SUBJECT: Imposition of Special Measures against VEF Banka**

The Board of Governors of the Federal Reserve System is issuing this SR letter to advise banking organizations under its supervision of new obligations relating to joint stock company VEF Banka imposed by the U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN). On July 12, 2006, FinCEN issued a final rule that imposes special measures under section 311 of the USA PATRIOT Act (31 U.S.C. 5318A)<sup>1</sup> against VEF Banka.<sup>2</sup> These special measures apply to VEF Banka and any of its branches, offices and subsidiaries operating in the Republic of Latvia or in any other jurisdiction. One such subsidiary, Veiksmes lizings, is specifically identified in the rule. This final rule is effective on August 14, 2006; it can be found at ([http://www.fincen.gov/vef\\_final\\_rule\\_070706.pdf](http://www.fincen.gov/vef_final_rule_070706.pdf)).

The final rule prohibits all covered financial institutions<sup>3</sup> from opening or maintaining a correspondent account in the United States for, or on behalf of, VEF Banka and its branches, offices, and subsidiaries. Covered financial institutions are also required to apply special due diligence to their correspondent accounts for foreign banks that is reasonably designed to guard against the indirect use of the account by VEF Banka.

At a minimum, special due diligence under the final rule must include two elements:

- First, a covered financial institution must notify its correspondent account holders that the account may not be used to provide VEF Banka with access to the covered financial institution. The final rule requires a covered financial institution to document its compliance with this notice requirement.
- Second, a covered financial institution must take reasonable steps to identify any indirect use of its correspondent accounts by VEF Banka, to the extent that such indirect use can be determined from transactional records maintained in the covered financial institution's normal course of business.

For example, a covered financial institution is expected to apply an appropriate screening mechanism to be able to identify a funds transfer order that, on its face, lists VEF Banka as the originator's or beneficiary's financial institution, or otherwise references it in a manner detectable under the financial institution's screening procedures.

The final rule states that a covered financial institution must take a risk-based approach (based on factors such as the type of services offered by, and the geographic locations of, its correspondent account holders), when deciding what, if any, additional due diligence measures it should adopt to guard against the indirect use of its correspondent accounts by VEF Banka. Pursuant to the final rule, a covered financial institution that obtains knowledge that its correspondent account is being used by a foreign bank to provide indirect access to VEF Banka is expected to take all appropriate steps to prevent such indirect access, including, when necessary, terminating the correspondent account.

Notices of proposed rulemaking and final rules accompanying the determination "of primary money laundering concern," and imposition of a special measure(s) pursuant to section 311 of the Patriot Act are available on the FinCEN web site: [www.fincen.gov](http://www.fincen.gov).

Reserve Banks are asked to distribute this SR letter to the domestic and foreign banking organizations supervised by the Federal Reserve as well as to supervisory and examination staff. For questions regarding these special measures, please contact Suzanne Williams, Manager, BSA/AML Risk (202/452-3513).

Roger T. Cole  
Acting Director

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**Notes:**

1. For background information on section 311, refer to the "Special Measures" section of the *Federal Financial Institutions Examination Council Bank Secrecy Act/Anti-Money Laundering Examination Manual*, available at [http://www.ffiec.gov/bsa\\_aml\\_infobase/](http://www.ffiec.gov/bsa_aml_infobase/).
2. On April 26, 2005, the date that FinCEN issued the proposed rule recommending the imposition of special measures against VEF Banka, it also issued a similar finding and proposed special measures with respect to a second Latvian entity named Multibanka. However, FinCEN has decided against implementing a final rule against Multibanka. Therefore, on July 12, 2006, FinCEN issued notice of the withdrawal of its April 26, 2005, finding that joint stock company Multibanka was a financial institution of primary money laundering concern and notice of proposed rulemaking recommending the imposition of a special measure against Multibanka (<http://www.fincen.gov/311multibanka070706.pdf>). The withdrawal was effective as of July 13, 2006.
3. Section 103.192(a)(2) of the rule defines covered financial institution to include all of the following: an insured bank (as defined in section 3(h) of the Federal Deposit

Insurance Act (12 U.S.C. 1813(h)); a commercial bank; an agency or branch of a foreign bank in the United States; a federally insured credit union; a savings association; a corporation acting under section 25A of the Federal Reserve Act (12 U.S.C. 611 *et seq.*); a trust bank or trust company that is federally regulated and is subject to an anti-money laundering program requirement; a broker or dealer in securities registered, or required to be registered, with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934 (15 U.S.C. 78a *et seq.*), except persons who register pursuant to section 15(b)(11) of the Securities Exchange Act of 1934; a futures commission merchant or an introducing broker registered, or required to be registered, with the Commodity Futures Trading Commission under the Commodity Exchange Act (7 U.S.C. 1 *et seq.*), except persons who register pursuant to section 4(f)(a)(2) of the Commodity Exchange Act; and a mutual fund, which means an investment company (as defined in section 3(a)(1) of the Investment Company Act of 1940 ("Investment Company Act") (15 U.S.C. 80a-3(a)(1))) that is an open-end company (as defined in section 5(a)(1) of the Investment Company Act (15 U.S.C. 80a-5(a)(1))) and that is registered, or is required to register, with the SEC pursuant to the Investment Company Act.