



United States Department of State

*Office of Foreign Missions
Washington, D.C. 20520*

NOTICE

U.S. Banking Regulations & Foreign Mission Accounts

On December 6, 2010, the Department of State's Bureau of Economic, Energy and Business Affairs hosted a town hall meeting where a representative of the Department of the Treasury discussed the relevant laws and regulations governing the provision of banking services to foreign missions in the United States.

The attached document was provided as a handout to those in attendance at the December 6 town hall meeting. This document is the relevant excerpt, concerning foreign mission bank accounts, from the Federal Financial Institutions Examination Council's Bank Secrecy Act / Anti-Money Laundering Examination Manual. A complete copy of the 2010 Bank Secrecy Act / Anti-Money Laundering Examination Manual is available online at

http://www.ffiec.gov/bsa_aml_infobase/documents/BSA_AML_Man_2010.pdf.

The manual was developed by U.S. federal banking regulators to provide guidance to its examiners as they evaluate U.S. banks' compliance with U.S. banking regulation, to include the Bank Secrecy Act, as amended by the USA PATRIOT Act. U.S. regulation applies to all types of banking services and requires U.S. banks to, among other things, have internal policies and procedures in place to assess and manage the money laundering risks associated with each account and account relationship. While the regulations apply to all types of banking services, the manual is divided into sections based on type of customer, product, and service in order to offer specific guidance.

Missions may contact the Department's Office of Foreign Missions (OFM) in the event they experience difficulties with securing a financial institution in the United States to support their official banking needs. So OFM can better understand the scope of the problem, please include the following information in your initial correspondence:

- a) The name of the previous or current bank/financial institution;
- b) The names of all the banks/financial institutions that the mission has contacted;
&
- c) A point of contact at the mission that is able to answer questions concerning this matter.

OFM asks that foreign missions send such notifications/information via electronic mail to OFMInfo@state.gov.

December 9, 2010



Bank Secrecy Act/ Anti-Money Laundering Examination Manual

Federal Financial Institutions Examination Council
Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation,
National Credit Union Administration, Office of the Comptroller of the Currency,
Office of Thrift Supervision, and State Liaison Committee

2010

Embassy and Foreign Consulate Accounts — Overview

Objective. *Assess the adequacy of the bank's systems to manage the risks associated with transactions involving embassy and foreign consulate accounts, and management's ability to implement effective due diligence, monitoring, and reporting systems.*

Embassies contain the offices of the foreign ambassador, the diplomatic representative, and their staff. The embassy, led by the ambassador, is a foreign government's official representation in the United States (or other country). Foreign consulate offices act as branches of the embassy and perform various administrative and governmental functions (e.g., issuing visas and handling immigration matters). Foreign consulate offices are typically located in major metropolitan areas. In addition, foreign ambassadors' diplomatic representatives, their families, and their associates may be considered politically exposed persons (PEP) in certain circumstances.²⁴⁸

Embassies and foreign consulates in the United States require access to the banking system to meet many of their day-to-day financial responsibilities. Such services can range from account relationships for operational expenses (e.g., payroll, rent, and utilities) to inter- and intragovernmental transactions (e.g., commercial and military purchases). In addition to official embassy accounts, some banks provide ancillary services or accounts to embassy staff, families, and current or prior foreign government officials. Each of these relationships poses different levels of risk to the bank.

Embassy accounts, including those accounts for a specific embassy office such as a cultural or education ministry, a defense attaché or ministry, or any other account, should have a specific operating purpose stating the official function of the foreign government office. Consistent with established practices for business relationships, these embassy accounts should have written authorization by the foreign government.

Risk Factors

To provide embassy and foreign consulate services, a U.S. bank may need to maintain a foreign correspondent relationship with the embassy's or foreign consulate's bank. Banks conducting business with foreign embassies or consulates should assess and understand the potential risks of these accounts and should develop appropriate policies, procedures, and processes. Embassy or foreign consulate accounts may pose a higher risk in the following circumstances:

- Accounts are from countries that have been designated as higher risk.
- Substantial currency transactions take place in the accounts.

²⁴⁸ For additional guidance, refer to the expanded overview section, "Politically Exposed Persons," pages 297 to 300.

- Account activity is not consistent with the purpose of the account (e.g., pouch activity or payable upon proper identification transactions).
- Accounts directly fund personal expenses of foreign nationals, including but not limited to expenses for college students.
- Official embassy business is conducted through personal accounts.

Risk Mitigation

Banks should obtain comprehensive due diligence information on embassy and foreign consulate account relationships. For private banking accounts for non-U.S. persons specifically, banks must obtain due diligence information as required by 31 CFR 103.178.²⁴⁹ The bank's due diligence related to embassy and foreign consulate account relationships should be commensurate with the risk levels presented. In addition, banks are expected to establish policies, procedures, and processes that provide for greater scrutiny and monitoring of all embassy and foreign consulate account relationships. Management should fully understand the purpose of the account and the expected volume and nature of account activity. Ongoing monitoring of embassy and foreign consulate account relationships is critical to ensuring that the account relationships are being used as anticipated.

²⁴⁹ For additional guidance, refer to the core section overview, "Private Banking Due Diligence Program (Non-U.S. Persons)," pages 130 to 134.

Examination Procedures

Embassy and Foreign Consulate Accounts

Objective. *Assess the adequacy of the bank's systems to manage the risks associated with transactions involving embassy and foreign consulate accounts, and management's ability to implement effective due diligence, monitoring, and reporting systems.*

1. Review the policies, procedures, and processes related to embassy and foreign consulate accounts. Evaluate the adequacy of the policies, procedures, and processes given the bank's embassy and foreign consulate accounts and the risks they present (e.g., number of accounts, volume of activity, and geographic locations). Assess whether the controls are adequate to reasonably protect the bank from money laundering and terrorist financing.
2. Identify senior management's role in the approval and ongoing monitoring of embassy and foreign consulate accounts. Determine whether the board is aware of embassy banking activities and whether it receives periodic reports on these activities.
3. From a review of MIS and internal risk rating factors, determine whether the bank effectively identifies and monitors embassy and foreign consulate accounts, particularly those that pose a higher risk for money laundering.
4. Determine whether the bank's system for monitoring embassy and foreign consulate accounts for suspicious activities, and for reporting of suspicious activities, is adequate given the bank's size, complexity, location, and types of customer relationships.
5. If appropriate, refer to the core examination procedures, "Office of Foreign Assets Control," pages 157 to 159, for guidance.

Transaction Testing

6. On the basis of the bank's risk assessment of its embassy and foreign consulate accounts, as well as prior examination and audit reports, select a sample of embassy and foreign consulate accounts. From the sample selected, perform the following examination procedures:
 - Determine compliance with regulatory requirements and with the bank's established policies, procedures, and processes.
 - Review the documentation authorizing the ambassador or the foreign consulate to conduct banking in the United States.
 - Review transaction activity for accounts selected. If necessary, request and review specific transactions.

7. On the basis of examination procedures completed, including transaction testing, form a conclusion about the adequacy of policies, procedures, and processes associated with embassy and foreign consulate accounts.