



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

October 6, 2000

SECRETARY OF THE TREASURY

The Honorable John D. Dingell
Ranking Member
Committee on Commerce
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Dingell:

I am writing in response to your letter requesting a progress report on Treasury's efforts to require brokers and dealers of securities to adopt programs to detect and report suspicious financial activity. Since my last correspondence with you, the Financial Crimes Enforcement Network (FinCEN) Director, James F. Sloan, and his staff have taken several steps towards developing a proposed Suspicious Activity Reporting (SAR) rule for this industry and preparing guidance to assist the industry in identifying potentially suspicious activity. I am pleased to provide you with this update regarding the progress that has been made by FinCEN. All of these efforts, which are progressing, are aimed at putting in place an effective SAR regime for the securities industry.

On March 21, 2000, Director Sloan and other senior representatives from FinCEN met with officials of the Securities and Exchange Commission (SEC) to discuss and highlight issues associated with the extension of SAR reporting to brokers and dealers and to suggest a process for further dialogue.

On July 24, 2000, Director Sloan, senior representatives from FinCEN, and staff from the SEC's Division of Market Regulation and Northeast regional office attended a series of three meetings in New York to discuss SAR-related issues. The main focus of these meetings was for FinCEN to understand the operational environment in which securities transactions take place, the existing mechanism by which securities firms are examined for compliance with existing anti-money laundering laws and regulations, and the kinds of anti-money laundering programs that have been implemented by some firms.

The first meeting in the series was with representatives of the New York Stock Exchange and involved a discussion of current and prospective Bank Secrecy Act (BSA) examination activities of the industry's self-regulatory organizations (SROs). As part of this education process, FinCEN representatives visited the Stock Exchange floor during a day of active trading, permitting a close-up inspection of the manner in which securities trades are conducted and the kind of information that is available when such transactions are conducted. A second meeting was held with representatives from a brokerage firm where they described their differing responsibilities in monitoring their firm's activity for compliance with the BSA, including

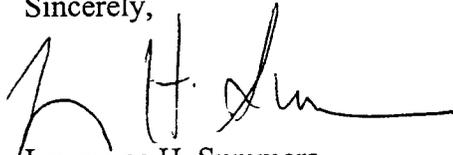
specific programs the firm has implemented to identify and voluntarily report suspicious activity. In the third meeting, FinCEN representatives met with representatives from a non-brokerage business which provides information from its databases to help broker-dealers with their compliance responsibilities, including anti-money laundering compliance. These types of discussions are instrumental in helping FinCEN understand and appreciate the unique characteristics of this industry and the manner in which securities transactions are conducted, as well as characteristics that are similar to the way in which banks and other financial institutions conduct transactions and monitor their activity to identify potentially suspicious activity.

Over the next few months, FinCEN will continue to consult with the law enforcement community, the industry and its self-regulatory organizations, as well as the SEC. Working closely with the SEC, we will then incorporate this knowledge into a proposed SAR reporting rule. After the rule's publication, FinCEN intends to hold at least two regional meetings to receive specific input on ways to make these requirements as effective as possible without imposing undue burdens on the industry or its customers. This information will be used in the preparation of the final rule as well as the SAR guidance.

Independent of this regulatory effort, since May, representatives from FinCEN have been working with representatives of the General Accounting Office (GAO) regarding a report that the GAO is working on that addresses the risk of money laundering in the securities industry. GAO has requested that FinCEN evaluate the nature and substance of the SAR reports filed voluntarily by its members. GAO is conducting this study for the Senate's Permanent Subcommittee on Investigations.

We believe it is important to take the time to thoroughly engage the industry in this effort, which, in turn, will help ensure the success of the reporting regime we put into place. Should you or your staff have any additional questions, I would be happy to have FinCEN provide a more detailed briefing.

Sincerely,



Lawrence H. Summers