



# ශ්‍රී ලංකා මහ බැංකුව

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To: CEOs of All Banks

## SECTION 312 & SECTION 319 OF THE PATRIOT ACT

In January 2006, the Department of the Treasury through the bureau of the Financial Crimes Enforcement Network (FINCEN the US equivalent of the FIU) issued rules implementing the Section 312 of the USA Patriot Act. The rules required enhanced due diligence requirements for correspondent accounts. (Nostro Accounts for Sri Lanka Financial Institutions). The section requires each US Financial Institutions that administers correspondent accounts in the United States for a non US person to establish enhanced due diligence policies, procedures and controls to detect and report instances of suspected money laundering. For this reason, Nostro accounts require to be closely monitored to ensure that activities on these accounts exclusively support trace finance and connected ancillary foreign transactions that too with low risk counterparties.

The enhanced due diligence rules for US banks among others include an assessment of the Money Laundering risks presented by the correspondent account based on factors such as the institution business, markets, AML Regime, the type of activities on the account, the jurisdiction of any company that is an owner of the foreign financial institution.

Section 319 of the Patriot Act also allows US Treasury to forfeit monies held in a correspondent account of a foreign bank where the person that the authorities seek the forfeiture against has funds in the foreign branch of that bank.

Due diligence measures imposed on the host bank and failure to these can result both in huge fines on the host bank, forfeiture of funds held in the correspondent account and its closure with the host bank. This measure could have serious implication for banks that are engaged in International Trade and business.

Thus it is imperative that banks take note of the due diligence measure directed to the host bank as noted in para 2 in this regard.

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