

**HOUSE OF REPRESENTATIVES  
FINAL BILL ANALYSIS**

<b>BILL #:</b>	CS/HB 613 (SB 792)	<b>FINAL HOUSE FLOOR ACTION:</b>	
<b>SPONSOR(S):</b>	Insurance & Banking Subcommittee; Bernard; and others (Gaetz)	118 Y's	0 N's
<b>COMPANION BILLS:</b>	SB 792	<b>GOVERNOR'S ACTION:</b>	Approved

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**SUMMARY ANALYSIS**

CS/HB 613 passed the House on March 7, 2012, as SB 792. The bill provides for the Financial Services Commission (Commission) to establish rules to be followed by Florida-chartered financial institutions in complying with existing federal requirements. It creates an annual reporting requirement for all Florida-chartered financial institutions.

On July 1, 2010, the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 (CISADA) was signed into law. Under the law, the Secretary of the Treasury may impose strict conditions on or prohibit the opening or maintaining of U.S. correspondent accounts or payable-through accounts for a foreign financial institution that is found to knowingly engage in specific sanctioned activities.

A provision of CISADA directs the Secretary of the Treasury to require U.S. banks maintaining a correspondent account or payable-through account in the United States for a foreign financial institution to do one or more of the following:

- Perform an audit of activities that may be carried out by the foreign financial institution.
- Report to the Department of the Treasury regarding transactions provided with any sanctioned activity.
- Certify that the foreign financial institution is not knowingly engaging in any such sanctioned activity.
- Establish due diligence policies designed to detect whether the Secretary of the Treasury has found the foreign financial institution to knowingly engage in any sanctioned activity.

Under the current process, the US Department of Treasury's Financial Crimes Enforcement Network (FinCEN) sends a written request to a focused sub-group of U.S. banks to inquire regarding a specific foreign bank for which they maintain a correspondent account. FinCEN estimates that approximately 350 banks maintain correspondent accounts for foreign banks and that the number of U.S. banks receiving any one request to be approximately five percent, or 18 banks.

All Florida-chartered financial institutions must comply with the U.S. Department of the Treasury's Office of Foreign Assets Control and FinCEN regulations, and the promulgated federal Iranian sanctions. The types of activities targeted by CISADA would already be scrutinized as required by federal law and pursuant to state law based upon safety and soundness grounds, or under the Florida Control of Money Laundering in Financial Institutions Act.

The bill requires that rules be established by the Commission to be applicable to Florida-chartered financial institution when complying with existing federal requirements regarding minimum due diligence policies, procedures, and controls. It also creates an annual reporting requirement for all Florida-chartered financial institutions whereby each certifies that it has adopted and substantially complies with the new rules.

The bill directs the Office of Financial Regulation (OFR) to compile an annual report containing the rules and the status of the certifications of compliance.

There is no fiscal impact on state or local governments, nor economic impact on the private sector.

The bill was approved by the Governor on May 4, 2012, ch. 2012-201, Laws of Florida. The effective date of the bill is upon becoming law.

**This document does not reflect the intent or official position of the bill sponsor or House of Representatives.**

**STORAGE NAME:** h0613z1.INBS.DOCX

**DATE:** May 7, 2012

## I. SUBSTANTIVE INFORMATION

### A. EFFECT OF CHANGES:

#### **Background:**

Countries that are determined by the United States Secretary of State to have repeatedly provided support for acts of international terrorism are designated as "State Sponsors of Terrorism" and are subject to sanctions. The four countries currently designated by the U.S. Secretary of State as "State Sponsors of Terrorism" are Cuba, Iran, Sudan, and Syria, with Iran being so designated on January 19, 1984.<sup>1</sup>

In 1987, President Reagan imposed an import embargo on goods and services of Iranian origin.<sup>2</sup> In 1995, President Clinton imposed prohibitions on U.S. involvement with any petroleum development in Iran,<sup>3</sup> and in 1997 prohibited most trade and investment activities by U.S. Citizens.<sup>4</sup>

On July 1, 2010, the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 (CISADA) was signed into law.<sup>5</sup> Under the law, the Secretary of the Treasury may impose strict conditions on or prohibit the opening or maintaining of U.S. correspondent accounts<sup>6</sup> or payable-through accounts<sup>7</sup> for a foreign financial institution that is found to knowingly engage in the following sanctioned activities:

- Facilitating the efforts of the Government of Iran (GOI) to acquire or develop weapons of mass destruction (WMD) or delivery systems for WMD or to provide support for terrorist organizations or acts of international terrorism.
- Facilitating the activities of a person subject to financial sanctions pursuant to United Nations Security Council Resolutions 1737, 1747, 1803, or 1929, or any other Security Council Resolution that imposes sanctions with respect to Iran.
- Engaging in money laundering, or facilitating efforts by the Central Bank of Iran or any other Iranian financial institution, to carry out either of the above.
- Facilitating a significant transaction or transactions or providing significant financial services for Iran's Islamic Revolutionary Guard Corps (IRGC) or any of its agents or affiliates whose property or interests in property are blocked pursuant to the International Emergency Economic Powers Act (IEEPA) or a financial institution whose property or interests in property are blocked pursuant to IEEPA in connection with the GOI's proliferation of WMD or support for international terrorism.

Violators are subject to civil penalties up to \$250,000 or twice the transaction value, and criminal penalties for willful violations of up to \$1 million and 20 years in prison.<sup>8</sup>

A provision of CISADA directs the Secretary of the Treasury to require U.S. banks maintaining a correspondent account or payable-through account in the United States for a foreign financial institution to do one or more of the following:

- Perform an audit of activities that may be carried out by the foreign financial institution.
- Report to the Department of the Treasury regarding transactions provided with any sanctioned activity.

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<sup>1</sup> <http://www.state.gov/g/ct/c14151.htm> (Last visited on January 22, 2012).

<sup>2</sup> Executive Order 12613, October 29, 1987.

<sup>3</sup> Executive Order 12957, March 16, 1995.

<sup>4</sup> Executive Order 13059, August 19, 1997.

<sup>5</sup> Pub. L. 111-195.

<sup>6</sup> An account established for a foreign bank to receive deposits from, or to make payments or other disbursements on behalf of, the foreign bank, or to handle other financial transaction related to such foreign bank.

<sup>7</sup> A correspondent account maintained by a covered financial institution for a foreign bank by means of which the foreign bank permits its customers to engage, either directly or through a subaccount, in banking activities usually in connection with the business of banking in the United States.

<sup>8</sup> <http://www.treasury.gov/press-center/press-releases/Pages/tg829.aspx> (Last visited on January 22, 2012).

- Certify that the foreign financial institution is not knowingly engaging in any such sanctioned activity.
- Establish due diligence policies designed to detect whether the Secretary of the Treasury has found the foreign financial institution to knowingly engage in any sanctioned activity.<sup>9,10</sup>

The US Department of Treasury's Financial Crimes Enforcement Network's (FinCEN) mission is to enhance U.S. national security, deter and detect criminal activity, and safeguard financial systems from abuse by promoting transparency in the U.S. and international financial systems. Under the current process, FinCEN sends a written request to a focused sub-group of U.S. banks to inquire regarding a specific foreign bank for which they maintain a correspondent account. FinCEN estimates that approximately 350 banks maintain correspondent accounts for foreign banks and that the number of U.S. banks receiving any one request to be approximately five percent, or 18 banks.<sup>11</sup> The request is specific regarding the data being requested, and a "negative report" is required of U.S. banks which receive a request but do not maintain correspondent accounts with the subject foreign bank.

The names of foreign financial institutions that are found by the Secretary of the Treasury to knowingly engage in sanctionable activities, and for which U.S. financial institutions may not open or maintain correspondent accounts or payable-through accounts in the United States, is published in the Federal Register and listed in Appendix A to the Iranian Financial Sanctions Regulations.<sup>12</sup> These listings are part of the List of Specially Designated Nationals and Blocked Persons, which is updated as names are added or removed. One can subscribe to receive e-mail updates when the information changes.<sup>13</sup>

### **Current Situation:**

All Florida-chartered financial institutions must comply with U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) and Financial Crimes Enforcement Network (FinCEN) regulations, and the promulgated federal Iranian sanctions. The bank examination processes, by both state and federal examiners, includes procedures for examining and assessing a financial institution's policies, procedures, and processes for ensuring compliance with federal regulatory requirements and sanctions. For Florida-chartered banks, the types of activities being targeted by CISADA would already be scrutinized as required by federal law and pursuant to state law based upon safety and soundness grounds, or under the Florida Control of Money Laundering in Financial Institutions Act.<sup>14</sup>

### **Effect of the Bill:**

The bill requires the Financial Services Commission to establish rules regarding minimum due diligence policies, procedures, and controls to be followed by Florida-chartered financial institutions in complying with existing federal requirements.

The bill creates an annual reporting requirement for all Florida-chartered financial institutions whereby each certifies that it has adopted and substantially complies with the new rules established by the

<sup>9</sup> Bank is defined in 31 CFR 1010.100(d) to include:

- A commercial bank or trust company organized under the laws of any State or of the United States.
- A private bank.
- A savings and loan association or a building and loan association organized under the laws of any State or of the United States.
- An insured institution as defined in section 401 of the National Housing Act.
- A savings bank, industrial bank or other thrift institution.
- A credit union organized under the law of any State or of the United States.
- Any other organization (except a money services business) chartered under the banking laws of any state and subject to the supervision of the bank supervisory authorities of a State.

<sup>10</sup> Due diligence policies, procedures, and controls are specified in section 5318(i) of Title 31, United States Code.

<sup>11</sup> "Department of the Treasury, Financial Crimes Enforcement Network, 31 CFR Part 1060, Comprehensive Iran Sanctions, Accountability, and Divestment Reporting Requirements, Final rule," 76 Federal Register 196 (11 October 2011), 62621.

<sup>12</sup> <http://www.treasury.gov/resource-center/sanctions/Programs/pages/iran.aspx> (Last visited on January 22, 2012).

<sup>13</sup> <http://www.treasury.gov/resource-center/sanctions/SDN-List/Pages/default.aspx> (Last visited on January 22, 2012).

<sup>14</sup> Section 655.50, F.S.

Financial Services Commission. Furthermore, each certifies that it is not knowingly in violation of federal requirements stemming from the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010. It creates an administrative fine, not to exceed \$100,000 per occurrence, for failure to submit the annual certification.

The bill directs the Office of Financial Regulation (OFR) to compile an annual report containing the rules and the status of the certifications of compliance. The report is to be provided to the Governor, the President of the Senate, and the Speaker of the House of Representatives, and made available on the OFR's website.

## **II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT**

### **A. FISCAL IMPACT ON STATE GOVERNMENT:**

1. Revenues:

None.

2. Expenditures:

None.

### **B. FISCAL IMPACT ON LOCAL GOVERNMENTS:**

1. Revenues:

None.

2. Expenditures:

None.

### **C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:**

None.

### **D. FISCAL COMMENTS:**

None.