



DIVISION OF
MARKET REGULATION

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

July 22, 1986

Mr. David Queen
Deputy Assistant Secretary
(Enforcement)
Department of the Treasury
15th Street & Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear Mr. Queen:

I am writing to you to report on the experience of the Securities and Exchange Commission and the securities industry's self-regulatory organizations ("SROs") in assessing compliance with the Currency and Foreign Transactions Reporting Act ("Act" or "Bank Secrecy Act") and the regulations thereunder by registered broker-dealers for the period of March 1, 1986 to June 30, 1986.

During this time period, the Commission staff has not cited any broker-dealers for violations of, or other shortcomings with respect to, the Act. However, several pending Commission investigations are exploring possible violations of the Act. The Commission staff also has refined the procedures used in examining broker-dealers for compliance with the Act.

The New York Stock Exchange ("NYSE") has reported compliance problems related to the Act at five member firms. In one case, a registered representative of an NYSE member firm deposited cash of two customers in such a manner as to circumvent the Act's reporting requirements. The NYSE barred the registered representative from either being an NYSE member or associating in any capacity with an NYSE member. The Commission expects to receive the NYSE's enforcement file for this case in the near future and will then make a determination whether a referral to Treasury would be appropriate.

Of the four other firms at which the NYSE reported problems, the NYSE reported that two firms did not have written procedures in place to ensure compliance with the Act and, accordingly, the NYSE has written to them to set up a timetable for their implementation of such procedures. At a third firm, a customer made

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a series of deposits totalling over \$10,000 and later received a check, without executing any trades. We understand that this was an isolated event that resulted from a misunderstanding by the firm of its obligations. The NYSE has received written assurances from that firm acknowledging its obligations. Finally, the NYSE discovered in a customer's account at a fourth member firm a series of 27 deposits over a three month period totalling approximately \$200,000. The NYSE required the firm to file currency transaction reports and will forward information on this matter to us so that we may determine whether a referral to the Treasury would be appropriate.

The National Association of Securities Dealers ("NASD") has reported compliance problems related to the Act at four member firms. At one firm, customer funds for a withdrawal in excess of \$10,000 were allegedly run through an operating account of the firm in order to circumvent the reporting provisions. This matter is currently pending before a disciplinary committee of the NASD.

The NASD reported that one firm was found to have failed to establish procedures to ensure compliance with the Act and has been instructed to do so during a staff interview. Two other firms were each found to have failed to file a single currency transaction report and have been instructed to file the reports as well as cautioned with respect to the need for compliance with the Act.

I understand that a member of your staff has recently raised a few suggestions for modifications to these regular reports on broker-dealer compliance with the Bank Secrecy Act. We hope to work successfully with your office over the coming months to isolate other useful information or formats in time for the Commission's next report covering the period of July 1, 1986 to December 31, 1986. Please telephone Leonard Unger of the Commission's staff if you have any questions concerning any specific actions referred to in this letter.

Very truly yours,



Sarah B. Ackerson
Assistant Director