

Memorandum for the Record

By: William Langford
Associate Director
Regulatory Policy and Programs Division
Financial Crimes Enforcement Network
Re: Meeting with representatives of Multibanka
Date: May 24, 2005

Attendees: For Multibanka: Jeanne S. Archibald, Hogan and Hartson; Jeremy B Zucker, Hogan and Hartson; Nicholas Antonen, Isenegger; Goca Tutberidze, Shareholder and Member of the Board of Directors of Multibanka; Gvido Senkans, Shareholder and Head of the Advisory Council of Multibanka; Vladimir Solomatin, a main shareholder in Multibanka.

For FinCEN: William Langford, Associate Director of Regulatory Policy and Programs Division, FinCEN; Judith Starr, Chief Counsel, FinCEN; Koko Ives, Regulatory Compliance Program Specialist, FinCEN; Joshua Kaptur, Regulatory Compliance Program Specialist, FinCEN; Laura Knight, Office Automation Assistant, FinCEN.

Comments by Ms. Archibald on behalf of Multibanka:

1. Multibanka was surprised when the Notice of Proposed Rulemaking was issued, this was the first time that management or shareholders were made aware of alleged criminal activity and the United States Government's concerns. Multibanka has no knowledge of being used by Russian shell companies or criminals for the purpose of money laundering and was most disturbed that the United States Government did not discuss any of its concerns with Multibanka before the Notice was made.
2. The bases of the Notice are incorrect. Firstly, Multibanka ceased issuing numbered accounts some years ago, and even when such accounts were issued they were never anonymous. Wiring money out of Latvia is not the primary function of Multibanka, as alleged in the Notice. A full half of Multibanka accounts are held by local Latvians and one-fourth of Multibanka's income is from this local portfolio. Furthermore, given the history and location of Latvia, international activity is not surprising. While it is possible for people outside of Latvia to open an account at Multibanka, a notary or other legal source must verify the account holder's identity.
3. Multibanka stands, "more than willing and able to cooperate" with the United States on these matters. The United States banking system is new and Latvia is only beginning to learn the basic concepts of anti-money laundering. While Multibanka does not hold itself out as the paradigm of perfection, and has been inspected by the FCMC, the Latvian regulatory authority, it is not the only bank under inspection and the enhanced monitoring the FCMC has

placed Multibanka under is a less intense action than experienced by other Latvian financial institutions.

4. The Notice has placed a substantial strain on the bank and has caused the loss of substantial business because many institutions do not understand that this is just a proposal as opposed to an indictment, whose bases are not or are no longer accurate. Multibanka respectfully asks the United States Government to help it avoid bankruptcy. Multibanka requests that it not be designated as a primary money laundering concern, that the Fifth Special Measure not be imposed, that the United States Government issue an authoritative statement that other financial institutions can continue to do business with Multibanka, and would like a substantive dialogue with FinCEN to discuss concerns, that they can begin to solve the issues.
5. Ms. Archibald asked how soon after the end of the public comment period Multibanka could expect to hear from FinCEN's. Ms. Starr replied that each situation is unique and that it takes some time to assemble and read all comments before coming to a decision in consultation with the State and Justice Departments. Ms. Archibald also asked it if was possible to engage with regulators after the public comment period ended and that, given the counter-productive effect the Notice has had on Multibanka's business, Multibanka is anxious to begin to identify and resolve any issues. Ms. Archibald was eager that the process not end up as an obstacle to mutual goals. Mr. Langford replied that any actions taken under section 311 are not intended to be punitive or to create the slow death of a financial institution, but to protect the United States financial system and encourage change.

Comments by Mr. Zucker on behalf of Multibanka:

1. Multibanka pays much attention to the issue of carding groups. There is a monthly account based debit limit, which is the aggregate of all cards on the account, which is lower than the limit recommended by Latvian regulation. Multibanka monitors card activity closely and reports any suspicions or unusual activity to the regulatory authority. As a result, carding groups do not exist as the bank would catch and report this activity
2. Multibanka is making a strong effort to discover why FinCEN singled them out for regulation without first contacting the bank regarding the alleged criminal activity. From the minimal information presented in the Notice, the bank has been unable, and remains unaware of, the transactions the United States Government references. Multibanka often cooperates with Latvian and international authorities, such as the United States Department of Justice and Internal Revenue Service, and would have been happy to cooperate with

FinCEN had they been contacted. Multibanka is eager to cooperate and move forward on these issues.

3. Mr. Zucker offered to provide a list of entities that have stopped or will stop doing business with Multibanka to demonstrate the extent to which the Notice has injured the bank's business. Mr. Langford replied that their representation alone was sufficient and that he understands what risk-averse institutions will do when faced with the Notice of Proposed Rulemaking.

Comments by Mr. Tutberidze on behalf of Multibanka:

1. Internet sites offering to establish offshore accounts with Multibanka are not associated with the bank and are addressed as soon as the bank has knowledge of them. No one can open an account solely via the internet and in the instances that the internet or phone is used to open an account, the holder is obliged to provide a notarized verification of their identity and a signature card. Multibanka always demands its name be removed from these sites, however these sites are difficult to control and the number of them is not known.
2. Multibanka is taking many steps to curtail financial crime. Since 2002 the bank has submitted to five examinations from the FCMC, the Latvian regulatory authority, and made two members of the Executive Board directly responsible for the implementation of anti-money laundering issues. As of 2003, Multibanka set up the Finance Monitoring Service to work with Financial Intelligence Units, report suspicious activities, and enhance the monitoring of "high risk" customers. Since September 2001, Multibanka requires the review and revision of all internal documentation, policy and procedures once a year.
3. Multibanka has contracted with KPMG, an international audit, tax and advisory service, to audit the bank's anti-money laundering procedures. This audit will consist of gap analysis, recommendations for improvement and a supervision of the implementation of recommended changes. KPMG will then perform another audit to ensure Multibanka's practices match commitments to Latvian law and international best practice.
4. Multibanka revised all its accounts, which resulted in the closing of 700, mostly non-Latvian resident, account. Another full revision is planned and the bank has suspended opening accounts for non-residents pending these revisions, the audit and a final check from the FCMC. Banking practice develops rapidly and the FCMC has stated the bank's policies and procedures are in full commitment to the law but the bank's practices are not yet in full commitment.

5. In addition to the external audit, Multibanka's shareholders have established an internal committee of two specialists to make a research audit and report to the Executive Board. One of these specialists is the former head of the legal department of the Bank of Latvia, the former Latvian banking regulator.
6. Mr. Tutberidze also pointed out that less than 3% of cardholders have a withdrawal limit of over \$1000 a month.

Comments by Mr. Senkans on behalf of Multibanka:

1. Before the Notice, Multibanka was unaware of any deficiency and still does not have a clear understanding of allegations, making issues difficult to fix. Multibanka was never seen as a "problem bank" by Latvian authorities.
2. The issue of the Notice, as well as the United States Embassy's press conference, has had significant negative impact on the bank's business. While the Notice is only meant to be a proposal, it is believed by many other financial institutions that the regulation has already been imposed and other banks have refused to work with them. This has been a "most terrible punishment" as Multibanka was never given the opportunity to defend itself. The bank has already been forced to sell assets and would become bankrupt if the Fifth Special Measure were imposed.
3. Multibanka would like to provide any documentation FinCEN requests so that further problems can be avoided.

Comments by Mr. Solomatin on behalf of Multibanka:

1. Multibanka was shocked by the information contained in the Notice and had been previously unaware that the bank's activities were concerning the United States Government as Multibanka fulfills the FCMC requirements.
2. The Notice has severely damaged Multibanka's business and its relationship with its partners. However the bank understands it is not the United States Government's intention to destroy Multibanka and the bank is committed to cooperate in all questions having to do with anti-money laundering.