

SENATE BILL NO. 2211

Introduced by

Senators Klein, D. Mathern

Representative Wald

1 A BILL for an Act to create and enact a new chapter to title 6 of the North Dakota Century
2 Code, relating to the provision of a self-critical financial institution analysis privilege.

3 **BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

4 **SECTION 1. Definitions.** In this chapter, unless the context or subject matter
5 otherwise requires:

- 6 1. "Commissioner" means the commissioner of banking and financial institutions.
- 7 2. "Compliance audit" means a voluntary, internal evaluation, review, assessment,
8 audit, or investigation for the purpose of identifying or preventing noncompliance
9 with, or promoting compliance with, laws, regulations, orders, or industry or
10 professional standards, which is conducted by or on behalf of a financial institution.
- 11 3. "Compliance self-critical analysis audit document" means a document prepared as
12 a result of or in connection with a financial institution's compliance audit. A
13 compliance self-critical analysis audit document may include a written response to
14 the findings of a compliance audit. A compliance self-critical analysis audit
15 document may include, as applicable, field notes and records of observations, work
16 papers, findings, opinions, suggestions, conclusions, drafts, memoranda, drawings,
17 photographs, exhibits, computer-generated or electronically recorded information,
18 phone records, maps, charts, graphs, and surveys, provided this supporting
19 information is collected or developed for the primary purpose and in the course of a
20 compliance audit. A compliance self-critical analysis audit document also includes:
 - 21 a. A compliance audit report prepared by an auditor, who may be an employee
22 of the financial institution or an independent contractor, which may include the
23 scope of the audit, the information gained in the audit, and conclusions and
24 recommendations, with exhibits and appendices;

- 1 b. Memoranda and documents analyzing portions or all of the compliance audit
2 report and discussing potential implementation issues;
- 3 c. An implementation plan that addresses correcting past noncompliance,
4 improving current compliance, and preventing future noncompliance; or
- 5 d. Analytic data generated in the course of conducting the compliance audit.
- 6 4. "Financial institution" means any organization authorized to do business under
7 state and federal laws relating to financial institutions, including a bank, including
8 the Bank of North Dakota, a savings bank, a trust company, a savings and loan
9 association, or a credit union.

10 **SECTION 2. Self-critical analysis privilege created - Scope.** A compliance
11 self-critical analysis privilege is created to protect the confidentiality of compliance self-critical
12 analysis documents or communications in regard to their content relating to voluntary internal
13 compliance audits conducted by financial institutions and persons in regard to activities
14 regulated under title 6 or federal law, both to conduct voluntary internal audits of its compliance
15 programs and management systems, and to assess and improve compliance with state and
16 federal statutes, rules, and orders. The compliance self-critical analysis privilege applies to all
17 litigation or administrative proceedings pending on August 1, 2000.

18 **SECTION 3. Compliance self-critical analysis document not discoverable or**
19 **admissible.** Except as provided in this chapter, a compliance self-critical analysis audit
20 document is privileged information and is not discoverable or admissible evidence in any legal
21 action in any civil, criminal, or administrative proceeding. The privilege is a matter of
22 substantive law of this state and is not merely a procedural matter governing administrative,
23 civil, or criminal procedures in the courts of this state.

24 **SECTION 4. Application of privilege.** If a financial institution, person, or entity
25 performs or directs the performance of a compliance audit, an officer, employee, or agent
26 involved with the compliance audit, or any consultant who is hired for the purpose of performing
27 the compliance audit, may not be examined in any civil, criminal, or administrative proceeding
28 as to the compliance audit or any compliance self-critical analysis audit document. This section
29 does not apply if it is determined under sections 6 or 7 of this Act that the privilege does not
30 apply.

31 **SECTION 5. Submission to commissioner.**

- 1 1. Upon request of the commissioner, a financial institution must submit a compliance
2 self-critical analysis audit document to the commissioner, or the commissioner's
3 designee, as a confidential document under the provisions of section 6-01-07,
4 without waiving the privilege set forth in this chapter to which the financial
5 institution would otherwise be entitled. However, the provisions of section 6-01-07
6 permitting the commissioner to release confidential documents and make them
7 accessible to federal financial institution regulatory agencies does not apply to the
8 compliance self-critical analysis audit documents voluntarily submitted. To the
9 extent the commissioner has the authority to compel the disclosure of a
10 compliance self-critical analysis audit document under other provisions of
11 applicable law, any report furnished to the commissioner may not be provided to
12 any other person or entity and must be accorded the same confidentiality and other
13 protections as provided above for voluntarily submitted documents. Any use of a
14 compliance self-critical analysis audit document furnished as a result of a request
15 of the commissioner, whether under a claim of authority to compel disclosure or
16 not, is limited to determining whether any disclosed defects in a financial
17 institution's policies or procedures or inappropriate treatment of customers has
18 been remedied or that an appropriate plan for their remedy is in place. The
19 commissioner may not impose any type of administrative fine or penalty as to any
20 area addressed or matter covered in a compliance self-critical analysis audit
21 document furnished at the commissioner's request, except where there is clear and
22 convincing evidence that the financial institution failed to undertake reasonable
23 corrective action, eliminate inappropriate treatment of customers, or failed to
24 implement an appropriate plan to rectify any noncompliance with state and federal
25 statutes, rules, and orders.
- 26 2. A financial institution's compliance self-critical analysis audit document submitted
27 to the commissioner remains subject to all applicable statutory or common-law
28 privileges including the work product doctrine, attorney-client privilege, or the
29 subsequent remedial measures exclusion. A compliance self-critical analysis audit
30 document submitted to and in the possession of the commissioner remains the

1 property of the financial institution and is not subject to any disclosure or
2 production under section 44-04-18.

3 3. Disclosure of a compliance self-critical analysis audit document to a governmental
4 agency, whether voluntary or pursuant to compulsion of law, does not constitute a
5 waiver of the privilege with respect to any other person or any other government
6 agency.

7 **SECTION 6. Waiver of privilege by financial institution - Grounds for**
8 **determination of privilege - Civil, administrative, or criminal proceedings.**

9 1. The self-critical analysis privilege does not apply to the extent that it is expressly
10 waived by the financial institution that prepared or caused to be prepared the
11 compliance self-critical analysis audit document.

12 2. In a civil or administrative proceeding, a court of record, after an in-camera review,
13 may require disclosure of material for which the privilege is asserted, if the court
14 determines one of the following:

15 a. The privilege is asserted for a fraudulent purpose; or

16 b. The material is not subject to the privilege.

17 3. In a criminal proceeding, a court of record, after an in-camera review, may require
18 disclosure of material for which the privilege is asserted, if the court determines
19 one of the following:

20 a. The privilege is asserted for a fraudulent purpose;

21 b. The material is not subject to the privilege; or

22 c. The material contains evidence relevant to commission of a criminal offense,
23 and all three of the following factors are present:

24 (1) The commissioner, state's attorney, or attorney general has a
25 compelling need for the information;

26 (2) The information is not otherwise available; and

27 (3) The commissioner, state's attorney, or attorney general is unable to
28 obtain the substantial equivalent of the information by any other means
29 without incurring prohibitive cost and delay.

30 **SECTION 7. Determination of privilege - Procedure.**

- 1 1. If a person seeks from a financial institution communications involving a
2 compliance audit or any compliance self-critical analysis audit document during the
3 course of a pending civil or criminal proceeding, the financial institution may assert
4 the self-critical analysis privilege and provide the information set forth in
5 subsection 6 during the course of those proceedings just as any other privilege is
6 asserted in the courts of this state. If the court is required to make a determination
7 as to the privilege, the court shall follow the procedure and conditions set forth in
8 subsection 5.
- 9 2. If there is a pending administrative proceeding, or there is no pending civil or
10 criminal proceeding, the commissioner, state's attorney, or attorney general may
11 serve on a financial institution a written request by certified mail for disclosure of a
12 compliance self-critical analysis audit document. Within thirty days after the
13 commissioner, state's attorney, or attorney general serves on a financial institution
14 a written request by certified mail for disclosure of a compliance self-critical
15 analysis audit document, the financial institution that prepared or caused the
16 document to be prepared may file with the appropriate court a petition requesting
17 an in-camera hearing on whether the compliance self-critical analysis audit
18 document or portions of the document are privileged under this chapter or subject
19 to disclosure. The court has jurisdiction over a petition filed by a financial
20 institution under this subsection requesting an in-camera hearing on whether the
21 compliance self-critical analysis document or portions of the document are
22 privileged or subject to disclosure. Failure by the financial institution to file a
23 petition waives the privilege for only the specific request made.
- 24 3. A financial institution asserting the compliance self-critical analysis privilege in
25 response to a request for disclosure under this section shall include in its request
26 for an in-camera hearing all of the information set forth in subsection 6.
- 27 4. Upon the filing of a petition under this section, the court shall issue an order
28 scheduling, within forty-five days after the filing of the petition, an in-camera
29 hearing to determine whether the compliance self-critical analysis audit document
30 or portions of the document are privileged under this chapter or subject to
31 disclosure.

- 1 5. The court, after an in-camera review, may require disclosure of material for which
2 the privilege is asserted if the court determines, based upon its in-camera review,
3 that any one of the conditions set forth in subsection 2 of section 6 of this Act is
4 applicable as to a civil or administrative proceeding or that any one of the
5 conditions set forth in subsection 3 of section 6 of this Act is applicable as to a
6 criminal proceeding. Upon making such determination, the court may only compel
7 the disclosure of those portions of a compliance self-critical analysis document
8 relevant to issues in dispute in the underlying proceeding. A compelled disclosure
9 may not be considered to be a public document or be deemed to be a waiver of the
10 privilege for any other civil, criminal, or administrative proceeding. A financial
11 institution unsuccessfully opposing disclosure may apply to the court for an
12 appropriate order protecting the document from further disclosure.
- 13 6. A financial institution asserting the compliance self-critical analysis privilege in
14 response to a request for disclosure under this section shall provide at the time of
15 making and filing any objection to the disclosure all of the following information:
- 16 a. The date of the compliance self-critical analysis audit document;
 - 17 b. The identity of the entity conducting the audit;
 - 18 c. The general nature of the activities covered by the compliance audit; and
 - 19 d. An identification of the portions of the compliance self-critical analysis audit
20 document for which the privilege is being asserted.

21 **SECTION 8. Privilege - Burden of proof - Stipulation.** A financial institution
22 asserting the compliance self-critical analysis privilege set forth in this chapter has the burden
23 of demonstrating the applicability of the privilege. Once a financial institution has established
24 the applicability of the privilege, a party seeking disclosure has the burden of proving that the
25 privilege is asserted for a fraudulent purpose. The commissioner, state's attorney, or attorney
26 general seeking disclosure of the privilege has the burden of proving the elements set forth in
27 subdivisions a and c of subsection 3 of section 26.1-51-06.

28 The parties may at any time stipulate in proceedings under sections 6 or 7 of this Act to
29 entry of an order directing whether the specific information contained in a compliance
30 self-critical analysis audit document is or is not subject to the privilege provided under this

1 chapter. Any such stipulation may be limited to the instant proceeding and, absent specific
2 language to the contrary, is not applicable to any other proceeding.

3 **SECTION 9. Nonapplication of privilege.** The self-critical analysis privilege set forth
4 in this chapter does not extend to:

- 5 1. Documents, communications, data, reports, or other information expressly required
6 to be collected, developed, maintained, or reported to a regulatory agency
7 pursuant to this title, or other federal or state law;
- 8 2. Information obtained by observation or monitoring by any regulatory agency; or
- 9 3. Information obtained from a source independent of the compliance audit.