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# COMBATING MONEY LAUNDERING

## HEARING

BEFORE THE

SUBCOMMITTEE ON CRIMINAL JUSTICE, DRUG POLICY, AND HUMAN RESOURCES

OF THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTH CONGRESS

SECOND SESSION

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# COMBATING MONEY LAUNDERING

**FRIDAY, JUNE 23, 2000**

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON CRIMINAL JUSTICE, DRUG POLICY,
AND HUMAN RESOURCES,
COMMITTEE ON GOVERNMENT REFORM,
*Washington, DC.*

The subcommittee met, pursuant to notice, at 9:30 a.m., in room 2247, Rayburn House Office Building, Hon. John L. Mica (chairman of the subcommittee) presiding.

Present: Representatives Mica, Cummings, Mink, Kucinich, and Schakowsky.

Staff present: Sharon Pinkerton, staff director and chief counsel; Steve Dillingham, special counsel; Frank Edrington, professional staff member; Ryan McKee, clerk; Sarah Despres, minority counsel; and Earley Green, minority assistant clerk.

Mr. MICA. Good morning. I'd like to call the Subcommittee on Criminal Justice, Drug Policy, and Human Resources to order.

This morning we have a subcommittee hearing entitled Combating Money Laundering Worldwide. We are going to proceed, and I'll be joined shortly by other Members.

But we have a full schedule. We're going to have some votes, and we want to try to get as much business in as we can and proceed with regular order. And the order of business will be first, I will provide an opening statement and then will yield to other Members as they arrive or submit their statements in the record.

Today, the subcommittee will examine the subject of money laundering and how it works internationally as the financing engine that drives most of the world's illegal drug trade. Money laundering is defined as the process by which money is derived from illegal activities and is transformed or laundered to make it appear legitimate. Once it's been laundered, this money can be moved and used as capital for further investments in illegal or in legal activities.

Of particular concern to this subcommittee is the fact that money laundering is a critical element of the criminal activities of drug traffickers. Through the money laundering mechanism, criminals move illegal proceeds of their drug deals and profits through the international financial system to wash away the criminal taint of that money, and then reinvest the illegal proceeds in new drug deals.

Other kinds of criminal organizations launder money as well, like that, unfortunately of human smugglers and corrupt officials. The IMF has estimated that the volume of cross border money laundering is between 2 and 5 percent of the world's gross domestic

product, staggering figures. And at the lower end of the range, the amount of money laundered worldwide, even again the smallest projection, is $600 billion.

Because of the United States' dominant role in international finance, a substantial amount of that $600 billion is being laundered through U.S. financial institutions. If we can successfully reduce the ability of drug dealers to launder the proceeds, the cartels and smaller dealers would be forced to reduce the size and numbers of their transaction and certainly make their business much more difficult. This reduction will substantially reduce the amount of drugs available to our citizens and most importantly, to our children.

When criminals deal with legitimate commercial and financial sectors during the laundering process, they enable law enforcement officials to follow the money trail and to develop methods officials can use to apprehend them. With a trail to follow, law enforcement officers can often identify the persons who bring about or finance criminal drug activity. The trail can also lead back to drug dealers and other criminals whose illegal activities generated the money in the first place.

It is at the first of these three stages of money laundering, the placement stage, that laundered money is most easily detected. The placement stage is the point where illegally derived money is inserted into the legitimate financial system. So international regulatory and enforcement efforts are focused on methods which will make it especially difficult for criminals to place funds, illegal funds, without being detected.

Our first national strategy to combat money laundering, which was entitled the Money Laundering Strategy for 2000, has established goals and objectives to be achieved during this year, including the following. And let me read some of those, if I may. First, the designation of the first four high risk money laundering and financial crime areas, and the launch of a financial crime free community support program, including a State and local grant program.

Second, the proposed legislation giving the Secretary of the Treasury new discretionary authority to crack down on foreign jurisdictions, institutions and classes of transactions which pose serious money laundering threats. Third, this strategy also asks for legislation affording prosecutors and investigators new tools to fight money laundering and the designation of foreign corruption as money laundering predicate offenses. And fourth, part of the strategy announces a final rule for applying suspicious activity reporting, which are also known as SRA requirements, to money service businesses, and proposes rules for casinos and brokers and dealers in securities.

Fifth, part of this is to develop a new method to identify countries which pose serious threats. The sixth part is setting out a plan to issue guidance to financial institutions to apply scrutiny to certain high risk accounts. And the seventh and last point calls for studies on the appropriate role of gatekeepers in the international financial system, such as lawyers and accountants. Those are seven points of the strategy.

The problems various law enforcement organizations face in fighting money laundering are in fact formidable. Drug organiza-

tions have become much more sophisticated and use the latest technology as well as more traditional methods to launder money. The modern electronic transfer of funds means that every business day, more than $2 trillion is wire transferred around the world through more than a half a million transactions. This tremendous number of transactions makes it extremely difficult for law enforcement agencies to identify those financial transactions that are in fact illegal.

Other methods of money laundering which have become popular among drug dealers include the buying and selling of commodities like cosmetics, electronics and heavy equipment. Colombian drug cartels have also been reported as investing in American-made goods, such as automobile parts, clothing, computers, and even outsourcing the money laundering part of their business to brokers whose business it is to buy and sell drug profits like profits for some type of a commodity.

Electronic money, e-money, is making it much easier for criminals to conceal the source of their illegal funds and to move that money without detection. Internet transfers are also another problem, and transfer of these funds combine the speed of bank-generated wire transfers with the anonymity of currency in multiple currencies and without intermediaries.

According to recent reports, the gold trade has also become much more important as a money laundering mechanism and is being used to clean. The reports we have are staggering, that's the term, staggering amounts of dirty money. These funds are used to buy gold in any form, including gold bars, jewelry, and even gold scrap. The illegal profits are cleaned when the gold is shipped across various borders and sold.

With nearly every United States money laundering case in recent years involving gold, authorities have been unable to trace the movement of tons of gold and billions of dollars to drug deals by Latin American drug cartels. Gold gives money launderers a level of certainty in their laundering efforts, as they can exchange it in any country in the world.

Gold traders have complained that the pervasive influence of drug traffickers is taking over the Latin American gold trade and squeezing out legitimate dealers. An example of the increase in gold trade is the jump in United States gold imports from the Netherland Antilles in the Caribbean. Between 1993 and 1997, the gold exports to the United States soared from $68,000 to $29 million. At the Miami International Airport annual gold imports rose from $18 million in 1989 to $465 million in 1998, a 26 fold increase.

Recent legislation entitled the Money Laundering Act of 2000 not only addresses many of the problems and situations I've described, but like the strategy for 2000, give law enforcement authorities new tools to fight money laundering. Among these are a provision which enables the U.S. District Court to have jurisdiction over a foreign bank that violates the money laundering statute, so long as that bank maintains an account in the United States and receives appropriate service of process.

However, other provisions in the law give the Treasury Department discretion in pursuing activities relating to foreign jurisdic-

tions. So while Congress has acted to improve our ability to detect money laundering and to pursue the drug traffickers who use that money to destroy the lives of millions of Americans, I wonder if we've still done enough.

While I'm pleased that the Financial Action Task Force yesterday released a list of non-cooperating countries, and some of you may have seen that in the news account, and I think they cited the countries, some 15 countries according to Deputy Treasury Secretary Stuart Eizenstat, and those countries are in fact on the list, Bahamas, Cayman Islands, Cook Islands, Dominica, Israel, Lebanon, Liechtenstein, Marshall Islands, Nauru, Niue, Panama, Philippines, Russia, St. Kitts and Nevis, St. Vincent and the Grenadines. And they were again cited.

While I'm pleased that they have named these countries, the list begs some questions. What action did the Treasury Department take to ensure that these countries will make changes in their banking system? Naming and shaming exercise will only be effective if we act decisively to bring about positive change.

I also want to bring to the attention of the subcommittee the Money Laundering Alert for June, one of the preeminent resources for tracking what's going on in the area of money laundering, and cite from its volume 2 No. 8 report a very interesting and disturbing finding. It says, money laundering cases plummet despite the flood of SRAs. And again, SRAs are suspicious activity reports, SRAs.

But again, let me quote from this report. It says, the number of money laundering cases produced by the principal U.S. enforcement agencies has declined dramatically, despite hundreds of thousands of SRA reports filed and millions of wire transferred records kept by U.S. financial institutions since 1996. In the 5-years from 1994 to 1998, the number of persons charged with money laundering as the prime offense who were referred for prosecutions by the IRS, FBI, Customs Service and DEA fell by more than 24 percent. That startling finding emerged from an analysis by Money Laundering Alert of data in a unique source called the Transactional Records Access Clearinghouse, a research center at Syracuse University.

I'd like to submit for the record the balance of that report, which is entitled, Report from the Trenches. It outlines the decline in the number of cases that have been prosecuted which is pretty dramatic from 1994 to 1998. Without objection, that will be made part of the record.

[The information referred to follows:]

*See Story, Page 1*

## Report from the trenches

### Number of prime money laundering case referrals by agency 1994-1998

| Agency | Number of prime money laundering case referrals [1] 1994 | 1995 | 1996 | 1997 | 1998 |
|---|---|---|---|---|---|
| **Department of Justice agencies:** | | | | | |
| Drug Enforcement Administration | 241 | 337 | 166 | 195 | 184 |
| Federal Bureau of Investigation | 469 | 409 | 433 | 332 | 356 |
| Immigration and Naturalization Service | 2 | 0 | 1 | 7 | 5 |
| U.S. Marshals Service | 7 | 8 | 6 | 14 | 5 |
| Other [2] | 7 | 4 | 16 | 5 | 4 |
| **Department of Treasury agencies:** | | | | | |
| Bureau of Alcohol, Tobacco and Firearms | 4 | 20 | 5 | 30 | 21 |
| U.S. Customs Service | 360 | 338 | 284 | 272 | 361 |
| Internal Revenue Service | 673 | 522 | 605 | 522 | 421 |
| Secret Service | 8 | 26 | 20 | 25 | 63 |
| Other [3] | 2 | 2 | 2 | 10 | 3 |
| **Other Departments and Agencies:** | | | | | |
| Department of Agriculture | 7 | 7 | 19 | 0 | 3 |
| Department of Education | 0 | 0 | 0 | 4 | 2 |
| Department of Health & Human Services | 0 | 0 | 2 | 0 | 5 |
| Postal Service | 16 | 12 | 22 | 9 | 13 |
| Social Security Administration | 0 | 5 | 1 | 1 | 1 |
| Independent federal agencies | 35 | 2 | 3 | 1 | 0 |
| State/Local agencies | 6 | 16 | 9 | 25 | 12 |
| Other [4] | 3 | 4 | 11 | 8 | 12 |
| **Total [5]** | **1,841** | **1,712** | **1,604** | **1,460** | **1,473** |

*Source: Transactional Records Access Clearinghouse, Syracuse University (www.trac.syr.edu)*

[1] Referrals that cite principal money laundering law, Title 18, USC Sec. 1956, as the prime offense.

[2] Referrals designated as "All Other Justice."

[3] Referrals designated as "All Other Treasury."

[4] Referrals designated as "Not Elsewhere Classified" or "????."

[5] Transfer of cases between U.S. Attorneys' Offices accounted for one referral in 1994 and two in 1998. They are included in total. The Departments of Defense, Energy, Housing and Urban Development, Interior, Labor, and State, and the Environmental Protection Agency and Office of the Comptroller of the Currency had less than five referrals each in the five years. They are not included in total.



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Mr. MICA. Our witnesses this morning posses both knowledge and experience to help us to understand the whole money laundering process and problem and some of the steps we may need to take to reduce problems we have incurred with money laundering. Hopefully, they can shed some light on what each of these agencies are doing to deal with that problem.

With their ability to finance drug deals, drug traffickers have an incredible ability to continue their death and destruction. It's important that we find some way to contain that illegal money laundering.

[The prepared statement of Hon. John L. Mica follows:]

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**OPENING STATEMENT**
**Chairman John L. Mica**

**Subcommittee on Criminal Justice,**
**Drug Policy and Human Resources**

June 23, 2000 Hearing:

**"Combating Money Laundering Worldwide"**

Today, this Subcommittee will examine the subject of "Money Laundering" and how it works internationally as the financing engine that drives most of the world's illegal drug trade.

Money Laundering is defined as the process by which money derived from illegal activities is transformed (laundered) to make it appear legitimate. Once it has been "laundered" this money can be moved and used as capital for further investment in illegal or legal activities. Of particular concern to this Subcommittee is the fact that money laundering is a critical element of the criminal activities of drug traffickers. Through the money laundering mechanism, criminals move the illegal proceeds of their drug deals through the international financial system to wash away the criminal taint then reinvest the illegal proceeds in new drug deals. Other kinds of criminal organizations launder money as well, like the human smugglers and corrupt officials. The IMF has estimated that the "volume of cross-border money laundering is between 2 and 5 percent of the world's gross domestic product" and that at the lower end of that range the amount of money laundered worldwide amounts to almost $600 billion.

Because of the United States' dominant role in international finance, a substantial part of that $600 billion is being laundered through United States financial institutions. If we can successfully reduce the ability of drug dealers to launder the proceeds, the cartels and the smaller dealers would be forced to reduce the size and number of their transactions. This reduction will substantially reduce the amount of drugs available to our citizens, and, most importantly, to our children.

When criminals deal with the legitimate financial and commercial sectors during the laundering process, they enable law enforcement officials to follow the money trail and to develop methods officials can use to apprehend them. With a trail to follow, law enforcement officers can often identify the persons who bring about or finance criminal drug activity. The trail can also lead back to the drug dealers and other criminals whose illegal activities generated the money in the first place. It is at the first of the three stages of money laundering, the "placement" stage that laundered money is most easily detected. The placement stage is the point where illegally derived money is inserted into the legitimate financial system, so international regulatory and enforcement efforts are focused on methods which will make it especially difficult for criminals to "place" illegal funds without being detected.

Our first national strategy to combat money laundering, the Money Laundering Strategy for 2000 has established goals and objectives to be achieved during this year, including:

(1) Designation of the first four High Risk Money Laundering and Financial Crime Areas (HIFCAS) and launches the Financial Crime-Free Communities Support Program (C-FIC)

including a state and local grant program;

(2) Proposes legislation giving the Secretary of the Treasury new discretionary authority to crack down on foreign jurisdictions, institutions and classes of transactions which pose serious money laundering threats;

(3) Asks for legislation affording prosecutors and investigators new tools to fight money laundering the designation of foreign corruption as a money laundering predicate offense;

(4) Announces a final rule for applying suspicious activity reporting (SAR) requirements to money service businesses and proposes rules for casinos and brokers and dealers in securities;

(5) Develops a new method to identify countries which pose serious threats;

(6) Sets out plans to issue guidance to financial institutions to apply scrutiny to certain high-risk accounts, and;

(7) Calls for studies on the appropriate role of "gatekeepers" in the international financial system, such as lawyers and accountants.

The problems our various law enforcement organizations face in fighting money laundering are formidable. Drug organizations have become more sophisticated and use the latest technology as well as the more traditional methods to launder money. The modern electronic transfer of funds means that every business day more than $2 trillion is wire transferred around the world through more than 500,000 transactions. This tremendous number of transactions makes it extremely difficult for law enforcement agencies to identify those financial transactions which are illegal.

Other methods of money laundering which have become popular among drug dealers include their buying and selling commodities like cosmetics, electronics and heavy equipment. Colombian drug cartels have also been reported as investing in American-made goods such as automobile parts, clothing, and computers and are even out-sourcing the money laundering part of their business to brokers whose business is to buy and sell drug profits like these profits were a commodity. Electronic money (e-money) is making it easier for criminals to conceal the source of their illegal money and to move that money without detection. Internet transfers of funds combine the speed of bank generated wire transfers but with the anonymity of currency, in multiple currencies and without intermediaries.

According to recent reports, the gold trade has become much more important as a money laundering mechanism and is being used to clean "staggering amounts" of dirty money. Used to buy gold in any form, including gold bars, jewelry and even gold scrap, the illegal profits are cleaned when the gold is shipped across various borders and sold. With nearly every U.S. money laundering case in recent years involving gold, authorities have been able to trace the movement of tons of gold and billions of dollars to drug deals by Latin American drug cartels. Gold gives money launderers a level of certainty in their laundering efforts as they can exchange it in any country in the world. Gold traders have complained that the pervasive influence of the drug traffickers is taking over the Latin America gold trade and squeezing out legitimate dealers. An example of the increase in the gold trade is the jump in U.S. gold imports from the Netherlands Antilles in the Caribbean. Between 1993 and 1997, the gold exports to the United States soared from $68,000 to $29 million. At the Miami International Airport annual gold imports rose from $18 million in 1989 to $465 million in 1998. A 26 fold increase!

Recent legislation, the Money Laundering Act of 2000, not only addresses many of the problems and situations I have described but like the Strategy for 2000, gives law enforcement authorities new tools to fight money laundering. Among these are a provision which enables a U.S. District Court to have jurisdiction over a foreign bank that violates the money laundering statute so long as that bank maintains an account in the United States and receives the appropriate service of process. Congress has acted to improve our ability to detect money laundering and to pursue the drug traffickers who use that money to destroy the lives of millions of Americans but I wonder if we have done enough. What actions will the Treasury Department take to punish "uncooperative countries?"

Our witnesses this morning possess both the knowledge and the experience to help us understand money laundering and what we must do to stop or reduce it. With their ability to finance drug deals diminished the ability of narcotics traffickers to harm and kill will be reduced, to the benefit of our society and our children.

Mr. MICA. With that, I look forward to hearing from our witnesses, and at this time, I am pleased to yield to the gentleman from Maryland, Mr. Cummings.

Mr. CUMMINGS. Thank you very much, Mr. Chairman. I thank you for holding this hearing on international money laundering.

Back in 1996, the amount of money laundered internationally was $300 billion. Just 4 short years later, that amount has doubled. At least $600 billion in laundered money is currently filling the bank accounts of international organized crime and drug trafficking organizations. This issue definitely hits home for me. The ability to launder dirty money fuels an empire that has debilitated my district and continues a cycle of drug abuse and addiction.

Although this act is incredibly difficult to investigate, we're making progress. This progress is demonstrated by one investigation we've often discussed in this subcommittee, Operation Casablanca. According to the Treasury Department, $35 million was recovered in the operation and officials from 12 of Mexico's 19 largest banks were indicted. This was a major coup for the United States Government, and a blow to major drug traffickers in Mexico.

Unfortunately, this was only a drop in the bucket. I hope this hearing will allow us an opportunity to discuss H.R. 3886, an administration supported bill that was recently passed by the House Banking Committee. The International Counter-Money Laundering Act of 2000, a bipartisan bill, would increase the authority of the Treasury Department to combat these crimes. I look forward to hearing more about this bill in today's testimony.

Additionally, globalization and electronic technology have made it easier to transfer funds around the world and increasingly more difficult to track. Yesterday, the Financial Action Task Force, a group of 26 countries, including the United States, working together to fight money laundering, identified 15 countries as potential havens of money laundering. I'm interested in hearing from the witnesses regarding how this list will assist in the Government's counter-money laundering efforts.

Will it be used in the same way as our annual drug certification process? Mr. Chairman, I look forward to hearing from our witnesses today, and again I want to thank you for your vigilance with regard to drug trafficking in this country and around the world. And I look forward to the hearing.

[The prepared statement of Hon. Elijah E. Cummings follows:]

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**Statement Congressman Elijah E. Cummings**
**Subcommittee on Criminal Justice, Drug Policy and Human Resources**
**June 23, 2000**

Mr. Chairman:

I thank you very much for holding today's hearing on international money laundering.

In 1996 the amount of money laundered internationally was $300 billion. Just four short years later that amount has DOUBLED – at least $600 billion in laundered money is currently filling the bank accounts of international organized crime and drug trafficking organizations. **This issue hits home for me.** The ability to launder dirty money fuels an empire that has debilitated my district and continues a cycle of drug abuse and addiction.



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1 Additionally, globalization and electronic technology have made it
2 easier to transfer funds around the world and increasingly more
3 difficult to track. Yesterday, the Financial Action Task Force - a group
4 of 26 countries, including the US, working together to fight money
5 laundering – identified 15 countries as potential havens of money
6 laundering. I am interested in hearing from the witnesses regarding
7 how this list will assist in the government's counter money-
8 laundering efforts. Will it be used in the same way as our annual
9 drug certification process?
10
11 Mr. Chairman, I look forward to hearing from today's witnesses, as I
12 have many questions.
13
14 Thank you.

Mr. MICA. I thank the gentleman from Maryland, and the gentleman from Maryland moves that the record be left open for a period of 2 weeks for additional statements or responses from witnesses. Without objection, so ordered.

We'll now move to our first panel. Our first panel consists of Ms. Mary Lee Warren, who's the Deputy Assistant Attorney General, Criminal Division, of the Department of Justice. Next witness is Mr. John C. Varrone, and he is the Acting Deputy Assistant Commissioner of the Office of Investigations, U.S. Customs Service, in the Department of Treasury. Mr. Edward Mr. Guillen, and he is the Chief of the Financial Operations Section of DEA, Department of Justice. And Mr. James F. Sloan, Director of Financial Crimes Enforcement Network. Our final witness on this first panel is William F. Wechsler, and he is the Special Advisor to the Secretary and Deputy Secretary for Money Laundering in the Department of Treasury.

Some of you have been before us before, you know this is an investigations and oversight subcommittee of Congress. We swear in our witnesses. We also ask that if you have a lengthy statement or anything that exceeds 5 minutes that that be submitted for the record. And upon request, will be done so.

At this time, if you'll please stand to be sworn. Raise your right hands.

[Witnesses sworn.]

Mr. MICA. Witnesses answered in the affirmative, and we're first pleased to recognize Mary Lee Warren, Deputy Assistant Attorney General, of the Criminal Division of the Department of Justice, for your statement. Thank you.

**STATEMENTS OF MARY LEE WARREN, DEPUTY ASSISTANT ATTORNEY GENERAL, CRIMINAL DIVISION, DEPARTMENT OF JUSTICE; WILLIAM F. WECHSLER, SPECIAL ADVISOR TO THE SECRETARY AND DEPUTY SECRETARY FOR MONEY LAUNDERING, U.S. DEPARTMENT OF THE TREASURY; JOHN C. VARRONE, ACTING DEPUTY ASSISTANT COMMISSIONER, OFFICE OF INVESTIGATIONS, U.S. CUSTOMS SERVICE, DEPARTMENT OF TREASURY; EDWARD M. GUILLEN, CHIEF, FINANCIAL OPERATIONS SECTION, DRUG ENFORCEMENT ADMINISTRATION, DEPARTMENT OF JUSTICE; AND JAMES F. SLOAN, DIRECTOR, FINANCIAL CRIMES ENFORCEMENT NETWORK**

Ms. WARREN. Thank you, Mr. Chairman. I'm pleased to be back, to take this opportunity to appear today regarding the important issue of international money laundering.

In my testimony today, I wish to highlight some recent trends in international money laundering and to explain why recently introduced legislation noted by the chairman is necessary to help U.S. law enforcement effectively work against international money laundering.

Back in 1986, when the U.S. money laundering laws were first enacted, money laundering was primarily a domestic problem. Over time, and certainly today, it has become an international scourge requiring collaborative efforts around the globe. Our laws regrettably have not kept pace with this change.

The money laundering problem is now global, but the basic challenge for many money launderers, and especially for drug proceeds money launderers, remains the same: concealing and moving the enormous amounts of illicit cash generated by narcotics sales. Once the cash is entered or placed into one country's financial system, it can be wired instantaneously around the world. The United States, through the banking sector and reporting requirements of the Bank Secrecy Act, has effectively closed the U.S. banking system to this initial placement. No longer do we routinely see people without legitimate means of support dragging duffle bags full of tens and twenties into banks for deposit.

The traffickers and their money launderers are most vulnerable to law enforcement detection when their cash hoards have been collected from their drug selling stash houses, drug selling spots and their stash houses. We've noted that our estimate on calculations is that cash collected is about three and a half times the drug weight from which those proceeds are generated. So the sheer volume of the cash is a problem to the traffickers.

And as the chairman noted, it is for this reason, even in the international context, that law enforcement has focused on the placement stage of money laundering. Money launderers must look more than ever before to non-traditional U.S. financial institutions, or they must find ways to move the money outside of the United States.

The use of money services businesses, especially wire remittance businesses, is not new for the money launderers. This was set out in stark relief when the Treasury Department entered its geographic targeting order in the New York Metropolitan area a few years ago. The data collected showed that the area's remitters were sending amounts of money from one neighborhood, Jackson Heights in Queens, NY, to Colombia, that would have shown that each household was very, very wealthy, if not of millionaire status. In fact, demographics show the opposite.

The original GTO was extended several times and a similar effort was in place in Puerto Rico to crack down on the abuse of these wire remittance houses.

The black market peso exchange system also introduced by the chairman is a second major system for laundering drug proceeds. It's a system that has existed for decades to avoid tariffs and duties that were very high in Colombia. But now the system has been co-opted by the drug traffickers, and billions of dollars that are United States drug proceeds are in fact converted into United States goods that are imported and smuggled into Colombia.

The black market peso exchange system relies on three principal parties: a trafficker who has drug dollars in the United States and needs pesos in Colombia; a Colombian, particularly an importer, who has pesos in Colombia and needs dollars in the United States to buy import goods; and a peso broker in Colombia who puts those parties together. The peso broker has the same problem as the traffickers and other money launderers, introducing the drug dollars into a legitimate financial sector and tries this through various means, smurfing structuring amounts, trying to get it into our system or wire remittances and other money services businesses, or bulk smuggling of the currency.

Recent undercover operations, Operations Skymaster and Juno, detailed in my written statement, are real life illustrations of how the black market peso systems works in action. Those defendants, peso brokers, traffickers, launderers, are now charged, some already convicted.

We dispute the Money Laundering Alert figures. Prosecutors in the Federal courts have filed more than 2,000 money laundering charges against more than 200 defendants each year since 1996, 1996 through 1999. Each year it has gone up. So we dispute those figures presented in the Money Laundering Alert.

Just in summary, the black market peso exchange in essence, what starts out as drug proceeds on the streets of United States cities ends up as smuggled United States trade products in the markets and businesses in Colombia. And in essence what it does is it fuels the drug trade.

The bulk movement of cash, we see it more and more. It does carry the greatest risk to the traffickers. And that is the reason for targeting this bulk cash shipment and concealment. One of the HIDTHs mentioned by the chairman is at the Texas-Arizona border with Mexico, and focuses on the movement, bulk movement of cash across to Mexico and back.

Legislative solutions. The reality of international money laundering in the year 2000 has prompted most countries to look for ways to update their domestic laws and find ways to work collaboratively against this problem. I would like to underscore that the recently introduced Money Laundering Act of 2000, H.R. 4695, addresses two principal problems in the anti-money laundering area, the concealing and laundering of foreign-derived illicit proceeds that are sought to be brought into the U.S. financial system and the transport or laundering of U.S. criminal proceeds going into foreign financial systems.

As to the first, no one wants the United States to become the haven for the world's criminal proceeds. It should be a crime for a criminal to use our domestic financial institutions to launder the proceeds of his foreign crime. Except in a few instances, our current laws do not address this problem. H.R. 4695 would.

Section 6 expands the list of money laundering predicate crimes to include many serious foreign offenses. Section 21 would allow us to assist other nations by commencing a formal action to confiscate foreign criminal proceeds. For the flip side, that is the U.S. criminally derived proceeds that are going outside, Section 18 would make bulk cash smuggling a crime in and of itself. It is not a crime to smuggle cash today. It is a crime to smuggle most every other thing, but not cash.

Section 19 would make it a crime to be a knowing courier of dirty proceeds. You mentioned the long arm jurisdiction that would allow us to reach those foreign banks that have used the U.S. financial system.

In response to the globalization of money laundering, and especially the trends concerning money laundering service businesses, the black market peso exchange and bulk cash smuggling, law enforcement needs some updating of the present anti-money laundering laws. We have had important successes, even with our current laws. But I would wish to say, and pledge that the Department of

Justice is ready to work with the Congress on H.R. 4695, which we view as an important step in enhancing our effectiveness against money laundering in the 21st century.

Thank you.

[The prepared statement of Ms. Warren follows:]

Testimony of
Mary Lee Warren, DAAG, U.S. Department of Justice
on International Money Laundering

Before the Subcommittee on Criminal Justice, Drug Policy and Human Resources
Government Reform Committee
U.S. House of Representatives
June 23, 2000

Mr. Chairman, Ranking Member, Members of the Subcommittee, thank you for the opportunity to appear today regarding the important topic of international money laundering. I ask that my written statement be received in full. In my testimony today I wish to highlight some trends in international money laundering, and to explain why recently-introduced legislation is necessary to help U.S. law enforcement work effectively against international money laundering.

I. Trends

Back in 1986, when the U.S. money laundering laws were first enacted, money laundering was primarily a domestic problem; now it has become an international scourge requiring a collaborative international response. Our laws, regrettably, have not kept pace with this change.

The money laundering problem is now global, but the basic challenge for many money launderers, and especially for drug proceeds money launderers remains the same -- concealing and moving the enormous amounts of illicit cash generated by

narcotics sales. Once the cash is entered, or placed, into one country's financial system, it can be wired around the world in an instant. The U.S., through the banking sector and the reporting requirements of the Bank Secrecy Act, has effectively closed the U.S. banking system to this initial placement -- individuals with no apparent legitimate means of support are no longer found dragging duffel bags of $10s and $20s into our banks for deposit.

The traffickers and their money launderers are most vulnerable to law enforcement detection when their cash hoards have been collected from the drug dealing spots and stash houses. [Calculation that the cash proceeds weigh 3 ½ times the drugs weight from which those proceeds were generated.] It is for this reason, even in the international context, law enforcement has focused on the placement stage of money laundering.

Money launderers now must look more than ever before to (i) non-traditional U.S. financial institutions ("money services businesses," -- wire remitters, casas de cambio, vendors of money orders/traveler's checks, and check cashers) or (ii) they must find ways to move their criminal proceeds outside the U.S.

(A) Use of Money Service Businesses

The use of money service businesses, especially wire remittance businesses, to launder drug money is not new. We saw

that set out in stark relief with the facts supporting Treasury's imposing the GTO in the NYC metropolitan area. The data collected showed that for that area's remitters to be sending the amounts they were to Colombia, every household in the Jackson Hts neighborhood of Queens, NY would have had to have been very, very wealthy - just the opposite. This was not wage-earner money being sent to relatives, rather it was the cash accumulations of the drug trade in the area. The original GTO was extended several times and a similar effort undertaken in Puerto Rico to crack down on the abuse of the wire remittance sector of our financial system. Now FinCEN has issued new regulations for wire remitters that will make money laundering through these conduits much more difficult and risky.

(B) Black Market Peso Exchange

A second major system for laundering drug proceeds is the Colombian Black Market Peso Exchange (BMPE) system, a system that has existed for decades, but most recently has been co-opted by the traffickers as a mechanism for laundering billions of U.S. drug dollars. Through the BMPE, billions of U.S.drug dollars are converted into billions of dollars worth of U.S. and foreign goods such as cigarettes, electronics and household appliances that are smuggled into Colombia. The BMPE relies on three principal parties -- a trafficker who has drug dollars and needs

pesos, a Colombian (principally an importer) who has pesos and needs dollars to purchase foreign goods and products for importing into Colombia, and a peso broker to bring them together. Using this system, the importer also corruptly evades Colombian taxes and duties.

But, the peso broker has the same problem as the trafficker and other money launderers -- introducing the drug dollars into the legitimate financial sector so that the broker's obligation to the importers may be satisfied. The peso brokers risk detection whether they "smurf" the funds, use wire remittances or other money services businesses, or have the funds bulk smuggled out of the U.S. to some other country's a more indulgent banking system.

Recent undercover cases, Ops. Skymaster and Juno, detailed in my written statement, are real-life illustrations of the BMPE in action and how those traffickers, launderers, and peso brokers were revealed and are now charged.

In the BMPE in essence, what starts out as drug currency on the streets of U.S. cities ends up as smuggled U.S. trade products in the markets and businesses in Colombia. And, what must be remembered, this dollar-for-peso exchange on Colombia's black market fuels the illicit drug trade.

(C) Bulk Cash Movement

The international bulk cash shipping of illicit proceeds is the most basic form of money laundering, but carries the greatest risks. U.S. law enforcement is working to target this bulk cash shipment and concealment. Most recently, the Administration, as part of the National Money Laundering Strategy of 2000, designated the Texas/Arizona border with Mexico as a High Intensity Financial Crimes Area (HIFCA) for the bulk shipment of cash both into Mexico, and from Mexico back into the United States. In this "systems" HIFCA, federal law enforcement will work collaboratively with state and local authorities, as well as regulators, to identify the methods, means, and personnel used in these bulk shipments.

II. Legislative Solutions

The reality of international money laundering in 2000 has prompted most countries to look for ways to update their domestic laws. Equally important, countries are searching for ways to work together to address this problem jointly. I would like to underscore how the recently-introduced Money Laundering Act of 2000 (H.R. 4695) addresses two principal problems in the anti-money laundering area. These two problems:

(1) the concealing/laundering of foreign-derived illicit proceeds into the U.S. financial system and

(2) the transport/laundering of U.S. criminal proceeds into foreign financial systems.

As to the first, no one wants the United States to become the haven for the world's criminal proceeds. It should be a crime for a foreign criminal to use our domestic financial institutions to launder the proceeds of his foreign crime. Except in a few instances (drug trafficking, bank fraud, and violent crimes linked to terrorism), our current laws do not address this problem.[1] H.R. 4695 provides some answers to these challenges.

*Section 6* expands the list of M/L "predicate crimes" to include many serious foreign offenses.[2]

Further, *Section 21* would allow us to assist other nations by commencing a formal action to confiscate foreign criminal proceeds (beyond just drug trafficking proceeds) that are found in the United States.

Turning to the "flip-side," that is, those instances of US-criminally derived funds moving out of the U.S. to be laundered abroad. An array of crimes are implicated, but particularly drug trafficking. As we are experiencing greater and greater

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[1] Not included, for example, are the illicit proceeds of public corruption, or racketeering, loan sharking, trading in arms and military secrets.

[2] Including those that are considered extraditable offenses under the multilateral conventions.

instances of bulk shipments of dirty cash, we need appropriate laws to pursue these smugglers.

*Section 18* of H.R. 4695 makes bulk cash smuggling a crime in and of itself. At present, it is a crime to smuggle all manner of things, but it is not a crime to smuggle currency. Section 18 is a response to the Supreme Court's decision in *Bajakagian*, finding the failure to report cash that had been concealed and was being smuggled out of the country a minor reporting violation for which the penalty of confiscation of the total cash hoard was excessive. Section 18 recognizes that the smuggling of cash in large quantities is itself a serious offense that merits significant punishment, including loss of an appropriate amount of the smuggled currency.

Second, *Section 19* of H.R. 4695 makes it an offense to transport criminal proceeds in interstate commerce, namely, for a currency courier knowingly to transport criminal proceeds along the interstate highways to an airport or border crossing. Current law does not make being a courier of dirty money a criminal offense; this needs to be fixed.

And a final tool to be highlighted, *Section 4* of H.R. 4695 will give us a so-called "long-arm" jurisdiction so that we can file an enforcement action against a foreign bank that knowingly participates in a money laundering offense here in the United

States. Current law, 18 U.S.C. § 1956(b), already authorizes such lawsuits, but it has two major defects. First, the absence of a "long-arm" statute makes it difficult for a court in the United States to obtain jurisdiction over the foreign bank, even if it committed the money laundering offense here. Second, current law contains no mechanism for freezing the U.S. assets of the foreign bank, i.e., its correspondent account, so that the United States may ultimately be able to collect a judgment. Section 4 would cure both problems.

CONCLUSION

In response to the globalization of money laundering, and especially the trends concerning money service businesses, the Black Market Peso Exchange and bulk cash smuggling, law enforcement needs some updating of the present anti-money laundering laws. We have had important successes even with our current laws, but I wish to conclude,... as I began, ... by pledging the Department of Justice's readiness to work with the Congress on H.R. 4695, the Money Laundering Act of 2000 - which we view as an important step in enhancing our effectiveness against money laundering in the 21st century.

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# Department of Justice

STATEMENT

OF

MARY LEE WARREN

DEPUTY ASSISTANT ATTORNEY GENERAL

BEFORE THE

SUBCOMMITTEE ON CRIMINAL JUSTICE, DRUG POLICY, AND HUMAN RESOURCES

COMMITTEE ON GOVERNMENT REFORM

U.S. HOUSE OF REPRESENTATIVES

CONCERNING

INTERNATIONAL MONEY LAUNDERING

*PRESENTED ON*

JUNE 23, 2000

Mr. Chairman, Ranking Member, Members of the Subcommittee, thank you for the opportunity to testify on the important topics of international money laundering, the steps law enforcement is taking to identify and attack it, and pending legislation that would enhance our capacity to prevent it. My testimony today will highlight some international money laundering trends, review some important law enforcement successes and explain why new legislation is necessary to ensure that those successes continue in the future.

As an initial matter, however, I understand that, just this week, the Money Laundering Act of 2000 was introduced by Representatives McCollum and Roukema as H.R. 4695. I note that this bill includes many provisions from the money laundering bill the Administration transmitted to Congress last November.

**I. Trends**

When the money laundering laws were first enacted in 1986, they were designed to address what was primarily a domestic problem. As this Committee well knows, since 1986, money laundering increasingly has become a global problem, involving international financial transactions, the smuggling of currency across borders, and the laundering in one country of the proceeds of crimes committed in another country. Currency, monetary instruments and electronic funds flow easily across international borders allowing criminals in foreign countries to hide their

money in the United States, and allowing criminals in this country to conceal their ill-gotten gains in any one of hundreds of countries around the world with scant concern that their activities will be detected by law enforcement.

Yet, despite the dynamic changes we are witnessing in the financial world, the basic problem for many money launderers, and especially for drug proceeds money launderers remains the same-concealing and moving the enormous amounts of illicit cash generated by the narcotics industry. For this reason, even in the international context, our primary area of emphasis has been on the placement stage of money laundering, the stage where the money launderer first seeks to enter the illicit proceeds into the financial system.

As a result of our focusing on this placement stage, U.S. banks and other depository institutions have been and continue to be our first line of defense against the entry of illicit cash proceeds. Although some exceptions still occur, we have largely succeeded in barring launderers direct access to our banks. Money launderers now must look more than ever before to international mechanisms and non-traditional financial institutions, such as wire remitters, casas de cambio, vendors of money orders and traveler's checks, and check cashers -- known collectively as "money service businesses."

**(A) Use of Money Service Businesses**

The use of money service businesses, especially wire remittance businesses, to launder drug money is not new. The extensive use of these businesses to remit drug proceeds back to Colombia was dramatically confirmed in 1996, when the Treasury Department issued the first in a series of Geographic Targeting Orders (GTO) requiring certain licensed money transmitters in the New York City metropolitan area to report information about all funds transfers to Colombia of $750 or more paid for with cash or certain monetary instruments. The basis for the GTO was information developed through a series of investigations conducted by the federal law enforcement authorities in New York and northern New Jersey. This GTO, which was initially in effect for 60 days and extended six times, resulted in an immediate and dramatic reduction in the flow of narcotics proceeds to Colombia through New York City money transmitters. In August 1997, the Treasury Department issued two similar GTOs targeting cash-purchased money remittances of $750 or more to the Dominican Republic, with similar effects on the movement of these illicit funds by wire.

Having identified and confirmed the significant use of money services businesses to launder drug money, the Treasury

Department recognized the need to address this problem on a permanent and national basis. On August 20, 1999, the Financial Crimes Enforcement Network promulgated money service business regulations that: (1) make specified money service businesses subject to Suspicious Activity Reporting; and (2) require specified money service businesses to register with the Department of the Treasury. These regulations serve both as a deterrent to those who would use money service businesses to launder money and as an investigative tool for law enforcement to trace illegal financial transactions. With these regulations and increased focus by law enforcement and regulatory personnel on money service businesses that launder illicit funds at home and abroad , we will seek to impede the growing use of money service businesses for money laundering purposes.

**(B) Black Market Peso Exchange**

A second major system for laundering drug proceeds is the Colombian Black Market Peso Exchange (BMPE) system, a system that has existed for decades, but most recently has been used as a vehicle for laundering billions of U.S. drug dollars. Via the BMPE, billions of U.S.drug dollars are converted into billions of dollars worth of U.S. and foreign goods such as cigarettes, alcohol products and electronic goods that are smuggled into Colombia. The BMPE relies on three principal parties -- a

trafficker who has drug dollars and needs pesos, a Colombian (principally an importer) who has pesos and needs dollars to purchase foreign goods and products for importing into Colombia, and a peso broker to bring them together.

The conversion of U.S. drug dollars to goods smuggled into Colombia begins with a drug trafficker who has a large quantity of cash in the U.S. -- the proceeds of drug sales. The trafficker needs local currency, such as Colombian pesos, to perpetuate his trafficking activities. To minimize his risks, the Colombian trafficker will sell these U.S. drug dollars to a peso broker in Colombia for pesos at a discount, e.g., $1 million in drug proceeds for the equivalent of $800,000 in Colombian pesos.

The peso broker obtains the pesos to pay the trafficker from Colombian importers and others who need U.S. dollars to pay for U.S. and other foreign export products. Instead of going to a local bank and buying dollars at the official exchange rate, the importer purchases dollars from the money peso broker and thereby corruptly evades the Colombian taxes and duties.

The problem for the peso broker is to introduce the drug dollars into the legitimate financial sector so that the broker's obligation to the importers may be satisfied. The peso broker has many methods by which this can be accomplished: (1) he can

"smurf" the money into any number of U.S. bank accounts that he has had opened in various names, that is, he slowly and laboriously separates or structures a series of bank deposits or other financial transactions into amounts less than $10,000 so as not to generate a Currency Transaction Report; (2) he can collaborate with a U.S.-based money remitter to deposit the cash into the remitter's account, and have the money wired to designated domestic or foreign bank accounts; (3) he can use agents to purchase monetary instruments such as money orders and/or traveler's checks -- again usually in small amounts -- to be deposited into consolidation accounts; and (4) he can smuggle the cash in bulk out of the United States by means of a courier, container ship, airplane or by some other means.

Under the last option, once the currency has been smuggled out of the country, the peso broker can deposit the money in a foreign bank and wire it to his accounts in the United States, or directly to the third-party's designee; or he can buy foreign bank drafts -- essentially cashiers checks written on the bank's correspondent account at a U. S. financial institution -- and then deposit the bank drafts into his own account or deliver them to the third party's designee. It is not unusual for law enforcement to see millions of dollars in the form of foreign bank drafts and sequentially numbered personal checks, travelers

checks and money orders passing through the U.S. bank account of a large scale money exchanger.

In sum, what starts out as drug currency on the streets of U.S. cities ends up as smuggled in the markets and businesses in Colombia. And, most significantly, this dollar-for-peso exchange on Colombia's black market fuels the illicit drug trade that is the scourge of both the United States and Colombia.

**(C) Bulk Cash Movement**

The international bulk cash shipping of illicit proceeds outside of the BMPE system is the third major money laundering method. It is the most basic form of money laundering, but carries the greatest risks. As noted before, as a result of our success in making it more difficult to place cash directly into our financial system, we are now seeing increased amounts of bulk cash being smuggled out of the country by courier, trucks, automobiles, aircraft, fast boats, and through concealment in goods of every conceivable nature.

As recent Congressional hearings and investigative reports in the press have revealed,[1] hundreds of millions of dollars in U.S. currency -- representing the proceeds of drug trafficking and other criminal offenses, as well as income not reported for

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[1] *See* "Dirty Money," *The Bergen Record*, May 31, 1998 p.1; *id.* June 7, 1998 p.1; *id.* June 14, 1998 p.1.

income tax purposes -- is annually transported out of the United States to foreign countries in shipments of bulk cash. It is this physical movement of cash that explains the large number of out-bound currency interdiction cases we have witnessed in the last few years - cases involving currency seizures on highways, at airports, in marine terminals, and at border crossings. *See* United States v. $129,727.00 U.S. Currency, 129 F.3d 486 (9th Cir. 1997) (drug courier intercepted with large quantity of cash in bundles wrapped in fabric softener sheets and plastic wrap); United States v. One Lot of U.S. Currency ($36,674), 103 F.3d 1048 (1st Cir. 1997) (cash seized from courier at airport); United States v. $39,873.00, 80 F.3d 317 (8th Cir. 1996) (currency seized during highway stop); United States v. $189,825.00 in U.S. Currency, 8 F. Supp. 2d 1300 (N.D. Okla. 1998) (cash found concealed in gas tank on highway known as a "drug pipeline"); Albajon v. Gugliotta, 72 F. Supp.2d 1362 (S.D. Fla. 1999) ($57,000 cash found in courier's socks and pants) ; United States v. $86,020.00 in U.S. Currency, 1 F. Supp. 2d 1034 (D. Ariz. 1997) (cash taken from courier traveling under false name); United States v. $9,135.00 in U.S. Currency, 1998 WL 329270 (E.D. La. 1998) (courier caught with cash stuffed in pockets and shoes); United States v. $206,323.56 in U.S. Currency, 998 F. Supp. 693 (S.D. W. Va. 1998) (courier caught

fleeing from highway stop); United States v. $263,448.00 in U.S. Currency, Civ. No. 1:96-CV-284-HTW (N.D. Ga. Sept. 24, 1998) (unpub) (21-year old drop-out with no source of income caught at airport with $263,000 in street money in a carry-on bag).

U.S. law enforcement is making all possible efforts, commensurate with resources, to target this bulk cash shipment and concealment. Most recently, the Administration, as part of the National Money Laundering Strategy of 2000, designated the Texas/Arizona/Mexico border as a High Intensity Financial Crimes Area (HIFCA) for the bulk shipment of cash both into Mexico, and from Mexico back into the United States. In this "systems" HIFCA, federal law enforcement will work collaboratively with state and local authorities, as well as regulators, to create an Action Team to identify and target the bulk shipment of illicit proceeds across our borders. Additionally, in H.R. 4695 there is a provision to address this serious problem.

II. **Response to the Money Laundering Trends**

The reality of international money laundering in this new century has prompted most nations of the world to look for ways to update their domestic laws to address this threat to national security. Equally important, countries are searching for ways to work together to address this problem jointly, irrespective of our different legal systems, customs and traditions. The

criminals respect no borders; their criminal proceeds move from country to country in the blink of an eye, making it absolutely essential that our laws are brought up to date, and are changed to make it possible to cooperate fully with our partners in law enforcement abroad.

The United States should be the leader in this process, but sadly we have fallen behind. Our early anti-money laundering laws have remained mostly static for 14 years, other countries are moving ahead to criminalize international money laundering and to take other steps to separate the criminal from his criminal proceeds. Too often, we in the United States find ourselves unable to render the kind of assistance to foreign law enforcement that we ask them to provide to us. And too often, we find ourselves outmaneuvered by criminals circumventing our laws by moving criminal proceeds overseas.

**(B) Recent Successes in the Fight Against International Money Laundering**

Before I highlight some of the ways the recently-proposed legislation would help in the fight against international money laundering, I want to make clear that the Departments of Justice and Treasury have worked hard and scored important successes even with our outdated arsenal. For example, Operation Skymaster, combining the strengths of the United States Customs Service with

the United States Attorney's Office in Mobile, Alabama and the Department of Justice, Criminal Division, was a highly successful undercover operation attacking the BMPE system. From March 1997 through May 1999, Operation Skymaster operatives managed to gain the trust of Colombian peso brokers working for Colombian narcotics traffickers who directed the undercover operatives to retrieve bulk cash narcotics proceeds. The undercover operatives placed this drug cash into government-controlled accounts.

After each pick-up, the peso brokers instructed the operatives to wire-transfer the monies to designated bank accounts. Using the Colombian BMPE, the peso brokers "exchanged" the dollars on deposit in the undercover bank accounts for Colombian pesos obtained from Colombian importers of U.S. goods. The peso brokers arranged to have the dollars wired to U.S. exporters as payment for the goods received by the Colombian importers. To complete the laundering cycle, the importers received confirmation that the dollar wire-transfers were sent, and then paid the peso brokers the equivalent in pesos. Later, the peso brokers delivered the pesos to the Colombian drug trafficking groups. Operation Skymaster has already resulted in 14 indictments against 29 defendants; 12 convictions on money laundering or drug conspiracy charges have already been secured.

Similarly, Operation Juno combined the Drug Enforcement

Administration, the Internal Revenue Service Criminal Investigation Division and the United States Attorney's Office in Atlanta in an OCDETF anti-money laundering investigation. In December 1999, a federal grand jury in Atlanta indicted five defendants from Colombia who were involved in a multi-million dollar scheme involving money laundering and drug distribution. At the request of the now-indicted defendants, undercover agents participating in Operation Juno picked up drug proceeds usually ranging between $100,000 and $500,000 in U.S. currency. The pickup of drug proceeds occurred in a variety of cities, including Dallas, Houston, New York, Newark, Providence, and Chicago, as well as Madrid and Rome. Operation Juno later wire-transferred the monies from the collection city to an undercover bank account in Atlanta. At the direction of the now-indicted individuals, the monies were then distributed to various accounts in the U.S. and around the world. As in Operation Skymaster, the drug proceeds in Operation Juno were laundered through the Colombian Black Market Peso Exchange, as peso brokers "exchanged" the dollars on deposit in the undercover bank accounts for Colombian pesos obtained from Colombian importers of U.S. goods.

Operations Skymaster and Juno have thus succeeded not merely in terms of criminal investigations, indictments, convictions, and forfeitures of assets, but also by exposing and destroying

parts of the Colombian Black Market Peso Exchange. Law enforcement has worked hard and obtained meaningful results even though we have had to rely upon legislation created when money laundering was understood to be more of a domestic phenomenon than an international one.

**III. Legislative Solutions**

I want to discuss two principal problems that are addressed by the recently-introduced Money Laundering Act of 2000 (H.R. 4695), starting first with the laundering of the proceeds of foreign crimes by foreign criminals who conceal their money in the United States. This problem has been much discussed in Congress and in the media for the past year. Suffice it to say it is now apparent, as it has been for some time, that criminals abroad are causing the proceeds of crime to be deposited in U.S. bank accounts, invested in U.S. securities, and used to purchase U.S. goods and services. No one wants the United States to become the haven for the world's criminal proceeds. It should be a crime for a foreign criminal to use our domestic financial institutions to launder the proceeds of his foreign crime. Except in a few instances, our current laws do not address this problem.

Under current Sections 1956 and 1957 of Title 18, it is a crime to launder the proceeds of three categories of foreign

crimes in the United States: drug trafficking, bank fraud, and violent crimes linked to terrorism. Not included, for example, are the illicit proceeds of public corruption, or racketeering, loan sharking, trading in arms and military secrets. Our present law does not make it a crime to conceal or even to spend the proceeds of any of these offenses in the United States.

H.R. 4695 contains a number of provisions that will give law enforcement some of the tools it needs to proceed against this threat.

**Section 6** expands the list of "predicate crimes" to include many serious foreign offenses. Thus, it would be a federal offense, punishable under Section 1956 or 1957, to launder the proceeds of any of the foreign offenses listed in the statute, including any offense for which extradition is available under a multilateral treaty.

Further, **Section 21** would allow us to render assistance by commencing a formal action to confiscate foreign criminal proceeds that are found in the United States. Under current law, we are permitted to initiate such confiscation actions only against the proceeds of foreign drug trafficking offenses.

The second principal problem to be addressed in the legislation is the "flip-side" of the first. In this category are those instances of criminals who commit a crime in the United

States and then seek to launder the proceeds of these offenses by sending the money abroad. This can occur with respect to all manner of crimes: telemarketing fraud, sports betting, and many other offenses now being committed in ways that routinely result in the transfer of funds out of the United States to Canada, the Caribbean or elsewhere. But the problem is greatest today with respect to drug trafficking.

Drug traffickers have an enormous logistical problem: after they have grown, manufactured, transported and distributed their product, they must find a way of dealing with the millions of pounds of currency money that they receive in return. If the proceeds of cocaine trafficking are received in "street money," i.e., equal numbers of 5, 10 and 20 dollar bills, the money will weigh *3 ½ times as much as the cocaine*. So if an airplane is used to smuggle cocaine into the United States, the same airplane would have to fly out of the United States three times to return the drug proceeds to the trafficker. Clearly, this poses a great obstacle to the trafficker and renders this step the most vulnerable to detection by law enforcement in relation to any other point along the trafficking continuum for the major criminal organizations.

First, it exposes the trafficker to the greatest risk of loss. If the cocaine coming into the U.S. is seized by law

enforcement at any stage in the process, it can be easily replaced at the source for a fraction of its street value. If the drug dealer, however, suffers the loss of the drug cash proceeds, he loses his entire investment *plus* all the profits that accrue along the way as he moves the cocaine from supply to final distribution. It is for that reason that we see the confiscation of the drug proceeds as perhaps the most important weapon we have to interrupt the trafficking cycle, and it is why the traffickers go to such great lengths to conceal their proceeds from law enforcement.

As set forth in **Section** 18 of H.R. 4695, bulk cash smuggling is made a crime in itself. At present, it is a crime to smuggle all manner of things, but it is not a crime to smuggle currency. The only criminal offense associated with bulk cash smuggling is the reporting requirement in 31 U.S.C. § 5316, which makes it an offense to transport more than $10,000 in or out of the United States without filing a report with the U.S. Customs Service. *See* 31 U.S.C. § 5322(a). The Supreme Court has held that a reporting violation is a minor offense for which the punishment is limited. *See* United States v. Bajakajian, 524 U.S. 321 (1998). In Bajakajian, the Court limited the punishment to the confiscation of $15,000, even though the defendant had been convicted of a criminal offense involving the failure to report

$357,000 that was concealed in the false bottom of a suitcase and under his wife's clothing.

It is time to recognize that the smuggling of cash in large quantities is itself a serious offense that merits significant punishment, including loss of the smuggled money itself.

Second, **Section** 19 of H.R. 4695 makes it an offense to transport criminal proceeds in interstate commerce, for a currency courier to transport money that he knows is criminal proceeds along the interstate highways to an airport or border crossing. Current law does not make being a courier of dirty money a criminal offense. *See* United States v. Puig-Infante, 19 F.3d 929 (5th Cir. 1994) (transporting drug proceeds from Florida to Texas is not a money laundering "transaction"); United States v. Gonzalez-Rodriguez, 966 F.2d 918 (5th Cir. 1992) (carrying cash through an airport is not a money laundering transaction).

Third, we should tighten the law on money remitters. **Section** 3 clarifies the *mens rea* requirement in the existing law, 18 U.S.C. § 1960, to ensure that we can prosecute money remitters who knowingly operate their businesses without a state license. *See* United States v. Velastegui, 199 F.3d 590 (2d Cir. 1999) (defendant prosecuted for operating money remitter business without New York license).

And as the fourth and final tool to be highlighted, Section 4 of H.R. 4695 will give us a so-called "long-arm" jurisdiction so that we can file an enforcement action against a foreign bank that knowingly participates in a money laundering offense in the United States. Current law, 18 U.S.C. § 1956(b), already authorizes such lawsuits, but it has two major defects. First, the absence of a "long-arm" statute makes it difficult for a court in the United States to obtain jurisdiction over the foreign bank, even if it committed the money laundering offense here. Second, current law contains no mechanism for freezing the U.S. assets of the foreign bank, i.e., its correspondent account, so that the United States is able to collect its judgment if it prevails in its § 1956(b) lawsuit. Section 4 would cure both problems.

**Conclusion**

In response to the internationalization of money laundering, and especially the trends concerning money service businesses, the Black Market Peso Exchange and bulk cash smuggling, law enforcement needs an updated set of tools. We have had important successes even with our current laws, but I wish to conclude as I began, by pledging the Department of Justice's readiness to work with the Congress on H.R. 4695, the Money Laundering Act of 2000

– an important step in enhancing our effectiveness against money laundering in the 21st century.

Mr. MICA. Rather than interrupting the next witness, I think what we're going to do is recess until 10:15, approximately 10:15. I'll ask all the witnesses to stand by, and we will proceed. Since there is a vote at the present time, we'll stand in recess.

[Recess.]

Mr. MICA. If I could, I'd like to call the subcommittee back to order.

I'll recognize our next witness, which is Mr. William F. Wechsler. He is the Special Advisor to the Secretary and Deputy Secretary for Money Laundering, in the Department of Treasury. Welcome, sir, and you're recognized.

Mr. WECHSLER. Thank you very much, Mr. Chairman, Ranking Member Mink, members of this committee, thank you very much for your focus on this very important issue.

On behalf of Secretary Summers and Deputy Secretary Eizenstat, I appreciate your opening statements and agree with virtually everything that you said.

I won't go through what you went through, which is the national money laundering strategy for 2000, which I think you summarized very well. The main point I want to make there is that all four tenets of fighting money laundering have to be done together. That means law enforcement on the Federal level, law enforcement on the State and local level, banking regulation and supervision, and international policy. And if you leave out any one of those tenets of combating money laundering, you're going to leave wide loopholes for money launderers to run right through.

We have other people here before the committee that can talk about the law enforcement side, so I'll let them do that. But I will focus, it's also in my written remarks, but I will focus today on the international side.

Let me begin with a little bit of context. The last decade on the international money marketing front has seen two different trends which need to be understood. First, the good news. In the last decade, the United States and its partners and developed major financial centers have come a long way to establishing international standards to fight money laundering, to create good anti-money laundering regimes, and have brought a lot of countries in the developed major financial centers up to these high levels.

We've mostly done that through the Financial Action Task Force, which was created in 1989 under the Bush administration project. And in 1990, created the first set of international anti-money laundering standards. And when countries join the FATF, they make a political commitment to bring their domestic anti-money laundering regime up to those standards. Those standards were again reissued and updated in 1996.

This has been, the FATF in the Bush and Clinton administrations has been a great success story. Now it has 26 nations that have joined, 3 more are on the way. All these countries are making political commitments to improve their regimes.

The end result of it is, you see things like in Switzerland, where almost every month now we read a fascinating story about a major money laundering case being made there, involving Russian organized crime, involving Latin American drug cartels. These are things that as early as 5 years ago, you would have never seen out

of Switzerland. This can be ascribed to the FATF process and countries like Switzerland joining the FATF process and raising their money laundering standards.

That's the positive trend. But unfortunately, there's a negative trend over the last decade, or actually even more recently that has gone along the same side. And that trend is the proliferation of money laundering havens around the world. As a result of globalization and advances in banking and communications technologies, money can move farther and faster than ever before. Of course, this is a great boon to business, but it can also provide new opportunities for money laundering.

As Secretary Summers said in a speech last March, in a world where capital can silently traverse the globe at the push of a button, proceeds of crime can move just as quickly and just as quietly. Only a decade ago, many nations in the world were too physically remote to be significantly involved in international banking. So the quality of their anti-money laundering regimes did not significantly affect the United States or other countries.

But now they are only a click of a mouse away. And now just as quickly, they can become money laundering havens. Becoming a money laundering haven is easy to do. It costs no money. All you have to do is pass a few laws that provide, for example, excessive bank secrecy, anonymous company formulation, and non-regulated offshore financial services, then you wait for the money to flow in. Better yet, you can pass a law banning information sharing with foreign law enforcement on financial matters.

It's not taken long for other countries to choose this path. Indeed, just in the last few years, we've seen a number of countries do just that. Many openly declare they are passing such laws as a formal part of their economic development programs. Some even blatantly advertise on the Internet that by putting money in their banks, you'll be protected by their laws from investigations by U.S. law enforcement.

Of course, for these countries, it's extremely difficult for them to know if the money that goes into their banks in this fashion is dirty or clean.

To give one quick example, in the South Pacific there's a small island called Nauru, which as the chairman noted was on the list that the Financial Action Task Force put out yesterday. Some time ago, it had one of the highest per capita incomes in the world, because of phosphate mining. The phosphate ran out, they became a money laundering haven.

The Russian Central Bank told the press that in 1998, $74 billion left Russia to go into offshore financial centers. Now, we of course don't know if this is capital flight or money laundering or what. We don't know how much of it went back to Russia. But these are the Russian Central Bank's numbers. $74 billion is a huge amount.

Of that, $70 billion in 1998 went through banks chartered in Nauru. It's an amazing statistic.

So let me tell you what we've done about this. Last year, the United States, along with the United Kingdom, started to take against this front when we issued an advisory against Antigua and Barbados because of some significant weaknesses in their regime.

This public rebuke had a profound effect on Antigua, which has since worked with the United States to change its laws to move toward international standards.

But even as we were taking this action, we knew that a more systematic approach, a more multilateral approach was needed.

So in February of this year, the Financial Action Task Force's 26 member nations reached agreement on a list of 25 criteria which would be objective measures that we could use to determine whether countries fell significantly short of international anti-money laundering standards. FATF then agreed on a list of countries that were deserving of priority attention to be judged against these criteria, there were 29 of them. Then experts of the 26 countries of FATF produced comprehensive analyses of their laws and regulations and practices. We then had processes between the FATF and these countries to give a give and take where they could do written comments on it, which they could do face to face meetings, that we had all the information that we needed, and just this past week in Paris, the 26 nations of FATF came up with their list that you read at the start of this hearing.

This is a major accomplishment, the first ever multilateral designation of countries that fall short of international standards on any subject, something that we have not been able to accomplish, other law enforcement, other foreign policy subjects, but we've been able to do on money laundering.

This public naming and shaming should have a profound effect, indeed, it already has. If you look at some of the wire stories coming out today, from the Philippines, for instance, where they publicly committed to improve their standards. Liechtenstein, even through this process, has done more in the last couple of months to fight money laundering than it has in years preceding. It has hired an Austrian special investigator, which has arrested a number of prominent members of people in the country, including the brother of the deputy head of government, the brother of the chief justice of the supreme court and a sitting member of parliament for money laundering.

In large part, these actions have been taken because the international community is now taking strong public measures.

Next step is two-fold. In the fall, FATF will start examining another group of countries and see if they meet or fail the FATF standards. Also, the member countries of FATF, including the United States, are now actively considering what next steps we have to take with these countries, what kind of guidance we need to give to our domestic financial institutions on what they need to do in dealings with these countries, and what kind of actions, other actions we should be taking vis-a-vis these countries, both positive and negative. Positive for countries that want to cooperate and build their systems up to international standards, including offers of technical assistance and training. And if countries continue to be outliers and continue to flaunt international standards, we will have to look at harsher measures.

That is one of the reasons why, as you mentioned, Mr. Chairman and Representative Cummings also mentioned in his introductory remarks, that the administration strongly supports the International Counter-Money Laundering Act of 2000 which passed

bipartisanly overwhelmingly in the House Banking Committee, 31 to 1, which would give the Treasury Department new tools, tools that we do not have right now, to be able to crack down on these havens who willfully ignore international standards.

Sadly, if this legislation is not passed, we could be in a position in the worst of all situations where countries are flaunting international standards, other countries are taking action, but the United States, because it simply does not have the tools, is unable to do so.

Thank you very much again, Mr. Chairman. The only other comment I'd like to make is, you made reference to statistics that were in Money Laundering Alert. Deputy Secretary Eizenstat has sent a letter to the editor of the Miami Herald on this subject, and I'd like it to be introduced into the record, if that's OK.

Mr. MICA. Without objection, that will be made part of the record.

Mr. WECHSLER. And I'd also like to introduce to the record a letter that was singed by six heads of law enforcement agencies supporting the legislation, the International Counter-Money Laundering Act.

Mr. MICA. Without objection, we will also include that letter.

[The prepared statement of Mr. Wechsler follows:]

**EMBARGOED UNTIL 10 A.M. EDT**
Text as Prepared for Delivery
June 23, 2000

**TREASURY SPECIAL ADVISOR TO THE SECRETARY AND DEPUTY SECRETARY WILLIAM F. WECHSLER TESTIMONY BEFORE THE HOUSE COMMITTEE ON GOVERNMENT REFORM, SUBCOMMITTEE ON CRIMINAL JUSTICE, DRUG POLICY AND HUMAN RESOURCES**

Mr. Chairman and Ranking Member Mink and Members of this Committee:

I want to thank you for this opportunity to speak to you today about international money laundering. Treasury Secretary Lawrence Summers and Deputy Secretary Stuart Eizenstat applaud your continued focus on this important issue. International money laundering is a growing, global problem that requires a global solution. Former IMF Managing Director Camdessus has estimated the volume of cross-border money laundering at between two and five per cent of the world's gross domestic product. If he's right, that means that between $600 billion and $1.5 trillion each year is laundered around the world.

To some, money laundering may look like a clever game played by accountants and other white collar professionals. But we know that there is often a bloody reality at its core. International drug cartels, criminal organizations and terrorist groups must launder their dirty money in order to receive the ultimate benefit of their crimes, and to finance their ongoing criminal operations. There would be no incentive for the cartels to push drugs on the streets of the United States if they could not launder the profits back into their home countries' financial systems, making their money appear to be legitimate and themselves very wealthy.

By cracking down on international money laundering we can accomplish three things. First, we can disrupt international criminal networks by attacking their financial foundations. Second, we can raise the cost of laundering money and thereby help deter criminals from abusing legitimate financial systems. And third, we can follow the trail of dirty money to the underlying crimes or to the criminals themselves. We all remember that it took an accountant to put Al Capone behind bars.

## I. The National Money Laundering Strategy

Secretary Summers and Deputy Secretary Eizenstat are fully committed to combating money laundering, both at home and abroad. Under their leadership, we at the Treasury have worked with the Department of Justice, the law enforcement and regulatory agencies and the rest of the executive branch to develop a series of new initiatives to combat money laundering. In March, we unveiled the *National Money Laundering Strategy for 2000*, the most comprehensive plan ever put forth on the subject. It includes literally scores of specific action items to combat money laundering. For each item, goals for this year are laid out, and specific government officials are listed who is personally responsible for meeting those goals.

The National Money Laundering Strategy for 2000 identifies four critical fronts for our efforts to combat money laundering: federal law enforcement, financial services regulation and supervision, partnership with state and local efforts, and international initiatives. I will quickly describe some highlights of our approach toward the first three fronts before focusing my remarks on the fourth, the specific subject under examination today, how we have improved international cooperation to combat money laundering. As I do so, I cannot stress strongly enough our conviction that in order for us to have success in combating money laundering, all four of these fronts must be part of a comprehensive, integrated strategy. If we only focus on one without paying attention to another, money launderers will easily be able to elude our grasp.

- Strengthening Domestic Law Enforcement. In March, the Departments of Justice and the Treasury designated the first-ever High Risk Money Laundering and Financial Crime Areas (HIFCAs). Three geographic areas were chosen, New York/New Jersey, Los Angeles and San Juan, and one systemic focus, bulk cash smuggling across the border between Mexico and Texas and Arizona. For each of these HIFCAs, an action team composed of all relevant law enforcement authorities, prosecutors and financial regulators is being established to spearhead a coordinated, concentrated, strategically focused law enforcement attack on money laundering. Many other specific law enforcement initiatives are underway and can be better described by the representatives of the law enforcement agencies you have here today.

- Enhancing Regulatory and Cooperative Public-Private Efforts. Among our initiatives on this front is our ongoing program to eliminate outstanding loopholes in our anti-money laundering regime by bringing in all significant providers of financial services. In March, FinCEN issued a final rule requiring suspicious activity reporting by money services businesses that will become effective at the end of 2001. Later this year FinCEN will issue a final rule for casinos, and by the end of the year FinCEN, working with the SEC, will issue a proposed rule for brokers and dealers in securities. This will help to better deter money launderers from abusing these financial services.

- Strengthening Partnerships with State and Local Governments. A critical initiative on this front is our new grant program to provide seed capital for emerging state and local counter-money laundering enforcement efforts. The Financial Crime Free Communities Support Program (C-FIC) will provide approximately $2.5 million this year in technical assistance and training to state and local law enforcement. Last week the Departments of Justice and the Treasury formally began the application process.

- International Initiatives. We have a wide range of initiatives on this fourth front, which will be the focus of my remarks today.

## II. International Trends

Let me begin with some context. The last decade has seen two fundamental trends in international money laundering. First, the good news. In the last decade or so most of the world's major developed financial centers have worked together to establish global anti-money laundering standards. This effort is critical because it is a statistical certainty that much of the world's dirty money flows through these financial centers.

The U.S. and its partners took a great step forward in combating international money laundering in 1989 with the creation of the Financial Action Task Force (FATF) by the G-7. In 1990 and again in 1996, the FATF issued its set of comprehensive recommendations on what countries need to do – in terms of laws, regulations and enforcement – to combat money laundering effectively. In joining FATF, every member nation makes a political commitment to adopt the recommendations and allows itself to be evaluated by the other member nations on whether it has fulfilled that commitment. Today FATF has grown to 26 members and three more are on their way toward full membership: Brazil, Argentina and Mexico. This top-down, cooperative approach has been greatly successful in encouraging FATF member nations to improve their money laundering regimes.

That is the positive trend that we have witnessed in the last decade. It is because of this trend that we now routinely read of significant money laundering cases being brought by Swiss authorities involving Russian crime, Latin American drug cartels and African official corruption – something that only a few years ago was unimaginable. Just last week, FATF achieved another major triumph when Austria, yielding to FATF's demands, finally agreed to abolish its system of anonymous passbook saving accounts.

Now for the bad news. While we have been working to improve anti-money laundering regimes in major, developed financial centers, there has been a second trend that has served to undermine our accomplishments. As a result of globalization and advances in banking and communications technologies, money can move farther and faster than ever before. That is a great boon to business, but can also provide new opportunities for money laundering. As Secretary Summers said in a speech last March, "In a world where capital can silently traverse the globe with the push of a button, proceeds of crime can move just as quickly and just as quietly." Only a decade ago, many nations in the world were too physically remote to be significantly involved in international banking. The quality of their anti-money laundering regimes did not significantly affect the U.S. or other countries. But now they are only a click of the mouse away. And now they can just as quickly become money laundering havens.

Becoming a money laundering haven is easy to do. It costs no money. Simply pass a few laws that provide, for example, excessive bank secrecy, anonymous company formation, and unregulated offshore financial services, and wait for the money flow in. Better yet, pass a law banning information sharing with foreign law enforcement on financial matters. It has not taken

long for a number of countries to choose this path. Indeed, there has been a proliferation of these money laundering havens in the last few years. Many openly announce that they are passing such laws as a formal part of their economic development programs. Some even blatantly advertise on the internet that by putting money in their banks you will be protected by their laws from investigations by U.S. law enforcement. Of course, it will be extremely difficult for these countries to ever know whether the money in their banks is dirty or clean.

To give just one example: In the South Pacific there is a small island nation called Nauru. It once had one of the highest per capita incomes in the world due to phosphate mining. But the phosphate ran out, so it turned to offshore financial services. Nauru quickly became very popular – so popular that late last year the Russian Central Bank announced that out of a total $74 billion that flowed from Russia to offshore centers in 1998, $70 billion moved through accounts in Nauru. Now, we may never know how much of that money was capital flight and how much was criminal proceeds, but the point is from Nauru's point of view they had know way of knowing either.

**III. Identification of Non-Cooperative Countries and Territories**

The United States and the rest of the responsible international community has acted quickly to staunch this new, dangerous proliferation of money laundering havens. Last year, the United States and the United Kingdom issued advisories to our domestic financial institutions urging them to enhance their scrutiny of transactions coming in or going out of Antigua because of our serious concerns about glaring weaknesses in Antigua's anti-money laundering regime. This public rebuke had a profound affect on Antigua, which has since worked with the U.S. to change its laws to move toward international standards. But even as we were taking this action, we knew that a more systematic approach was needed.

So in February of this year, the 26 nations of the Financial Action Task Force reached agreement on a list of 25 criteria – objective measures that we could use to determine whether countries fell significantly short of international anti-money laundering standards. These countries could be both money laundering havens and large sources of dirty money. The FATF also agreed on a list of countries that would be the first to be judged against those criteria. The FATF then produced comprehensive analyses of each of those countries legislative, regulatory and enforcement anti-money laundering efforts. Finally, the FATF offered all of the countries under review ample opportunity to respond to FATF's analyses, both in writing and in face-to-face meetings.

Yesterday FATF released its first report to identify non-cooperative countries and territories. Included on that list were: the Bahamas, the Cayman Islands, the Cook Islands, the Marshall Islands, Israel, Lebanon, Liechtenstein, Nauru, Niue, Panama, the Philippines, Russia, St. Kitts and Nevis, St. Vincent and the Grenadines. This is a major accomplishment, to my knowledge the first-ever multilateral designation on any subject listing countries that fail to comply with well-established international standards. These conclusions are not just the conclusions of the United States, but are firmly backed by 26 nations. This public "naming and shaming" should have a profound affect. Indeed, it already has. Countries such as Liechtenstein which for years had never had a successful prosecution of a money laundering case, are now taking commendable steps when confronted with FATF action. In recent months, the Austrian who

Liechtenstein recently appointed to be their first-ever independent prosecutor on money laundering has arrested a number of prominent officials on money laundering charges including the brother of the deputy head of government and a sitting member of parliament. Just last week, he raided the bank that belongs to the family of the Prince. All because the international community has taken strong measures.

**IV. Next Steps**

In the coming months, the FATF will undertake similar analyses of additional countries. I expect that some more countries will be added to the list over time. I also expect that some countries named yesterday by FATF will react constructively and will bring their anti-money laundering regimes up to international standards. If so, they will be dropped from the list. As appropriate we will offer technical assistance to help them on their way, and encourage our allies in FATF to do the same.

It is possible, however, that some nations will instead continue to ignore international standards and thereby remain money laundering havens. We will then have to explore with our allies what appropriate countermeasures could be taken. Unfortunately, the United States at present does not posses all the tools we need to crack down on international money laundering havens and other foreign money laundering threats. That is why we worked with Chairman Leach and Ranking Member LaFalce in the House Banking Committee to develop a bipartisan bill that would give us these tools.

We were very pleased that the House Banking Committee, by an overwhelming bipartisan vote of 31 to 1, on June 8 reported out H.R. 3886, the International Counter-Money Laundering and Foreign Anti-Corruption Act of 2000. This bill would authorize the Secretary of the Treasury to designate a foreign jurisdiction, a foreign institution or a class of international transactions as being a "primary money laundering concern." Then, in consultation with the Chairman of the Federal Reserve and other appropriate officials, he could impose one or more targeted actions, including provisions for additional record-keeping and reporting, the identification of beneficial owners and those using correspondent or payable-through accounts, and for restricting correspondent relationships with money laundering havens and rogue foreign banks.

In this way, we could focus our efforts on dirty money while allowing legitimate commerce to continue unimpeded. We could thereby help prevent laundered money from slipping undetected into the U.S. financial system and crack down on foreign money laundering havens in ways that we cannot today. I cannot stress strongly enough how important passage of this bipartisan legislation will be to our comprehensive efforts to combat international money laundering.

Again, thank you for this opportunity to speak about this important subject.

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**STATEMENT BY TREASURY SECRETARY LAWRENCE H. SUMMERS REGARDING FATF ANNOUNCEMENT OF NON-COOPERATIVE COUNTRIES**

Today in Paris, the Financial Action Task Force (FATF) named 15 jurisdictions that have failed to take adequate measures to combat international money laundering. The United States, an active participant in the FATF, welcomes this landmark step to limit the capacity of drug dealers, terrorists, organized criminals and corrupt foreign officials to launder their ill-gotten gains through safe havens.

FATF's Report on Non-Cooperative Countries and Territories provides important information that financial institutions in this country and around the world should make use of in conducting their own internal anti-money laundering efforts. The United States will promptly examine what additional guidance ought to be provided to our own financial institutions.

The Report also underscores the importance of Congress acting on the bi-partisan anti-money laundering legislation introduced by Congressmen Leach and LaFalce. The legislation, which passed overwhelmingly by the House Banking Committee, would substantially enhance the capacity of the United States to employ targeted counter-measures against money laundering havens.

This Report fulfills a commitment made by FATF in February and by the United States in March in our *National Money Laundering Strategy* to identify countries whose counter-money laundering regimes fail to meet international standards. It is major step in the right direction.

Taken together with recent actions by the Financial Stability Forum – categorizing offshore financial centers according to their perceived quality of supervision and degree of regulatory cooperation – and the OECD – cracking down on harmful tax competition – FATF's action reflects a new international commitment to curb financial abuse around the world. These measures are crucial steps in the effort to ensure that global mobility of capital remains a strong positive force for economic growth and prosperity worldwide.

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The list is not yet up on the FATF website, but here are the 15 countries are as follows:

the Bahamas
the Cayman Islands
the Cook Islands
Dominica
Israel
Lebanon
Liechtenstein
the Marshall Islands
Nauru
Niue
Panama
the Philippines
Russia
St. Kitts and Nevis
St. Vincent and the Grenadines

Mr. MICA. Thank you for your testimony. We'll withhold questions until we've heard from all the witnesses.

The next witness will be Mr. John C. Varrone, who's Acting Deputy Assistant Commissioner, Office of Investigations, U.S. Customs Service. You're recognized, sir.

Mr. VARRONE. Thank you, Mr. Chairman.

Good morning to members of the subcommittee. Thank you for inviting me today to discuss the global impact of money laundering and the U.S. Customs Service approach in addressing this increasing international threat.

Mr. Chairman, as you and your committee are aware, money laundering is a threat to the economic and national security of this Nation. It is estimated that the worldwide volume of money laundering is between 2 and 5 percent of the world's gross domestic product, or in excess of $600 billion.

In response to this threat, the Departments of Treasury and Justice developed and implemented a money laundering strategy for all of the law enforcement bureaus. Pursuant to this new strategy, four high intensity financial crime areas have been identified. These HIFCAs are intended to concentrate law enforcement efforts at the Federal, State and local level to combat money laundering in these designated high intensity zones.

The cities of Los Angeles, San Juan, Puerto Rico and the New York-New Jersey area have been designated as HIFCA areas. HIFCAs can also be formed to address a specific money laundering system. With that in mind, the fourth HIFCA along the Arizona-Texas border will concentrate on the bulk cash system that moves large volumes of smuggled currency between the United States and Mexico.

Customs played a primary role in the working group, determining the placement of the HIFCAs because of the primary enforcement agency responsibilities that we have at our Nation's borders. We have the jurisdictional responsibility for enforcing lawful international trade involving commodities and monetary instruments. The Congress has given the U.S. Customs Service the requisite authority for the enforcement of international financial crime and related money laundering investigations. Our enforcement efforts are not related to drug related money laundering investigations, but to the proceeds of all crime.

Investigation or interdiction activity is often triggered by the illegal movement of criminally derived funds, services or merchandise across our national borders, and is applied pursuant to the authority under the Bank Secrecy and the Money Laundering Control Acts of 1986 and 1988.

This jurisdiction also enables us to address money laundering outside the context of narcotics trafficking in such areas as prime investment fraud, advanced fee schemes and telemarketing fraud. For example, Project Cult, a joint international telemarketing enforcement with the Canadian authorities, has been credited with the prosecution of 19 violators and presently pending 30 additional suspects, pending prosecution, and the seizure of the nexus of $10 million which has been recovered and returned to the victims of this fraud.

The Customs Service has an aggressive strategy to combat money laundering and dedicates a nexus of 400 agents worldwide to pursue these investigations. Over the past 3 fiscal years, the Service has conducted over 12,000 financial investigations, resulting in the arrest of 3,150 violators and the seizure of over $1 billion.

Customs combats money laundering through a systems based approach. Enforcement programs that we use to attack these systems include outbound interdiction, undercover investigations, regulatory interventions, industry outreach, multi-agency operations, and global partnerships.

One of our most effective programs has been our undercover money laundering operations. During the past 12 years, the Customs Service long term undercover operations have resulted in the seizure of over $1 billion in cash, over 2,000 arrests and the seizure of more than 37,000 kilograms of cocaine.

To assist with our large number of undercover financial investigations, we've developed and implemented the money laundering coordination center. This center, which has been operational since 1997, is providing deconfliction support to all U.S. Customs undercover operations. The MLCC also serves as a safety mechanism, so that all Customs investigations are tracked and coordinated in real time.

As outlined in the National Money Laundering Strategy, the MLCC is also the repository for all U.S. Government information relating to the black market peso exchange. This information is analyzed by Customs in order to develop targets and systems for investigation.

The black market peso exchange system is another method violators employ to circumvent the currency reporting requirements of the Bank Secrecy Act. It is one of the most efficient and extensive money laundering systems in the western hemisphere. It is estimated that the black market peso exchange launders approximately $4 billion in drug moneys per year.

In addition to our investigative efforts, the Customs Service, through the MLCC, has implemented an industry outreach program to educate U.S. businesses as to how the black market peso exchange operates and to solicit their cooperation on the implementation of compliance programs.

A key instrument in our outreach is our brochure, which describes in detail the black market peso exchange process and highlights red flags which may be indicative of a black market peso exchange transaction, and last, provides industry with a point of contact if they identify such suspect transactions. Criminal organizations are highly adaptable and employ a variety of methods to repatriate their assets.

Some are quite sophisticated, like the black market peso exchange, and others are more simplistic and riskier, such as the smuggling of bulk cash. Through a variety of investigative intelligence and interdiction programs, the Customs Service has identified and seized numerous bulk cash shipments concealed in aircraft, vessels, vehicles, appliances, stereo equipment, machine parts and even violators who are willing to ingest currency to avoid detection.

A recent example of a bulk cash seizure by Customs occurred on May 1st, when six boxes of currency totaling $2.6 million were discovered in a tractor trailer that had entered the United States from Canada en route to Florida. Subsequent investigation revealed that the money was going to be used to purchase a large quantity of cocaine.

Bulk cash smuggling presents the trafficker with the logistical problem of securing modes of transport capable of handling the amounts of cash generated by drug sales. Consider the following. If the proceeds of cocaine——

Mr. MICA. Mr. Varrone, it looks like you have a number of pages. Can you begin to summarize? Because we can submit the entire statement.

Mr. VARRONE. Yes, sir.

In sum, Mr. Chairman, through the regulatory interventions such as the GTO, which others have discussed on the record, enforcement operations at the Customs Service has a variety of, I just think that we're in a position where the balance of all of these programs is good for law enforcement, and we support the H.R. 3886, which the committee has put forth. The Customs Service would like to go on the record to support that.

And then I'll just be available to answer any questions you may have.

[The prepared statement of Mr. Varrone follows:]

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Statement of John C. Varrone
Acting Deputy Assistant Commissioner, Office of Investigations
United States Customs Service
Before the House Committee on Government Reform
Subcommittee on Criminal Justice, Drug Policy and Human Resources

Chairman Mica, Members of the Subcommittee, good morning. Thank you for inviting me today to join my colleagues from the law enforcement community to discuss the global impact of money laundering and the U.S. Customs Service approach in addressing this increasing international threat.

Mr. Chairman, money laundering is a threat to the economic and national security of this nation. The financial costs of money laundering in a transnational environment distorts capital flows and undermines the effectiveness of monetary policies and the efficiency of international markets. It is estimated that the global volume of money laundering is between two and five per cent of the world's gross domestic product –or in excess of $600 billion. [1]

Customs recognizes the threat money laundering poses to the American people. As the guardians of America's borders, the U.S. Customs Service is the frontline defense in safeguarding the revenue of the United States and fostering lawful international trade and travel. We are the primary

[1] The National Money Laundering Strategy For 2000, page six. Attributed to former International Monetary Fund, Managing Director, Michel Camdessus.

enforcement agency at the border, with responsibility for controlling the flow of people, commodities and monetary instruments.

Due to this responsibility, the Congress has given the U.S. Customs Service a broad grant of authority in the enforcement of international financial crime and selected money laundering investigations. Customs efforts are not limited to drug-related money laundering investigations, but to the proceeds of all crime. Jurisdiction is triggered by the illegal movement of criminally derived funds, services, or merchandise across our national borders and is provided by the Bank Secrecy Act and the Money Laundering Control Acts of 1986 and 1988.

Customs also has principal investigative jurisdiction for money laundering violations with respect to the foreign transportation of stolen goods, wares, merchandise, securities or monies stolen by fraud. This jurisdiction enables us to address money laundering outside the context of narcotics trafficking, such as prime bank instrument fraud, advanced fee schemes, exploitation of trade and telemarketing fraud.

The Customs Service has an aggressive strategy to combat money laundering and dedicates in excess of 400 agents worldwide to pursue money laundering investigations. Over the past three fiscal years, the Customs Service conducted over 12,000 financial investigations which

resulted in the arrest of 3,150 individuals and the seizure of over $1,093.6 billion dollars. [2]

Our high volume of arrests and seizures can be directly attributed to our variety of interdiction and investigative enforcement programs. Customs combats money laundering through a systems based investigative approach. This includes outbound interdictions, undercover investigations, regulatory interventions based upon comprehensive analysis, industry outreach, multi-agency operations, and global partnerships.

This systems-based approach has been successful at disrupting the core functions of international criminal organizations: the laundering and investments of the proceeds and profits of their illegal activity. These programs are developed to target specific money laundering systems.

One of our most effective programs is our undercover money laundering operations. Customs routinely designs our undercover financial investigations to penetrate the three stages of the money laundering cycle (placement, layering and integration). Operation Casablanca, the most successful undercover investigation in U.S. history, simultaneously targeted each of the three stages: placement, layering, integration.

[2] Number and value of monetary instruments seized FY 1997 through March of FY 2000. Performance targets and measurers listed at Tab 11.

The money laundering scheme worked in the following manner:

- Undercover agents were introduced to financial managers from both the Cali Cartel and the Juarez Cartel and obtained contracts to "pick up" drug proceeds on the streets of major U.S. cities. The funds that were "picked up" were then transported to Los Angeles where they were deposited in Customs controlled undercover bank accounts. *(Placement)*

- Undercover agents were also introduced to Mexican bankers by cartel members and other corrupt bankers. These bankers then opened bank accounts at the respective banks. The funds were then wire transferred to those accounts opened by the Mexican banking officials. *(Layering)*

- After subtracting their commission, these officials then issued Mexican bank drafts drawn on the U.S. accounts of the Mexican banks. These bank drafts were delivered back to the undercover agents in the U.S. either in person or via courier. *(Integration)*

- The funds were then disbursed at the direction of the money launderers.

Operation Casablanca was significant for a number of reasons. One, because of the sheer amounts of money involved. Secondly, because it represented the first time in which Mexican banks and bank officials have been directly linked to laundering the Cali and Juarez cartels' U.S. drug profits. And finally, because it uncovered a systematic scheme to launder money via a large number of Mexican institutions through the use of Mexican bank drafts.

To assist with our large number of undercover financial investigations, Customs developed the Money Laundering Coordination Center (MLCC). The MLCC, which has been operational since 1997, is providing deconfliction support to all U.S. Customs undercover financial investigations. In doing so, the MLCC serves as a safety mechanism so that all Customs investigations are tracked and coordinated in real time.

During the past twelve years, U.S. Customs long term undercover money laundering investigations have resulted in the seizure of approximately $1 billion dollars in cash and monetary instruments, over 2,000 arrests and the seizure of more that 37,000 kilograms of cocaine.

The Customs Service also approaches drug money laundering enforcement through the application of regulatory pressure to businesses susceptible to exploitation by criminal organizations. These regulatory reporting requirements under the Bank Secrecy Act (BSA), often cause criminals to engage in riskier methods of money laundering such as bulk cash smuggling.

One such highly successful enforcement operation which identified, through comprehensive analysis, a weakness in our regulatory enforcement was Operation Wire Drill. This operation which was

conducted by the U.S. Customs led El Dorado Task Force in New York, resulted in the initiation and implementation of Geographic Targeting Orders (GTOs) directed at the money remitting industry, which had been corrupted by drug trafficking organizations.

Simply defined, a GTO is issued under the authority of the BSA and imposes stricter reporting and record keeping requirements. The GTOs in New York were issued for 12 money remitters and their 1600 agents in New York and New Jersey. These money remitters were required to file Currency Transaction Reports (CTRs) on all cash transactions of more than $750 to Colombia and obtain and record daily identification of senders and recipients of each covered transaction. Investigation disclosed that the original 12 targeted money transmitters had sent in excess of $800 million to Colombia. As of March 1999, enforcement efforts have resulted in the seizure of over $18 million dollars in cash, 137 arrests, 83 indictments, and 59 convictions.

Operation Wire Drill applied the "systems approach" to money laundering investigations by identifying and combining a unique blend of law enforcement, regulation, and legislation which significantly modified the behavior of the New York City wire remittance industry. It also, combined with the success of Operation Casablanca, altered the behavior of the criminal organizations by forcing them to resort to bulk cash smuggling. In

the first six months of the Colombian GTO, seizures of bulk cash increased 573%; approximately $20 million in bulk cash was seized at the ports of Miami, Boston, and Newark destined for South America. This graphically demonstrated a displacement from the New York City area in response to our successful enforcement actions.

The success of our outbound currency initiatives continues to produce dramatic results. Through our myriad of investigative programs, intelligence analysis, and interdiction, the Customs Service has identified and seized bulk cash shipments concealed in aircraft, vessels, vehicles, appliances, water heaters, stereo equipment, machine parts, even from the internal cavities of human beings. The number of outbound currency seizures at our land borders, seaports and airports continues to rise; for FY 2000 through May, Customs has made 943 monetary seizures totaling $34.2 million in funds that organizations have attempted to smuggle out of the United States.

On May 1, 2000, six boxes of currency, totaling $2.6 million was discovered in a tractor-trailer that had entered the United States from Canada and was traveling along the I-95 corridor to Florida to purchase cocaine.

The Southwest Border, as you are aware, has been designated as a High Intensity Financial Crime Area (HIFCA). This HIFCA will concentrate on the

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bulk cash system that moves large volumes of smuggled currency between the U.S. and Mexico. It is the only one of the four to address a money laundering system as opposed to geographic location. The other HIFCAs are in the cities of New York/New Jersey, Los Angeles and San Juan. The HIFCAs are intended to concentrate law enforcement efforts at the federal, state and local level on combating money laundering in these designated high intensity zones.

To assist in the outbound interdiction of bulk cash, the Customs Service has developed a currency detector canine program. The currency canine program has had great success in the past three fiscal years, effecting a total of 622 seizures totaling over $29 million dollars.

I also wish to tell you of how Customs is integrating its information to work smarter, in a proactive, strategic manner. The Customs Service has developed analytical software which has the ability to manipulate import and export trade data, Bank Secrecy Act data and law enforcement data bases. Using this system, known as the Numerical Integrated Profiling System or NIPS, Customs is able to determine anomalies, trends and suspicious activities occurring in international commerce.

Currently, we are using the data to focus on the Black Market Peso Exchange, or BMPE. A key component of the BMPE money laundering

process is international trade. This is Customs core business and therefore we are uniquely suited to address this issue. The BMPE utilizes international trade mechanisms to facilitate the movement of the proceeds of illegal activities. It is designed to evade the currency reporting requirements of the BSA, and is one of the most efficient and extensive money laundering systems in the Western Hemisphere. It is estimated that the BMPE launders $4 billion dollars in drug monies per annum and has become imbedded in international commerce. It is the ultimate nexus of legitimate and criminal trade activity.

NIPS is also being utilized as a weapon against an alternate system of moving illicit funds out of the United States; through the buying and selling gold. The use of gold as a way of laundering criminally derived profits is not a new phenomenon, nor is it limited to Latin America. Gold is a readily acceptable medium of exchange world wide and holds its value through all political unrest and turmoil.

Exporters in various Latin American countries are using gold not only to launder funds but to take advantage of export tax credits. As an example, U.S. Customs, utilizing NIPS, engaged in cooperative efforts with the governments of Guyana, Suriname and Venezuela to obtain evidence of the illegal exportation of gold from those countries. The investigations disclosed approximately $70 million dollars in gold was illegally exported

from these countries into the United States. Estimated loss of payments to the government of Guyana was over $14 million. Guyana is the second poorest nation in the Western Hemisphere, thus it could not afford such a substantial economic loss.

As outlined in the National Money Laundering Strategy, the MLCC is the repository for all U.S. Government information related to the Black Market Peso Exchange. Information is gathered on targets, money brokers, bank accounts and trade data. The information is analyzed by Customs in order to develop targets, systems and patterns for exploitation by our field offices.

An example of this is an investigation conducted by the Office of the Resident Agent in Charge, Mobile, which targeted the black market peso exchange.

In 1997, undercover agents of the RAIC/Mobile office, were introduced to two Colombian money brokers through an informant. The U.S. Customs Agents contracted with the brokers to pick up drug money in various major U.S. cities and wire transfer the money to a variety of bank accounts in the United States and abroad. Some of the bank accounts were owned by major U.S. corporations, who oftentimes had no idea that drug money was being laundered through their accounts. In the BMPE scheme, purchases of goods for export were made and paid for using the money that had been

deposited in the bank accounts. These goods included computers and other electronics components.

At the conclusion of the case, 36 persons were arrested and 20 convicted, including money brokers in the U.S. and Colombia. U.S. Customs Agents seized $4.5 million dollars, including $1.6 million from bank accounts that received drug money.

The U.S. Customs Service has implemented an industry outreach program to educate U.S. businesses as to how the Black Market Peso Exchange functions, and to solicit their cooperation in fighting this type of scheme. This outreach program is an action item under the National Money Laundering Strategy for 2000. The program is illustrated in a U.S. Customs designed brochure which describes in detail the BMPE process; highlights "red flags" which may be indicative of a BMPE transaction; and provides industry with a point of contact if they suspect BMPE-related transactions are taking place.

An essential part of our effort to combat financial crime is our asset identification and removal program. One area that has become increasingly complex is the identification and seizure of proceeds derived from illegal activities. By taking advantage of off-shore bank havens, "borderless" trade between nations, international banking systems and

other opportunities presented by the growing use of technology, criminals now have more complex methods to hide the proceeds of their illegal activities.

In response to this, the U.S. Customs Service initiated the Asset Identification and Removal Program. Based upon similar programs developed at the local level, 12 Asset Identification and Removal Groups or (AIRGs) were created in 1994, and have since expanded to 21 offices throughout the country.

Our Asset Identification and Removal Groups (AIRGs), are specialized investigative groups focusing on the identification and removal of assets acquired illegally, located either domestic or foreign. They conduct investigations parallel to the main criminal or civil investigation. The effectiveness of the AIRGs was highlighted by the seizure of $50 million from Paul E. Hindelang, a convicted narcotics trafficker. These monies constituted narcotics proceeds generated by Hindelang's narcotics trafficking activities during the period 1975 to 1981. After concealing these funds from the U.S. Government for 17 years, he agreed to forfeit all assets derived from his illegal activities. This seizure represents the largest single Customs Service and Treasury Department monetary seizure. Since FY 1997, Customs AIRGs have been responsible for seizures totaling $230,457,519.

This fiscal year, Customs augmented existing AIRGs with Forensic Auditors and Intelligence Analysts in the core money laundering cities. The Office of Investigations is proposing to expand the AIRG concept to areas not presently covered, place asset identification experts in selected foreign offices and create an extraterritorial group to deal with particularly sensitive or complex targets whose activities are conducted in multiple and/or foreign jurisdictions.

Experience has shown us that denying traffickers access to broad based systems, bringing about voluntary compliance in the impacted industries, is by far the most effective way to attack narcotics related money laundering.

Customs pursues cooperative investigations with other countries through our 23 Attache offices and Customs Mutual Assistance Agreements (CMAA). Customs also provides anti-money laundering training and support to a variety of nations, including those from the former Soviet Union and Central and South America.

An example is our alliance with the Government of Colombia in fighting BMPE where we are providing both training and technical assistance to them. Additionally, as a result of detailing a Special Agent since January

10, 2000, to assist Colombian Customs in BMPE related investigations, numerous cases have been initiated throughout the United States.

A key to the continued success of U.S. Customs financial investigations has been the support and leadership of members of Congress. On that note, Mr. Chairman, I would like to take this opportunity to make you aware of an issue that may soon appear before Congress involving the search of outbound mail. The relative ease with which criminal organizations can ship cash is not lost on those organizations who know that a small 4 pound international letter class mail package can contain over $180,000. In fact, these organizations routinely use both international and domestic mail to ship their drug profits. The President's International Crime Control Strategy recognized the outbound mail issue and called for a legislative remedy to provide Customs clear authority to search outbound mail for smuggled merchandise and currency. The administration has made the outbound mail proposal a feature of previous crime bills and intends to include it in proposed legislation. This is also another action item (#1.3.2) called for in the 2000 National Money Laundering Strategy.

The Customs Service also wishes to state our support for H.R. 3886, the International Counter-Money Laundering and Anticorruption Act of 2000. The passage of this legislation would provide the United States with critical

tools to target international money laundering havens and to combat money laundering here and abroad.

In conclusion, Mr. Chairman, we believe that money laundering systems are best attacked through the combination of integrated programs and strategic alliances which I have outlined today.

Mr. MICA. Yes, and we'd like to get to that. Without objection, Mrs. Mink asks that your entire statement be made part of the record, and it will be so ordered.

Let me recognize Mr. Guillen, and he is the Chief of Financial Operations Section for DEA in the Department of Justice. You're recognized, sir.

Mr. GUILLEN. Thank you, Mr. Chairman.

Mr. Chairman and members of the subcommittee, I appreciate the opportunity to appear before the subcommittee today on the subject of international money laundering. My comments will be limited to an objective assessment of the law enforcement issues involving drug trafficking and money laundering, with specific attention devoted to the challenges that today's organized crime syndicates from Colombia and Mexico present to our law enforcement officers.

Whereas previous organized crime leaders were millionaires, the Colombian drug traffickers and their counterparts from Mexico are billionaires. They have learned to exploit a variety of weaknesses in order to protect their drug profits, which are the lifeblood of these organizations. Their ultimate purpose is to amass large sums of money in order to maintain their obscene and lavish lifestyle, free from the boundaries or confines of the law.

As you are well aware, money laundering is a process used by drug traffickers to convert bulk amounts of drug profits into legitimate money. The need to launder conspicuously large amounts of small denomination bills renders the traffickers vulnerable to law enforcement interdiction. Tracking and intercepting this illegal flow of drug money is an important tool in identifying and dismantling international drug trafficking organizations.

Laundering drug proceeds from Mexican crime syndicates is commonly accomplished by relatively simple and direct means, the bulk shipment of currency back to Mexico. Tractor trailers and cars with hidden compartments are frequently used to smuggle drugs out of Mexico into the United States. And then these same vehicles are packed with the proceeds from the street sale of the drugs and returned to Mexico.

Drug traffickers based in Colombia also move the proceeds from their operations in the United States to Los Angeles, New York and Miami for bulk shipment out of the United States. Both the Colombians and Mexicans frequently use vehicles with hidden compartments to carry large quantities of United States currency. The bulk movement of United States cash to Mexico has resulted in significant increases of financial seizures along United States roadways.

During calendar year 1999, U.S. law enforcement seized over $69.4 million on U.S. highways. From January 2000 to March 31st of this year, law enforcement agencies have seized over $19.2 million. It is estimated that most of the currency seized was destined for drug trafficking organizations operating out of Mexico.

Another system commonly used by Mexican traffickers or traffickers wishing to repatriate their moneys to Mexico is through the use of the money service businesses, which have been discussed by other witnesses before the committee today. Due to geographical considerations, Colombian traffickers face many difficulties during

their initial phase of the money laundering process that Mexican syndicates do not encounter. Colombian drug organizations have in the past relied on a multifaceted collection process. They have amassed currency in strategic locations, used a variety of methods, including smuggling and bribery to introduce the cash into the U.S. banking system and subsequently transferring it to Colombia.

In an effort to avoid the high risks associated with direct deposits in United States or European banks, many Colombian drug traffickers have returned to the simplest of money laundering methods, the bulk movement of cash. Currently, the vast majority of United States currency bound for bank accounts of the Colombian drug lords leaves the United States either through air cargo or commercial cargo freighters.

Due to the enormous amount of commercial trade the United States has with Colombia, this method makes the traffickers' operations not only less complicated, but less vulnerable to discovery by law enforcement. In addition, Colombian drug trafficking will exploit any means possible to safely launder their drug proceeds. One such form of money laundering is known as the black market peso exchange. The black market peso exchange is a complex system currently used by drug trafficking organizations to launder billions of dollars of drug money each year, utilizing the advantages of the Panama Canal Free Zone, which serves as an integral link in the Colombian money laundering chain.

In order to respond to the threat of money laundering, the DEA is actively involved in a host of joint initiatives with all of the organizations represented by panel members here today. These initiatives are designed to target the money laundering capabilities of major drug trafficking organizations operating in the United States. DEA's current ongoing undercover operations have thus far resulted in the arrests of 373 individuals, over $72.7 million in currency and asset seizures, 9,399 kilos of cocaine, 30 kilos of heroin and 140 kilos of marijuana.

DEA additionally continues to support a number of interdiction programs that target the bulk shipment of illicit funds across our Nation's highways.

The U.S. national money laundering strategy issued by the Department of Treasury and Justice in September 1999 and further refined and expanded in February 2000 prescribes a wide range of laundering control measures that affect public and private entities in the United States and abroad. DEA actively participates in several of the target specific work groups responsible for developing new enforcement, regulatory strategies and initiatives.

In conclusion, Mr. Chairman and committee, DEA remains committed to our primary goal of targeting and arresting the most significant drug traffickers in the world today. We will continue to work with our law enforcement partners to improve our cooperative efforts against international drug trafficking organizations. The ultimate measure of success will come when we dismantle the drug trafficking organizations that bring misery to the nations in which they operate.

Mr. Chairman, thank you for inviting me to appear before the subcommittee today. I will be happy to answer any questions you may have.

[The prepared statement of Mr. Guillen follows:]

Remarks by

***Edward M. Guillen***
***Chief of Financial Operations***
***Drug Enforcement Administration***
**U.S. Department of Justice**

Before

**The House Subcommittee on Criminal Justice, Drug Policy, and Human Resources**

Mr. Chairman and Members of the Subcommittee: I appreciate the opportunity to appear before the Subcommittee today on the subject of International Money Laundering. My comments will be limited to an objective assessment of the law enforcement issues involving drug trafficking and money laundering with specific attention devoted to the challenges that today's organized crime syndicates from Colombian and Mexico present to our law enforcement efforts.

It is important to understand the threat posed by international drug organizations and why cooperative law enforcement programs in the domestic as well as the international arena are necessary to successfully counter drug trafficking and money laundering within the United States. The leaders of these drug trafficking organizations command powerful organized crime syndicates that control virtually all of the heroin, cocaine and methamphetamine sold in the United States today.

Today's organized crime leaders are strong, sophisticated, and destructive and have the capability of operating on a global scale. They are callous individuals who send their surrogates to direct the distribution of the poison they ship to the United States. These organizational leaders have at their disposal airplanes, boats, vehicles, radar, communications equipment, and weapons in quantities that rival the capabilities of some legitimate governments.

Whereas previous organized crime leaders were millionaires, the Colombian drug traffickers and their counterparts from Mexico are billionaires. They have learned to exploit a variety of weaknesses in order to protect their drug profits, which are the lifeblood of these organizations. Their ultimate purpose is to amass large sums of money in order to maintain their obscene and lavish lifestyle free from the boundaries or confines of the law.

***Overview:***

As you are well aware, money laundering is the process used by drug traffickers to convert bulk amounts of drug profits into legitimate money. The need to launder conspicuously large amounts of small denomination bills renders the traffickers vulnerable to law enforcement interdiction. Tracking and intercepting this illegal flow of drug money is an important tool in identifying and dismantling international drug trafficking organizations.

Illegal narcotic sales in the United States generate billions of dollars annually, most of it in cash. Efforts to legitimize or "launder" this cash by the Colombian drug cartels are subject to detection because of intense scrutiny placed on large financial transactions by U.S. banks. To avoid detection, the cartels have developed a number of money laundering systems in attempts to avoid financial transaction reporting requirements and manipulate facets of the economy unrelated to the traditional financial services industry.

For organizational purposes all the various money laundering methods utilized in today's financial world can be reduced to four categories: bulk movement, the use of financial institutions, the use of commercial businesses, and finally, the movement through the underground banking system. However, an organization may use several of these methods in a chain to arrive at its goal: the integration of drug money into the economy as licit profits.

***Colombia:***

Despite the rise to power by the Mexican crime syndicates and their increasing influence on the drug trade in the U.S., Colombian traffickers still control the manufacture of the vast majority of cocaine in South America and a majority of the wholesale cocaine market in the eastern United States. They move cocaine from their clandestine laboratories in the jungles of southeast Colombia to Mexico and through the Caribbean, using commercial maritime vessels, go-fast boats, containerized cargo, and private aircraft. The methods are varied and traffickers frequently alter both their routes and their modus operandi to thwart interdiction efforts.

The Colombian trafficking organizations influence in the Caribbean is now overwhelming. DEA has identified several major organizations based on the North Coast of Colombia that have established command and control functions in Puerto Rico and the Dominican Republic. These drug traffickers use the Caribbean Basin to funnel tons of cocaine to the U.S. each year and they direct networks of transporters that oversee the importation, storage, exportation, and wholesale distribution of cocaine destined for the continental United States. Seizures of 500 to 2,000 kilos of cocaine are now common in and around Puerto Rico, the Dominican Republic, and the Bahamian Island chain.

The Dominican trafficking groups, already firmly entrenched as low-level cocaine and heroin wholesalers in the larger Northeastern cities, were uniquely placed to assume

a far more significant role in the multi-billion dollar cocaine and heroin trade. From Boston, Massachusetts to Charlotte, North Carolina, well organized Dominican trafficking groups are, for the first time, controlling and directing the sale of multi-hundred kilogram shipments of cocaine and multi-kilogram quantities of heroin. This change in operations somewhat reduces profits for the syndicate leaders; however, it succeeds in reducing their exposure to U.S. law enforcement.

Due to geographical considerations, Colombian traffickers face many difficulties during the initial placement phase of the money laundering process that Mexican syndicates do not encounter. Colombian drug organizations have in the past relied on a multi-faceted collection process. They have amassed currency in strategic locations, used a variety of methods-- including smuggling and bribery-- to introduce the cash into the U.S. banking system, and subsequently transferred it to Colombia. In an effort to avoid the high risks associated with direct deposits in U.S. or European banks, many Colombian drug traffickers have returned to the simplest of money laundering methods, the bulk movement of cash. Currently, the vast majority of U.S. currency bound for the bank accounts of the Colombian drug lords leaves the United States either through air cargo or commercial cargo freighters. Due to the enormous amount of commercial trade the United States has with Colombia, this method makes the traffickers operations not only less complicated, but also less vulnerable to discovery by law enforcement.

In addition, Colombian drug trafficking will exploit any means possible to safely launder their drug proceeds. One such form of money laundering is known as the Black Market Peso Exchange (BMPE). The BMPE is a complex system currently used by drug trafficking organizations to launder billions of dollars of drug money each year utilizing the advantages of Panama's Colon Free Zone (CFZ), which serves as an integral link in the Colombian money laundering chain.

***Mexico:***

Mexico is not only a major drug transshipment and producer nation, it is also a conduit and repository for the laundering of drug proceeds generated in the United States. The 2,000 mile U.S./ Mexico border, close working relationships between Colombian and Mexican drug trafficking organizations, widespread corruption, and the relative ease with which large amounts of U.S. currency can be absorbed into the Mexican financial systems make Mexico ideal for money laundering.

Laundering drug proceeds for Mexican crime syndicates is commonly accomplished by relatively simple and direct means-- the bulk shipment of currency back to Mexico. Tractor trailers and cars with hidden compartments are frequently used to smuggle drugs out of Mexico into the U.S. and then these same vehicles are packed with the proceeds from the street sale of the drugs and returned to Mexico. Drug traffickers based in Colombia also move the proceeds from their operations in the U.S. to Los Angeles, New York and Miami for bulk shipment out of the United States. Both the

Colombians and the Mexicans frequently use vehicles with hidden compartments to carry large quantities of U.S. currency. The bulk movement of U.S. cash to Mexico has resulted in significant increases of financial seizures along U.S. roadways. During calendar year 99, U.S. law enforcement seized over $69.4 million dollars on U.S. highways. From January 2000 to March 31st of this year, law enforcement agencies have seized over $19.2 million dollars. It is estimated that most of the currency seized was destined for drug trafficking organizations operating out of Mexico.

Once the U.S. currency arrives in Mexico, a variety of alternatives for laundering are available. The U.S. currency transported to Mexico is generally in small denomination bills, such as tens and twenties. Money Service Businesses (MSBs) which include wire remittance services, cashier check companies, and casas de cambio (money exchange house) systems are readily available for the transfer and exchange of dollars, in these small denominations, to pesos. The MSBs function as a parallel banking system in Mexico, which in addition to ability to exchange currency, have the capability of transferring funds into any banking system worldwide. They provide currency conversion, exchanges and money movement services for a fee. Legitimate businesses as well as drug trafficking organizations seek the services provided by the MSBs. For example, Mexican immigrants have traditionally used wire remittance services to send American earned dollars back to Mexico to support their families.

***DEA Initiatives:***

In order to effectively respond to the threat of money laundering, the DEA is actively involved in a host of joint initiatives with all of the organizations represented by panel members here today. These initiatives are designed to target the money laundering capabilities of major trafficking organizations operating in the United States. Our operations have resulted in the arrests of 373 individuals and over $72.7 million in currency and assets, 9,399 kilos of cocaine, 30 kilos of heroin and 140 kilos of marijuana. DEA additionally, continues to support a number of interdiction programs that target the bulk shipment of illicit funds across our nation's highways.

The U.S. National Money Laundering Strategy (NMLS), issued by the Department of Treasury and Justice in September of 1999, and further refined and expanded in February 2000, prescribes a wide range of laundering control measures that affect public and private entities in the U.S. and abroad. DEA actively participates on several of the target specific work groups responsible for developing new enforcement/regulatory strategies and initiatives.

In compliance with the NMLS, the DEA has initiated a cooperative partnership with the regulatory and private sectors of the financial community. This initiative, identified as "Operation Contact," provides for an open dialogue between the private financial sector and DEA in regards to suspected drug money laundering activity. As a result, the DEA has participated in a variety of forums in order to educate the financial

community's ability to identify and protect their institutions from illicit money laundering activity.

***Conclusion:***

For several decades, Colombian and Mexican trafficking organizations have been adaptable, persistent, and savvy in the ways they have met drug market dynamics. The Governments of Colombia and Mexico must be vigilant in their maintenance of relentless law enforcement pressure against major drug trafficking organizations. Unless tough law enforcement measures are in place so that law enforcement may arrest and imprison major traffickers, seize and forfeit their assets, and halt money laundering, Mexico and Colombia will continue to suffer from the violence and corruption generated by the drug trafficking operations of international organized crime syndicates.

Cooperation between law enforcement and the banking community is growing. Law enforcement's approach to the financial industry is less confrontational and many financial institutions have established their own compliance programs. Moreover, these financial institutions are cooperating more in the field of suspicious activity reporting.

DEA remains committed to our primary goal of targeting and arresting the most significant drug traffickers in the world today. We will continue to work with our law enforcement partners to improve our cooperative efforts against international drug trafficking. The ultimate measure of success will come when we dismantle the drug trafficking organizations that bring misery to the nations in which they operate.

Mr. Chairman, thank you for inviting me to appear before the Subcommittee today, I will be happy to answer any questions that you might have at this time.

Mr. MICA. Thank you, and we'll withhold questions until we've heard from our final witness, which is James F. Sloan, and he's director of the Financial Crimes Enforcement Network. You're recognized, sir.

Mr. SLOAN. Thank you, Mr. Chairman.

Mr. Chairman, members of the subcommittee, I want to thank you for giving the Financial Crimes Enforcement Network [FinCEN], an opportunity to speak before you today. I'm going to be incredibly brief; and, I think this is the first time that FinCEN has appeared before this committee, but given the interest expressed by the chairman and from what I know of the subcommittee, I think we may be returning in the future. So I think that as FinCEN provides the subcommittee with further information about its operations, I think the questions and answers will certainly suffice.

But I would say that as far as FinCEN is concerned, the success or failure of our operations is essentially the success or failure of the operations of the agencies that you've heard from today. Suffice it to say that FinCEN is the nexus that provides information to the financial community through the Bank Secrecy Act, adds value to that information, provides it to law enforcement so they can follow the money. We also provide, what I believe to be, the appropriate conduit as a network between and among the law enforcement community, both at the Federal, State and local levels.

And we also provide an important conduit to law enforcement in the area of financial investigations overseas. I welcome the opportunity to answer any questions. I have prepared a statement that I would like to have submitted for the record.

Mr. MICA. Without objection, so ordered.

Mr. SLOAN. And I apologize for cutting the comments brief, but I think you want to get on to some questions.

[The prepared statement of Mr. Sloan follows:]

**STATEMENT OF JAMES F. SLOAN**

**DIRECTOR, FINANCIAL CRIMES ENFORCEMENT NETWORK (FinCEN)**

**BEFORE THE**

**SUBCOMMITTEE ON CRIMINAL JUSTICE, DRUG POLICY AND HUMAN RESOURCES**

**JUNE 23, 2000**

Mr. Chairman and Members of the Subcommittee, thank you for giving the Financial Crimes Enforcement Network this opportunity to discuss the serious problem of international money laundering and its impact upon our country.

Money laundering is the lifeblood of narcotics trafficking and other financial crimes. Moreover, it fuels organized criminal activity. These criminal organizations now dwarf some of the world's largest legitimate business enterprises, laundering enormous sums of money throughout the international financial system. These organizations buy and sell drugs, deal in weapons, sponsor terrorism and corrupt government officials.

No nation is immune and no nation acting alone can eradicate this international threat of the 21st century.

***FinCEN's Mission***

Created in 1990, FinCEN's mission is to support law enforcement investigative efforts and foster interagency and global cooperation against domestic and international financial crime; and to provide U.S. policymakers with strategic analyses of domestic and worldwide money laundering developments, trends and patterns. FinCEN's unique staffing reflects and sustains its mission. FinCEN employs a small workforce of mostly analysts and experts in finance and technology. In addition, there are long-term detailees from different law enforcement and regulatory agencies assigned to FinCEN.

As our name implies, FinCEN is a network–a link between the law enforcement, financial, and regulatory communities. It brings together government agencies and the private sector to identify ways to prevent and detect financial crime.

FinCEN serves as a network in several ways. First, it provides analytical case support–through the use of state-of-the-art technology and intelligence analyses–to many federal agencies, including the U.S. Customs Service, Internal Revenue Service's Criminal Investigation Division, U.S. Secret Service, Federal Bureau of Investigation, and the Drug Enforcement Administration, as well as providing support to state and local law enforcement in all 50 states.

Using Bank Secrecy Act (BSA) information reported by banks and other financial institutions, such as Currency Transaction Reports (CTRs) and Suspicious Activity Reports (SARs), FinCEN serves as the nation's central clearinghouse for broad-based intelligence and information sharing on money laundering that helps illuminate the financial trail for law enforcement to follow as they track criminals and their assets. Also, FinCEN recognizes the importance of maintaining an appropriate balance between its objectives in fighting money laundering and respecting and protecting the personal privacy of our citizens. FinCEN has imposed a comprehensive set of legal and technological restrictions to ensure proper use of the data.

And finally, in response to the growing international dimensions of money laundering, it promotes global efforts to formulate and implement effective money laundering programs and build the necessary mechanisms to facilitate cooperation among countries and law enforcement officials around the globe.

***Support to Law Enforcement***

FinCEN's analysts provide case support to more than 150 federal, state and local law enforcement agencies, issuing approximately 7,000 reports in the past year. Using various methods for analyzing and delivering information to law enforcement, our main objective is to add value to the information we collect through BSA reporting and record keeping requirements from financial institutions and deliver it in the most effective way possible to law enforcement. The most widely used of these BSA reporting requirements are the Currency Transaction Reports or CTRs and Suspicious Activity Reports or SARs. CTRs are required on cash transactions above $10,000, and SARs must be filed by depository institutions to report suspicious activity. FinCEN provides this information through various programs such as Direct Case Support, Platform, and Gateway.

Direct Case Support

Direct Case Support is FinCEN's flagship program designed to support federal law enforcement agencies. Through the use of advanced technology and numerous data sources (i.e., BSA data, law enforcement and public record information), FinCEN links together various aspects of a case, finding the missing pieces to the criminal puzzle. The experience we have gained in analyzing and disseminating financial data to support criminal investigations, combined with improved outreach efforts has resulted in greater demands for our case support services.

For example, FinCEN received a request from an Office of the Attorney General for assistance in investigating a suspicious money remitting system. FinCEN used its Artificial Intelligence System (the system uses technology and analytical expertise) to analyze millions of BSA data. The analyst was able to identify over 2,000 linked BSA records and approximately 300 suspicious bank accounts totaling over $500 million dollars. This information provided new leads for the criminal investigators that greatly expanded the scope of their investigation. This on-going investigation has subsequently expanded to 15 states.

Platform Program

FinCEN's Platform program was designed to permit other federal law enforcement agencies to use FinCEN resources directly to carryout their own case work. This program was pioneered by FinCEN in 1994, offering training, office space and database access to employees of other federal agencies who come to FinCEN, on a part-time basis, to work only on cases being conducted by their own agencies. FinCEN is currently assisting Platform participants from over 30 agencies.

Gateway Program

The Gateway Program supports state and local law enforcement by providing direct electronic access to over one hundred million reports filed under the BSA. Access to the information is provided to designated, specially-trained law enforcement coordinators in each state, the District of Columbia, and Puerto Rico. This information is delivered through a secure and carefully monitored system, providing invaluable assistance for investigators since it is not readily available from any other source. In FY99, Gateway processed approximately 85,000 queries from state and local law enforcement partners around the country.

One of the most outstanding and useful features of Gateway is its "alert" mechanism that automatically signals FinCEN that two agencies have an interest in the same subject. In this way, FinCEN can assist state and local law enforcement in coordinating their investigations among themselves but also with federal agencies. The number of alerts issued in FY99 was 1,580, a 10 percent increase over the past year.

For example, the Gateway Program assisted West Virginia's Cabell County Federal Drug Task Force, which includes the Federal Bureau of Investigation, IRS Criminal Investigation Division, the West Virginia State Police, the Cabell County Sheriff's Office and the Huntington City Police Department in conducting a drug trafficking/money laundering investigation. The Task Force requested, through the West Virginia coordinator, a review by FinCEN of BSA reports relating to members of a drug trafficking organization. The reports included a SAR and 17 CTRs. The Task Force said the information obtained from the CTRs and SAR helped them to identify assets and to locate bank accounts used by this drug trafficking organization. The head of this organization pleaded guilty to laundering $5.9 million in drug proceeds from the sale of marijuana in West Virginia and Kentucky.

***Identifying Trends and Patterns***

A front line of defense in the efforts to counter organized and international crime, drug trafficking and money laundering is to monitor the funds that support these activities and identify methods and patterns used to commit these crimes. FinCEN provides a unique capability to identify trends, patterns, and national-level issues associated with money laundering and other financial crimes. It serves as a catalyst for research, analysis and dissemination of information on money laundering methodologies through the integration of all-source information and the application of state-of-the-art data processing techniques.

In addition, the Office of National Drug Control Policy's National Drug Control Strategy recognized FinCEN as the principal center for strategic analysis and investigative support for efforts aimed at narcotics-related financial crimes. Under the national counter intelligence architecture established by the General Counterdrug

Intelligence Plan (GCIP), FinCEN is one of the four national intelligence centers. Within the context of the GCIP, FinCEN will continue to provide a full range of analytical support in response to requests from federal law enforcement agencies, as well as enhanced delivery of information to federal, state and local law enforcement agencies. On the strategic level, FinCEN will expand the preparation and dissemination of drug-related money laundering trends and patterns analysis in support of national and international drug threat assessments.

FinCEN is also currently working with various federal agencies in analyzing a number of trends and patterns in money laundering. One of the most egregious trends we are seeing is the increased use of alternate remittance systems. Law enforcement is reporting increased criminal financial activity involving methodologies by which monetary value is moved outside of or parallel to traditional banking or other financial institution channels. These include ethnic-based methodologies such as the Indian Hawala and East Asian Chit systems, as well as trade-based systems such as the Colombian Black Market Peso Exchange. Manipulation of the international gold trade is also used to mask money-laundering activities. Other trends include the following:

- Electronic Funds Transfer Systems: Electronic funds transfer systems are the fundamental building blocks for both the legitimate and illicit movement of money domestically and globally. The large-scale money laundering cases described by law enforcement almost universally involve a wire transfer component by which millions of dollars in drug and non-drug criminal financial activity are camouflaged within the trillions of dollars moved electronically every day.

- Emerging Technologies: There is a growing body of evidence that the evolving tools of e-commerce are being exploited for criminal financial purposes. The crimes range from fraud committed in on-line auctions to the establishment of rogue financial institutions. The development of other technologies that integrate financial services with communications systems, such as the transfer of value from one credit card to another via a cell phone without going through a bank, are extremely problematic from a money laundering standpoint. The rapid evolution of technology may outpace the ability of law enforcement and regulatory policy makers to implement effective controls.

***Treasury/Justice Money Laundering Strategies***

FinCEN has a key role in supporting and implementing numerous action items contained in the Strategies. One of the objectives of the 1999 Strategy was the need to consider the threat of financial crime from a systemic risk or geographical basis for establishing a High Intensity Financial Crime Area (HIFCA). The Strategy outlined HIFCA factors to include demographic and general economic data; patterns of suspicious financial transactions developed from BSA information reported by financial institutions; and information requiring analysis or assessment by law enforcement and regulatory agencies generally.

The 2000 Strategy designates four HIFCAs: New York City metropolitan area/Northern New Jersey; Los Angeles; San Juan, Puerto Rico; and bulk cash smuggling along the Southwest border. FinCEN has been working extensively in supporting this process for designating HIFCAs. As a member of the Treasury/Justice subgroup responsible for making HIFCA determinations, FinCEN is responsible for conducting analyses and assists in coordinating efforts to identify and support the areas designed as HIFCAs. In addition, FinCEN will provide additional support to complex law enforcement money laundering investigations and assist HIFCA personnel in effectively utilizing on-site research tools provided by FinCEN.

***Fostering International Cooperation***

FinCEN works to engage, encourage, and support our international partners in taking the necessary steps to combat money laundering and other financial crimes, and establish mechanisms for the exchange of information and cooperation to support ongoing law enforcement efforts.

Not only is FinCEN viewed as an invaluable resource on money laundering in this country, but we have also been an active player in encouraging other governments around the world to develop and implement effective anti-money laundering controls. The promotion of international cooperation remains an essential part of our networking efforts.

Just over five years ago, FinCEN started working with other countries to establish their own domestic financial intelligence units–known as FIUs. In June 1995, FinCEN. in cooperation with its Belgian counterpart, brought together a group of FIUs at the Palais d'Egmont-Arenberg in Brussels, thus the name – Egmont Group. Since that time, FinCEN has been continuing to work with other countries to establish these units.

The 2000 National Money Laundering Strategy calls upon FinCEN to "assist four new FIUs to become operational by the end of the year." We have already exceeded that mandate. I am pleased to report that five countries were admitted to the Egmont Group (Colombia, Dominican Republic, Estonia, Japan and Romania) just last month, bringing the current total to 53.

In addition, FinCEN is being called upon to provide technical assistance and training to many more countries in varying stages of development. Currently, we are working closely with Peru, Bolivia, El Salvador, Canada, Thailand, and Israel in making their FIUs operational by the end of 2000. Next month, we will host a senior-level delegation from South Korea for an intensive week of training and technical assistance in establishing and maintaining a working financial intelligence unit.

But we are pushing beyond the establishment of foreign intelligence units to enhancing their operations and making them more effective in the fight against money

laundering and other financial crimes. FinCEN is working hard to make FIUs more receptive to and sensitive of law enforcement needs and concerns. We have reached out to our domestic law enforcement partners in an effort to inform them of additional valuable resources to help in the U.S. battle against money laundering. Just in the past year, we have tripled the number of cases involving domestic law enforcement case support. Furthermore, during 1999, FinCEN was able to refer U.S. law enforcement agencies to foreign counterpart agencies that were working like investigations on at least 32 occasions.

One successful outcome from the exchange of this type of information has been the development of the Egmont International Secure Web System. Developed almost entirely by FinCEN, this system permits members of the Egmont Group (the core group of FIUs) to communicate with one another via secure e-mail and to post and access information on FIUs, money laundering trends, financial analysis tools, and technical developments.

***Magnitude of Money Laundering***

The programs that I have just described are key to FinCEN's goal to support law enforcement and foster global cooperation. Today, we have heard about the extent of the problem as well as the many successes in the battle to combat money laundering. But, the difficulty to truly gauge the effectiveness of our nation's battle against financial crime remains unsupported until we find a way to measure the magnitude of money laundering. FinCEN started this effort over two years ago and it has been a difficult one. FinCEN has organized and chaired two interagency committees – Economic Policy and Law Enforcement – to identify available data and recommend a strategy for estimating the magnitude of money laundering. Because of the lack of useful data concerning the proceeds of all crimes other than drug trafficking, the Committees recommended that a private contractor be engaged to propose a methodology to address the data issue, as well as to produce an estimate. FinCEN is currently in the process of identifying a private firm capable of delivering a useful estimate.

***Conclusion***

In this broad brush sketch of FinCEN's overall approach to the problem of international money laundering, I have tried to illustrate a strategy designed to provide timely support to law enforcement. There is no question that criminals are successfully finding ways to continue disguising the proceeds of their illegal activities. However, we have also been successful in making money laundering more difficult and more costly. Clearly, Treasury's policies are having an effect. It is FinCEN's goal to continue doing all it can in support of law enforcement efforts to help make the business of crime even more difficult and costly.

Mr. MICA. Right. Well, thank you so much, and I thank all the panelists for their opening comments.

Let me jump right to the first thing, which is the report we received with a number of prime money laundering case referrals having dropped for most of the agencies, DEA dropped from 241 to 184, 1994 versus 1998; 469 for FBI, to 356; Customs has a slight increase, I think they're the only ones that don't show a decrease. But again, the major enforcement agencies.

Ms. Warren, you dispute some of these statistics. Now, these are comparing apples and apples, not apples and oranges, as I understand it. Are these figures correct?

Ms. WARREN. I don't think it's comparing apples and apples. What are case referrals? A single case may involve as many as 300 defendants.

Mr. MICA. Are you prepared to provide us with information, specific information on prosecutions?

Ms. WARREN. Yes. We have the statistics by the statutory charge, 18 U.S.C. Section——

Mr. MICA. Is it chronological?

Ms. WARREN. We have it for 3 years, 4 years now, and I can produce that for the committee.

Mr. MICA. Does that show an increase or decrease in prosecutions?

Ms. WARREN. An increase each year.

Mr. MICA. Is that for each of the agencies under DOJ?

Ms. WARREN. It is for Federal prosecution. I don't believe I'll be able to show it as to individual agencies, because most of those cases are multi-agency cases. But I can show you for the defendants charged in Federal court by the statute, by the money laundering statutes, during the years 1996 through 1999.

Mr. MICA. Well, we'll look at that and try to get some comparison, again, trying to be fair in the comparison.

But again, one of the outside independent agencies seems to differ with some of the emphasis and shows a 24 percent decrease, at least, in the case referrals.

Ms. WARREN. Could I offer one further explanation of that data? I think limited to primary offense, if that is measured by the sentence under the sentencing guidelines, the offense with the greatest sentencing exposure will be the sentence for conviction and sentencing. If there for example is a drug count along with the money laundering count, just because of the nature of our drug laws, it will eclipse the lesser sentence of money laundering. And they may be counting from that. I'm counting from numbers of prosecutions.

Mr. MICA. Mr. Guillen, was it you that cited that 26 have joined in an international cooperative effort? OK, that was Mr. Wechsler.

Mr. WECHSLER. That was me, sir.

Mr. MICA. You were talking about the 26 countries that have joined in this cooperative effort. Are they the same countries that have now named these offenders?

Mr. WECHSLER. Yes, exactly, sir.

Mr. MICA. It's nice to name them, but is there any anticipated penalty? Is there any action, be it unilateral action that's proposed by this administration to go after the known offenders, or by this group?

Mr. WECHSLER. It's an excellent question, sir. We're going to do that in a number of fronts. First of all, in addition to just naming them, the 26 member nations of FATF, included what's referred to in FATF as recommendation 21, which is a recommendation to all the banks in the FATF member countries to take special measures to examine transactions with the countries that are listed.

Mr. MICA. What kind of actions?

Mr. WECHSLER. Well, we under our own law have to interpret that. And right now we are working very hard, and it will only be a matter of weeks, I expect, before you see the conclusion of this, of exactly what guidance we are going to give to our banks on each one of these countries on how and what kind of additional actions, hopefully in accordance to the Bank Secrecy Act, to give suspicious activity reporting to FinCEN, so it can then get information to the law enforcement agencies.

Mr. MICA. Does your agency currently weigh in on the decertification process?

Mr. WECHSLER. Absolutely.

Mr. MICA. And certification?

Mr. WECHSLER. Absolutely.

Mr. MICA. Do you think it will be the intent to recommend that these offenders also be decertified under the drug statutes?

Mr. WECHSLER. I do think, sir, it's an excellent question, that already money laundering is of course an annex to the State Department report that provides the background information for the drug certification process. Through this FATF process, I think what we have just done is improved, in many cases by leaps and bounds, the quality of information that we have about the anti-money laundering regime in these 15 countries in particular and actually 29 countries if they were done. So our hope is that that information should be much more utility to the drug certification process.

Mr. MICA. Certainly the United States also has influence in all the international banks and finance markets and really supports some of these countries' financial stability and ability to conduct transactions through again our large influence and our potentially large ability to weigh in in these international banking institutions and finance institutions and agreements that we have. Is there intent to go after these countries through some of those mechanisms and agencies that we're a part of?

Mr. WECHSLER. Absolutely, sir. In fact, this FATF exercise was originally done by FATF at the request of the G7 finance ministers. The G7 finance ministers will take up this report when they meet in early July in the context of abuses of the financial system writ large. And I think a lot of the issues that you just mentioned, sir, will be high up on the agenda.

I would also like to add, sir, that again, on each one of these countries on a bilateral basis the United States will also be pushing them to improve their money laundering regime. For the ones that want to cooperate, we will, as appropriate, offer both technical assistance and drafting of laws and creating institutions and training for law enforcement as resources and appropriate demands.

But there are likely to be some countries that in spite of all the naming and shaming and at the end of the day will still perhaps want to refuse the pressure from the international community, and

will not want to improve their anti-money laundering regimes. We need to be in a position to be able to take hard, targeted, graduated measures against those countries. And right now, the executive branch does not have that authority to take those kind of targeted measures. And that's why, as you said in your opening statement and as Representative Cummings also said, the International Counter-Money Laundering Act of 2000, the bipartisan initiative, is so important to pass this year.

Mr. MICA. Well, we already have some current tools, but we also have some new challenges, e-mails, and now the transactions in gold which have been described today and other commodities.

Mr. Sloan, is it possible for us to develop rat traps, though, to catch the rats in this, either through a unilateral U.S. effort or through some international cooperative effort?

Mr. SLOAN. The quick answer is yes, and we're working on that direction. As far as the rat traps, as you describe them, we'd like to think that the protocols that are in place under the auspices of the Bank Secrecy Act. For instance, the expansion of the Bank Secrecy Act will cause the money launderer, or the drug dealer in this case, trying to get money into the financial system a great deal of difficulty, making them try to move to alternate remittance systems which clearly becomes riskier.

As you may know, and I know you commented on the Money Laundering Strategy for 2000, we are in the process of expanding BSA regulations, specifically for suspicious activity reporting, to other elements of the financial services industry. In fact, in March, we issued regulations regarding suspicious activity reporting requirements in the money services business. And this includes all the wire transmitters, all the check cashers, money order providers, and travel check providers throughout the United States.

We anticipate that we'll have a final rule of a similar requirement for suspicious activity reports for casinos at the end of the summer, and we're working with the SEC now in drafting proposed regulations that would apply the same sort of suspicious activity reporting in the securities industry, brokers and dealers in securities. The point I'm getting at is we are expanding the net, if you will, relative to the Bank Secrecy Act. I think with regard to the alternate remittance systems, which I think perhaps my colleague from Customs is more appropriately prepared to discuss, the increase in the use of some of these alternate remittance systems, whether it's gold or the black market peso, may be to some degree a measure of success in the Bank Secrecy Act. So we are building a tighter net, if you will. It is going to provide, I believe, law enforcement with greater tools to capture the money at the placement stage, which is as you mentioned, really the key to success.

Mr. MICA. Well, just in closing, you mentioned, Mr. Wechsler, I think, the Russian Central Bank identified $70 billion run through Nauru. And I think you mentioned specifically, Mr. Guillen, Mexico and the problems we've been having there, even with the largest money laundering case I think that Customs had internationally with Operation Casablanca, where you have corrupt officials all the way up to the top of the Mexican Government including the banking industry. How do you deal with these situations that we know exist, Mr. Guillen?

Mr. GUILLEN. We're continuing our efforts along those lines. Specifically with money service business, what we are able to do domestically is to monitor. Again, with the help of FinCEN and the reporting requirements, our investigations are being targeted toward those industries that help to support or facilitate the money movements via the wire remittance companies to Mexico. Also as was mentioned with the bulk shipments across the United States border into Mexico, as Mr. Varrone had mentioned from Customs, one of the specific HIFCAs that has been established was for that express purpose, to monitor and to be able to target the bulk shipments between the United States and Mexican border.

So more efforts are being given along those lines. What we're able to do with the Mexicans is on a case by case basis. But all of our efforts are in fact being focused in order to be able to do what we can here domestically in our investigations, and then break into successful prosecutions here in the United States.

Mr. MICA. Could we trace any of the $70 billion from the Russian Central Bank?

Mr. WECHSLER. Yes, that's where that number came from.

Mr. MICA. No, I know we have the number, but what happened?

Mr. WECHSLER. What you do is you attack it again through many different fronts. You attack the problem through law enforcement, you attack it, as was just said, you attack it from regulation to make sure that we have the kind of anti-money laundering regimes that dirty money doesn't hide or is difficult to get dirty money into the U.S. financial system.

But then also through the international policy, you try to bring other countries into line with the United States.

Mr. MICA. Specifically on the $70 billion?

Mr. WECHSLER. Specifically what you do is both of the countries that were involved in this, Russia and Nauru, put them on the FATF list and get them to improve their anti-money laundering regime. But if they don't, then you figure out what other kind of countermeasures could be appropriate.

Mr. MICA. I'm trying to find out specifically, what did we do? We knew $70 billion went through there.

Mr. WECHSLER. What we did expressly is the Treasury Department has asked the Russians for more information on the subject. We've asked Nauru to shut down banks that have participated in it. Nauru has taken some actions in this regard.

United States banks, domestically, especially what I've read in the papers, Bank of New York, Public Bank, Bankers Trust, have closed off correspondent relationships with Nauru.

Mr. MICA. So from those transactions, then the $70 billion money coming from Nauru into the United States shouldn't be that hard to trace.

Mr. WECHSLER. It shouldn't be that hard.

Mr. MICA. We've gone after our domestic bankers, too, that may be recipients or third parties to that illegal transactions?

Mr. WECHSLER. Well, yes, and we have been very pleased that, like I said, Bank of New York or Public Bank, Bankers Trust——

Mr. MICA. Has anybody been prosecuted in that case?

Mr. WECHSLER. Well, the Bank of New York case, writ large, which Nauru's name came up in that as well as ongoing, and I'll

defer to the Justice Department if there's anything we can say on that.

Ms. WARREN. It remains an ongoing investigation.

Mr. MICA. OK, let me yield to the ranking member, Mrs. Mink. Thank you.

Mrs. MINK. Thank you all very much.

I think if an average citizen were listening in to this hearing today, they would be as mystified as I am about this whole issue. There is a general expectation, I think, in the public at large, and certainly in my own mind, that in this three-pronged issue regarding illicit drug sales in this country and worldwide, that one of the things that we certainly should have come to grips with and thoroughly implemented, was the fight against money laundering. With all the sophistication and the ability and talent in our intelligence operations, and in the financial aspects of these dealings, I think we have a right to expect that in this one instance, there would be vigorous, aggressive, total non-stop efforts to prevent these cartels from benefiting from the victimization of the citizens of this country.

So it's rather disturbing to hear the general tone of the hearing this morning that most of the efforts are conjectural, prospective, anticipated, we're working on it, and so forth. And maybe there are details of what you're doing that you're not able to disclose. But I must say that I'm very disturbed by what has been presented this morning.

So is there any of the five of you that disagrees that the total worldwide amount of money laundering is estimated correctly between $600 billion and $1.2 trillion worldwide? There's general agreement?

No response. Mr. Chairman.

Mr. SLOAN. If I may respond, FinCEN has been tasked with developing a model to determine the magnitude of money laundering.

Mrs. MINK. Well, just give me the figure that you deal with on a daily basis, when it's running through your heads in terms of the magnitude of the problem. Is $600 billion about right?

Mr. SLOAN. I'd say that most experts would say $600 billion.

Mrs. MINK. Is about right? And what percentage, then, which is my real question, of this money laundering occurs within the United States? Is there a buzz number that goes through your brain in similar thought processes in figuring out how much of this is within the United States?

Mr. SLOAN. One of the measures that FinCEN explored in trying to determine a model for the magnitude of money laundering project were the proceeds of crime, in this case specifically the proceeds of narcotics crimes. And if I'm not mistaken, I don't have the statistics in front of me, but ONDCP figures for 1999 estimate that roughly $63 billion was spent on illegal narcotics in the United States.

Mrs. MINK. $63 billion within the United States. Is that a figure that all five of you——

Mr. SLOAN. I believe that's the figure that ONDCP reported in its 2000 strategy.

Mrs. MINK. That's the total traffic in illegal drugs within the United States in 1 year?

Mr. SLOAN. The cash spent on illegal drugs, yes.

Mrs. MINK. Now, how much of that is traceable in all of your money laundering investigation? How much of that can you actually trace? Where does it go and how does it get out of the country?

Mr. SLOAN. From our perspective, there's two issues that are raised, from FinCEN's perspective. First of all, that's a lot of cash.

Mrs. MINK. A lot of shoe boxes.

Mr. SLOAN. Exactly right. It's a lot of shoe boxes in so-called stash houses in Miami and in Los Angeles and New York. And it's 5s, 10s, 20s, 50s and 100s. In fact, one statistic I think was mentioned earlier, that a kilo of cocaine is the equivalent of 2½ kilos of cash. So clearly the drug dealer has to get his proceeds into the financial system somehow in order to benefit from the street sales.

Mrs. MINK. Is this money invested in some way in American businesses, construction, buildings, whatever?

Mr. SLOAN. In some instances it works its way through the black market peso exchange, which I can defer to my colleagues to discuss in greater detail. But from FinCEN's perspective, the key to our success is catching the placement of that $63 billion as closely as possible as it tries to enter the financial system.

Mrs. MINK. How much of that do you have a handle on, of the $63 billion?

Mr. SLOAN. I don't have a figure on that that I'd be prepared to discuss today.

Mrs. MINK. Just a general top of your head estimate?

Mr. SLOAN. I wouldn't even venture a guess, frankly. I don't know if anybody else would want to comment. But the point I was going to make, as far as the money getting into the system, was the reason that we have the protocols in place within the Bank Secrecy Act to capture, for instance, $10,000 deposits in cash. Although $10,000 may not be a lot of money, it's a lot of cash, and the fact that the drug dealer has to get the money from the so-called stash houses into the financial system, it's important for us to maintain those requirements and to analyze that information and report back to the law enforcement community.

Bottom line is it helps law enforcement follow the trail which is ultimately getting to the drug dealer.

Mrs. MINK. With respect to these 15 countries that have been named now by this special group, take Nauru that you mentioned specifically. Why isn't is possible under U.S. laws to simply cut them off in terms of the allowance of any of their money coming into the United States?

Mr. WECHSLER. The only authority that we have under United States law right now is the International Emergency Economic Power Act which would prohibit totally all business relations between Americans and anyone, in this case in Nauru, or any Nauru citizen anywhere in the world. This is the provision that was used against Iraq and Syria.

Mrs. MINK. But if we utilize that law against Nauru——

Mr. WECHSLER. We have not used that law against Nauru, nor have we used it against money laundering. It is a one size fits all rule. It does not distinguish between dirty money and legitimate money. And the law that we have, the bill that passed under the House Banking Committee, that 31 to 1, completely bipartisan ap-

proach, would give us the authority to be able to target that, to be able to cutoff correspondent relationships which goes more to your question, between the United States and Nauru, should that prove necessary.

Which right now, the Treasury Department does not have that authority. Other countries, should we go in that direction and should Nauru not improve its laws, might be able to take that kind of action. But the United States cannot. And we see this as being a hole in our comprehensive efforts, integrated efforts to combat money laundering, one that we very much hope that the Congress will fill this session.

Mrs. MINK. Thank you, Mr. Chairman.

Mr. MICA. Thank you. I recognize the gentleman from Maryland, Mr. Cummings.

Mr. CUMMINGS. Mr. Chairman, I wish this was on C–SPAN so that my constituents, the guys who are on the corner selling the drugs, could hear this. And I really do mean that. Let me tell you why I say that. You know, in Baltimore, we have a real big problem with drugs. And the thing that I hear over and over again is, Mr. Cummings, there's no desire on this country's part, and I don't agree with this, by the way, to shut down drugs, because if you shut down drugs, you shut down the whole country. I have heard that so many times.

And when I think about the kind of money that we're talking about here, it's a lot of money. And I guess there is some truth to that, that if you shut down drugs, you shut down a whole lot of folks. Congresswoman Maxine Waters has spent a lot of time addressing this whole issue of our domestic banks and how they may be playing in this whole money laundering game. She has over and over again on the floor of the House questioned whether we're doing all that we can do to address the domestic banks.

And I'm just wondering, would most of this be hard to do without the cooperation, the things that you all have talked about, would it be hard to do without the cooperation of domestic banks? In other words, I know there are some pieces that you would not need them for. But what would you need domestic banks for as far as these kinds of efforts are concerned?

Ms. WARREN. We need the cooperation of the banks in terms of their reporting, they provide us the information that lets us proceed against the launderers and the traffickers, that create the paper trail. And so we depend on the banks to do that.

But we don't always treat them as friends. We've prosecuted a great number of U.S. banks as well as worldwide financial institutions. We have a chart of those prosecutions, and I'll gladly submit it to the subcommittee so that you can see the number of financial institutions that we have prosecuted in Federal court over the years.

Mr. CUMMINGS. And those prosecutions, I guess you can sort of pinpoint a person or persons in the banks, or do you find, there's a tendency that there's a group of people at the top that are doing these things?

Ms. WARREN. We have to be able to, just under traditional principles of corporate liability that we have to show that they've had some knowledge, and were taking actions for the benefit of the

bank. We do that as part of our proof and proceed against those institutions.

Mr. CUMMINGS. So you've seen, of the cases that you've talked about, the number of cases that you just talked about, I take it that you're saying that in many of those cases, there are folk at the top who know what's going on?

Ms. WARREN. Know at the top and want the extra commissions, the extra interest of all that cash-flowing through. And for that, we'll prosecute them as money launderers.

Mr. CUMMINGS. This increase, the last 4 years, amount increased from $300 billion to $600 billion, what would you say aided that? What happened there?

Mr. WECHSLER. Well, I can say, one of the, while numbers, of course, on money laundering, like numbers of crime, are difficult to pin down, one of the trends that we have seen just in the last number of years is that because of advances in technologies, because of the internet, because communication is so easy around the world, that again, places that previously were physically remote, that were not significant players in the international financial system, now suddenly can be connected all over the world. So one of the negative trends that we've seen just in the last couple of years is some of these places setting themselves up as money laundering havens. And that's what the Financial Action Task Force just yesterday, with United States strong participation and leadership, tried to take some of the strong initial steps to crack down on.

Of course, the other trend that's good is that developed centers have just in the last decade really started to improve their anti-money laundering regimes. So again you have these two trends, one going in a positive direction and one sadly going in a very negative direction because of changes in technology.

Mr. CUMMINGS. What's going to happen with that list of 15 countries? What do we do with that?

Mr. WECHSLER. We're going to do a couple of things. First, we're going to expand it as the months go on. But there is already seeing some market reaction. I saw a wire report that Standard and Poors downgraded their rating for one of the major banks in Liechtenstein, which was on the list. And this kind of market reaction that you see gives teeth to naming and shaming.

But we can't just rely on markets to solve this problem for us. We are going to work, the United States and with our allies in FATF, with those countries to bring them up to international standards, to U.S. standards, on how to do a comprehensive anti-money laundering regime. And then once again, if there are countries that refuse to do this, we will have to try to take aggressive actions against them to penalize them for that behavior. And once again, we really need more tools in order to do that effectively.

Mr. CUMMINGS. This subcommittee, and I do give the chairman a lot of credit, and it has been a bipartisan effort, we've done everything we know how to try to make sure that the tools that law enforcement needs are there in order to do the job that you all have to do. And we do have a tremendous amount of respect for what you do, because it is a very important job, and I'm sure you get your share of criticism.

But one of the things that I have learned since I've been on this subcommittee now several years is that this problem, I mean, not just money laundering, but the whole drug problem, is much greater than I ever imagined. And I ask you this question based upon that. Other than H.R. 3886, what tools, what if any tools do you need from the Congress? And I'm talking about, do you feel like you have sufficient resources to do the things that you all need to do in your various departments? Do you need legislation more than what we've talked about here today?

I mean, if you had a wish list that was a reasonable wish list that falls within the confines of our collective belief, that is we as Congress persons, that money should be spent, tax dollars should be spent effectively and efficiently, what if anything don't you have that you think you need from us?

Ms. WARREN. Could I start just with the legislation, just to remind the subcommittee that we need the international money laundering new authorities that we're seeking.

But we also need the money laundering authorities for prosecutors and investigators that are under the Money Laundering Act of 2000, H.R. 4695. It creates new crimes, the smuggling of cash across the border, gives us new jurisdiction to reach those foreign banks that have done business in the United States, allows us to go after currency couriers as criminals. Those are the kinds of tools we need so these people don't slip through the net. And we want to work with you in perfecting that legislation.

Mr. CUMMINGS. Anyone else?

Mr. VARRONE. If I may add, Mr. Cummings, the administration's budget for the Customs Service in 2001 includes a variety of initiatives. Some are personnel resources, and some are technology. We don't have x-ray machinery at all major ports in the country. It's equipment like that that helps us in our outbound bulk cash enforcement activity. So there are a variety of other elements to that budget, but clearly support for that, sir.

Mr. CUMMINGS. Is that it?

Mr. WECHSLER. The one other thing I'd like to add is with this budget cycle, the Treasury Department has asked for a new centralized account to help us implement the key action items in the new money laundering strategy. One of those, and we can get for you the breakdown of what that money would be, to make sure that this committee is fully abreast of that budgetary initiative. That would be on top of the important requests for money that Customs, FinCEN and the other bureaus are asking for the Treasury Department.

One of the things that also would be in this account would be seed grants for local law enforcement to get better trained and equipped to fight money laundering, because money laundering is a complicated issue that not all State and local law enforcement have the capacity right now to fight as effectively as they could. And we are just starting this program, the CFIC program, as it's called, to give seed grants. The applications just went out last week, I believe, from the Treasury and the Justice Departments. We are asking for more money for that program, because we think State and local could also do a lot more.

Mr. CUMMINGS. Just one last question—yes, Ms. Warren.

Ms. WARREN. Could I just make sure that the Justice Department appropriations are also looked favorably upon for law enforcement and the prosecutors, so that we can try and keep pace with the problem.

One other bill I didn't mention is Congresswoman Roukema's anti-bulk smuggling bill that of course we support completely. That's H.R. 240.

Mr. WECHSLER. The Treasury Department seconds that, of course.

Mr. CUMMINGS. One last question to Mr. Guillen. You were talking about the bulk money going into Mexico and you said something to the effect that when that money goes over the border, it's less vulnerable to discovery by law enforcement officers because of our certain trade policies. I think that's what you were saying, is that accurate?

Mr. GUILLEN. No, I don't think so.

Mr. CUMMINGS. Let me ask you this. Just give me the logistics of this. Somebody is coming, I don't know whether this would be your question, Mr. Varrone, I'm talking about Customs, more or less, somebody has $1 million in the truck coming across the border. What happens? Coming across the Mexican border. He's got $1 million. So what happens? In some kind of way, you discover he's got $1 million. It's not like you have dogs that sniff it out, but you somehow you discover it. What happens than?

Mr. VARRONE. Most of the time, sir, the bulk cash that we're intercepting, as the exhibit here to my right indicates, in south Texas alone, we made 228 seizures just this fiscal year for about $6 million. But most of the bulk cash is outbound. On the inbound side, we don't see that kind of volume. But in an outbound, the percentage of resources that we dedicate to outbound is approximately 10 percent. We are so concentrated on the inbound activity that we don't have a large inspectional force that does outbound inspection. So a lot of it gets driven through the investigative activity.

Mr. CUMMINGS. Thank you.

Mr. MICA. Thank you.

I had just a final question or two here. Mr. Varrone, could you tell the subcommittee a little bit more about the use of gold in money laundering, and what kinds of cases Customs is now pursuing and what kinds of challenges that creates? This seems to be a new conduit for money laundering.

Mr. VARRONE. The gold phenomenon, while this news article shows it as a new, emerging trend, it's been around for years, the precious metals, the gold, diamonds. If you recall back in the early 1990's, there was a significant national operation, a multi-agency operation called Polar Cap, where all the agencies at this table were heavily involved in it. It lasted 4 or 5 years and it was all precious metals based.

I think at the time that we did, collectively that we did that investigation that we had a lot of success identifying violators and putting gold, domestic people who were involved in the industry, out of business. But I don't think that we either understood at that time or focused on this black market relationship to the black market peso exchange activity. So I think that it's really just a recurring theme, not necessarily a new and emerging theme.

And second to that would be that we have numerous cases that do involve the precious metals industry that are ongoing. Of course, I can't speak to them here. But the ones that we have had and had success at clearly support the concept that the black market peso exchange is the predominant method there.

We have a system in place now, a computer system called a numerically integrated profile system, which helps us identify disparities. And we've been at the forefront of identifying the disparities in the gold import-export from Colombia to the United States, and have pointed out, as you can see in that article, many of those anomalies.

We're actively trying to investigate those, and where we can, we're sharing with the Colombian Government certain information that they may be able to do some proactive things. But it's a rule based computer system that analyzes trade disparities.

Mr. MICA. I guess to make money laundering and combating money laundering a priority in agencies a directive would have to come from either I guess the Attorney General, one of the primary jurisdictional principles, or the Secretary of the Treasury, I guess. Are there letters or edicts or communications that set forth money laundering as a priority, Ms. Warren?

Ms. WARREN. Yes. There is a joint memorandum that went out from the Secretary of Treasury and the Attorney General to the Federal prosecutors as well as the Federal agency heads.

Mr. MICA. When was that, and could you provide this subcommittee with a copy?

Ms. WARREN. A copy can be provided, and it was in March, a few months ago. It directed them to the importance of following the money, the importance of looking at every possible investigative technique, and training our personnel.

Mr. MICA. And for the record, just provide us a copy. And then any of the items that were outlined, maybe a brief progress report since it was issued.

The other thing that is necessary is resources to go after combating money laundering in the budgets of the Department of Justice and Treasury Department. Were there additional resources requested in the budgets and what's the status of those? Maybe you could start with Justice. Ms. Warren, are you familiar?

Ms. WARREN. I know that each of the components have requested over the past few years additional money.

Mr. MICA. I'm talking about in fiscal year 2001.

Ms. WARREN. I'm just not that familiar and I can only answer generically.

Mr. MICA. Could you provide that for the committee, too? Because I think it's important that we see what has been requested and then where we are, particularly at this critical time in the appropriations process. We have a problem if you aren't requesting the resources, because God knows everybody requests all kinds of things from us. But we have a problem if you're not requesting them.

And then if the request is in jeopardy or if there is a problem, this is the perfect time to look at that. Who's from Treasury? I guess we are sort of stuck with Mr. Varrone. He's down the pike.

Mr. VARRONE. Well, I can say that the Treasury Department's budget——

Mr. MICA. I'm sorry, I apologize, Mr. Wechsler. I had to pick on Mr. Varrone because I know him better. But it looks like you're up the pike. Can you provide us with the same information?

Mr. WECHSLER. Absolutely. And the requests have increased this year. And we would love to work with you.

Mr. MICA. Specifically to go after money laundering?

Mr. WECHSLER. Specifically for money laundering.

Mr. MICA. You don't know the status of that request?

Mr. WECHSLER. We will get you all the numbers and status, sir.

Mr. MICA. Can you? Because it's nice to have these hearings, but if we aren't doing something to see that our investigations and oversight are translated into some actions, we're all wasting our time.

I have no further questions. Mr. Cummings.

Mr. CUMMINGS. I just want to thank you.

Mr. MICA. Thank you. I thank the panelists. We appreciate your participation and look forward to your working with us to make this a more effective effort.

I'll call our second panel this morning. The second panel this morning consists of two individuals. The first is Mr. Raymond W. Baker, and he's with the Center for International Policy. The second one is Mr. Kenneth Rijock, and he is an aviation and financial crime consultant. Those are our two witnesses on this panel.

Both of you are, I think, new witnesses to the subcommittee. This is an investigations and oversight subcommittee of the House of Representatives, part of the Government Reform Committee. In that regard, we do swear in our witnesses. Also, if you have any lengthy statement, more than 5 minutes, we'd like you to submit that for the record and summarize verbally to the subcommittee your comments. Upon request, your entire statement will be made part of the record, and we'll also upon request include additional data, information and background as part of the record.

You can remain standing. Please raise your rights hand to be sworn.

[Witnesses sworn.]

Mr. MICA. The witnesses answered in the affirmative. I'm pleased to welcome both of you this morning to provide your insight and testimony to our subcommittee on the problem of money laundering. Hopefully, we can hear also some of your recommendations for doing a better job in that regard.

I'd like to recognize first Mr. Raymond W. Baker, and he is with the Center for International Policy. Welcome, sir, and you're recognized.

## STATEMENTS OF RAYMOND W. BAKER, CENTER FOR INTERNATIONAL POLICY; AND KENNETH W. RIJOCK, AVIATION AND FINANCIAL CRIME CONSULTANT

Mr. BAKER. Mr. Chairman, distinguished members of the committee, thank you for the opportunity to appear before you. I am Raymond Baker, a senior fellow at the Center for International Policy, and recently a guest scholar at the Brookings Institution studying money laundering and flight capital.

I would like to put forward and elaborate briefly on three points. One, there has been an absolute explosion in the volume of dirty money during this, the first decade of the globalizing world. Two, the U.S. Treasury Department estimates that 99.9 percent of the laundered criminal money that is presented for deposit in the United States gets comfortably into secure accounts. Three, at the core of our anti-money laundering efforts for many years has resided a basic intellectual flaw.

The issue of dirty money can be most easily approached by breaking it down into its three principal, though sometimes intermixed, components: criminal, corrupt and commercial. The criminal component arises from the proceeds of scheduled crimes that violate anti-money laundering legislation. The corrupt component refers to receipts generated through bribery and theft by foreign government officials. The commercial component is transactionally procured and derived from tax evasion out of other countries, also called illegal flight capital.

The criminal component of dirty money is often estimated at perhaps $500 billion to $600 billion a year. The corrupt component I have estimated at $20 billion to $40 billion per year. And while it is the smallest of the three, it has a multiplier effect on the other two.

The commercial component I have also studied and would put at roughly $500 billion a year, comparable to the criminal component. The combination of the three, therefore, amasses to more than $1 trillion a year, passing into western coffers. Other estimates range from a half trillion to $3 trillion annually. But regardless of where the most accurate figure rests, dirty money clearly constitutes the biggest loophole in the free market system.

Virtually all of this flow is facilitated by business people and bankers in the United States and Europe, often acting lawfully or taking advantage of gaps, ambiguities and contradictions in laws, regulations and enforcement. In my written statement, I have provided a number of examples of this. Suffice it to say that it is the process of cooperation in moving corrupt and tax evading money that undermines our ability to curtail the flow of criminal money.

Dirty money from corruption and commercial tax evasion brings the benefit of several hundred billion dollars a year spread across the United States and Europe in bank deposits, markets and properties. The cost of this inflow can be seen in the impact on both our domestic and foreign interests. Domestically, the proceeds of tax evasion and corruption provide the cover that is necessary for laundering of criminal money, making it possible for 99.9 percent of laundered money, Treasury's own estimate, to pass into U.S. accounts.

Indeed, the easiest thing for criminals to do is to make their criminal money look like it is merely corrupt or tax evading money. And when they do, we usher it readily into our economy. Our pursuit of corrupt wealth and illegal flight capital effectively removes anti-money laundering as an instrument in our fight against drugs, crime and terrorism.

Similarly, concerning our foreign interests, the pursuit of dirty money erodes our strategic objectives in the transitional economies of former communist countries and badly impairs economic

progress in developing countries, contributing to political instability.

For many years, an implicit cost benefit analysis has suggested that the inflow of corrupt and tax evading money into the United States is beneficial. In fact, that case cannot be made. Current U.S. laws, regulations and government practices attempt to attack criminal money while preserving our opportunity to solicit and welcome corrupt and tax evading money. With this approach, the United States would never effectively curtail the staggering inflow of criminal proceeds.

Therein lies the intellectual flaw. This contradictory process simply cannot work.

Mr. Chairman, we have a decision to make as a society. Which is more important to us, to fight drugs, crime and terrorism with all legal and reasonable means at our disposal? Or to pursue the billions in corrupt and tax evading dollars that can be drawn out of other countries into our economy? This decision will significantly influence the outcome of the issues that have been so important to you.

Thank you.

[The prepared statement of Mr. Baker follows:]

CENTER FOR INTERNATIONAL POLICY

**MONEY LAUNDERING**

**Testimony before the U.S. House of Representatives**

**Subcommittee on Criminal Justice, Drug Policy and Human Resources**

**of the Committee on Government Reform**

**June 23, 2000**

**Raymond W. Baker**
**Senior Fellow**

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## MONEY LAUNDERING

Mr. Chairman, Congresswoman Mink and distinguished members of the Committee.

Thank you for the opportunity to appear before the U.S. House of Representatives Subcommittee on Criminal Justice, Drug Policy and Human Resources of the Committee on Government Reform to address one of this nation's larger but most illusive issues. I am Raymond Baker, and after a career in international business I am a Senior Fellow at the Center for International Policy, and I have recently completed a three-year assignment as a Guest Scholar at the Brookings Institution, studying money laundering and flight capital.

I would like to put forward and then elaborate upon three points:

1) There has been an absolute explosion in the volume of dirty money during this, the first decade of the globalizing world.

2) The U.S. Treasury Department estimates that 99.9 percent of the laundered criminal money that is presented for deposit in the United States gets comfortably into secure accounts.

3) At the core of our anti-money-laundering efforts for many years has resided a basic intellectual flaw.

### Estimated Magnitude of Dirty Money

Over the past ten years, American and European financial institutions have been inundated with a flood of ill-gotten gains, and our respective legal systems have proven inadequate to deal with the situation. This torrent of stolen, disguised and hidden resources presents a challenge to the stability of the free market system.

The issue of dirty money can perhaps most easily be approached by breaking it down into its three principal, though sometimes intermixed, components -- criminal, corrupt and commercial. The criminal component arises from the proceeds of scheduled crimes that violate anti-money-laundering legislation. In the United States we have designated some 170 crimes and malpractices that constitute a predicate offense for a charge of money laundering, and we have named a handful of these as offenses even if they occur overseas and are not necessarily directed against U.S. interests, including drug trading, certain violent crimes and bank fraud.

The corrupt component refers specifically to receipts arising from corruption, bribery and theft by foreign government officials. It is important to note that, although we have a Foreign Corrupt Practices Act in the United States that makes it illegal for Americans to bribe foreign government officials (and European countries have begun enacting and implementing similar legislation), it is not generally illegal in the United States or Europe to handle funds acquired from corruption.

The commercial component of dirty money is derived from tax evasion out of other countries, which is a major part of the problem of flight capital. When discussing flight capital, it is important to distinguish between its legal and illegal manifestations. The legal form of flight capital is generally after-tax money that is properly documented as it passes across borders, and it remains on the books of the entity from which it is transferred. Such flows are accepted as largely beneficial to investment, trade and development. The illegal component of flight capital is quite different. Almost always tax evading and therefore illegal out of countries from which it comes, it is improperly documented or related to a preceding or following improperly documented transaction, and it disappears from any record in the country of its origin.

Focusing on the criminal component of dirty money, derived mainly from drugs, other forms of international crime, illegal arms trading and terrorism, the most commonly offered estimate of its magnitude is around $500 billion per year. The ease with which the drug trade has been conducted from the 1970s until today has convinced global criminal networks of all sorts of the remarkable facility with which they can move their racketeering profits.

I have estimated the corrupt component of dirty money at $20 billion to $40 billion annually, built up from estimates made in some 20 countries. While it is the smallest of the three parts of the problem, corruption by foreign government officials has a multiplier effect on the other two, because from countries that are corrupt at the top also flow the largest sums of criminal and commercial dirty money.

In addition to studying corruption, I have also developed data on certain aspects of commercially originated but unrecorded flows, that is, tax-evading, illegal flight capital out of developing and transitional economies. The total amount of this part of the problem I would put at roughly $500 billion per year, comparable to the criminal component.

Thus, the combination of criminal, corrupt and commercial dirty money appears to amass to more than a trillion dollars per year passing into western coffers. Other estimates have ranged from a half trillion to three trillion dollars annually, but regardless of where within such a range the most accurate figure lies, it is clear that accelerating transfer of illicit funds constitutes the biggest

loophole in the free market system. Furthermore, it also appears that half or more of all global dirty money ends up in the United States, our nation having become, by most credible estimates, the world's largest repository for ill-gotten gains.

Analytically, it would be useful if the sum of corrupt and commercially tax evading money could be broken down into a) what is actively facilitated by westerners, b) what is passively received, and c) what is deposited directly into tax havens and bank secrecy jurisdictions without our initial involvement. While separating out the latter two is complex, the first part, that which we in the West pursue and assist, has been pegged at a minimum of $100 to $150 billion annually, probably much more. Undoubtedly, a very substantial portion of corrupt plunder and illegal flight capital is solicited, accommodated, channeled and placed by our own private sectors, operating largely within the laws of North American and European countries or on the margins where laws are unenforced.

**Successful Money Laundering**

Focusing on international flows, there are three principal means of moving tainted funds -- cash, wire transfers and transaction mispricing. Cash and cash equivalents are transported from one country to another in briefcases and suitcases, or alternatively bundles of dollars or other currencies are concealed in appliances, furniture, machinery, industrial products or even coffins for shipment to financial jurisdictions more than ready to accept deposits with no or few questions asked. This method has been particularly important, for example, in moving drug money from the United States to the Caribbean.

Wire transfers of criminal funds are made to look like normal commercial transfers, often utilizing inattentive or unscrupulous banks in developing and transitional economies cooperating with their correspondent banking relations in the United States and Europe. This has been the most rapidly growing part of the problem in the 1990s, as, for example, Russian and Eastern European syndicates and tax evaders have used front organizations and local banks to shift billions into western coffers.

The third and most commonly used method of moving dirty money is by means of transactions, that is, incorporating an illegal element as a part of a legal commercial arrangement. The usual examples are a) falsification of prices on import and export transactions in order to generate a percentage or even a multiple of the value of the trade that is then paid into a foreign bank account and b) real estate transactions and securities trades, often between related parties, improperly priced and paid for in order to shift assets between countries.

These three main processes for moving dirty money are treated differently in U.S. and European law and practice. Cash deposit and reporting requirements have somewhat curtailed the laundering of small sums, but smuggling of large sums for deposit out of the United States may be growing. Wire transfers of billions of dollars in dirty money are facilitated by weak requirements on banks in the United States and Europe to evaluate and monitor carefully the quality of overseas correspondent banking relationships and the quality of foreign customers who have bank accounts in our countries. Facilitating rapid movements of balances for correspondents and customers has become far more important than exercising prudence in determining sources of revenues. Transactional mispricing is rarely touched in U.S. and European law and practice, which actively serves to facilitate the flow of commercial tax-evading money out of developing and transitional economies. Almost all transactional mispricing requires cooperation between parties in foreign countries working with counterparts in the United States and Europe, and such mispricings are built into millions of trade and asset transfers annually. It is this pattern of cooperation in moving commercially tax evading and corrupt money that undermines our ability to curtail the flow of criminal money.

Not to be ignored is another available means of illegal transfer, electronic payment systems, growing over the past two or three years, made possible by the Internet, on-line banking and gambling across the web. This will no doubt present even more serious challenges in years to come.

The word "facilitate" has been used above in reference to U.S. and European activities that encourage and enable the channeling of corrupt fortunes and illegal flight capital out of transitional and developing economies into western assets. A selection of examples of ambiguities and contradictions in policies and practices, focusing primarily on the United States, will serve to illustrate the point:

- Treasury Department officials have stated on multiple occasions that it is U.S. policy to attract flight capital out of other countries, with little or no heed paid to whether or not it is tax evading.

- The United States requires a customs declaration to be filed in connection with imports and exports into and out of the United States, and it is an offense to file a false declaration. Yet in practical terms the customs declaration is signed by a freight forwarder, not by the buyer or seller, and so long as it accords with the commercial invoice accompanying the transaction it is rarely challenged by the U.S. Customs Services. Because of this laxity, trade mispricing in the form of commissions, rebates and kickbacks is often routine practice in winning and maintaining export and import orders in soft currency markets, present in hundreds of thousands of transactions handled by U.S. commercial and banking interests.

- A perception of tax evasion is expected to elicit a Suspicious Activities Report (SAR) in U.S. banks. Yet when an exact percentage of the value of an international trade transaction is taken out of the domestic party's account and deposited into the foreign party's account within the walls of the same bank, even transaction after transaction, no SAR is filed, although from long experience the bankers and business people involved know full well that tax evasion is a result of these kickbacks.

- The United States has enacted an Advance Pricing Agreement that makes it difficult for foreign corporations with local subsidiaries to misprice trade in order to take tax-evading money out of the United States, placing the onus for demanded clarifications squarely on the suspected evader. Yet U.S. regulations are, across the board, far more accommodating to mispricing that beings tax-evading money from other countries into the United States.

- Officials from Treasury, Justice and State departments, the Federal Bureau of Investigation, the Drug Enforcement Administration and the United States Agency for International Development frequently meet with foreign leaders and officials to discuss and offer assistance in addressing issues of drugs, crime, corruption and terrorism. Yet these earnest efforts are severely undercut when private bankers and business people initiate or respond to the desires of corrupt foreign officials and wealthy tax-evading citizens or those acting on their behalf to move funds illegally to and hold assets in U.S. accounts.

Due to these and many other ambiguities and contradictions, the perception is very widespread in developing and transitional economies that the West -- the United States and Europe in the main -- is not serious about reducing the very profitable part of its business created through accumulation and management of the proceeds of corruption and tax evasion. Criminals, understanding the western appetite for such funds, recast the appearance of their lucre so that it is sought after and welcomed into our financial institutions, producing the Treasury Department's own estimate that 99.9 percent of the laundered criminal money that is presented gets easily into U.S. accounts.

**The Intellectual Flaw**

The costs and benefits of the components of dirty money which we facilitate, i.e., yields from corruption and commercial tax evasion, merit clear analysis. The benefit is that it spreads several hundred billion dollars annually across North America and Europe, in bank accounts, markets and properties. The cost can be seen in the impact on both our domestic and foreign interests.

The proceeds of tax evasion and corruption provide the cover that is necessary for laundering of criminal money. These three sources of illegal funds move along precisely the same paths through the international financial system. In fact, the easiest thing for criminals to do is to make their criminal money look like it is merely corrupt or preferably commercial tax-evading money, and when they do it passes readily into foreign accounts. With American and European banks and corporations aggressively competing to service gains from corruption and illegal flight capital, money laundering is almost universally successful.

*The pursuit of stolen corrupt wealth and illegal flight capital removes anti-money-laundering as an effective instrument in the fight against drugs, crime and terrorism, thereby weakening our ability to prevail in facing some of the most serious threats to our domestic society.*

Corrupt and tax-evading money similarly undermines key foreign policy interests of western nations. Russia, of strategic importance, has suffered the greatest illicit diversion of resources out of any country in a short period of time, an estimated $200 billion to $500 billion in a decade. Yet what has happened in Russia, so much in the news of late, is no different than what has been happening in many other parts of the world for years. Nigeria has been impoverished, with 70 percent of its population living on the equivalent of $0.20 a day. Fraud and flight capital contributed to the overthrow of democracy in Pakistan, a new nuclear state in a volatile subcontinent. From Mexico, the only developing country that has a border with a major industrialized democracy, comes a surge of drugs and economically depressed aliens, presenting a difficult foreign policy challenge for the United States. China, with estimated illicit outflows already reported to be running upwards of $10 billion annually, is beginning to show domestic strains, likely to grow more severe.

*The foreign costs of our pursuit of corrupt riches and illegal flight capital is that it erodes our strategic objectives in transitional economies and impairs economic progress in developing countries, draining hard currency reserves, heightening inflation, reducing tax collection, worsening income gaps, canceling investment, and hurting competition, all contributing to political instability.*

For many years, an implicit cost/benefit analysis has suggested that the inflow of corrupt and tax-evading money into the United States is beneficial. To the contrary, taking into consideration the impact on our domestic and foreign interests, that case cannot be made. Yet for many years this faulty analysis has prevailed at the center of U.S. anti-money-laundering efforts. The idea that we can fight against one class of dirty money while soliciting, pursuing and servicing other classes of dirty money is flawed. Current U.S. laws, regulations and

government practices attempt to attack criminal money laundering while preserving our opportunity to solicit and welcome corrupt and tax-evading money. With this approach, the United States will never effectively curtail the staggering inflow of criminal proceeds. Anti-money-laundering efforts are not working and cannot work under present practices. It is because we are intentionally avoiding the whole of the problem that we are failing to curtail any significant part of the problem.

Earlier this week Secretary Lawrence Summers of the Treasury Department made an encouraging statement:

> "In today's economy, it is vital that we put an end to international tax practices that encourage tax evasion and improper tax avoidance and that disrupt capital flows."

When we make this sentiment a cornerstone of U.S. policy, we will live in a different world.

This is not, however, the United States or the world that we currently find. On the contrary, we have grown to accept that the cultivation of corrupt and tax-evading money out of other countries is routine and normal. Some argue that it is not our responsibility to enforce the laws, particularly the tax laws, of other countries. While true, this misses the point. The question is: is it in our interest to help foreign citizens break the tax laws of their countries? And the answer is no. The United States, of all nations, rather than cultivating aberrations in the free market system should be pushing adoption of the norms of the free market system.

Four fundamentals should logically underlie revised laws and regulations for the United States and, with our encouragement, for other western nations: 1) rejection of corrupt and tax-evading money as a matter of policy, 2) periodic reconfirmation of this policy given to and received from foreign account holders, 3) consistency of regulatory requirements and oversight across all major sectors of the financial community, and 4) flexibility to permit temporary exceptions in situations of potential violence, kidnapping, threats or political victimization.

We have a decision to make as a society. Which is more important to us?: to fight drugs, crime and terrorism with all legal and reasonable means at our disposal, or to pursue the billions in corrupt and tax-evading dollars that can be drawn out of other countries into our own economy. There is no question that the United States would be benefited as a society by addressing and curtailing all three components of the dirty money problem. The decision to do so is a matter of political will. In making this decision we will significantly influence the stability and security of democratic capitalism in years to come.

Mr. MICA. Thank you for your testimony.

I'm now pleased to recognize Mr. Kenneth Rijock, an aviation and financial crime consultant. Welcome, sir. You're recognized and we appreciate your coming forward to testify.

Mr. RIJOCK. Thank you, sir. I'd like to thank the subcommittee and Chairman Mica for the invitation to testify today on international money laundering and its relationship to illegal drug trafficking.

My name is Kenneth Rijock, and I was for 10 years a career money launderer for narcotics trafficking organizations who smuggled drugs through Florida and thereafter distributed them throughout the United States and Canada. It was my responsibility to ensure that the proceeds of narcotics crime made it safely through the world banking system and into the tax havens, whose offshore jurisdictions attracted dirty money by combining bank secrecy with a legal obscenity known as corporation secrecy.

I was able to operate with virtual invincibility from law enforcement attack due to these laws. The tax havens are the most powerful ally drug traffickers have. Without a protected venue to hold their wealth in transition, these vast funds would be exposed to seizure and forfeiture. Only by targeting their illegal activities and shutting down their operations can we hope to seriously impact the money laundering activities of narcotics traffickers.

After serving time in Federal prison for my crimes, I have spent the last 8 years teaching money laundering techniques to law enforcement, my former adversaries. I teach from my own personal experience and from my study of the developing dynamics of money laundering tactics and strategy, with the goal of stopping the investment of the end results of drug crime into our domestic economy.

I believe that the international money laundering situation is out of control in the western hemisphere, and our efforts to date have failed to seriously impact or damage its successful operation. We simply have not efficiently mobilized our law enforcement resources to either interdict or suppress the crime. Remembering that the cash profits of narcotics activity are the sole weak link in the never ending story of drug commerce, our Government must recognize that current efforts are not working, and make a quantum leap to a different type of comprehensive program, one that gets results.

Present efforts are reactive, not proactive, and at best expose only a small percentage of ongoing money laundering operations. Let's talk about some of the fundamental weaknesses of our current efforts. Perhaps by understanding the inherent problems, we can strive for a positive solution.

First, our law enforcement efforts are largely conducted by agents and officers without advanced degrees in finance and law, and who have generally never worked in a commercial business setting. How can we expect them to uncover money laundering crime if they don't have a clear understanding of the day to day business operations with all their complexities of our economy?

We must establish long term educational requirements for these law enforcement agencies entrusted with the responsibility for money laundering interdiction. Post-graduate degrees in relevant

and important fields should be encouraged, subsidized and required.

Second, the rotation system in general use by Federal law enforcement, where an agent is routinely transferred to a new location and assignment just when he is becoming proficient at his current job, has got to change. One of the lessons of the Vietnam conflict was that this practice takes the experienced person away at the wrong time. Frankly, I don't subscribe to the notion that variety for the purposes of career enhancement is more important than getting the job done. I have seen far too many instances of newly transferred unit commanders needing several months to become familiar with and proficient in their new assignments. This simply has to change.

Third, I can tell you from personal experience that narcotics traffickers and their money laundering cohorts exploit law enforcement's seniority system. When all of your experienced senior agents are watching the Redskins game on Sunday, leaving more junior, inexperienced hands on duty during the infinite number of off days and legal holidays, the dope comes in and the money goes out right past the people least qualified to recognize what's happening.

Duty assignments can no longer reward those with the most time in grade. We need those people in the field during high risk periods.

Fourth, let's take a page from the business world. The airlines of the United States routinely hire experienced military aviators to be commercial pilots because they are qualified. But instead of hiring qualified individuals from the ranks of the business world, our Federal law enforcement draws upon State and local enforcement where it is most unlikely they will obtain agents with the skills necessary to identify and interdict financial crime.

I realize that we'll have to pay these new hires from the private sector more money than a young State or local police officer. But we need business experience in the field of business crime.

Fifth, we fail to field a sufficient number of law enforcement staff in money laundering investigations. The agents are vastly outnumbered by the number of major money laundering operators. How can we hope to make serious inroads affecting the multi-billion dollar multi-laundering engine when we fail to detail sufficient staff to the task? Not to mention that the actual dimensions of the scope of money laundering activities are unknown and nobody seems overly concerned about this critical gap in our knowledge.

Another applicable lesson from the Vietnam conflict was the failure of our Government to realize how vastly outnumbered our infantry was in the field. I fear that we are understaffed in money laundering investigations in every major city where a substantial amount of international trade occurs.

Last, we must adequately train our investigators. Send them to the tax havens to learn the mechanics of offshore banking. Take them into several financial institutions to understand the problems and vulnerabilities. Instruct them in generally accepted accounting procedures. Show them money laundering scenarios from the perspective of how they can be detected through adequate knowledge

of business practices. Only then can we expect to glean acceptable results.

After we have properly equipped our law enforcement to meet the challenges of international money laundering, we must then support them in their efforts by moving forward, by passing pending legislation which will assist them. The prohibition of commerce with tax haven banks and the Bulk Cash Smuggling Act are but two notable examples of how this could be accomplished.

We must also begin to strictly enforce the laws we have. No federally chartered commercial bank has ever lost its charter for money laundering violations, no matter how serious the crime. Senior bank officers themselves are rarely indicted for money laundering. The institution simply pays a multi-million dollar fine.

This has got to change. Only now are we going to name and ostracize the most blatant offshore tax haven banks. We still don't indict their presidents and directors for violation of the Money Laundering Control Act. Make no mistake: money laundering is financial terrorism. And unless we change the way we attack its operations, it will not only flourish, but continue to impact our lives in an adverse manner, whether through the hotel in Georgetown purchased with laundered funds or soft money funneled to achieve the goals of criminal enterprise, or economic control of a friendly Third World country.

If we don't vigorously attack its machinery, and disrupt its operations, then the influence and power of narcotics traffickers will continue to grow.

Thank you.

[The prepared statement of Mr. Rijock follows:]

## Text of testimony of Kenneth Rijock, prepared for delivery at 10:00 A.M. on June 23, 2000, before the Government Reform Committee's Subcommittee on Criminal Justice, Drug Policy and Human Resources

I'd like to thank the Subcommittee, and Chairman Mica, for the invitation to testify today on International Money Laundering and its relationship to illegal drug trafficking. My name is Kenneth Rijock, and I was for ten years a career money launderer for narcotics trafficking organizations who smuggled drugs through Florida, and thereafter distributed them throughout the United States and Canada.

It was my responsibility to insure that the proceeds of narcotics crime made it safely through the world banking system, and into the Tax Havens, whose offshore jurisdictions attract dirty money by combining bank secrecy with a legal obscenity known as corporation secrecy. I was able to operate with virtual invincibility from law enforcement attack due to these laws.

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After serving time in Federal prison for my crimes, I have spent the last eight years teaching money laundering techniques to law enforcement, my former adversaries. I teach from my own personal experience, and from my study of the developing dynamics of money laundering tactics and stategy, with the goal of stopping the investment of the end results of drug crime into our domestic ecomony.

I believe that international money laundering is out of control in the Western Hemisphere, and our efforts to date have failed to seriously impact or damage its successful operation. We simply have not efficiently mobilized our law enforcement resources to either interdict or suppress the crime. Remembering that the cash profits of narcotics activity are the sole weak link in the never-ending story of drug commerce, our government must recognize that current efforts are not working, and make a quantum leap to a different type of comprehensive program; one that gets results. Present efforts are reactive, not proactive, and at best expose only a small percentage of ongoing money laundering operations.

Let's talk about some of the fundamental weaknesses of our current efforts; Perhaps by understanding the inherent problems, we can strive for a positive solution. First, our law enforcement efforts are largely conducted by agents and officers without advanced degrees in finance and law, and who have generally never

worked in a commercial business setting. How can we expect them to uncover money laundering crime if they don't have a clear understanding of the day-to-day business operations, with all their complexities, of our ecomony ?

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Third, I can tell you from personal experience that narcotics traffickers, and their money laundering cohorts, exploit law enforcement's seniority system; when all of your experienced, senior agents are watching the Redskins game on Sunday, leaving more junior, inexperienced hands on duty during the infinite number of off-days and legal holidays, the dope come in, and the money goes out right past the people least qualified to recognize what's happening. Duty assignments can no longer reward those with the most time in grade; we need those people in the field during high-risk periods.

Fourth, Let's take a page from the business world; the airlines of the United States routinely hire experienced military aviators to be commercial pilots, because they are qualified. But, instead of hiring qualified individuals from the ranks of the business world, our federal law enforcement draws upon state and local law enforcement, where it is most unlikely they will obtain agents with the skills necessary to identify and interdict financial crime. I realize that we will have to pay these new hires from the private sector more money than a young state or local police officer, but we need busines experience in the field of business crime.

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outnumbered our infantry was in the field. I fear that we are understaffed in money laundering investigations in every major city where a substantial amount of international trade occurs.

Lastly, we simply must adequately train our investigators; send them to the Tax Havens to learn the mechanics of offshore banking, take them into several financial institutions to understand the problems and vulnerabilities, instruct them in generally acceptable accounting principles, show them money laundering scenarios from the perspective of how they can be detected through adequate knowledge of busines practices. Only then can we expect to glean acceptable results.

After we have properly equipped our law enforcement to meet the challenges of international money laundering, we then must support them in their efforts by moving forward by passing pending legislation which will assist them. The prohibition of commerce with Tax Haven banks, and the Bulk Cash Smuggling Act are but two notable examples of how this can be accomplished.

We also must begin to strictly enforce the laws we have; No Federally chartered commercial bank has ever lost its charter for money laundering violations, no matter how serious the crime. Senior bank officers themselves are rarely indicted for money laundering; the institution sinply pays a multi-million dollar fine. This has got to change. Only now are we going to name & ostracize the most blatent offshore Tax haven banks; we still don't indict their presidents and directors for violations of the Money Laundering Control Act.

Make no mistake, money laundering is financial terrorism, and unless we change the way we attack its operations, it will not only flourish, but continue to impact our lives in an adverse manner, whether through the hotel in Goergetown purchased with laundered funds, or soft money funneled to achieve the goals of criminal enterprise, or economic control of a friendly third-world country. If we don't vigorously attack its machinery, and disrupt its operations, then the influence and power of narcotics trafickers will continue to grow.

Thank you.

Mr. MICA. Thank you both for your testimony.

Reading back through your testimony, the testimony of our first witness, Mr. Baker, you cite the problem, and I'm concerned that I don't see harder recommendations for solutions. We know what the problem is, everybody's testified that there's a dramatic increase in money laundering. Some of your recommendations here, consistency of regulatory requirements and oversight of major sectors of community.

Again, maybe we could take a specific example. We received information from the Russian Central Bank that this island nation, this small island nation, is moving $70 billion. Now, that seems fairly easy to track that in money flowing back into the U.S. banks. Why can't we get a handle on going after these folks or making it a matter of policy to search out money laundering in a case like that?

Mr. BAKER. Mr. Chairman, let me comment on the Russian situation a bit more broadly, if I may. Out of Russia has come something on the order of $200 billion to $500 billion over the past decade, the greatest illicit diversion of resources that has ever come out of any country in a short period of time. Much of that money was criminal in origin, much of it was tax evading in origin, much of it was theft by government officials. It was a combination of all.

Let's take Bank of New York, for example. Bank of New York went across the financial landscape of Russia with a vacuum cleaner and sucked up every correspondent banking relationship it could, perhaps not every one. But my understanding is several hundred.

I would respectfully suggest that in the process of establishing several hundred correspondent banking relationships in Russia, you know going into that situation that you're going to be handling a combination of criminal and corrupt and commercially tax evading money, a combination of stolen money. You know that. That was perfectly legal for them to do, to establish such correspondent banking relationships.

Now, how can we necessarily expect to be able to control what's going on in Nauru when we can't control what's going on in New York City? We've received a great deal of money from Russia through correspondent banks.

Mr. MICA. My question is, we know the money's coming in in direct transfers and also through sham transfers, through several other banking institutions, or covered corporations, whatever, we have uncovered incredible sums of illegal money. We have an instance here with an island nation where the Russian banks give us information of $70 billion going through a small island nation. And I don't know that we really pursued that particular case actively. Is this a lack of will, a lack of policy, a lack of law, a lack of being able to deal with that kind of transfer activity?

Mr. BAKER. Certainly we are hamstrung by a lack of law. The solution to the problem is to have the power to cutoff correspondent banking relationships.

Mr. MICA. You're saying that there is a lack of law that does not allow us to go after, if we know where that $70 billion was transferred into the United States, we can't touch it or go after it?

Mr. BAKER. That's my understanding, Mr. Chairman. It normally is transferred in in the form of overnight deposits and frequently transferred back out again in the form of overnight deposits. It's the ability to cutoff the overnight deposits from tax havens and bank secrecy jurisdictions that would give us the power of putting such island tax havens out of business.

Mr. MICA. You testified, sir, that you didn't feel our policy was proactive.

Mr. RIJOCK. No, sir, I do not. Going back to your example, you wanted to know why the gentlemen that were sitting at this table can't give you a straight answer to the question of where is this money. The short answer is that the level of sophistication of international money laundering is frankly beyond the capabilities of the average law enforcement individual.

Most law enforcement agencies neither have the budget, the inclination or the staffing to send six people tonight to Nauru, posing as tourists, to spend 3 months there, riding around in taxicabs, acquiring intelligence, talking to individuals, engaging in bogus transactions, to learn how it works. Not to mention the fact that the moment they get off the plane, they're made by somebody in the hire of one of these institutions or one of the criminal cartels.

The transfers that you're referring to, sir, are intricate and quite complex. They involve what's called layering. What would happen is, let's take $5 million sitting in a bank account in Nauru. The next day it goes to Taiwan; 2 days later, it's in the account of a French mortgage company; 3 weeks later it ends up in a Panamanian corporation with bearer shares.

It ends up being used to obtain a loan in a western European country, totally kosher. Comes into the United States and only if somebody wants to backtrack 17 steps and has the time and is not under pressure from his own bureaucracy to come up with fast results, can that individual actually criss-cross the globe and come up with those answers.

And if money laundering institutions which are very well organized by now know that, we're not talking about people from Miami with gold around their neck, sir. We're talking about people with Ivy League law and MBA degrees who sit in some of the biggest cities in the United States and form overseas companies without so much as picking up a telephone. We're talking about organizations that are so sophisticated that they almost defy description.

And they've been in place now for 20 years, they're getting better and better. And that's why more money is moving.

Mr. MICA. Do you believe that there are enough laws on the books or adequate laws to deal with this situation, domestically? And then what are the problems internationally?

Mr. RIJOCK. Well, the international problem appears to be a failure of purpose. We treat Iraq, Iran and any other terrorist country to a level at which we can deal with the problem. Financial terrorism is money laundering. And we have yet to come to the conclusion that that's just as much a clear and present danger to our country as gas warfare from Iraq.

In 1 week, we could shut down these tax havens. But nobody in the present administration, quite candidly, wants to pick up the ticket for that. All we would have to do, sir, is No. 1, shut off air

travel, just like we do to the terrorist nations. No. 2, declare that for national security purposes there shall be no more banking relations between American banks and banks in those tax haven countries.

And three, let's take all these foreign branches that all of our big banks in the United States have in the tax havens and let's declare them defunct. Our Government has got the ability to do these things. As to whether or not somebody's going to get serious with it is another story.

The traffickers just keep making more and more money. Last year, they literally took over the government in St. Kitts. And they turned it into the world's first narco-dictatorship. Well, that's the shape of things to come. We're going to find that more and more of these tax havens are going to have so much wealth and so much power they don't need our tax dollars, they don't need our aid money, they don't need anything from us except to be a conduit for dirty money, sir.

Mr. MICA. Well, the other problem we have is even if we gave Treasury, say, the authority to cutoff correspondent bank accounts, would the Treasury use that authority, the will to even implement that type of action. What do you think, Mr. Baker?

Mr. BAKER. That's the key question, Mr. Chairman, would we have the will to do so. And I'm not certain of that. These sums bring a great deal of money into the United States. And they are mixed, criminal inflows are mixed with commercial and corrupt inflows. And we have not yet decided that we want to cutoff the whole of the dirty money problem.

If I may, Mr. Chairman, comment a bit on Mr. Rijock's statement. I agree with his analysis of how you move money from one place to another. And he says this has been going on for 20 years.

I would like to make the point that the process of moving corrupt and tax evading money out of developing countries and now transitional economies has been going on for decades and decades, a long time. It is precisely the same process. There's no difference in the process.

We created the channels through which that kind of money flows. Money launderers have not invented any new ways of doing this. They have merely stepped into the same procedures that we have cultivated and used to move corrupt and tax evading money.

For 35 years, I've been in the private sector before coming to Brookings Institution, doing business all over the world, including consulting and advisory work. I have never heard of a scheme in the business of moving criminal money that I have not observed first in the business of moving corrupt and tax evading money. We attach the name money laundering to that part of the process that we don't like. We attach the names good business and good banking to the parts of the process that we do like.

But the process is the same across all three forms of dirty money.

Mr. MICA. So Mr. Rijock, you have cited both in your testimony and in response to a question that the need to really have a qualified force of professionals, because this is a very complex trail that you have to pursue and it takes a certain amount of skills. And you say that we don't have those forces in place to deal with the mod-

ern transactional pattern that these money launderers are developing.

Mr. RIJOCK. Well, our problem, sir, is that we generally take our law enforcement from people who are already on duty and transition people who are involved in interdicting other crimes into financial crime. We don't take people who have come from a business background. That's a rare exception in my experience.

I've been teaching money laundering all across North American for 8 years. And I'll stand up in front of the class and I'll hold up a copy of Money Laundering Alert, which for anybody in this business, it's the Time magazine of money laundering. Two-thirds of the people in the room won't even know what it is, which means that there's a basic lack of information intake.

Mr. MICA. They also trashed it today.

Mr. RIJOCK. Yes, I understand that, sir, because of the article on the 24 percent.

Mr. MICA. It appears that they've at least monitored the same type of activity, which was prime money laundering case referrals over that period. So that should be an accurate reflection or at least a snapshot of that activity?

Mr. RIJOCK. Well, sir, the basic problem is priorities. If you were to take somebody in Federal law enforcement and ask them which do they want to go after first, the drugs or the money, they will always tell you they want the drugs today and the money tomorrow. Independent money laundering investigations where that's the only thing they're going after is a money laundering syndicate, are not anything compared to the number of criminal narcotics investigations.

And that's where we go wrong. Because we're not putting up a Chinese wall between our white collar crime people and our drug people. Problem being that there's always going to be pressure to show results that play very well on the 6 o'clock news. And 500 kilos of cocaine looks a lot better than one cashier's check for $100 million from a bank in the South Pacific. That's the basic problem, it's a priority problem.

Mr. MICA. Well, we know who some of the enemies are. Now they've identified them, I think they've identified the 15 top offenders. What do you think should be done next? It doesn't sound like they have a game plan in place to deal with these top offenders. How would you proceed?

Mr. RIJOCK. Sir, when I teach my class, I hand out to them a list produced by the Commissioner of Internal Revenue in 1981, which lists all of the major tax havens of the world. With a few additions, it's basically the same. We have known for two decades about these tax havens. Calling them outlaw financial institutions, denominating them as such, doesn't do anything. If you look at a few days before the FATF came out with its list, all of a sudden you find that both Bermuda and the Cayman Islands are now rushing to say that they are now going to expose their records to us for tax evasion issues.

However, if you look at it closely, you'll see that they'll do some of it in 2003 and the balance by 2005. Well, I can tell you from my own experience that within 1 week, I would have moved all of my clients' dirty money out of the Cayman Islands and into a tax

haven not on the list or too new to be recognized, or created just for that purpose.

And it's just window dressing, sir. Calling them tax havens, all it does is put it out in the public what everybody has known for two decades. We need to do something a lot more proactive. And that is, we need to make them financial pariahs. If we don't do that, we'll never stop it.

Mr. MICA. Mr. Baker.

Mr. BAKER. Mr. Chairman, going along with Mr. Rijock's point, I have stated earlier, 4 or some months ago, that I would give these tax havens and bank secrecy jurisdictions 18 months to pass U.S. anti-money laundering scrutiny. And if they did not do so by implementing the necessary anti-money laundering procedures that are required by FATF, the 40 recommended procedures, then they would lose their correspondent banking relationships with the United States at the end of that time.

That's a tough approach. I would give them no more than 18 months to satisfy us that their anti-money laundering procedures are in place and working.

Mr. MICA. Possibly we need money laundering certification law that would encompass that provision. That might be interesting.

Mr. RIJOCK. The problem, sir, is time. And we don't have time any more. Because narcotics traffickers have had so many years to consolidate their gains, to double the production of cocaine. If we're going to wait 18 months to finally clamp down the hammer, 18 months from now the FARC may control Colombia. Eighteen months from now, there may be more heroin on the street in Orange Country than there is in China.

We can't really wait that long. Some group——

Mr. MICA. I think we're already there on both accounts.

Mr. RIJOCK. I know, but some agency has to pick up the responsibility to prioritize this issue. It can no longer be one where it's one of the six things that the agency does, and it does it because it's got a mandate to do so. Frankly, although I really am a foe of governmental bureaucracy, it might be time to create a new agency, an agency whose sole operation is to disrupt financial crime. Not to handle kidnappings, not to handle narcotics. Just to go after the proceeds of crime.

And we have to remember that that's what this is. These funds are the proceeds of crime. We cannot stop narcotics from coming into this country in a free and open society. But we can sure as heck shut down these organizations by taking away their profits.

Mr. MICA. Would you recommend that both on a domestic and international or separate them out?

Mr. RIJOCK. Well, I think, frankly, the international sphere is the one in which we have fallen down so far. That's the one in which, when I have a group of students in the room and I find that not one of them has ever even been to the tax havens, how would they even understand and identify the problem if they're not familiar with it?

Granted, it's a much more difficult task if you couple domestic with international money laundering. Domestic money laundering, thank God, it's here. We can seize assets here, we can arrest bankers, we can arrest individuals. Overseas, people may be totally im-

mune from prosecution for political, economic or monetary reasons. So the international one is the first priority.

I would hope that our law enforcement agencies in the United States could eventually get a handle on domestic money laundering, as they have passed a number of the serious banking regulation code.

Mr. MICA. Are either of you familiar with whether the EU or the U.N. are doing anything in this regard?

Mr. BAKER. The EU, Mr. Chairman, is only now in the process of passing, EU countries are only now in the process of passing regulations to outlaw bribery of foreign government officials. Neither of us, the EU or the United States, have yet made handling the proceeds of corruption an offense under anti-money laundering legislation. That is included in Strategy 2000. And that's in my judgment by far the most important provision in Strategy 2000.

It is also in the House and the Senate bills. There are other important provisions in those bills also.

Mr. MICA. Anything particularly lacking in the Strategy 2000 you might recommend to enhance the effectiveness of that legislation? Both the legislation that's pending and also the strategy.

Mr. BAKER. The thrust of my testimony, Mr. Chairman, has been that we have to include corruption and commercial tax evasion within the scope of dirty money that we are trying to address. Secretary Summers made a very interesting statement at the beginning of the week. He said, "In today's economy, it is vital that we put an end to international tax practices that encourage tax evasion and improper tax avoidance and that disrupt capital flows."

Mr. Chairman, when we take that sentiment and put it into Strategy 2001, make it a part of U.S. policy, then in my judgment we will for the first time have taken the steps necessary to begin to curtail the dirty money problem, including the money that is laundered by criminals. For the first time, we will have encompassed a policy that can be effective.

Mr. MICA. Mr. Rijock.

Mr. RIJOCK. Mr. Chairman, to answer your question about the European Union, we're in this all by ourselves. You need to understand a little bit about money laundering history. Money laundering statutes are taken directly from the Swiss model. The only impact that the European Union now has on the tax haven countries in the Caribbean is that they are expressing their intense displeasure with the fact that the money laundering tax havens are now pulling money out of the European tax havens, as for example, the Channel Islands.

We cannot expect to get any help from that quarter. Unfortunately, they complicate our problem, because they provide another venue on a very sophisticated level. I think that money laundering is an American problem and we need to apply an American solution.

When I used to launder cash in the Caribbean, and I would sit out there on the porch in St. Martin and drink a cup of coffee and watch the sun come up, I wondered, one of these days, am I ever going to see an American aircraft carrier out there, and are the Marines going to come ashore, arrest all the bankers, close down the banks, take the records, take them to Miami, and charge all

those people in Federal court with money laundering. Well, that's never happened. Because nobody's decided that it's important enough.

And crossing the border, unfortunately, unless it's Grenada, is not politically correct. The bottom line, sir, is that it's a threat to our national security and nobody has yet reached that point in their development.

When we find that there are rumors about narcotics traffickers sending huge amounts of money to aid in political campaigns in the United States, when we find that they out and out aid political campaigns all over Central and South America, we should get nervous about that. But somehow, I'm not seeing that. It's out of hand, sir.

And as far as a result, it's time for drastic measures. Because for the Government to come in here and say, well, we're looking at this and maybe in 2 years we'll have a handle on it, well, within 2 years, these organizations will make billions or trillions of dollars, will become infinitely larger, more powerful, will hold so much more in the way of assets that before you know it, we may find ourselves unwelcome in a number of countries in Latin America because we're not supplying the bulk of the money. The traffickers are.

Mr. MICA. Well, I want to thank both of you for your testimony today. We are an investigations and oversight subcommittee of Congress, and we are trying to look at all of the aspects of illegal drug activity. In addition to that, we do oversee Department of Justice and some of the other agencies as far as the criminal justice system is concerned. We are looking for solutions, looking for problem areas and how we can get a better handle on this and keep legislation up with changing times and challenges.

And also, to pursue agencies, both their current activities and future initiatives. And that's the purpose of today's hearing, is to see how we can do a better job and prompt them to action.

I want to thank both of you again for your testimony, for your participation and contribution today. Hopefully it will help us as we do our job.

And with that, the subcommittee stands adjourned.

[Whereupon, at 11:45 a.m., the subcommittee was adjourned.]

[Additional information submitted for the hearing record follows:]

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

August 31, 2000

Mr. Ryan McKee
Subcommittee on Criminal Justice, Drug Policy,
& Human Resources
Committee on Government Reform
House of Representatives
Washington, DC 20515

Dear Mr. McKee:

Enclosed are the responses to the questions submitted by Congressman Dana Rohrabacher in regards to the testimony of Special Advisor William Wechsler's on "Combating Money Laundering Worldwide" before the Subcommittee on Criminal Justice, Drug Policy, and Human Resources on June 23, 2000. We sincerely apologize for the delay in returning these answers to you. Please call me at (202) 622-1760 if you have any questions.

Thank you.

Sincerely,

Laura McAuliffe
Office of Legislative Affairs and Public Liaison
Rm. 3204 Main Treasury

Enclosure

**Question 1: What is the Administration doing to limit money laundering in Panama?**

The Treasury Department has a multi-faceted strategy for combating money laundering in Panama including diplomatic, regulatory and law enforcement efforts. First, the U.S. is actively participating in the Non-Cooperative Countries and Territories Initiative (NCCT) of the Financial Action Task Force (FATF). FATF is a 29 member state organization dedicated to combating international money laundering. On June 22, pursuant to its NCCT Initiative, FATF took the unprecedented step of identifying 15 countries -- including Panama -- as non-cooperative in the international fight against money laundering. After a lengthy review of Panama's anti-money laundering laws, regulations and practices, the FATF report concluded that Panama has serious systemic problems in its anti-money laundering regime and that:

> Panama has not yet criminalised money laundering for crimes other than drug trafficking. It has an unusual and arguably inefficient mechanism for transmitting suspicious transaction reports to competent authorities. Panama's FIU [Financial Intelligence Unit] is not able to exchange information with other FIUs. In addition, certain outdated civil law provisions impede the identification of the true beneficial owners of trusts.

On July 8, the G-7 Finance Ministers met in Japan and endorsed the FATF publication and Treasury Secretary Summers announced that the U.S. was joining all of our G-7 allies in issuing advisories to our domestic financial institutions urging them to give enhanced scrutiny to transactions involving identified jurisdictions. The U.S. advisory on Panama -- which is available on the FinCEN web site at www.ustreas.gov/fincen -- states, in part, as follows:

> ...banks and other financial institutions operating in the United States should carefully consider, when dealing with transactions (especially those involving large sums of money, whether in cash, third-party check or wire transfer) originating in or routed to or through the Colon Free Zone or Panama, or involving entities organized or domiciled in the Colon Free Zone or Panama, or persons maintaining accounts in Panama, how the deficiencies of counter-money laundering controls in Panama affect the possibility that those transactions are being used for illegal purposes....All institutions are particularly advised to give enhanced scrutiny to transactions or banking relationships that do not involve established, and adequately identified and understood, commercial or investment enterprises.

It is important to note that Panama has responded constructively to its identification by FATF and to the advisories by the U.S. and the other G-7 nations, and has expressed its intention to move quickly to bring itself into compliance with international counter-money laundering standards. The United States stands ready to provide Panama appropriate technical assistance in its effort to do so.

However, the U.S. and our G-7 allies have also pledged to identify additional countermeasures that can be brought to bear with regard to countries that remain intransigent despite the recent actions by FATF and the G-7. The G-7 Finance Ministers explicitly threatened to "condition or

restrict financial transactions with those jurisdictions and to condition or restrict support from international financial institutions to them."

Unfortunately, as I testified, the Treasury Department is extremely limited in its statutory authority to take much action beyond the issuance of advisories. Consequently, we strongly support the International Counter-Money Laundering and Foreign Anticorruption Act, H.R. 3886. This bipartisan bill is cosponsored by Chairman Leach and Ranking Member LaFalce of the House Banking Committee, and passed out of that committee by a vote of 31-1. H.R. 3886 would provide the Secretary of the Treasury authority to take targeted, graduated, and proportionate countermeasures against jurisdictions identified as being of "primary money laundering concern." Passage of this bipartisan bill would be a significant step in the fight against international money laundering. Passage is critical if we are to continue to work effectively with our G-7 allies in the next stages of our successful efforts to crack down on international money laundering havens.

Second, the U.S. has supported the work of the regional Caribbean Financial Action Task Force (CFATF) in its efforts to combat money laundering in Panama and through the Caribbean region. Panama has been an active member of the CFATF since its inception in 1992 and in July 1996 was the fourth member-country to undergo a mutual evaluation of its anti-money laundering program. This mutual evaluation resulted in a number of specific recommendations to the Panamanian government. While many of these recommendations went unheeded (thus resulting in Panama's listing by FATF as non-cooperative) some important recommendations were implemented over the years as a result of the CFATF process. Taking note of that progress, the FATF report on NCCTs reported that Panama is:

> an active member of the CFATF and through its work in that body has made a number of significant improvements to its regime over recent years. Significantly, in connection with its hosting this year of the plenary meeting of the Egmont Group of financial intelligence units, the President of Panama committed her administration to implement a series of improvements to her country's anti-money laundering regime.

A third prong in our attack on money laundering in Panama is our effort against the Black Market Peso Exchange (BMPE). These efforts are detailed in the *National Money Laundering Strategy for 2000* (Action Items 1.6.1 - 1.6.4), which is available on the Treasury web site at www.treas.gov/press/releases/reports.htm. As set forth in the *Strategy*, the Treasury Department is developing a Business-Government Outreach program to engage the business community on the BMPE. In addition, law enforcement agencies, working with the Customs Service's Money Laundering Coordination Center, (MLCC) are continuing to identify methods used by the BMPE and, through the MLCC, are enhancing coordination of investigative efforts against the peso exchange system. And finally, the Administration is promoting enhanced cooperation with the Governments of Colombia, Aruba, Panama, and Venezuela to help combat the BMPE system.

The goal of our business outreach program is to prevent dirty money from reaching U.S. companies. In December 1997, the Department of the Treasury published an advisory describing the BMPE to the law enforcement and financial communities. In June 1999 this advisory was

updated to provide additional information regarding the BMPE. With the detailed information contained in these two Advisories, financial institutions have been better equipped to identify suspicious transactions that may be BMPE related. Also in June 1999, Customs distributed to the trade community a brochure describing the BMPE laundering process, highlighting indicators of BMPE activity, and providing a Customs point-of contact. And on June 6 of this year Attorney General Janet Reno, Deputy Secretary Stuart Eizenstat and Deputy Attorney General Eric Holder met with senior executive officers of several U.S. corporations, advised them of the Administration's concerns regarding the BMPE, and enlisted their collaboration in combating it. In follow-up workshops to be co-hosted by the Departments of the Treasury and Justice, these industry leaders and other representatives of various industry associations will work to develop anti-money laundering compliance programs and guidance notes.

As set forth in Action Item 1.6.2 of the *National Money Laundering Strategy for 2000*, the U.S. Customs MLCC will continue its work in identifying emerging trends in the methods used for placement of BMPE funds into the financial system. In order to accomplish this goal, the MLCC must have the personnel with appropriate expertise to be able to quickly collect, analyze, and disseminate intelligence from operations involving peso exchange targets and to disseminate this information to appropriate law enforcement agencies. Toward this end, Customs has fully staffed the MLCC with experts on money laundering, including the BMPE system.

As the *Strategy* further describes, we have also developed a program to reach out to countries in the region that are most vulnerable to BMPE related transactions. In coordination with Colombia's Revenue and Customs Service (DIAN) which has provided substantial information, we have worked to review, analyze and discuss specific data that may well further the investigation and prosecution of cases against the BMPE. Through this process we have identified not only U.S. products susceptible to the BMPE but the trade routes those products travel to reach their final destination in Colombia. Working with this information, the Administration has reached out to the Governments of Colombia, Aruba, Panama, and Venezuela and enlisted their collaboration in a multilateral working group to combat the BMPE.

I would defer to the Department of Justice and to the federal law enforcement agencies for questions on investigations and prosecutions relating to Panamanian money laundering.

**Question 2: What is the Administration doing to limit the money laundering technique known as "peso brokering" in the Colon Free Zone in Panama?**

Our efforts to limit the money laundering technique known as "peso brokering" in the Colon Free Zone in Panama are detailed the discussion of the Black Market Peso Exchange in the *National Money Laundering Strategy for 2000* (Action Items 1.6.1 - 1.6.4), which is available on the Treasury website at www.treas.gov/press/releases/reports.htm and discussed in our response to Question 1. Additionally, as discussed above, the Treasury Department has issued a Bank Advisory to its domestic financial institutions recommending that enhanced scrutiny be given to transactions involving the Colon Free Zone.

**Question 3: Panama has become one of the largest exporters of gold in the Americas, even though gold mining operations have been closed for the past two years. What is the Administration doing to stop international drug traffickers from using gold and gold jewelry purchases in the Colon Free Zone in Panama to launder their illegal drug proceeds?**

**Answer:**

International law enforcement has long observed the misuse of the world gold trade by money launderers. In fact, many of the largest money laundering cases in history involved billions of dollars of narcotics proceeds laundered via the world's gold markets. The use of gold by money launderers in the Colon Free Zone and in the region more generally is popular for cultural reasons, because it is secure, and because it acts as both a commodity and as a *de facto* currency or "bearer instrument." In addition, gold is used alternative systems -- such as the black market peso exchange and hawala -- that do not use regulated financial institutions. There is also a tremendous black market involving smuggled gold. As such, law enforcement must examine both trade and financial transactions. These factors combine to make it very difficult for law enforcement agencies to effectively combat the gold and money laundering cycle. Nevertheless, over the last few years, progress has been made:

- U.S. enforcement agencies, particularly U.S. Customs, continue to target trade related money laundering including suspicious transactions involving gold both into and out of the United States.
- Law enforcement continues to obtain better intelligence through the Money Laundering Coordination Center and other means as to how commodities, including gold, are used by international money launderers.
- Enforcement agencies work with their colleagues in Italy, Colombia, Panama, Venezuela and other countries to better coordinate enforcement operations involving the misuse of gold.
- Training in money laundering and gold has been provided both in the U.S. and in international forums.

**Question 4: Panama is among 15 nations identified by the FATF as not complying with the required measures to limit money laundering. What does the Administration intend to do to penalize and bring these countries into compliance with generally accepted money laundering standards?**

As discussed above, the U.S. actively participated in FATF's NCCT Initiative that, on June 22, identified 15 countries -- including Panama -- as non-cooperative in the international fight against money laundering. On July 8, the G-7 Finance Ministers endorsed the FATF publication, and Treasury Secretary Summers announced that the U.S. was joining all of our G-7 allies in issuing Bank Advisories to our domestic financial institutions urging them to give enhanced scrutiny to transactions involving identified jurisdictions. These Advisories are available on the FinCEN website at www.ustreas.gov/fincen.

The FATF NCCT Initiative has been extraordinarily successful. Since the process began in February, many formally intransigent countries have made great progress in the area of money

laundering. Austria, after 10 years of foot-dragging, has committed to the elimination of anonymous passbook accounts. Israel, Liechtenstein, Panama, Philippines, Bahamas, and the Cayman Islands -- each significant financial centers with inadequate counter-money laundering regimes -- have taken significant steps toward bringing themselves into compliance with international standards. Additionally, Mauritius and Samoa passed laws on the eve of the publication of the FATF report. And major law enforcement operations were announced in countries such as Liechtenstein that had previously turned a blind eye to money laundering. FATF intends to continue the NCCT initiative in the Fall by reviewing a new set of potentially non-cooperative countries, and the U.S. intends to fully support that effort.

The United States stands ready to provide countries identified as non-cooperative with appropriate technical assistance in their efforts to come into compliance with international standards. However, the U.S. and our G-7 allies have also pledged to identify additional countermeasures that can be brought to bear with regard to countries that remain intransigent despite FATF and G-7 actions. Unfortunately, as I described above and at length in my testimony, the Treasury Department is extremely limited in its statutory authority to take much action beyond the issuance of Advisories. Once again, that is why passage of the International Counter-Money Laundering and Foreign Anticorruption Act, H.R. 3886, is so critical. This legislation would substantially improve our ability to confront those nations that have been identified as non-cooperative yet continue to flout international anti-money laundering standards.

**Question 5: What is the role of the Russian mafia and Chinese triads in money laundering activities in Panama?**

While the extent of money laundering by Russian organized crime and Chinese triads in Panama is difficult to determine, in 1998, Panama's Attorney General Juan Antonio Sossa publicly commented that in addition to Chinese organized crime, the Russian and Colombian mafias are also expanding to carry out a variety of criminal acts in Panama. Because examples of these activities are often classified or sensitive to ongoing law enforcement investigations, I would suggest contacting the law enforcement and intelligence communities directly for more detailed information.

**Additional Questions:**

**<u>Department of Treasury Response and Planned Actions Regarding FATF and Other Efforts to Identify and Act Against International Money Laundering</u>. What actions are planned by Treasury in response to the Financial Action Task Force (FATF) report and other reports and assessments identifying countries which are "Non-Cooperative" in combating money laundering? What unilateral action is planned or being considered? How will these assessments impact country "certification"? Explain how anticipated legislation will improve the Department's ability to take decisive action against countries, and implications and requirements for domestic banks.**

As discussed above, on July 8 the U.S. and our G-7 allies announced the issuance of advisories to our domestic financial institutions urging them to give enhanced scrutiny to transactions

involving identified jurisdictions. These advisories are available on the FinCEN web site at www.ustreas.gov/fincen. This unprecedented step will help protect the U.S. financial system from the influx of dirty money from abroad and will help put further pressure on non-cooperative jurisdictions to bring their anti-money laundering regimes up to international standards. As noted above, these actions, combined with the multilateral nature of the FATF report, have been enormously successful at prodding many formally intransigent countries to take unprecedented steps to combat international money laundering.

The 29 member nations of FATF will not remove jurisdictions from its non-cooperative list until they have successfully addressed the specific weaknesses in their anti-money laundering regimes that the FATF has identified. Similarly, the U.S. will not amend or rescind its advisories until jurisdictions successfully address the weaknesses enumerated in the advisories. Moreover, FATF intends to continue the NCCT initiative in the Fall by reviewing a new set of potentially non-cooperative countries, and the U.S. intends to fully support that effort. We expect that any relevant facts that the FATF reports from its NCCT review process about countries' anti-money laundering regimes will be reflected in the State Department's International Narcotics Control Strategy Report, which forms the factual basis for the annual narcotics "certification" decisions.

The United States stands ready to provide countries identified as non-cooperative with appropriate technical assistance, should they decide to work with the international community to come into compliance with international standards. Should they decide otherwise, the U.S. and our G-7 allies have also pledged to identify additional countermeasures that can be brought to bear with regard to countries that remain intransigent despite FATF and G-7 actions. As noted above, the G-7 Finance Ministers explicitly threatened to "condition or restrict financial transactions with those jurisdictions and to condition or restrict support from international financial institutions to them."

Once again, however, the Treasury Department is extremely limited in its statutory authority to take much action beyond the issuance of advisories. That is why we strongly support passage of the bipartisan International Counter-Money Laundering and Foreign Anticorruption Act, H.R. 3886.

**Russia. Describe with specificity actions taken or considered against Russia, non-cooperating countries and our domestic banks as a consequence of Russian money laundering.**

Russia was one of the 15 countries identified by FATF as non-cooperative in the international fight against money laundering, and the U.S. responded to this listing by issuing an advisory to our domestic financial institutions recommending that enhanced scrutiny be given to transactions involving Russia. The Advisory, in part, states that "[a]ll institutions are particularly advised to give enhanced scrutiny to transactions or banking relationships that do not involve established, and adequately identified and understood, commercial or investment enterprises, as well as to transactions involving the routing of transactions from Russia through third jurisdictions in ways that appear unrelated to commercial necessities."

I would defer to the Department of Justice and to the federal law enforcement agencies for questions on investigations and prosecutions relating to Russian money laundering.

**Money Laundering as a Priority. Explain recent actions by Treasury to make money laundering a priority among Federal and State agencies and the Treasury Department. What challenges remain, and what further actions are planned? Include analysis of funding needs and commitments.**

In March 2000, the Treasury Department and the Justice Department issued the *National Money Laundering Strategy for 2000*, the most comprehensive approach to this problem ever developed. The *2000 Strategy* contains over sixty separate action items designed to combat money laundering on a broad range of fronts. These action items include efforts to strengthen domestic enforcement, to enhance measures taken by banks and other financial institutions, to build strong partnerships with state and local governments, to bolster international cooperation, and to work with Congress to give the Treasury and Justice Departments critical new tools to combat international money laundering. The *2000 Strategy* is on the Treasury web site at www.treas.gov/press/releases/reports.htm.

One of the most significant initiatives in the *2000 Strategy* regarding making money laundering a federal enforcement priority is the designation of the first four High Intensity Money Laundering and Related Financial Crime Areas (HIFCA). These HIFCAs will concentrate law enforcement efforts at the federal, state, and local level to combat money laundering in high-intensity money laundering zones. The *2000 Strategy* calls for the establishment in each HIFCA of a money laundering action team to be composed of all relevant federal, state, and local enforcement authorities, prosecutors, and financial regulators. The action teams will focus on tracing laundered funds, collaborative investigative techniques, and systematic exchange of information on money laundering. The HIFCAs designated for the year 2000 are as follows:

- New York/Northern New Jersey
- Los Angeles Metropolitan Area
- San Juan, Puerto Rico
- Cross-Border Currency Smuggling in Texas/Arizona to and from Mexico

Another significant initiative in the *2000 Strategy* relating to making money laundering a priority for State and local law enforcement is the establishment by the Departments of Treasury and Justice of the Financial Crime-Free Communities Support Program (C-FIC). The C-FIC grant program is intended to provide seed capital for emerging State and local counter-money laundering enforcement efforts. We intend to award over $2.5 million in C-FIC grant funds this year to eligible candidates. In June 2000, the Departments of the Treasury and Justice opened the application period for the initial C-FIC grants, which will be awarded on a fully competitive basis. Grant applications can be downloaded from www.ojp.usdoj.gov/BJA/html/newl.htm and are also available from the Bureau of Justice Assistance Clearinghouse (800-688-4252) and the Department of Justice Response Center (800-421-6770).

The President's FY 2001 budget includes a separate appropriations request in the amount of $15 million for the implementation of the *National Money Laundering Strategy*. The request seeks

the additional resources necessary to implement critical components of the *Strategy*. More specifically, the additional resources will enable:

- Creation of multi-disciplinary teams to provide the capacity to identify patterns of non-compliance with the Bank Secrecy Act (BSA), identify and establish expertise in money laundering systems, and provide the ability to address patterns and trends effectively.
- Task forces to develop and support high profile financial investigations throughout the country.
- Provision of policy direction for implementing the *Strategy* in coordination with the Justice Department.
- An enhanced level of strategic analysis for targeted High-Risk areas, specialized investigative support to HIFCAs, support to multi-agency efforts, a comprehensive regulatory effort for Non-Bank Financial institutions, and accelerated related technology efforts.
- Funding for the C-FIC program for State and local law enforcement agencies and prosecutor offices to detect, to prevent, and to suppress money laundering and related financial crimes.
- Leadership and direction for international enforcement policy, including representation of U.S. Government positions in key multi-lateral forums, including G-7, Financial Action Task Forces (FATF), United Nations, Organization of American States, and FATF-style regional bodies.
- Technology to enable electronic submission of BSA documents through a secure internet communications environment, improving the data integrity of BSA filings and reducing overall cost of processing.

**U.S. Department of Justice**
Office of Legislative Affairs

Office of the Assistant Attorney General

*Washington, D.C. 20530*

August 2, 2000

The Honorable John L. Mica
Chairman, Subcommittee on Criminal
Justice, Drug Policy and Human Resources
Committee on Government Reform
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

As a follow-up to questions posed by the Subcommittee at hearings on June 23, 2000, as well as to the June 29, 2000 letter to Criminal Division Deputy Assistant Attorney General Mary Lee Warren seeking additional information concerning our anti-money laundering efforts, I am pleased to provide to your subcommittee information concerning these efforts.

With respect to the questions involving money laundering through Panama posed by Congressman Dana Rohrabacher in an enclosure to the Subcommittee's June 29, 2000 letter, the Department is continuing to collect relevant information, and will respond to those questions as soon as possible.

1. Trends in prosecutions and convictions for money laundering.

You will find enclosed statistics reflecting both the number of prosecutions and convictions for violations of our principal criminal money laundering statutes, 18 U.S.C. §1956 and 18 U.S.C. §1957 for fiscal years 1996-1999. This data is collected by the Executive Office for United States Attorneys. We also are enclosing a chart listing the domestic and international financial institutions that have been penalized for violations of the federal money laundering laws and/or the Bank Secrecy Act.

The Department is not familiar with the data collection methods of institutions outside the federal government (such as those used by *Money Laundering Alert*), and therefore the Department cannot comment on how the enclosed statistics relate to statistics provided by such other institutions. The Department also cannot make future projections with any degree of reliability regarding prosecutions and convictions for money

laundering because the number of future prosecutions and convictions depends in large measure on factors outside of the control of the Department of Justice.

2. Information about budgets and resources used to prosecute money laundering cases.

The Department's budget is not categorized in a manner that facilitates an "anti-money laundering budget" estimate. Nevertheless, the Justice Management Division (JMD) is seeking to prepare such an estimate. Once JMD has completed its analysis, we will forward the estimate to your subcommittee.

3. Information concerning the emphasis on and coordination of money laundering cases.

Enclosed are four memoranda from the Attorney General, the most recent of which is dated March 7, 2000, through which the Attorney General emphasized to investigators and prosecutors the importance of investigating and prosecuting money laundering.

The Department also participates in multi-agency money laundering cases involving state and local law enforcement participants through a variety of mechanisms. Some of these mechanisms, such as the Organized Crime and Drug Enforcement Task Forces (OCDETF) and the High Intensity Drug Trafficking Areas (HIDTA), have for many years facilitated the flow of information among federal, state and local law enforcement organizations. OCDETFs and HIDTAs are comprised of law enforcement personnel from multiple federal and state law enforcement organizations, and members work together on specific cases and hold regional and national meetings.

Other coordinating mechanisms are of more recent vintage. The most recently-developed mechanism, which was mandated by The Money Laundering and Financial Crimes Strategy Act of 1998, is the establishment of High Intensity Money Laundering and Related Financial Crime Areas (HIFCAs). HIFCAs concentrate law enforcement efforts at the federal, state, and local level to combat money laundering in high-intensity money laundering zones.

As part of the National Money Laundering Strategy for 2000, introduced in March by Attorney General Reno and Treasury Secretary Summers, the following geographical areas were designated as HIFCAs: the New York/New Jersey Region; the

Los Angeles Metropolitan Area; San Juan, Puerto Rico; and a money laundering "systems" HIFCA that will collect all available federal, state and local resources to identify and target the cross-border bulk cash movements in Texas and Arizona to and from Mexico. HIFCAs now have points-of-contact from the United States Attorneys' Offices, as well as each federal law enforcement participant to ensure that federal, state, and local resources are properly focused on fighting money laundering.

Another recent development in the coordination of money laundering cases is the enhancement of the Special Operations Division (SOD) of the Department of Justice. SOD is a joint national coordinating and support entity comprised of personnel from the DEA, the FBI, the Customs Service, and the Criminal Division of the Department of Justice. The SOD mission is to coordinate and support regional and national-level criminal investigations and prosecutions of major drug-trafficking organizations threatening the United States. This mission is routinely performed across both investigative agency and jurisdictional boundaries. Where appropriate, state and local investigative and prosecutive authorities are fully integrated into SOD-coordinated drug enforcement operations. In 1999, SOD was expanded to include a component specifically designated to the financial aspects of drug trafficking, and the Criminal Investigations division of the IRS was formally made part of SOD.

Previous coordination efforts have given rise to important successes in the fight against money laundering. Operation Skymaster and Operation Juno, the details of which are described in Deputy Assistant Attorney General Mary Lee Warren's written testimony of June 23, 2000, to your subcommittee, are two obvious examples of successful coordination. The Department expects that its most recent coordination efforts will facilitate similar successes.

Sincerely,

Robert Raben
Assistant Attorney General
Office of Legislative Affairs

Enclosures

**MONEY LAUNDERING AND BANK SECRECY ACT PROSECUTIONS AND CONVICTIONS FOR FISCAL YEARS 1996-1999**

| | FY 1996 | FY 1997 | FY 1998 | FY 1999 |
|---|---|---|---|---|
| Defendants *charged* with 18 U.S.C. § 1956, 18 U.S.C. § 1957, 31 U.S.C. § 5322, and/or 31 U.S.C. § 5324 | 2,027 | 2,057 | 2,060 | 2,388 |
| Defendants *convicted* of 18 U.S.C. § 1956, 18 U.S.C. § 1957, 31 U.S.C. § 5322, and/or 31 U.S.C. § 5324[1] | 1,088 | 926 | 997 | 996 |

[1]Note that the conviction figures reflect only convictions under 18 U.S.C. § 1956, 18 U.S.C. § 1957, 31 U.S.C. § 5322, and/or 31 U.S.C. § 5324 and do not indicate a failure to convict a charged defendant under another statute charged in the indictment or information. Thus, the apparent discrepancy between defendants charged and defendants convicted in a given fiscal year does not establish that a defendant was acquitted of all charges. For example, if a defendant were indicted for both drug and money laundering offenses, and agreed to plead guilty to the more serious offense (in most cases this would be the drug charge), then the "defendants convicted" figure would not reflect the money laundering count. It should be noted that, under the federal Sentencing Guidelines, dropping the less serious offense -- in this case the money laundering count -- does not affect the sentence. Further, the "defendants convicted" figure for a given fiscal year will not necessarily correlate with the "defendants charged" figure for that fiscal year because the "defendants convicted" figure will almost always include defendants charged in previous fiscal years.

# DOMESTIC AND INTERNATIONAL DEPOSITORY AND OTHER FINANCIAL INSTITUTIONS PENALIZED FOR BANK SECRECY ACT AND/OR MONEY LAUNDERING VIOLATIONS 1977-2000

| FINANCIAL INSTITUTION | LOCATION | VIOLATION | PENALTY |
|---|---|---|---|
| | 2000 | | |
| Ameristar Casino Vicksburg, Inc/ | Vicksburg, MS | Bank Secrecy Act | $160,000 |
| Polish and Slavic Federal Credit Union | Brooklyn, NY | Bank Secrecy Act | $185,000 |
| Sunflower Bank, Inc. | Salina, KS | Bank Secrecy Act | $100,000 |
| | 1999 | | |
| Grand Casinos of Mississippi, Inc.-Biloxi | Biloxi, MS | Bank Secrecy Act | $160,500 |
| Riverboat Corp. of Mississippi d/b/a Isle of Capri-Biloxi | Biloxi, MS | Bank Secrecy Act | $227,500 |
| Riverboat Corp. of Mississippi d/b/a Isle of Capri-Vicksburg | Vicksburg, MS | Bank Secrecy Act | $150,000 |
| Lady Luck Mississippi, Inc. d/b/a Lady Luck Natchez | Natchez, MS | Bank Secrecy Act | $115,000 |
| Biloxi Casino Corp. d/b/a Casino Magic-Biloxi | Biloxi, MS | Bank Secrecy Act | $145,000 |
| Banco Industrial de Venezuela | Venezuela | Money Laundering | $4,007,891.28 seized. Case pending. |
| Caribbean American Bank | Venezuela | Money Laundering | $4,260,385.57 seized. Case pending. Civil penalty complaint filed. |

| FINANCIAL INSTITUTION | LOCATION | VIOLATION | PENALTY |
|---|---|---|---|
| Banco Bilbao Vizcaya | Mexico | Money Laundering | $175,000 forfeiture |
| Banoro | Mexico | Money Laundering | $1,101,761.00 forfeiture |
| Banamex | Mexico | Money Laundering | $2,489,151.32 forfeiture |
| Banco Santander Mexicano | Mexico | Money Laundering | $673,347.75 forfeiture |
| Bital (Banco International) | Mexico | Money Laundering | $3,148,884.40 seized. Forfeiture case dismissed. Civil penalty complaint filed and pending. |
| Banco Mercantil del Norte S.A.<br>Banorte<br>Banpais | Mexico | <br>Money Laundering<br>Money Laundering | <br>$480,000 forfeiture<br>$1,020,000 forfeiture |
| Supermail, Inc. | Reseda, CA | Money Laundering | Guilty plea. Penalty pending |
| Bancomer, S.A. | Mexico | Money Laundering | $500,000 criminal fine; $9.4 million forfeiture, plus plea agreement |
| Banca Serfin, S.A. | Mexico | Money Laundering | $500,000 criminal fine; $4,179,981.84 forfeiture, plus plea agreement |
| Confia, S.A. | Mexico | Money Laundering | $12,200,000 forfeiture |
| Gulfside Casino, DBA Copa Casino | Gulfport, MS | Bank Secrecy Act | $101,000 civil penalty |
| | **1998** | | |
| Trump Taj Mahal Casino | Atlantic City, NJ | Bank Secrecy Act | $477,000 civil penalty |
| | **1997** | | |

| FINANCIAL INSTITUTION | LOCATION | VIOLATION | PENALTY |
|---|---|---|---|
| Ramesas America Oriental | New York, NY | Money Laundering | $2,000,000 criminal fine |
| Barnett Bank, Inc. | Jacksonville, FL | Bank Secrecy Act | $100,000 civil penalty |
| Resorts International Hotel & Casino | Atlantic City, NJ | Bank Secrecy Act | $88,000 civil penalty |
| | 1996 | | |
| Corfinge | El Salvador | Money Laundering | $340,000 forfeiture |
| Olympic Remittance Corp. | United States | Money Laundering | $67,000 forfeiture |
| Bangkok Metropolitan Bank | Thailand | Unsafe anti-money laundering controls | $3,500,000 fine and termination of U.S. license. |
| Vigo International | New York, NY | Money Laundering | $1,500,000 criminal fine |
| National Bank of Greece | New York, NY | Bank Secrecy Act | $300,000 Federal Reserve civil penalty cease and desist order |
| Any Kind of Check Cashing | Washington, DC | Bank Secrecy Act | $30,000 civil penalty |
| Brunswick Bank & Trust | Brunswick, NJ | Bank Secrecy Act | $150,000 civil penalty |
| Casa de Cambio Rene | Calexico, CA | Bank Secrecy Act | $10,000 civil penalty |
| | 1995 | | |
| Atlantic Bank of New York | New York, NY | Bank Secrecy Act | $1,000,000 criminal fine<br>$100,000 civil penalty |
| Borges & Irmao, Inc. | Newark, NJ | Bank Secrecy Act | $80,000 civil penalty |
| Calumet National Bank | Hammond, IN | Bank Secrecy Act | $15,000 civil penalty |

| FINANCIAL INSTITUTION | LOCATION | VIOLATION | PENALTY |
|---|---|---|---|
| Downey National Bank | Downey, CA | Bank Secrecy Act | $55,000 civil penalty |
| Fox Cut Rate Liquors, Inc. | Baltimore, MD | Bank Secrecy Act | $10,000 civil penalty |
| Sunniland Bank | Ft. Lauderdale, FL | Bank Secrecy Act | $115,000 civil penalty |
| | 1994 | | |
| American Express Bank International | United States | Money Laundering | $25,000,000 forfeiture<br>$ 7,000,000 civil penalty |
| Republic National Bank of Miami | Miami, FL | Bank Secrecy Act | $4,000,000 forfeiture<br>$1,950,000 civil penalty |
| Caesars Casino | Atlantic City, NJ | Bank Secrecy Act | $57,300 civil penalty |
| Claridge Hotel & Casino | Atlantic City, NJ | Bank Secrecy Act | $120,000 civil penalty |
| First National Bank | Chicago Heights, IL | Bank Secrecy Act | $20,000 civil penalty |
| Greate Bay Hotel & Casino | Atlantic City, NJ | Bank Secrecy Act | $61,500 civil penalty |
| Jonestown Bank & Trust Co. | Jonestown, PA | Bank Secrecy Act | $12,500 civil penalty |
| Lasalle National Bank #2 | Lasalle, IL | Bank Secrecy Act | $5,000 civil penalty |
| Mark Twain Bank | Ladue, MO | Bank Secrecy Act | $750,000 civil penalty |
| Metropolitan Bank & Trust | Agana, Guam | Bank Secrecy Act | $6,000 civil penalty |
| New Damen &<br>Grand Damen Currency | Chicago, IL | Bank Secrecy Act | $5,000 civil penalty |
| Public Employees Credit Union | Austin, TX | Bank Secrecy Act | $2,000 civil penalty |

| FINANCIAL INSTITUTION | LOCATION | VIOLATION | PENALTY |
|---|---|---|---|
| Republic National Bank | Miami, FL | Bank Secrecy Act | $1,950,000 civil penalty |
| Sacramento First National Bank | Sacramento, CA | Bank Secrecy Act | $20,000 civil penalty |
| Tienda Cali, Inc. | Calexico, CA | Bank Secrecy Act | $5,000 civil penalty |
| Western Union Financial Services | Paramus, NJ | Bank Secrecy Act | $50,000 civil penalty |
| | 1993 | | |
| Banque Leu | Luxembourg | Money Laundering | $ 60,000 criminal fine<br>$ 3,340,000 forfeiture |
| Hong Kong and Shanghai Bank | Agana, Guam | Bank Secrecy Act | $225,000 civil penalty |
| United Mizrahi Bank | Israel | Bank Secrecy Act | $400,000 Federal Reserve civil penalty<br>Cease and desist order |
| Bank of Hawaii | Honolulu, HI | Bank Secrecy Act | $90,000 civil penalty |
| Check Express of Florida | Tampa, FL | Bank Secrecy Act | $20,000 civil penalty |
| Chicago Rush Currency Exchange | Chicago, IL | Bank Secrecy Act | $15,000 civil penalty |
| Corestates Financial Corp. | Philadelphia, PA | Bank Secrecy Act | $55,000 civil penalty |
| Damen Federal Bank for Savings | Schaumburg, IL | Bank Secrecy Act | $100,000 civil penalty |
| Dexter Credit Union | Central Falls, RI | Bank Secrecy Act | $80,000 civil penalty |
| Dollar Savings & Trust Co. | Youngstown, OH | Bank Secrecy Act | $1,182,639 civil penalty |
| Essex Imports, Inc. | Deerfield Beach, FL | Bank Secrecy Act | $50,000 civil penalty |
| First Bank | Coon Rapids, MN | Bank Secrecy Act | $45,000 civil penalty |

| FINANCIAL INSTITUTION | LOCATION | VIOLATION | PENALTY |
|---|---|---|---|
| Hong Kong/ Shanghai Banking | Agana, Guam | Bank Secrecy Act | $225,000 civil penalty |
| Harrah's Marina Hotel and Casino | Atlantic City, NJ | Bank Secrecy Act | $312,750 civil penalty |
| National Check Cashiers | Oklahoma City, OK | Bank Secrecy Act | $100,000 civil penalty |
| United Mississippi Bank | Natchez, MS | Bank Secrecy Act | $40,000 civil penalty |
| | 1992 | | |
| Habib Bank, N.A. | Switzerland | Bank Secrecy Act | $200,000 Federal Reserve civil penalty cease and desist order |
| National Bank of Pakistan | Chicago, IL | Bank Secrecy Act | $200,000 Federal Reserve civil penalty cease and desist order |
| Norwest Bank Great Falls, N.A. | Great Falls, MT | Money Laundering | $327,712 criminal penalty |
| Bally's Park Place Casino | Atlantic City, NJ | Bank Secrecy Act | $9,000 civil penalty |
| Bally's Grand Hotel & Casino | Atlantic City, NJ | Bank Secrecy Act | $126,000 civil penalty |
| Caliber Bank | Phoenix, AZ | Bank Secrecy Act | $65,000 civil penalty |
| E-Z Check Cashing | Deerfield Beach, FL | Bank Secrecy Act | $5,000 civil penalty |
| First National/Maryland | Baltimore, MD | Bank Secrecy Act | $950,000 civil penalty |
| Jack's Quick Cash | Orlando, FL | Bank Secrecy Act | $18,000 civil penalty |
| Los Angeles National | Los Angeles, CA | Bank Secrecy Act | $480,000 civil penalty |
| Randolph Clark Currency Exchange | Chicago, IL | Bank Secrecy Act | $18,000 civil penalty |
| Showboat Hotel & Casino | Atlantic City, NJ | Bank Secrecy Act | $58,500 civil penalty |

| FINANCIAL INSTITUTION | LOCATION | VIOLATION | PENALTY |
|---|---|---|---|
| Tropworld Hotel & Casino | Atlantic City, NJ | Bank Secrecy Act | $414,000 civil penalty |
| Trump Plaza Hotel and Casino | Atlantic City, NJ | Bank Secrecy Act | $292,500 civil penalty |
| Trump Castle Hotel and Casino | Atlantic City, NJ | Bank Secrecy Act | $175,500 civil penalty |
| | 1991 | | |
| BCCI II | Various | Money Laundering<br>RICO<br>Fraud | $550,000,000 forfeiture<br>$200,000,000 civil penalty |
| BCCI II | Boca Raton, FL | Bank Secrecy Act | $15,200,000 criminal fine |
| Bank of Mingo | Naugatuck, WV | Bank Secrecy Act | $54,600 civil penalty |
| Farm and Home Savings | Nevada, MO | Bank Secrecy Act | $500 criminal fine (against bank and employee) |
| MiCasita Money Exchange | San Ysidro, CA | Bank Secrecy Act | $250 criminal fine |
| | 1990 | | |
| Bank of Credit and Commerce International | Luxembourg | Money Laundering | $15,300,000 forfeiture |
| Bank Leumi Trust Co. | New York, NY | Bank Secrecy Act | $242,000 criminal fine |
| BCCI I | Luxembourg | Money Laundering | $15,200,000 forfeiture |
| Citizens Bank of Gibson | Haubstadt, IN | Bank Secrecy Act | $65,000 criminal fine |
| First Westside Bank | Omaha, NE | Bank Secrecy Act | $1,200 criminal fine |
| First Bank of Georgia | East Point, GA | Money Laundering | $85,200 criminal fine<br>$85,000 forfeiture? |

| FINANCIAL INSTITUTION | LOCATION | VIOLATION | PENALTY |
|---|---|---|---|
| LBS Bank | New York, NY | Bank Secrecy Act | $50,000 criminal fine |
| National Mortgage Bank of Greece | New York, NY | Money Laundering<br>Bank Secrecy Act | $8,000,000 criminal fine<br>$2,000,000 forfeiture<br>$2,000,000 Federal Reserve civil penalty |
| National Bank of Greece | New York, NY | Money Laundering<br>Bank Secrecy Act | $125,000 Federal Reserve civil penalty |
| Red Oak State Bank | Red Oak, TX | Bank Secrecy Act | $100,000 criminal fine |
| National Bank of Washington | Washington, DC | Bank Secrecy Act | $368,000 civil penalty |
| Robert Lee State Bank | Robert Lee, TX | Bank Secrecy Act | $10,000 civil penalty |
| | 1989 | | |
| Banco de Occidente | Colombia | Money Laundering | $5,000,000 forfeiture |
| I.M. Simon and Co. | Clayton, MO | Bank Secrecy Act | $1,000 criminal fine |
| Peoples Bank | Belleville, NJ | Bank Secrecy Act | $3,000 criminal fine |
| Ponce Federal Bank | Ponce, PR | Bank Secrecy Act | $2,500,000 criminal fine |
| Smithfield State Bank | Smithfield, PN | Bank Secrecy Act | $51,600 criminal fine |
| United Orient Bank | New York, NY | Bank Secrecy Act | $2,000,000 criminal fine |
| Bank Leumi Trust | New York | Bank Secrecy Act | $291,000 civil penalty |
| First Women's Bank | New York | Bank Secrecy Act | $80,000 civil penalty |
| Ponce Federal | Ponce | Bank Secrecy Act | $500,000 civil penalty |

| FINANCIAL INSTITUTION | LOCATION | VIOLATION | PENALTY |
|---|---|---|---|
| United Orient Bank | New York | Bank Secrecy Act | $250,000 civil penalty |
| | 1988 | | |
| American National Bank | Hamden, CT | Bank Secrecy Act | $200,000 criminal fine<br>$22,000 civil penalty |
| Bank J. Vontobel Co. | Not Specified | Bank Secrecy Act | $20,000 criminal fine |
| Central National Bank/Alamo | Austin, TX | Bank Secrecy Act | $250,000 criminal fine |
| E.F. Hutton | Providence, RI | Bank Secrecy Act | $1,010,000 criminal fine |
| Extebank | Hauppauge, NY | Bank Secrecy Act | $100,000 criminal fine |
| National Bank of Fairhaven | Fairhaven, MA | Bank Secrecy Act | $150,000 criminal fine |
| Ramsey Savings & Loan Assn. | Ramsey, NJ | Bank Secrecy Act | $6,000 criminal fine |
| North Valley Bank | Redding, CA | Bank Secrecy Act | $100,000 civil penalty |
| Oscar's Money Exchange | Hildago, TX | Bank Secrecy Act | $3,010,000 civil penalty |
| Rainier National | Seattle, WA | Bank Secrecy Act | $95,000 civil penalty |
| San Antonio Federal | San Antonio, TX | Bank Secrecy Act | $60,000 civil penalty |
| United Orient Bank | New York, NY | Bank Secrecy Act | $750,000 criminal fine |
| | 1987 | | |
| Citizen First National Bank | Ridgewood, NJ | Bank Secrecy Act | $2,000 criminal fine |
| Inco Bank & Trust Ltd. | Cayman Islands | Conspiracy | $456,000 criminal fine |
| Merchants Trust Bank | Kenner, LA | Bank Secrecy Act | $1,000 criminal fine |

| FINANCIAL INSTITUTION | LOCATION | VIOLATION | PENALTY |
|---|---|---|---|
| Bank Of New England | Boston, MA | Bank Secrecy Act | $156,000 civil penalty |
| Comerica Bank/Detroit | Detroit, MI | Bank Secrecy Act | $32,000 civil penalty |
| Continental Illinois | Chicago, IL | Bank Secrecy Act | $70,000 civil penalty |
| Harris Trust & Savings | Chicago, IL | Bank Secrecy Act | $50,000 civil penalty |
| Key Banks, Inc. | Albany, NY | Bank Secrecy Act | $130,000 civil penalty |
| Liberty State Bank | Troy, MI | Bank Secrecy Act | $200,000 civil penalty |
| Long Island Trust | Garden City, NY | Bank Secrecy Act | $187,980 civil penalty |
| Manufacturers and Traders | Buffalo, NY | Bank Secrecy Act | $160,000 civil penalty |
| Old National Bancorp | Spokane, WA | Bank Secrecy Act | $70,000 civil penalty |
| Shawmut Bank, N.A. | Boston, MA | Bank Secrecy Act | $295,000 civil penalty |
| Valley Bank | Las Vegas, NV | Bank Secrecy Act | $192,000 civil penalty |
| | 1986 | | |
| Bank of New England | United States | Bank Secrecy Act | $1,240,000 criminal fine |
| Border Money Exchange | Brownsville, TX | Bank Secrecy Act | $8,250 criminal fine |
| Caribbean Federal Savings | San Marcos, PR | Bank Secrecy Act | $450,000 criminal fine |
| Commercial Bank & Trust | Lowell, MA | Bank Secrecy Act | $202,100 criminal fine |
| First Missouri Bank | Warrenton, MO | Bank Secrecy Act | $75,000 criminal fine |
| Housatonic Bank & Trust | Ansonia, CT | Bank Secrecy Act | $750 criminal fine |

| FINANCIAL INSTITUTION | LOCATION | VIOLATION | PENALTY |
|---|---|---|---|
| Magnolia Federal Bank | Hattiesburg, MS | Bank Secrecy Act | $22,000 criminal fine<br>$3,000 civil penalty |
| McLean Bank | McLean, VA | Bank Secrecy Act | $80,050 criminal fine |
| Metropolitan National Bank | McAllen, TX | Bank Secrecy Act | $310,000 criminal fine |
| Provident Institution for Savings | Boston, MA | Bank Secrecy Act | $100,000 criminal fine |
| Seaway National Bank | Watertown, NY | Bank Secrecy Act | $2,000 criminal fine |
| Union County Bank | Maynardville, TN | Bank Secrecy Act | $10,000 criminal fine |
| Bank of America | San Francisco, CA | Bank Secrecy Act | $4,750,000 civil penalty |
| Barnett Bank, Inc. | Jacksonville, FL | Bank Secrecy Act | $112,000 civil penalty |
| Commercial Bank | Lowell, MA | Bank Secrecy Act | $27,000 civil penalty |
| First Bank System, Inc. | Minneapolis, MN | Bank Secrecy Act | $248,160 civil penalty |
| Hartford National Corp. | Hartford, CT | Bank Secrecy Act | $220,000 civil penalty |
| Interfirst Corp. | Dallas, TX | Bank Secrecy Act | $315,000 civil penalty |
| M Bank Corporation | Brownsville, TX | Bank Secrecy Act | $600,000 civil penalty |
| Merchants National Bank | Indianapolis, IN | Bank Secrecy Act | $500,000 criminal fine<br>$200,000 civil penalty |
| Michigan National Corp. | Bloomfield Hills, MI | Bank Secrecy Act | $219,000 civil penalty |
| Security Pacific National | Los Angeles, CA | Bank Secrecy Act | $605,000 civil penalty |
| Texas Comm. Bancshares | Houston, TX | Bank Secrecy Act | $1,900,000 civil penalty |

| FINANCIAL INSTITUTION | LOCATION | VIOLATION | PENALTY |
|---|---|---|---|
| Wells Fargo Bank | San Francisco, CA | Bank Secrecy Act | $75,000 civil penalty |
| | 1985 | | |
| Bank of Boston | Boston, MA | Bank Secrecy Act | $500,000 criminal fine |
| Chase Manhattan | New York, NY | Bank Secrecy Act | $360,000 civil penalty |
| Chemical Bank | New York, NY | Bank Secrecy Act | $210,000 civil penalty |
| Crocker National Bank | San Francisco, CA | Bank Secrecy Act | $2,250,000 civil penalty |
| Equitable Bancorp | Baltimore, MD | Bank Secrecy Act | $121,750 civil penalty |
| Irving Trust Co. | New York, NY | Bank Secrecy Act | $295,000 civil penalty |
| J.B. Hanauer Company | Livingston, NJ | Bank Secrecy Act | $20,000 criminal fine<br>$75,000 civil penalty |
| Manufacturers Hanover | New York, NY | Bank Secrecy Act | $320,000 civil penalty |
| National Bank of Detroit | Detroit, MI | Bank Secrecy Act | $168,000 civil penalty |
| Norstar Bancorp | Albany, NY | Bank Secrecy Act | $269,940 civil penalty |
| Riggs National Bank | Washington, DC | Bank Secrecy Act | $269,750 civil penalty |
| Summit State Bank | Bloomington, MN | Bank Secrecy Act | $4,000 criminal fine |
| Seafirst Corp. | Seattle, WA | Bank Secrecy Act | $697,000 civil penalty |
| Sun Bank, Inc. | Miami, FL | Bank Secrecy Act | $156,200 civil penalty |
| Bank of Monroe | Union, WV | Bank Secrecy Act | $1,000 criminal penalty |
| Illinois National Bank | Springfield, IL | Bank Secrecy Act | $10,000 criminal penalty |

| FINANCIAL INSTITUTION | LOCATION | VIOLATION | PENALTY |
|---|---|---|---|
| Greater Providence Deposit Corp. | Providence, RI | Bank Secrecy Act | $50,000 criminal penalty |
| | 1984 | | |
| Great American Bank | North Miami, FL | Bank Secrecy Act | $375,000 criminal fine |
| Pan American International Bank | Reno, NV | Bank Secrecy Act | $95,000 criminal fine |
| (unknown year) Pan American Bank | Las Vegas, NV | Bank Secrecy Act | $125, 000 criminal fine |
| Global Union Bank | New York, NY | Bank Secrecy Act | $12,000 criminal fine<br>$51,700 civil penalty |
| First State Bank | Fitzgerald, GA | Bank Secrecy Act | $3,000 criminal fine |
| Security State Trust | Bettendorf, IA | Bank Secrecy Act | $1,000 criminal fine |
| United Oklahoma Bank | Oklahoma City, OK | Bank Secrecy Act | $2,000 criminal fine |
| O'Bannon Banking Co. | Buffalo, MO | Bank Secrecy Act | $19,000 criminal fine |
| St. Michael's Credit Union | Lynn, MA | Bank Secrecy Act | $10,000 criminal fine |
| First Galesburg National | Galesburg, IL | Bank Secrecy Act | $1,000 criminal fine |
| Southwestern Bank and Trust | Oklahoma City, OK | Bank Secrecy Act | $1,000 criminal fine |
| Atco National Bank | Atco, NJ | Bank Secrecy Act | $50,000 criminal fine |
| Rockland Trust Co. | Rockland, MA | Bank Secrecy Act | $50,000 criminal fine |
| Midland Bank and Trust Co. | Paramus, NJ | Bank Secrecy Act | $2,500 criminal fine |
| First National Bank in Jefferson Parrish | Matairie, LA | Bank Secrecy Act | $ 5,000 criminal fine<br>$35,000 civil penalty |

| FINANCIAL INSTITUTION | LOCATION | VIOLATION | PENALTY |
|---|---|---|---|
| | 1983 | | |
| National Republic Bank Chicago | Chicago, IL | Bank Secrecy Act | $15,000 criminal fine<br>$ 9,000 civil penalty |
| Princeton Cooperative Credit Union | Princeton, MN | Bank Secrecy Act | $30,000 criminal fine |
| First National Bank | Fort Lee, NJ | Bank Secrecy Act | $7,000 criminal fine |
| Mountain Ridge State Bank | West Orange, NJ | Bank Secrecy Act | $5,000 criminal fine |
| Summit National Bank | St. Paul, MN | Bank Secrecy Act | $2,000 criminal fine |
| First National Bank and Trust | Kearny, NJ | Bank Secrecy Act | $37,500 criminal fine |
| American Investors | Pittsburgh, PA | Bank Secrecy Act | $103,000 criminal fine |
| First National Bank | Patterson, NJ | Bank Secrecy Act | $2,000 criminal fine |
| Community National Bank | Austin, TX | Bank Secrecy Act | $2,500 criminal fine |
| | PRIOR TO 1983 | | |
| 1977 Chemical Bank | New York, NY | Bank Secrecy Act | $200,000.00 criminal fine |
| 1979 United America's Bank | New York, NY | Bank Secrecy Act | $12,000 criminal fine |
| 1981 Garfield Bank | Montebello, CA | Bank Secrecy Act | $2,300,000 criminal fine |
| 1982 Palm State Bank | Palm Harbor, FL | Bank Secrecy Act | $2,000 criminal fine |
| | | | |

MEMORANDUM FOR UNITED STATES ATTORNEYS
DIRECTOR, FEDERAL BUREAU OF INVESTIGATION
COMMISSIONER, UNITED STATES CUSTOMS SERVICE
COMMISSIONER, INTERNAL REVENUE SERVICE
COMMISSIONER, IMMIGRATION AND NATURALIZATION SERVICE
ACTING ADMINISTRATOR, DRUG ENFORCEMENT ADMINISTRATION
DIRECTOR, UNITED STATES SECRET SERVICE
DIRECTOR, FINANCIAL CRIMES ENFORCEMENT NETWORK
CHIEF POSTAL INSPECTOR, POSTAL INSPECTION SERVICE

FROM: Lawrence H. Summers 3/7/00
LAWRENCE H. SUMMERS, SECRETARY OF THE TREASURY

Janet Reno 3/7/00
JANET RENO, ATTORNEY GENERAL

SUBJECT: Implementation of Certain Enforcement Action Items of the National Money Laundering Strategy of 1999

Attacking drug trafficking and other forms of organized criminal activity through money laundering investigations and prosecutions has been an important law enforcement goal of this Administration. Seeking to enhance our efforts in meeting this goal, on September 23, 1999, the Departments of the Treasury and Justice released the National Money Laundering Strategy for 1999. This Strategy calls for a coordinated, comprehensive program to attack the laundering of the proceeds of drug trafficking and other forms of criminal activity. The Strategy recognizes that, in order to be effective, all segments of our law enforcement and regulatory communities must participate in a broad-based offensive designed to address money laundering on several different fronts.

You play a critical role in this effort, and we have had a number of important enforcement successes against money laundering because of your work. For example, in FY 1999, 2,412 defendants were charged with violating the federal money laundering statutes (18 U.S.C. §§ 1956 and 1957).

We are asking for your assistance in helping us build on this success. The Strategy includes several action items that are directed toward enhancing the use of investigative and prosecutive resources in our anti-money laundering efforts. In order to maximize the impact of our investigations and prosecutions, we need you to help implement a number of action items from the National Strategy. Our goal is to use every available tool to its greatest extent.

In particular, as discussed in more detail below, please undertake the following: (1) encourage appropriate below-threshold prosecutions; (2) establish Suspicious Activity Reports (SAR) review teams; (3) enhance the use of informants; (4) increase the use of electronic surveillance; (5) enhance the support and analysis of multi-district investigations; (6) increase training for financial investigations; and (7) increase the strategic use of asset forfeiture.

1. **Encourage Below-Threshold Prosecutions**

Investigative and prosecutive guidelines must allow for below-threshold cases that potentially have a systemic or financial sector-wide effect on money laundering.

Ordinarily, the established investigative and prosecutive thresholds properly focus our resources on cases that are expected to have the greatest impact. The National Strategy recognizes, however, that significant inroads into organized criminal activity may be achieved by prosecuting money laundering schemes that fall below established thresholds. Thus, it is critically important for you to be alert to situations where money laundering or asset forfeiture investigations or prosecutions would play a significant role in addressing money laundering in a particular financial sector or industry. In such circumstances, normal investigative and prosecutive thresholds should be waived to permit what would otherwise be below-threshold cases to be investigated and indictments brought.

An example of such cases is a number of investigations and prosecutions which led to the implementation of a series of Geographic Targeting Orders (GTOs) in the New York/New Jersey area in 1996 and 1997. The GTOs' origins lie in investigative efforts, which developed evidence that New York area money remitters and their agents were moving drug money to Colombia by breaking up large cash transactions to avoid Bank Secrecy Act (BSA) reporting requirements.

In response to this evidence, in August 1996, at the request of the United States Attorneys for the Southern and Eastern Districts of New York and the District of New Jersey, and the El Dorado Task Force, Treasury issued a GTO that required certain New York area money remitters and their agents to report identifying information on all cash remittances to Colombia of $750 or more. The GTO was extended several times before it expired in October 1997. This series of GTOs had a significant impact on the flow of drug proceeds through the targeted remitters. Several of the remitters stopped sending funds to Colombia altogether, while many others sent significantly lower amounts. The GTOs also forced the traffickers to resort to other, less effective and riskier tactics to move their profits back to Colombia.

The Colombian GTOs represent a model for effective and creative money laundering control. While the individual cases that led to the GTOs may not have met established prosecutive or investigative thresholds, they produced the evidence that permitted Treasury to issue the GTOs and correct a weakness that had penetrated a small but important part of the money transmitter industry. In doing so, the Colombian GTOs essentially shut down a significant money laundering system. If we are to be successful in dismantling money laundering systems, we must exercise the same kind of vision and foresight employed by the investigators and prosecutors in the GTO initiative.

2. **Suspicious Activity Reports Review Teams**

Each district should consider establishing an interagency SAR review team made up of representatives from the U.S. Attorney's Office and law enforcement agencies.

SARs filed by financial institutions are valuable sources of law enforcement information. However, the information in SARs can be exploited most effectively if it is reviewed and acted upon in a coordinated manner. Indeed, some districts around the country have already established interagency task forces consisting of representatives from United States Attorneys' Offices and law enforcement agencies to review, on a regular basis, information from SARs filed in their particular district and coordinate follow-up investigations. These SAR review teams have proven to be of great value in promoting the effective use of SAR information, maximizing the efficient use of investigative resources, and making cases.

Each district should consider establishing an interagency SAR review team. Where a team is established, it should consider meeting with representatives of local financial institutions to discuss money laundering trends and techniques in the area and to provide feedback to the institutions on the usefulness of the SARs. Significant information on money laundering trends should, in turn, be shared with the Financial Crimes Enforcement Network (FinCEN) to maximize the Government's ability to provide better threat analysis.

3. **Enhance the Use of Informants**

In the course of debriefing informants and cooperating witnesses in drug trafficking and other proceeds-generating cases, the agents and prosecutors should seek to obtain all pertinent information from such informants and cooperating witnesses concerning their money laundering methods and their knowledge of money laundering techniques.

Just as we seek information from informants and cooperating witnesses regarding the source and destination of illegal drugs, so too should we seek to use the information provided by these individuals to "follow the money." Information about the source and destination of the proceeds of crime is not only useful in individual cases--where, among other things, it can lead to forfeitures--it also helps us to develop a better understanding of how criminal enterprises launder their money. To maximize the benefit of the information gathered from these interviews, it should be shared, as appropriate, with agency wide intelligence and strategic planning officials so that trends in money laundering activity can be tracked and exploited accordingly.

4. **Increase the Use of Electronic Surveillance**

Electronic surveillance is a powerful law enforcement tool that provides a significant source of evidence when properly utilized. Electronic surveillance should be utilized in money laundering investigations to complement other investigative techniques.

Electronic surveillance is particularly well-suited to complex money laundering investigations where it is essential to develop evidence that the transactions involve proceeds of specified unlawful activities and that those individuals involved have the requisite criminal intent. We encourage the aggressive use of electronic surveillance in appropriate money laundering cases.

5. **Enhance the Support and Analysis of Multi-District Investigations**

Large-scale money laundering operations often cross state and national boundaries. When law enforcement pressure is applied in one region, operations may simply shift to another region. Accordingly, multi-district money laundering investigations, including undercover operations, have proved to be among our most effective weapons against money launderers and those who generate illegal proceeds, and should be employed in appropriate situations. To ensure the maximum benefit, such operations should be conducted, to the extent appropriate, on an interagency basis and coordinated with the Special Operations Division and the Money Laundering Coordination Center.

When multi-district operations are nearing conclusion, efforts should be made to take full advantage of these operations for maximum impact. For example, where there are subjects or bank accounts in foreign countries, preparations should be made far in advance of the takedown date to facilitate arrests and account seizures in the foreign countries. The Asset Forfeiture and Money Laundering Section and the Office of International Affairs of the Justice Department's Criminal Division can provide assistance in this regard. It is critical, however, that contact with those offices be initiated sufficiently in advance of the takedown date so that there is adequate time to make the necessary preparations and transmit the required documents to the foreign country for assistance in facilitating the arrests and seizures.

Coordinated post-takedown plans should be prepared so that the disruption caused by arrests and seizures can be fully exploited. Affected criminal organizations will seek alternate sources to launder their money and law enforcement agencies should be prepared to counter these efforts when they occur. After the takedown is completed, we should make every effort to collect and analyze the information provided by the investigation so that a full picture of the criminal organization is developed. Finally, post-operation assessments should be conducted to analyze the impact of the investigation and the lessons we have learned to increase the effectiveness of such operations in the future.

6. **Increase Training for Financial Investigations**

For the enforcement measures outlined in the Strategy to be as effective as possible, agents, prosecutors and analysts must be given the best training opportunities available on a continuing basis.

Agents and prosecutors should receive training in financial investigations, financial analysis, and money laundering trends and techniques on a regular basis. There are a number of options to obtain such training. Both the Department of the Treasury and the Department of Justice offer training on financial investigations and money laundering enforcement. A list of these training courses will be compiled and sent to your offices shortly.

7. **Increase the Strategic Use of Asset Forfeiture**

Working with the relevant U.S. Attorney's Office, federal law enforcement agencies should address the potential of asset forfeiture at the inception of every money laundering investigation, particularly undercover operations, so that our forfeiture laws can be used to dismantle criminal organizations.

Money laundering investigations and prosecutions are not complete unless efforts are made to identify, seize, and forfeit all property involved in the money laundering offense and all proceeds resulting from the offense. We must maximize the use of our forfeiture laws in money laundering cases so that the cases have the strongest impact possible on criminal organizations. The Department of Justice's Asset Forfeiture and Money Laundering Section can provide assistance in developing effective asset forfeiture strategies and is available to answer forfeiture questions. Additionally, Treasury's Executive Office of Asset Forfeiture is available to assist with seizure/forfeiture efforts conducted the Treasury law enforcement bureaus.

8. **Conclusion**

We recognize the critical role federal prosecutors and agents play in our fight against money laundering. We must all work together to enhance our efforts to attack money laundering on a systemic basis and to develop broad-based strategies to magnify the impact of our investigations and prosecutions. There is a wide array of powerful tools available to maximize our efforts to disrupt and dismantle money laundering organizations. we encourage you to use these tools for their maximum impact and to develop creative and innovative investigative and prosecutive plans that will make our strategy successful.

Office of the Attorney General
Washington, D. C. 20530

October 30, 1997

MEMORANDUM FOR ALL UNITED STATES ATTORNEYS

FROM: THE ATTORNEY GENERAL

SUBJECT: Targeting Cash Proceeds Money Laundering

Targeting and ultimately dismantling the drug and other cash proceeds money laundering capabilities of organized criminals both at home and abroad must be a priority of the Department of Justice. Laundering the billions of illicit dollars produced on the streets of our cities requires a highly sophisticated and tightly controlled financial structure for use by the cartels producing, transporting and selling their illicit products. At the same time, where organized criminal activity generates its profits in the form of cash, the sheer volume of this illicit cash and the need of the enterprise to enter it into the legitimate financial system are vulnerabilities for that criminal enterprise, and could provide law enforcement with perhaps its best opportunity to target those illicit proceeds.

The Departments of Justice and the Treasury are committed to identifying and attacking drug proceeds money laundering through a coordinated, national approach targeting specified sectors of the financial system. The approach requires the combination of expertise and authorities of the federal investigators, prosecutors and regulators. In this effort, we must first identify those financial sectors most vulnerable to corruption by money launderers and then devise and implement a coordinated interagency plan aimed at denying those sectors to the money launderers while not inflicting undue hardship on simultaneous legitimate uses.

In pursuit of these shared objectives, on May 29-30, 1997, Deputy Assistant Attorney General Mary Lee Warren and the Under Secretary of the Treasury (Enforcement) Raymond Kelly co-chaired a meeting at the Federal Bureau of Investigation Headquarters of 14 core money laundering districts. Attending the Conference were some 160 representatives from the United States Attorneys' Offices, federal (the Drug Enforcement Administration, the Federal Bureau of Investigation, the U.S. Customs Service, the Internal Revenue Service, and

the U.S. Postal Inspection Service) and state law enforcement officials from the field, as well as from Headquarters. The objectives of the 2-day meeting were to acquaint the participants with new anti-money laundering developments both at home and abroad, and to seek input for attacking, through a financial sector targeting approach, the laundering of the billions of dollars of drug proceeds in, through and out of the United States.

Attached is a memorandum describing the results of that Conference, and providing recommendations to enhance our joint ability to carry out this national anti-money laundering strategy. I would urge you to review the attached and its recommendations closely, and adopt and implement those recommendations best suited to your district. In addition, I wish to highlight and request your immediate attention to the following:

- Where cash proceeds money laundering is a significant problem in your district, allocate the personnel, time and effort necessary to develop interagency expertise to identify, target, and take a comprehensive approach to dismantling the drug money launderers' use of financial sectors, or their methods of moving the cash physically in bulk.

- Identify a cash proceeds money laundering contact and supervisor in your district, and we will compile a national listing of these contacts. Please provide the names, titles, fax and telephone numbers, and most importantly, e-mail addresses of these individuals to the Asset Forfeiture and Money Laundering Section (AFMLS), Attention: Section Chief Gerald E. McDowell. The AFMLS will ensure that your district receives the latest updates on developments, trends, leads and technologies conferences and other information concerning our anti-money laundering efforts.

I sincerely believe that, working together, we can pool our knowledge and resources to significantly reduce drug proceeds money laundering in this country. I look for your suggestions to make this an effective campaign.

Attachment

Office of the Attorney General
Washington, D. C. 20530

November 5, 1997

MEMORANDUM FOR THOMAS A. CONSTANTINE
ADMINISTRATOR
DRUG ENFORCEMENT ADMINISTRATION

FROM: THE ATTORNEY GENERAL

SUBJECT: Targeting Cash Proceeds Money Laundering

Targeting and ultimately dismantling the drug and other cash proceeds money laundering capabilities of organized criminals both at home and abroad must be a priority of the Department of Justice. Laundering the billions of illicit dollars produced on the streets of our cities requires a highly sophisticated and tightly controlled financial structure for use by the cartels producing, transporting and selling their illicit products. At the same time, where organized criminal activity generates its profits in the form of cash, the sheer volume of this illicit cash and the need of the enterprise to enter it into the legitimate financial system are vulnerabilities for that criminal enterprise, and could provide law enforcement with perhaps its best opportunity to target those illicit proceeds.

The Departments of Justice and Treasury are committed to identifying and attacking drug proceeds money laundering through a coordinated, national approach targeting specified sectors of the financial system. The approach requires the combination of expertise and authorities of the federal investigators, prosecutors and regulators. In this effort, we must first identify those financial sectors most vulnerable to corruption by money launderers and then devise and implement a coordinated interagency plan aimed at denying those sectors to the money launderers while not inflicting undue hardship on simultaneous legitimate uses of those sectors.

If we are to attack the financial underpinnings established by narcotraffickers, or more recently, by independent money brokers, we must engage in the fullest possible exchange of law enforcement and other financial data, and in a coordinated interagency approach. For example, it is essential that the Drug Enforcement Administration (DEA) take the fullest advantage of all the financial data available from FinCEN through its Gateway System, and that that data likewise be freely available to DEA

field personnel. It also is essential that the DEA work closely with prosecutors both at Headquarters and in the field in planning and executing our anti-money laundering endeavors.

In the end, I am confident that the same sense of innovation and cooperation that has marked DEA's leadership in the Southwest Border Initiative and Special Operations Division should make the attack against drug proceeds money laundering a success.

Office of the Attorney General
Washington, D. C. 20530

November 5, 1997

MEMORANDUM FOR LOUIS J. FREEH
DIRECTOR
FEDERAL BUREAU OF INVESTIGATION

FROM: THE ATTORNEY GENERAL

SUBJECT: Targeting Cash Proceeds Money Laundering

Targeting and ultimately dismantling the drug and other cash proceeds money laundering capabilities of organized criminals both at home and abroad must be a priority of the Department of Justice. Laundering the billions of illicit dollars produced on the streets of our cities requires a highly sophisticated and tightly controlled financial structure for use by the cartels producing, transporting and selling their illicit products. At the same time, where organized criminal activity generates its profits in the form of cash, the sheer volume of this illicit cash and the need of the enterprise to enter it into the legitimate financial system are vulnerabilities for that criminal enterprise, and could provide law enforcement with perhaps its best opportunity to target those illicit proceeds.

The Departments of Justice and the Treasury are committed to identifying and attacking drug proceeds money laundering through a coordinated, national approach targeting specified sectors of the financial system. The approach requires the combination of expertise and authorities of the federal investigators, prosecutors and regulators. In this effort, we must first identify those financial sectors most vulnerable to corruption by money launderers and then devise and implement a coordinated interagency plan aimed at denying those sectors to the money launderers while not inflicting undue hardship on simultaneous legitimate uses of those sectors.

If we are to attack the financial underpinnings established by narcotraffickers, or more recently, by independent money brokers, we must engage in the fullest possible exchange of law enforcement and other financial data, and in a coordinated interagency approach. For example, in order to ensure this result, it is essential that the Federal Bureau of Investigation (FBI) actively participate along with the Drug Enforcement Administration, the Internal Revenue Service, the U.S. Customs Service and the U.S. Postal Inspection Service in the anti-money laundering Interagency Coordination Group at FinCEN. It also is

essential that the FBI work closely with prosecutors both at Headquarters and in the field in planning and executing our anti-money laundering endeavors.

In the end, I am confident that the same sense of innovation and cooperation that has marked the FBI's participation in the Southwest Border Initiative and Special Operations Division should make the attack against drug proceeds money laundering a success.