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SPEECH

Efforts to Combat Money Laundering†

REMARKS BY BARRY R. MCCAFFREY*

I. INTRODUCTION

Combating money laundering not only takes the profits out of illegal activities but also helps ensure the security of legitimate financial institutions. For these reasons, in 1990 the Office of National Drug Control Policy (ONDCP) formed the first industry-government working group to fight money laundering. This alliance assures coordination between the investigator on the street, who knows drug-trafficking and money-laundering trends, and representatives within financial institutions, who are responsible for filing currency transaction reports or suspicious activity reports. This public-private partnership serves all our interests.

II. THE REAL COSTS OF ILLEGAL DRUG USE

The illicit "profits" that drive America's drug problem impose tremendous costs on our society. Drug-related illness, crime, and death cost the United States approximately sixty-seven billion dollars a year, and drug-induced deaths number sixteen thousand

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† Barry R. McCaffrey, based on an address at the American Bar Association/American Bankers Association Annual Money-Laundering Enforcement Seminar (Nov. 5, 1997).

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annually.

In 1997, a majority of criminal arrestees tested positive for drug use and almost two million violent crimes were drug-related. We now have more than 1.8 million of our citizens behind bars. In 1997, 62.5 percent of federal prisoners were drug offenders. The American taxpayer spends $100,000 for every prisoner sentenced to a five-year jail term.

Drug users are less dependable than other workers and decrease workplace productivity. They take more unexcused absences and get fired more frequently.

About 5 percent of pregnant women use illegal drugs, putting their unborn children at risk.

The law-abiding American public pays the substantial price of illegal drugs. These costs—taken together with the tremendous wealth squandered by people who abuse drugs, compounded by the cost to our society of laundered funds—represent an enormous waste of economic and human potential. Consider the gains that could be made in productivity, infrastructure, and the arts if we reinvested this lost potential into legitimate social enterprises.

All segments of our society share the burdens of drug abuse and drug-related crime. Many Americans mistakenly believe that drugs are someone else's problem: that users belong to a segment of society different from their own, that non-users' lives are unaffected by drugs, and that their neighborhoods are untouched by the devastating consequences of drug abuse.

The time has come to correct these fallacies. Drug users work alongside all of us. They go to school with our children. They live behind the white picket fences next door. All too often, they eat at our dinner tables.

Seven out of ten drug users are employed. The overwhelming majority of the nation's fourteen million drug users are white. Sadly, approximately 45 percent of us know someone who has suffered from a substance abuse problem, and all of us face the corrosive effects of drug abuse on our society. The consequences of drug abuse permeate America. Neither side of the tracks is immune.

III. CORRUPTION: THE INSIDIOUS COST OF MONEY LAUNDERING

In addition to the tremendous price drugs cost our society directly, money laundering imposes an insidious fee in the corruption on our markets and political systems. Promoters of the drug

trade learned long ago that where political will is weak, criminals can establish a *modus vivendi* with important economic and political interests in society. Large international criminal organizations owe their power and sophistication to alliances with political and economic interests within drug-producing and transit countries. When traffickers are genuinely threatened, they mobilize support through political institutions to delay or weaken legislation they find threatening. These criminals render policies ineffective and prevent or evade counter-drug law-enforcement activities. Drug criminals are able to penetrate the highest levels of government where they undermine democratic institutions, ignore established law, and destroy civic order with impunity. Finally, corruption deters legitimate investment in the banking industry of affected countries and prevents "infected" nations from becoming more competitive in international capital markets.

IV. NATIONAL DRUG CONTROL STRATEGY: RESPONDING TO THE CHALLENGE

We may not be immune to the threat of illegal drugs, but we are far from powerless against it. We can, and are, making a difference. As a nation, we have made enormous progress in the last ten years. Overall drug use has declined. In 1997, 6.4 percent of our household population aged twelve and over was using drugs; this figure was down from 14.1 percent in 1979. Also, cocaine use has plunged. In 1997, the United States had 1.5 million current cocaine users, a decline of 74 percent from 5.7 million current users a decade earlier. While America's drug problem remains serious, we have proven that drug use and its consequences can be reduced. Much, however, remains to be done.

The *National Drug Control Strategy* serves as our road map for further decreasing illegal drug use in America. Developed in consultation with public and private organizations, the strategy has five basic goals:

1. Educate and enable America's youth to reject illegal drugs as well as alcohol and tobacco;
2. Increase the safety of America's citizens by substantially reducing drug related crime and violence;
3. Reduce health and social costs to the public of illegal drug use;
4. Shield America's air, land, and sea frontiers from the drug threat; and
5. Break foreign and domestic sources of supply.

Efforts to halt money laundering play a significant role in goals two and five.

V. TAKING THE PROFIT OUT OF DRUG TRAFFICKING

Drug traffickers and their henchmen do not work for free. If we can take the profit out of drug trafficking, we can drain the lifeblood from this deadly endeavor. Most estimates place the amount of money being laundered globally at around four hundred billion U.S. dollars. From smuggling currency across borders to electronic wire transfers, all nations are vulnerable. These monies pay the salaries of people who work for the drug cartels: the kingpins, chemists, "mules," and hit-men. These workers buy the ingredients and precursor chemicals that make up methamphetamine, heroin, and crack sold on our streets. Whether carried across the border in a canvas satchel or transmitted by an Internet transaction on a phone line, there is no such thing as "clean" or victimless drug money.

However, cash is by definition fungible. Once drug monies enter international financial markets, the funds become increasingly difficult to separate from legitimate funds. Knowing the customer, filing routine currency transaction reports, and reporting suspicious activity at the initial "placement" stage is critical.

VI. THE ROLE OF LAW ENFORCEMENT

Treasury Secretary Robert Rubin, Under Secretary of the Treasury for Enforcement James Johnson, Assistant Treasury Secretary Elizabeth Bresee, and the Financial Crimes Enforcement Network (FinCEN) are doing wonderful work assisting both the private sector and the government in identifying "dirty money." They also support law enforcement (Drug Enforcement Administration (DEA), U.S. Customs Service (USCS), and the Internal Revenue Service (IRS)) as well as bank regulators (the Federal Reserve and the Office of the Comptroller of the Currency). The technical sophistication and global nature of the criminal organizations involved in money laundering present a challenge requiring international cooperation and continual education about modern banking, which is why FinCEN and the Financial Action Task Force (FATF) are so important. The following is a snapshot of our efforts to combat money laundering.

A. International Efforts

Money flows to whatever markets are available and willing to accept such funds. Taking cash power away from cartels and traffickers requires that we close all markets to tainted funds. To this end, the United States is working on a multilateral cooperative effort to disrupt illicit capital flowing through the financial system, track illicit funds to their criminal sources, and seize ill-gained assets while prosecuting the owners.

Treasury Secretary Robert Rubin has provided exceptional leadership by bringing the international community together at conferences such as the Summit Ministerial Meeting on Money Laundering in Buenos Aires in December of 1995. An interagency working group, chaired by the Treasury Department and established in 1995, is assisting foreign governments in improving investigative and regulatory actions against money laundering. Representatives from the ONDCP and the Departments of Treasury and Justice routinely visit countries from Southeast Asia to South America with money-laundering problems.

The Departments of State, Justice, and Treasury are working with foreign governments to criminalize money laundering and pass reasonable anti-money-laundering regulations that balance the interests of government and the private sector. An institutional framework, with laws on the books, is required before we can expect foreign governments to investigate and prosecute suspected money launderers. Several countries, including Mexico, Panama, and Brazil, recently enacted significant reporting requirements and criminal legislation against money laundering.

Institutional reform often requires a two-pronged approach: the creation of a regulatory and legislative system must be followed by thorough training of individuals vested with the responsibility of executing the laws. We should commend the work of our Justice, State, and Treasury Departments in the technical training of foreign governments, which often lack the resources to train prosecutors and judges in investigating and adjudicating sophisticated money-laundering cases.

The Department of State has been tireless in using diplomacy as an important tool in international drug control. My visit to the United Nations in June of 1996 included an address before the Economic and Social Council of the United Nations dealing with the global distribution of narcotics and its corrupting effects on our monetary systems.

B. The International Economic Emergency Powers Act

To demonstrate U. S. resolve to halt the flow of drug monies internationally, in October of 1995, under the authority of the International Emergency Economic Powers Act (IEEPA), President Clinton signed an Executive Order imposing economic sanctions against Colombian drug cartels and anyone doing business with them. Currently, 424 companies and individuals have been denied access to the U.S. financial system and the benefits of trade with America under the provisions of IEEPA.

The Colombian private sector has worked courageously with us to defend the integrity of its financial institutions against these powerful international criminal organizations. Colombia's banks have refused to do business with IEEPA targets and closed the accounts of the named companies and individuals. The Colombian private sector helped pressure the government of Colombia to set up bank regulations against money laundering. Additional pressure by private Colombian citizens on their legislature resulted in passage of an asset-forfeiture law in December of 1996.

C. Financial Action Task Force

Another effective international instrument against money laundering has been the FATF. FATF was convened at the direction of the 1989 G-7 Economic Summit in Paris. FATF evaluates measures that have been taken to prevent the use of financial institutions by money launderers, and it offers recommendations on how to improve international efforts against money laundering. This task force has proven to be a powerful force for multilateral cooperation.

My visits as part of President Clinton's delegation to Venezuela, Brazil, and Argentina highlighted the need to train and support foreign financial intelligence centers to improve information sharing with the Treasury Department's FinCEN. In addition, we need to train investigators and prosecutors in money laundering and asset forfeiture, which will continue to be on the agenda of the Departments of Justice and Treasury. ONDCP will work with the interagency community and our allies to attack the financial foundation of international criminal organizations.

D. Domestic Initiatives

More than fifty federal departments and agencies are involved in implementing counter-drug programs. In addition, state and local governments, public interest groups, and private corporations make major contributions to the national effort. Anti-money-laundering initiatives require close collaboration among federal agencies, state and local law-enforcement and regulatory agencies, and the private sector.

The United States has been most successful when streamlining operations and developing cooperative initiatives. Law-enforcement efforts are more effective when backed by anti-money-laundering regulations, support from the financial sector (e.g., banks, brokerage houses, and other financial institutions), and international cooperation stemming from multilateral protocols criminalizing the movement and laundering of drug proceeds.

E. High Intensity Drug Trafficking Areas

One of the better examples of effective federal, state, and local cooperation against drug trafficking and money laundering is the High Intensity Drug Trafficking Areas (HIDTA) program. HIDTA provides a strategic approach to joint drug interdiction, investigation, intelligence, and prosecution. Some task forces include all of these elements; all task forces include non-federal members. In fact, ONDCP insists that state and local members of each HIDTA receive at least half of the resources allocated to that HIDTA. Twenty-one HIDTAs are operating in the United States, Puerto Rico, and the Virgin Islands. Included in these HIDTAs are several anti-money-laundering task forces.

The Miami HIDTA has several money-laundering task forces. One of them is called IMPACT, the South Florida Interagency Metropolitan Police Anti-Crime Task Force of the Miami HIDTA. Formed in 1994, IMPACT now has about fifty full-time investigators from thirteen local, state, and federal law-enforcement agencies in South Florida dedicated to dismantling narcotics and money-laundering operations.

In fiscal year 1996, the South Florida task force dismantled eighteen and disrupted sixty-six money-laundering organizations and seized $9.3 million in currency and $95,000 in drug-related assets. Investigations reached to Chicago, Houston, Los Angeles, and New York as well as the South Florida region. FinCEN credits IMPACT with helping identify nearly two thousand money-

laundering accounts. IMPACT and FinCEN are now working together to identify and dismantle the businesses and bank accounts of drug money launderers on a national scale.

Over two years ago, participating agencies in the Houston HIDTA targeted wire transmitting businesses and the entire money-laundering industry. The plan included working with Texas regulatory agencies and legislators to pass strict licensing, record keeping, identification, and bonding requirements for industry. The regulations were strengthened with the mandated inclusion of an annual audit of each business by Texas state examiners. Due solely to HIDTA's aggressive criminal prosecution and state regulation, the amount of money being transferred to Colombia from Houston wire transmitting businesses has been reduced from $450 million in 1990 to about ten million dollars today.

F. Geographic Targeting Order (GTO); El Dorado Task Force

As criminal enterprises become more sophisticated in exploiting the technology of the global marketplace, we must develop modern law-enforcement techniques with which to counter these criminal organizations. The New York GTO and the El Dorado Task Force of the New York HIDTA are good examples of collective efforts to identify, track, and seize profits from the drug trade.

The New York GTO selected twelve specific money-remitter services and required them to report all wire transfers to New York that were over $750. The New York GTO was highly effective in reducing the flow of narcotics proceeds to Colombia through New York City money transmitters. New York State Banking Department figures indicate that the targeted transmitters had been sending approximately $1.2 billion annually to South America; about two-thirds of this amount, or $800 million, was being laundered out of New York (by using wire transfers to Colombian drug traffickers). The volume of targeted money from the transmitters' business with Colombia dropped approximately 30 percent after the GTO went into effect. USCS officials believe that most of this money has been physically removed from the New York metropolitan area, which produced a dramatic increase in U.S. Customs seizure at the borders—over $36 million since the GTO went into effect (a figure approximately four times higher than in prior years). This New York experiment has now been implemented nationwide; all money remitters are required to report

suspicious activity. This kind of swift, innovative action will help turn the tide in fighting the nation's drug cancer.

The El Dorado Task Force exemplifies the Administration's commitment to coordinated anti-money laundering. Begun in 1992, this federal, state, and local initiative now includes some 197 agents, police officers, and support personnel from twenty-six agencies, including USCS, IRS, the U.S. Secret Service, the New York Police Department, and New York State Banking Department. El Dorado targets financial services that facilitate money laundering and dedicates resources to non-bank financial institutions, banks, brokerage houses, private banking, and bulk transportation and smuggling of cash. Since 1992, the El Dorado Task Force has seized in excess of $170 million in currency, made 750 arrests, and interdicted more than two tons of cocaine and 120 pounds of heroin. In fiscal year 1997, ONDCP invested $1.8 million in the El Dorado Task Force.

G. FinCEN's Project Gateway

FinCEN has developed a database known as Gateway, which is accessible to state and local authorities. Gateway receives 4,600 queries each month and distributes information to local investigators trying to gather evidence to prosecute financial crimes.

VII. THE ROLE OF THE RESPONSIBLE FINANCIAL COMMUNITY

Preventing the spread of money laundering and prosecuting launderers are two steps that can weaken the financial underpinnings and profit motives of drug traffickers. Reasonable regulation and examination of suspicious accounts, focusing on "at risk" areas of the banking industry, will deter drug traffickers from penetrating financial markets and cause them to use less sophisticated, more detectable means of gathering profits. Partnerships like the Bank Secrecy Act Advisory Board (BSAAB) provide the necessary forum for law enforcement and bankers to come together to discuss practical regulation of the financial services industry.

A. Examples of Suspicious Activity

Suspicious reporting must be investigated on a case-by-case basis. However, certain telltale signs nevertheless indicate that further examination is necessary. Warning signs include:

1. Multiple bank accounts opened by more than one foreign national on the same day;
2. Multiple bank accounts opened by more than one individual using the same address;
3. Multiple bank accounts opened by the same individual using variations of the individual's hyphenated surname;
4. An account opened using a foreign address or an address marked "in care of";
5. An account opened with an invalid social security number;
6. An account opened without a residential phone number or with a cellular phone or pager number given as the reference telephone number;
7. Use of a foreign address to open an account, which is soon changed to a U.S. address; and
8. Cash deposits in amounts that far exceed what would normally be expected from a person with the type of job description found on the signature card.

Where these warning signs are found, responsible members of the financial community and people who counsel these institutions have a moral obligation to investigate further.

B. Building Stable Financial Institutions and Markets

In addition to assisting our nation's efforts against illegal drugs, measures to deter illicit proceeds from being filtered through legitimate enterprises allow legal businesses to invest and perform other transactions free from concerns about the safety of financial institutions. Reporting suspected money laundering is good for the security and prosperity of financial institutions and the economies intrinsically linked to them. Compliance with anti-money-laundering regulations does more than protect banks from being fined or from having their charters revoked. This approach is healthy for the credibility of financial institutions competing in a world market. Shielding our financial institutions from money laundering also protects against the danger dirty money poses to the stability of financial and political institutions, including currency devaluation and corruption.

C. What the Banking Community is Doing

The banking industry has made significant strides in recent years fighting money laundering. Commitment to this effort by the American Bankers Association has been unwavering. Since

1985, members of the American Bankers Association have trained more than 500,000 bankers in money-laundering deterrence.

Among recent internal actions many institutions have taken are the following:

1. Creation of effective, written policy statements for all employees;
2. Establishment of "know your customer" policies (customer identity);
3. Automated review and computer reporting of account openings and non-account holder activity;
4. Annual training seminars on CTR, SAR compliance, and monthly reports updating staff on recent money-laundering investigations and trends; and
5. Internal and external audits and quarterly compliance reviews by random officers within each bank and by hired consultants with results forwarded to senior management.

These largely voluntary initiatives form a template for responsible financial monitoring and enforcement on the part of members of the financial community. Wider adoption of these initiatives, both in the United States and abroad, will inhibit drug traffickers and other criminals from relying upon legal institutions to launder ill-gotten gains. Such initiatives will also strengthen the stability of our financial institutions and markets and build a framework for enhanced international market activity.

VIII. Guiding Principles for the Future

Money laundering can be reduced significantly through financial and monetary controls, adoption of international standards, and collaborative investigations. Treasury Secretary Robert Rubin, Attorney General Janet Reno, Secretary of State Madeleine Albright, National Security Advisor Samuel R. Berger, DEA Administrator Thomas Constantine, and FBI Director Louis Freeh have provided vision and leadership in attacks against the financial underpinnings of drug-trafficking organizations worldwide.

Anti-money-laundering programs provide excellent examples of how law enforcement and the private sector can form powerful alliances. Following is a list of guiding principles we must continue to pursue:

1. Strengthen international compliance with multilateral agreements;
2. Help nations threatened by money laundering develop adequate regulatory and law-enforcement institutions; and
3. Enhance and integrate our own law-enforcement operations to counter the increasing sophistication of drug traffickers in using digital telephony, high-tech communications, and encryption devices.

IX. CONCLUSION

Working together, the responsible financial community and the United States government can deal a significant blow to the pocketbooks of international criminal organizations. Taking money out of criminal hands means that less drugs will be on our streets, fewer children will be addicted, and lower crime rates will be evidenced in our neighborhoods. Strengthening the divides between legitimate transactions and illegal drug proceeds also will ensure the long-term security of financial institutions. It is in all our interests to pursue these efforts to the fullest extent of the law.