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**National Security and**
**International Affairs Division**

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May 16, 1991

The Honorable John F. Kerry
Chairman, Subcommittee on Terrorism,
Narcotics and International Operations
Committee on Foreign Relations
United States Senate

Dear Mr. Chairman:

As requested, we examined the federal effort to address the problem of money laundering, the process of disguising or concealing illicit funds in order to make them appear legitimate.

It appears that progress has been made in the effort to fight money laundering. Important legislation has been enacted, resources allocated to the effort have been increased, reporting of currency transactions has increased, and international negotiations are leading to significant agreements. Some problems remain, especially with regard to the resources devoted to the fight against money laundering. Actions have been taken to resolve these remaining problems; in particular, there are increased efforts to coordinate the federal approach.

We are sending copies of this report to the Secretaries of State and the Treasury, the Attorney General, the Director of the Office of National Drug Control Policy, the heads of the independent federal financial regulatory agencies, and other interested parties. Copies will also be made available to others on request.

The major contributors to this report are listed in appendix I. Please contact me on (202) 275-4812 if you or your staff have any questions concerning this report.

Sincerely yours,

Allan I. Mendelowitz

Allan I. Mendelowitz, Director
International Trade, Energy,
and Finance Issues

# Executive Summary

## Purpose

Laundering illegal proceeds or "dirty money" into usable, apparently legitimate assets is essential for many criminal enterprises. Nowhere, perhaps, is the need for money laundering more important than in the illicit drug trade—a cash business with estimated U.S. sales in excess of $100 billion annually.

The Chairman, Subcommittee on Narcotics, Terrorism and International Operations, Senate Committee on Foreign Relations, asked GAO to examine the federal government's anti-money-laundering effort, including collection, analysis, and use of currency transaction data; federal agency staffing, resources, and coordination; additional steps underway or improvements needed in combating money laundering; and negotiations with foreign governments concerning the exchange of financial transactions data.

## Background

The federal anti-money-laundering effort involves the implementation of various statutes, collection and analysis of currency transaction data, financial industry supervision, and criminal enforcement. It also involves efforts to improve international cooperation against money laundering. Organizations within the Treasury, Justice, and State Departments and the financial industry regulatory agencies have important anti-money-laundering responsibilities.

## Results in Brief

It appears that progress has been made in the evolving federal effort to fight money laundering, although there is a lack of "hard" data to demonstrate this conclusively.

- Awareness of the problem has increased, and important legislation has been enacted.
- Currency transaction reporting has increased.
- Greater resources appear to have been allocated to anti-money-laundering activities in certain areas, and efforts are being made to improve coordination.
- International negotiations are leading to significant agreements.

However, problems remain. First, questions persist about the usefulness of currency transaction data in initiating criminal cases, and problems have occurred in data processing. Second, resources are not always adequate to support anti-money-laundering activities, especially in Treasury's Office of Financial Enforcement. Finally, coordination of certain federal efforts has been a problem. Efforts are underway to address

these problems, such as through the administration's drug control strategy statements and Treasury's Financial Crimes Enforcement Network.

## GAO's Analysis

Evaluating the federal anti-money-laundering effort is difficult because (1) the nature of the government's activities is changing rapidly; (2) many agencies are involved, each with a different mission and authority, and (3) there is an absence of specific data on resource allocations and the magnitude of the money-laundering problem. Steps are being taken, however, to address some of the major difficulties involved in the battle to halt money laundering.

### Legislation Addresses Money Laundering

Congress has passed significant legislation requiring currency transaction recordkeeping, criminal law enforcement, and financial industry supervision. The 1970 Bank Secrecy Act, for example, contains various regulatory and criminal provisions and requires financial institutions to keep records and report currency transactions exceeding $10,000. The Anti-Drug Abuse Acts of 1986 and 1988 and the Crime Control Act of 1990 also contain provisions addressing money laundering.

### Value of Currency Transaction Data Remains Unclear

Currency transaction reports can provide useful intelligence. During 1989, for example, the Customs Service identified about 800 individuals and businesses as targets for investigation based on analysis of such data. Internal evaluations found that Customs and the Internal Revenue Service (IRS) were generally effective in collecting, processing, and disseminating these data. However, the studies also identified deficiencies that the agencies were attempting to correct. In addition, there is disagreement about the usefulness of currency transaction data in initiating criminal cases, although there appears to be agreement that such data can facilitate investigation and prosecution. Recent legislation requires Treasury to evaluate the usefulness of such data.

### Many Agencies Have Anti-Money-Laundering Responsibilities

Treasury's Office of Financial Enforcement is a key participant in the federal effort against money laundering. It is responsible for governmentwide monitoring and coordination of anti-money-laundering functions and negotiating international agreements regarding recordkeeping for large U.S. currency transactions and disclosure of such records to U.S. law enforcement officials. During fiscal year 1989, IRS initiated 1,132 criminal money-laundering cases and is cooperating with Justice

in special enforcement activities. The Customs Service started 4,800 financial investigations in fiscal year 1989 and also addresses money laundering in its export and international enforcement activities. Finally, Treasury's Financial Crimes Enforcement Network, a multi-source intelligence and crime-targeting activity, handled over 32,000 data base checks and coordinated with a variety of government and private sector sources during 1990.

In the Justice Department, both the Federal Bureau of Investigation (FBI) and Drug Enforcement Administration (DEA) investigate money laundering, although their enforcement focus differs from that of Treasury units. DEA, for example, considers money laundering a component of an overall drug investigation. Justice also prosecutes money-laundering cases through its U.S. Attorneys, who also participate in the Organized Crime Drug Enforcement Task Forces to coordinate investigations and prosecutions.

## Anti-Money-Laundering Resources Appear Limited

Agencies generally do not calculate the level of resources applied to anti-money-laundering activities, and no reliable governmentwide data exist on such resource allocations. However, certain agency officials, including some supervisory agency representatives, indicated that resources were basically adequate. However, representatives of various enforcement agencies, including Customs, the IRS, the DEA, and the FBI, said that resource constraints have been a problem. The Office of Financial Enforcement, in particular, lacks adequate staff.

## Coordination of Federal Efforts Can Be Improved

Federal agencies have cooperated in developing major international money-laundering cases. However, given the number of federal participants and the various legislative mandates involved, coordination problems and related jurisdictional issues have affected such areas as information exchange among agencies. Practically all the agency representatives and other experts interviewed by GAO said that coordination could be improved.

Efforts have been made to enhance coordination, including formation of the multiagency Financial Enforcement Committee in 1987. In 1990, Treasury set up the Financial Crimes Enforcement Network, whose primary objective is to coordinate anti-money-laundering activities, particularly in intelligence gathering and analysis. Drug control strategies have also called for improved coordination.

## Additional Steps and Improvements Considered

Agency representatives and other experts outlined several steps currently underway and others that they consider needed, including

- improved coordination and communication among federal agencies and between government and industry,
- increased and better coordinated multiagency training and joint investigative efforts, and
- greater use of technology to prevent illicit money laundering.

## International Initiatives Show Progress

There has been some progress on the international front in recent years. For example, the United States ratified six mutual legal assistance treaties as well as the December 1988 United Nations Convention Against Illicit Drugs and Psychotropic Substances. The United States also participated in the multinational Financial Action Task Force, established at the July 1989 Paris Summit. Additionally, INTERPOL, the International Criminal Police Organization, has adopted a series of resolutions that should help develop an international currency control data base.

Treasury has also made some progress in implementing section 4702 of the 1988 Anti-Drug Abuse Act, which requires negotiation of international agreements requiring recording and disclosing information about large transactions of U.S. currency conducted by foreign-based financial institutions. Treasury has identified 21 priority countries with which to negotiate agreements. Formal approaches had been made to 18 countries and discussions had begun with 17 of them as of November 1990.

## Recommendation

Treasury's Office of Financial Enforcement, which has important governmentwide and international anti-money-laundering responsibilities, has experienced severe resource constraints. The Office has had difficulties in obtaining and filling permanent positions. Steps should be taken to ensure that the Office has adequate and experienced staff. Therefore, GAO recommends that the Secretary of the Treasury direct that all permanent positions allocated to the Office of Financial Enforcement be filled as quickly as possible.

## Agency Comments

As requested, GAO did not obtain written agency comments on this report. However, GAO discussed the draft report with officials of several key agencies and incorporated their comments where appropriate. Treasury officials concurred with GAO's recommendation.

# Contents

**Abbreviations**

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| BSA | Bank Secrecy Act |
| CMIR | Report of International Transportation of Currency or Monetary Instruments |
| CTR | Currency Transaction Report |
| DEA | Drug Enforcement Administration |
| FBI | Federal Bureau of Investigation |
| FINCEN | Financial Crimes Enforcement Network |
| GAO | General Accounting Office |
| INTERPOL | International Criminal Police Organization |
| IRS | Internal Revenue Service |
| OCDETF | Organized Crime Drug Enforcement Task Force |
| OFE | Office of Financial Enforcement |
| ONDCP | Office of National Drug Control Policy |
| U.N. | United Nations |

# Introduction

Financial gain is the primary reason for criminal activity. While cash profits may be a basic objective, handling large amounts of currency poses major problems and risks for criminal organizations, as well as considerable opportunities for effective law enforcement. This fact is particularly true with regard to narcotics trafficking, which involves huge amounts of cash.

Ultimately, "dirty money," or at least a major portion of it, has to be legitimized or laundered domestically and internationally to permit its further use. Money laundering is the process through which the existence, illegal source, and unlawful application of illicit gains is concealed or disguised to make the gains appear legitimate, thereby helping to evade detection, prosecution, seizure, and taxation.

Although estimates as to the magnitude of the problem vary widely, the effects of money laundering can be widespread and diverse. Aside from perpetuating crime, money laundering deprives the nation of billions in tax revenues. Further, laundered funds can be used to undermine and manipulate legitimate businesses, corrupt public officials and institutions, and threaten the stability of governments.

For 20 years, the Bank Secrecy Act (BSA) has provided the foundation of the federal effort against money laundering. Growing awareness of the significance of the money-laundering problem and the benefits of attacking it contributed to enactment of the Money Laundering Control Act in 1986. The Anti-Drug Abuse Act of 1988 contained several anti-money-laundering provisions, including sections addressing the international banking aspects of the problem. These include section 4702 of the act (the "Kerry Amendment"), which addresses recordkeeping and disclosure of information on large U.S. currency transactions conducted by foreign financial institutions.

In the executive branch, there is an increased and still evolving multiagency attack against the money-laundering problem through regulation, enforcement, and participation in numerous international initiatives that include negotiating and implementing bilateral and multinational agreements. While there has been progress, questions persist concerning the use of certain BSA data, interagency coordination, and resources.

## Objectives, Scope, and Methodology

The Chairman of the Subcommittee on Terrorism, Narcotics and International Communications, Senate Committee on Foreign Relations, asked us to examine several specific questions relating to international money laundering and federal efforts to address the problem. For example, we were asked to determine (1) the extent of reporting, collecting, and use of currency transaction flow data; (2) the specific agencies involved in overseeing and coordinating the anti-money-laundering effort, as well as the amount of resources and staff allocated to this effort; (3) activities underway to deter the movement of contraband currency; and (4) the status of negotiations with foreign governments concerning financial transactions data.

We reviewed pertinent laws and regulations and an extensive body of published material, including congressional hearings and reports as well as academic and periodical literature and reports prepared by federal agencies, financial industry associations, and other experts. To assist in identifying and evaluating agency responsibilities, staffing, resource allocations, and coordination, we reviewed appropriations hearings and various publications, including narcotics control strategies and progress reports prepared over the past several years. We also analyzed agency planning documents, directives, and other guidance as well as budgetary and statistical data, internal audit reports, correspondence, and other documentation.

Within Treasury, we interviewed representatives of the Office of Law Enforcement, the Office of Financial Enforcement (OFE), the General Counsel's office, the Federal Law Enforcement Training Center, and the Inspector General's office. We also interviewed officials of Treasury's Financial Crimes Enforcement Network (FINCEN); the Office of the Comptroller of the Currency; the Office of Thrift Supervision; and the Bureau of Alcohol, Tobacco, and Firearms. We spoke with U.S. Customs Service intelligence, currency investigations, inspection, and research and development officials and with representatives of the Internal Revenue Service's (IRS) criminal investigation, international, and examination functions. We also spoke with former Treasury officials, including a Deputy Assistant Secretary.

Within the Justice Department, we interviewed officials of the Federal Bureau of Investigation (FBI), the Drug Enforcement Administration (DEA), the U.S. National Central Bureau of the International Criminal Police Organization (INTERPOL), and representatives of the Criminal Division's Narcotics and Dangerous Drugs Section, the Office of International Affairs, the Asset Forfeiture Office, and the division's anti-

money-laundering unit. Additionally, we interviewed an official of the Organized Crime Drug Enforcement Task Force (OCDETF), representatives of the Executive Office for U.S. Attorneys General, and representatives of 10 U.S. Attorneys' offices.

We also interviewed State Department officials and spoke with representatives of the Office of National Drug Control Policy (ONDCP), the Congressional Research Service, the Office of Management and Budget, the U.S. Postal Service, and independent federal financial industry supervisory agencies.[1] The Central Intelligence Agency declined to speak with us, and the State Department declined to provide certain requested information.

Our interviews were generally conducted with agency headquarters personnel. We did, however, meet with New York area representatives of certain agencies, including the Justice Department, IRS, the U.S. Customs Service, DEA, and the Federal Reserve Bank of New York. We also discussed the money-laundering problem and the federal response with officials of such organizations as the American Bankers Association, the Bank Administration Institute, the Bankers Association for Foreign Trade, and the Police Executive Research Forum.

We could not fully evaluate all of the issues relating to the federal anti-money-laundering effort. Specific, reliable resource data frequently were not available, since money laundering is often addressed as part of other agency activities without separate information on resource allocations. Because data and specific, uniform, evaluative criteria were lacking, and because the federal response is still evolving, we were not able to develop firm conclusions as to the extent and adequacy of the federal effort.

Our review was conducted between March 1989 and November 1990 in accordance with generally accepted government auditing standards, with one exception. We could not fully or independently assess implementation of section 4702 of the 1988 Anti-Drug Abuse Act.[2] State and Treasury Department representatives declined to provide certain information and documentation, such as cables received from U.S. diplomatic

[1]These included the Federal Reserve Board, the Federal Deposit Insurance Corporation, the National Credit Union Administration, and the Securities and Exchange Commission.

[2]As discussed in chapter 6, section 4702 requires the Secretary of the Treasury to negotiate agreements with foreign governments concerning adequate recordkeeping of U.S. currency transactions and disclosure of such information to U.S. law enforcement officials by foreign financial institutions.

posts, which we requested to verify the status of section 4702 negotiations. Agency officials, citing "deliberative process" and the sensitive nature of the situation, also declined to identify the countries with which the United States expects to negotiate agreements.

As requested, we did not obtain written agency comments on this report. However, we discussed our draft report in detail with cognizant agency representatives and incorporated their comments where appropriate.

# Money Laundering and the Federal Response: An Overview

Although reliable estimates do not exist, money laundering clearly constitutes a substantial criminal enterprise. Often, "dirty money" generated through such activities as narcotics trafficking is laundered by specialists who use a variety of schemes and techniques to move funds across state and international borders through illicit or, sometimes, legal channels.

The federal government's response to the money-laundering problem includes the implementation of various statutes such as the BSA and involves numerous units within several agencies and departments. Money laundering falls within the jurisdiction of different organizations because of the nature of the process itself, the wide range of crimes that produce cash to be laundered, the coverage of different laws, and the organizational structure of the federal government.

## The Extent of the Money-Laundering Problem

Available estimates of the domestic and international drug money-laundering problem vary widely. The President's Commission on Organized Crime, in an October 1984 report, estimated that between $5 billion and $15 billion of the $50 billion-$75 billion in drug money earned annually in the United States probably moves into international financial channels.

According to a March 1989 State Department report, "credible estimates" placed annual drug revenues from sales in the United States at $110 billion, including 80 percent in profit; some portion of the $110 billion presumably must be laundered. However, an analysis presented to the House Committee on Banking, Finance and Urban Affairs in November 1989 suggested a far lower profit margin. According to this analysis, of the $110 billion in revenue, about $7 billion directly enters domestic financial institutions, and $21 billion directly enters international financial institutions. In its February 1990 report, the Financial Action Task Force, a multinational group established at the July 1989 Economic Summit, estimated that sales of cocaine, heroin, and cannabis total about $122 billion annually in the United States and Europe. Of this amount, between 50 and 70 percent, or as much as $85 billion, could be laundered or invested, according to task force estimates.

Narcotics trafficking proceeds certainly constitute a major element of the money-laundering problem. However, it must be emphasized that substantial amounts of cash generated through a variety of nondrug

crimes, such as illegal gambling, loan-sharking, and commercial fraud, also have to be laundered.

Identifying the amount of dirty money laundered internationally can be difficult, since these funds are mixed with and are often indistinguishable from the huge amounts of currency and monetary instruments (such as cashiers checks or bearer securities) that enter and leave the United States for legitimate purposes. Transactions that exceed $10,000 are supposed to be reported to the U.S. Customs Service. Customs data show that during 1989 almost $56 billion in cash and monetary instruments moved into and out of the United States. This figure may be an underestimate, however, due to such factors as exemptions from the $10,000 reporting requirement that Customs allows for banks and others who routinely and legitimately move large amounts of currency.

Electronic funds transfers can be used to launder money. However, huge sums are also transferred electronically each year in connection with conventional banking activities such as collections, reimbursements, letters of credit, and foreign exchange transactions. The size and scope of these transactions further complicate the task of estimating the level of money laundering. During 1990, for example, the Clearing House Interbank Payment System, the primary wholesale international electronic funds transfer system, processed about 37-million transfers between the United States and international banks valued at $222 trillion.

## How Money Is Laundered

Laundering cash can pose considerable problems for criminal enterprises, particularly given the sheer weight and bulk of currency. According to the Customs Service, U.S. currency notes weigh about 1 gram, with about 450 bills to the pound. Thus $227,000 in $10 bills weighs about 50 pounds. Money laundering has become an increasingly sophisticated and specialized business, often conducted by independent money-laundering experts usually working for a percentage of the laundered funds.

Enforcement efforts can target money laundering at different stages of the process.

- Placement. This involves the physical disposal of bulk cash through various means, including commingling with legitimate business proceeds, smuggling, and converting cash into deposits or assets at banks.[1] Launderers can also place cash through other financial institutions such as casinos, check-cashing establishments, currency exchanges, securities brokers, and nontraditional channels like underground banking systems that deal in barter.
- Layering. This confuses and disguises the source and audit trail of dirty money by moving funds between accounts and transferring funds electronically.
- Integration. This involves bringing the laundered funds back into the legitimate economy with the appearance of having been derived from legal sources. Real estate deals, loans through "front" companies, and false import/export invoicing are among the common integration techniques.

Dirty money can be moved into international channels in an almost limitless number of ways. Physically smuggling currency and/or financial instruments out of the United States is one of the primary laundering techniques, accounting for billions of dollars annually, according to the State Department. Launderers can use domestic banking institutions to move funds internationally by making direct or indirect cash deposits and having the bank wire these funds to an overseas account. Money can also be laundered internationally by purchasing commodities such as cars, appliances, or precious metals and shipping them abroad to be sold for local currency, or by falsely invoicing international commercial transactions. By overstating the value of exports, for example, a launderer can justify funds received from foreign sources. Finally, launderers increasingly rely on nonbank financial institutions as currency exchanges, including "casas de cambio," small exchange houses often located along the U.S. border with Mexico.

## Money-Laundering Legislation

The Bank Secrecy Act, as amended, and its implementing regulations set out financial and currency transaction recordkeeping and reporting requirements and related criminal provisions. These provisions are intended to assist in the detection and prosecution of money-laundering violations.

[1]This process can involve structuring (i.e., making multiple deposits in amounts under $10,000) or "smurfing" in which couriers, or "smurfs," make multiple purchases of money orders, cashiers checks, or other financial instruments in amounts below $10,000.

BSA reporting requirements include the Currency Transaction Report (CTR), which must be completed by financial institutions when they or their customers make cash transactions exceeding $10,000; the Report of International Transportation of Currency or Monetary Instruments (CMIR), which must be completed when currency or monetary instruments exceeding $10,000 are transported into or out of the United States;[2] and the Report of Foreign Bank and Financial Accounts, which must be filed by persons with signature authority or a financial interest in foreign bank securities or with accounts exceeding $10,000. Section 6050I of the Internal Revenue Code, added by the Tax Reform Act of 1984, also requires reporting to IRS of cash payments over $10,000 received in trade or business.

The BSA recordkeeping and reporting requirements apply to domestic and foreign banking entities doing business in the United States. The statute does not extend to banks, whether American or foreign owned, doing business outside of the country. In fact, these institutions may be bound by host country secrecy laws and blocking statutes that prohibit or actually penalize the disclosure of financial transaction information.

The federal anti-money-laundering effort was strengthened significantly with enactment of the Anti-Drug Abuse Act of 1986 (P.L. 99-570). Specifically, title I, subtitle H (the Money Laundering Control Act of 1986) made money laundering itself a crime by adding sections 1956 and 1957 to title 18 of the U.S. Code. Section 1956 defines two money-laundering offenses—a "financial transactions" offense and a "monetary transportation" offense, where international transportation of funds or monetary instruments is involved. Section 1957 prohibits knowingly engaging in monetary transactions involving criminally derived assets valued in excess of $10,000. Subtitle H also prohibited structured transactions and directed federal financial regulators to issue regulations requiring banks to establish and maintain procedures to ensure compliance with the BSA. Regulators were directed to review these procedures during examinations.

Title II of the 1986 Anti-Drug Abuse Act mandated economic sanctions (such as withholding 50 percent of allocated foreign assistance) against major illicit drug producing and drug transit countries. The President may waive sanctions by certifying to the Congress that these countries

[2]About 180,000 CMIRs relating to $56 billion were filed in 1989. However, numerous transactions, such as shipments by banks and securities brokers via common carrier or the Postal Service, are exempt from reporting.

are cooperating with U.S. narcotics control efforts by taking adequate steps to eliminate, to the maximum extent possible, the laundering of drug profits. The President may also waive sanctions if he believes doing so is in the vital national interests of the United States.

The Anti-Drug Abuse Act of 1988 (P.L. 100-690) contained numerous anti-money-laundering provisions. In particular, section 4701 urges the Secretary of the Treasury to negotiate with foreign finance ministers to establish an international currency control agency. Section 4702 of the act further directs the Secretary to negotiate agreements with foreign countries regarding recordkeeping for large U.S. currency transactions and disclosure of such records to U.S. law enforcement officials.

The 1988 act also clarified or broadened several provisions of sections 1956 and 1957 of title 18 and the related asset seizure statutes. For example, section 6466 expanded the list of crimes or specified unlawful activities whose profits may not be laundered. The 1988 act also contained several amendments to the BSA, such as broadening the definition of covered "financial institutions" to include the U.S. Postal Service and businesses engaged in boat, automobile, or airplane sales and real estate closings. The act also authorized the Secretary of the Treasury under certain circumstances (such as suspicion of noncompliance) to issue temporary orders requiring domestic financial institutions in particular geographic areas to obtain and report information on currency transactions in amounts below the $10,000 reporting threshold.

Finally, section 102 of the Crime Control Act of 1990 (P.L. 101-647) directs the Secretary of the Treasury to appoint a task force to study methods for and the related costs of printing serial numbers on U.S. currency notes so that the numbers are readable by electronic scanning. Other recently enacted legislation requires Treasury to evaluate and report to the Congress on such matters as the usefulness of currency transaction reporting.

## Anti-Money-Laundering Roles and Responsibilities

The nature of money laundering and the variety of statutes enacted to combat the problem dictate that numerous federal organizations participate in the federal anti-money-laundering effort.

## Treasury's Office of Financial Enforcement

Treasury's Office of Financial Enforcement is primarily responsible for overseeing and coordinating BSA compliance efforts; developing and interpreting BSA regulations, providing liaison with state and local agencies, the financial community, and the public; and processing civil penalty cases. OFE has led or participated in courses, conferences, and other initiatives designed to improve understanding of the BSA. OFE also participates in various international efforts and has significant responsibilities for implementing legislatively mandated international anti-money-laundering initiatives such as sections 4701 and 4702 of the 1988 Anti-Drug Abuse Act.

FINCEN has become a key player in the government's anti-money-laundering effort. Treasury established the network in 1990 to support law enforcement by coordinating and analyzing financial intelligence, identifying potential violators, responding to data requests, providing tactical support for ongoing investigations, and developing and disseminating analyses of money laundering. FINCEN does not self-initiate or conduct investigations.[3]

## Other Treasury Participants

Although various Treasury agencies have criminal enforcement responsibilities, IRS and Customs are the key participants.[4] The IRS enforces practically all BSA criminal provisions, including such money-laundering offenses as structuring transactions and failing to file BSA reports. The IRS also conducts certain investigations under title 18, sections 1956 and 1957. The IRS is responsible for anti-money-laundering enforcement efforts relating to U.S. citizens residing in foreign countries or in U.S. territories and possessions. The Customs Service investigates violations of the BSA concerning exporting and importing monetary instruments and violations of title 18, sections 1956 and 1957, involving unlawful activities such as smuggling and illegal export of critical technology and munitions.

## Department of Justice Participants

DEA investigates the financial aspects of drug trafficking and operates a major financial intelligence program. Also, DEA has been assigned money-laundering enforcement responsibilities under sections 1956 and

[3]See Money Laundering: Treasury's Financial Crimes Enforcement Network (GAO/GGD-91-53, Mar. 18, 1991).

[4]The Office of Thrift Supervision and the Comptroller of the Currency carry out BSA supervisory and compliance functions. Treasury has also delegated BSA supervisory authority to various independent regulatory agencies, including the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, and the Securities and Exchange Commission.

1957 of title 18, where the underlying unlawful activity is within the DEA's investigative jurisdiction. The FBI engages in various anti-money-laundering enforcement activities, including investigations of title 18, sections 1956 and 1957 violations that include embezzlement, fraud, kidnapping, illegal gambling, and racketeering.

OCDETF has been playing an increasingly important role in the government's anti-money-laundering effort. A network of 13 regionally based multiagency task forces, OCDETF is designed to coordinate investigations, prosecution activities, and information-sharing in order to combat drug trafficking. OCDETF membership includes numerous state and local enforcement organizations, U.S. attorneys, and several federal agencies.

Other participating Justice organizations include various units within the Criminal Division, which recently established a separate money-laundering section, the U.S. Attorney's offices, and the U.S. Marshals Service. Justice also houses the U.S. National Central Bureau of INTERPOL, which coordinates the exchange of narcotics and financial intelligence worldwide and is a forum for implementing international initiatives to combat money laundering.

## Other Participants

Other key players in the anti-money-laundering effort include the intelligence community and ONDCP, which coordinates the federal anti-drug effort. The State Department's Bureau of International Narcotics Matters is responsible for coordinating U.S. international anti-narcotics policy and enforcement and prepares the annual strategy report containing a major section on international money laundering. The U.S. Postal Inspection Service also has jurisdiction over certain money-laundering violations.

## Agency "Expertise"

No objective criteria or "tests" can determine which agencies fully understand money-laundering processes and techniques. Expertise may vary, and it is doubtful that any single agency or individual will fully understand every aspect of money laundering, given the large number of schemes and techniques employed. Further, each agency has specific mandates and a particular focus. Bank supervisory agencies, for example, will focus primarily on laundering schemes involving banks. Other agencies, like the Customs Service and IRS, have a broader perspective. Still others, like the FBI and DEA, address money specifically in connection with the underlying crime rather than as a primary target of investigations.

However, individuals or particular units within many agencies have developed a good understanding of the money-laundering problem. The agencies most often identified as knowledgeable by government and outside experts are Customs and IRS within Treasury and the FBI and DEA within Justice. Finally, FINCEN was established to provide law enforcement offices with intelligence analyses, with responses to requests for specific data and information, and, when requested, with trained and experienced investigators.

# Currency Reporting Systems and Regulatory Activities

Collecting, processing, and analyzing BSA domestic and international currency transaction flow data constitute key elements of the federal anti-money-laundering effort. Supervision of the nation's financial services industry through on-site BSA compliance examinations and assessment of civil penalties and regulation of electronic funds transfer also represents an important part of the federal effort.

## Data Processing and Analysis

The millions of BSA reports processed by Treasury agencies annually can be useful in combating money laundering. However, the overall usefulness of certain BSA data is inherently limited. Some problems have occurred, such as in data processing. IRS, which is responsible for data processing, is addressing them.

### IRS Data-Processing Activities

The IRS' Detroit Computing Center processes the CTRs and the foreign bank account reports and forwards the data to Customs for analysis. The Detroit Center's data base also allows authorized IRS and other agency personnel to have on-line access to these data for investigative and examination activities. IRS data compiled in early 1990 show that CTR processing turnaround time was about 33 days. According to IRS officials, this period does not constitute a backlog; the Detroit Center's standard requires a CTR to be processed by the end of the month following the one in which it was received. The IRS estimates that overall, it takes an average of 45 days before a paper CTR becomes available for use by investigative personnel. (Financial institutions have up to 15 days after the date of the transaction to file CTRs.) To help reduce this time period to an estimated 18 days and to improve the accuracy and completeness of filings, Treasury has proposed that certain financial institutions file on magnetic tape or diskette. According to IRS data, Detroit Center processing time for other BSA report types ranges from 8 to 19 days.

A January 1990 IRS internal audit report found that most documents were processed in a timely manner, with data posted and transcribed accurately. However, the report identified some major problems, mainly due to a lack of staff. These included

- inadequate internal controls to ensure timely and complete processing and error correction and
- failure to completely account for BSA documents and data sent to contractors and user organizations.

The audit also showed that during the first 6 months of 1988, data from 1.4 million CTRs, though processed and transmitted to Customs, were not in the IRS Detroit Center's data base, which is consulted by regulatory and enforcement personnel. The audit report said these deficiencies had been or were being corrected.

Staffing constraints and the increase in CTR filings contributed to other, related problems at the Detroit Center. From May 1986 through April 1989, about 6.5 million CTRs (including the 1.4 million noted above) were processed in an "abbreviated" manner, and with only certain information extracted from the forms. The data were loaded into Treasury's data base but not the Detroit Center's data base. According to the IRS, the data have since been added to the Detroit system.

Despite efforts to increase computerized filings, over 99 percent of CTRs filed in 1989 were received in paper form, according to Treasury. CTR filings have increased dramatically in the past few years, from 1.9 million reports in 1985 to 6.5 million in 1989. These filings represented approximately $272 billion in transactions, according to OFE.[1] On September 6, 1990, Treasury issued a notice of proposed rulemaking that would require financial institutions that file more than 1,000 CTRs each year to file using magnetic tape or diskette.

## Customs Activities

The Customs financial intelligence function, which has been transferred almost entirely to FINCEN, performed various BSA statistical analyses, identified targets for money-laundering investigations, and prepared a variety of intelligence products. In 1989, Customs prepared 199 products identifying 782 individuals and businesses linked to about 12,000 CTRs and CMIRs covering over $4.5 billion in transactions. Customs has also prepared various special reports on international money laundering, including a January 1989 two-volume analysis, Money Laundering and the United States Customs Service: Geographic Threat and Methods.

Customs was also responsible for analyzing monthly reports from the Federal Reserve System regarding the movement of cash into and out of its 37 offices. Identifying deviations from normal patterns or major cash

[1]Certain casinos are required to report cash transactions exceeding $10,000 to the IRS by filing a specialized version of the CTR. According to the IRS, almost 55,000 such reports were received and processed in 1989.

surpluses or deficits has been useful in targeting potential money-laundering areas or situations requiring further investigation. This function has been transferred to FINCEN.

In a February 1990 report, Treasury's Inspector General concluded that Customs was carrying out its BSA responsibilities in a satisfactory manner, having effectively processed over 180,000 CMIRs in 1988 and disseminated BSA data to various law enforcement agencies. Further, according to the report, law enforcement agencies were using the data for investigative purposes.

However, the report pointed out several deficiencies. For example, Customs personnel were not always knowledgeable about CMIR processing procedures and did not always check completed CMIRs against Treasury's enforcement data base to identify suspected violators. Some CMIRs were not forwarded for processing in a timely manner. The report made several recommendations for improving the CMIR processing system, which the Commissioner of Customs agreed to pursue.

## OFE Oversight

According to a December 1990 Treasury Inspector General's report, OFE had not provided the level of monitoring and oversight needed to ensure that IRS and Customs BSA data collection activities were carried out effectively. As a result, operational problems between the bureaus were not always fully resolved, and BSA information provided to law enforcement agencies was not always complete, accurate, and timely. The report attributed these problems to the lack of OFE resources and the absence of OFE line authority over IRS data-processing activities.

The Inspector General recommended additional OFE resources for monitoring and oversight. He also recommended that Treasury participants develop memoranda of understanding spelling out specific roles and responsibilities and a mechanism for resolving significant problems. In responding to the audit report, the Assistant Secretary (Enforcement) stated that additional OFE resources would be devoted to monitoring and coordination. However, the Assistant Secretary questioned the use of memoranda of understanding and indicated that revised guidelines for the Detroit Center data base and relationships among the Treasury organizations would be prepared. Treasury also said that oversight visits to the Detroit facility would be increased.

## Enforcement Uses of Currency Data and Other Issues

There has been a continuing debate as to the law enforcement value of BSA data, particularly with regard to initiating criminal investigations. DEA and FBI officials have questioned whether the data have been useful in initiating cases. Officials in other agencies saw the data as useful to develop leads, however, and officials in most agencies note the usefulness of the data in money-laundering prosecutions.

According to Treasury, BSA reports have been very valuable in civil and criminal enforcement efforts. These reports have enabled law enforcement officials to uncover and successfully prosecute a wide range of crimes, including tax violations, embezzlement, and narcotics money laundering. Testifying in late 1989, Treasury officials asserted that 130 investigations, involving 700 targets, had been initiated over the past 2 years based on BSA data analyzed with Customs' artificial intelligence system.

A Customs official told us that it would be extremely difficult to say exactly how many cases were initiated based solely on BSA data, but that the value of such information (particularly in supporting or corroborating ongoing cases) should not be overlooked. According to an IRS official, the most accurate data available show that cases undertaken based on "pure" BSA data base searches and Customs/IRS BSA intelligence analyses (in which the targets were previously unknown) totaled 178 in fiscal year 1989, up significantly from 108 in 1988 and 82 in 1987.

We also discussed this issue with representatives of 10 U.S. Attorneys' offices. Most of these officials indicated that most money-laundering cases that reach their offices are initiated through tips from informants or banks rather than directly through analysis of BSA data. However, some respondents pointed out that BSA information is very useful in developing cases generated through other sources. We were also told that BSA data can facilitate asset seizure and forfeiture.

## International Currency Flow Data

According to Treasury, authorities have prosecuted various criminal activities, such as narcotics money laundering, based on CMIR currency flow data. Customs has prepared numerous intelligence products and targeted many individuals and organizations with the help of CMIR data analysis. Also, aggregated CMIR data can help to identify trends and overall currency movements by country and region. In addition, a CMIR reporting requirement may deter some currency smuggling.

However, CMIR data may not accurately and fully reflect currency movements. Although efforts are underway to improve the system, it does not always accurately distinguish cash and monetary instruments, and some amounts are recorded as unknown. Customs statistics show that during 1989, $26.6 billion in currency, other instruments, and in "unknown form" moved into the United States, while $28 billion left the country. (An additional $1.2 billion was classified as "of indeterminate direction.") These figures understate actual movements because the system cannot account for currency movements exempted from reporting, amounts below $10,000, or amounts smuggled.

On the other hand, certain CMIR statistics may be inflated. For example, one money-laundering scheme involves filing false CMIR reports upon entering the United States to grossly overstate the amounts of cash and other instruments actually carried. The money launderer thus establishes a bogus justification for possessing large amounts of cash that were actually collected after entering the United States. Customs is attempting to address this scheme through improved inbound verification.

Assuring compliance with CMIR reporting requirements can be quite difficult. The Customs Service can only inspect a small percentage of travelers and commercial shipments entering and leaving the United States. In 1988, for example, according to ONDCP, 355 million people entered or re-entered the United States, along with 100 million vehicles, 220,000 vessels, 635,000 aircraft, and 8 million cargo containers. Given this flow of traffic, resource availability, and other priorities, including narcotics interdiction, the ability of Customs personnel to inspect for hidden currency or fully verify CMIR report data is limited. There is a particular problem with outbound movements, where Customs' presence is insufficient. Reduced exposure to detection may be increasing the attractiveness of currency smuggling.

CMIR data alone cannot measure the extent of international money laundering. Aggregated CMIR data can help to identify differences between inbound and outbound currency movements that may reflect "leakage," possibly due to money laundering. According to a senior FINCEN official, however, the system does not provide for comparing the reported data against predicted flows. Further, much of the currency movement and regional differences in reported flows may be related to legitimate business and personal activities such as tourism, payment of U.S. citizens working abroad, and shipment of currency to their home countries by foreign nationals residing in the United States. To some extent, inbound

currency movements reflect "capital flight" from certain parts of the world. Conversely, large amounts of currency may be leaving the country to be used either as a primary currency or as a "store of value" against the instabilities of certain foreign economies.

## Other Reporting Issues

Banks can raise the $10,000 CTR reporting threshold for some types of customers who deal in large amounts of cash,[2] thereby exempting these customers from the CTR filing requirements. Banks maintain exemption lists and supporting documentation. Although this information may be reviewed during bank examinations or criminal investigations, it is not routinely submitted to Treasury, and FINCEN officials told us that the exemptions constitute a regulatory gap. They said that encouraging banks to computerize exemption information, thus making it more accessible to law enforcement officials, could be very helpful.

A February 1990 report by the Senate Subcommittee on Narcotics and Terrorism suggested steps to control the exemption process more effectively. These steps included imposing penalties on customers who abuse the exemption privilege; requiring banks to certify annually to Treasury that exemption lists are current and justified; and spot-checking exempt customers by IRS.

Proposed legislation would have required banks to review exempted customers and submit a list to Treasury annually. However, according to an official of a major industry association, if these requirements become too burdensome, certain banks may possibly choose not to exempt customers and instead complete CTRs whenever required. This action could, in turn, significantly increase CTR filings, further straining IRS capacity to process the data.

The CTR can be used to report "suspicious transactions" when a bank suspects illegal activity such as deposit structuring to evade reporting. In these situations, a report can be filed even if the amounts involved are below the $10,000 threshold. According to the IRS, almost 5,800 CTRs (for amounts both above and below $10,000), marked "suspicious" by the financial institution, were processed and forwarded to field offices in 1989, up significantly from 2,525 in 1986.[3] Although such reports

[2]These may include retail businesses, sports arenas, hotels, bars, and public utilities.

[3]Suspicious transactions can also be reported by telephone to the IRS. However, data on the total number of such calls are not maintained.

appear to be a valuable source of leads, it is unknown how many criminal cases were initiated based solely on suspicious transactions reports.

Although some financial institutions are reporting suspicious transactions, some may be reluctant to report due to concerns about potential civil liabilities. Legislation proposed, but not enacted, would have exempted from civil liabilities institutions that report suspicious transactions "in good faith."

Finally, cash transactions conducted by nonbanking entities remain an issue. Section 6050I of the Internal Revenue Code requires certain businesses and providers of professional services to report cash payments exceeding $10,000 received in trade or business. About 21,500 of these reports (IRS 8300) were filed and processed in 1989. Testimony before the House Ways and Means Subcommittee on Oversight in September 1990 shows that practically all of the merchants visited by Subcommittee undercover investigators were willing to evade the reporting requirement.

## Studies of Currency Transaction Reporting Systems

Recently enacted legislation requires Treasury to examine and report to the Congress on existing currency transaction reporting systems. Section 101 of the 1990 Crime Control Act directs the Secretary to report

- the number of BSA and IRS 8300 reports received;
- the estimated rate of compliance with reporting requirements;
- sanctions imposed for noncompliance;
- how Treasury and other agencies collect, analyze, and use the data to support investigations and prosecutions; and
- criminal indictments resulting in large part from investigations based on these data and suspicious transaction reporting.

Section 11318 of the Omnibus Budget Reconciliation Act (P.L. 101-508) directs the Treasury Secretary to study and report on implementation of section 6050I of the Internal Revenue Code, including the extent of compliance, the effectiveness of penalties and methods to increase compliance, and the availability and usefulness of the data.

## Data Analysis Problems

Responsibility for operating the BSA's artificial intelligence system has been transferred from Customs to FINCEN. An internal FINCEN evaluation conducted in late 1990 showed that the system, which was no longer operating, suffered from several problems. The system was unable to

evaluate the quality of targets and keep up with the incoming CTR/CMIR data, thus creating data base gaps in identifying targets. Other operational problems included outdated system rules and logic and the inability to cross-correlate CTRs and CMIRs and to adapt the data bases to accept additional data.

FINCEN also identified problems concerning a series of management issues, such as limited in-house knowledge and documentation of the system, reliance on proprietary software no longer supported by the contractor (which precludes system changes and improvements), and system instability. Other problems involved outdated data base design and operating systems and a lack of disk space.

As of December 1990, FINCEN was attempting to "re-implement" the artificial intelligence system. FINCEN was also redesigning the data base, planning longer-term enhancements, and developing a strategy for using the system.

## Financial Industry Supervision and Civil Enforcement

OFE and several federal regulatory agencies are attempting to address elements of the money-laundering problem by implementing various BSA supervisory processes.

### On-Site Compliance Examinations

Supervisory activities undertaken by federal regulatory organizations include the on-site BSA compliance examination. Each agency has adopted BSA examination guidelines.[4] According to the Office of the Comptroller of the Currency, these exam procedures, which are primarily intended to assess BSA compliance, also include steps specifically directed at detecting possible money-laundering schemes. Although the supervisory agencies employ similar examination guidelines, differences in approach exist. BSA compliance exams, for example, can be conducted

[4]These guidelines are set out in two "modules." Module 1 basically requires examiners to determine whether the institution has appropriate BSA operating and auditing standards and procedures and controls over cash shipments, exempt customer lists, and so on. Module 2 requires in-depth examination of documentation and controls relating to selected BSA transactions. Most regulatory agencies generally allow examiners to determine whether implementation of module 2 is necessary. If examiners are satisfied with BSA compliance after completing module 1, the examination can stop.

as part of specialized compliance reviews or as part of more general safety and soundness examinations.[5]

The Securities and Exchange Commission's approach in examining for BSA compliance among the nation's broker/dealers is unique, however, because of that agency's reliance on industry self-regulation.[6] IRS jurisdiction includes a wide variety of financial institutions such as currency exchanges, check-cashing establishments, licensed transmitters of funds, telegraph companies, issuers of money orders and travellers checks, and certain types of banks not subject to examination by other agencies. As of September 30, 1990, over 24,000 such institutions fell under IRS jurisdiction in this regard. IRS conducted 2,755 BSA compliance checks during fiscal year 1990.

Deficiencies identified during examinations are reported to the financial institution for corrective action. More serious violations will also be forwarded to OFE for disposition, which could include assessment of a civil penalty or possibly referral to IRS for criminal investigation. During 1989 the supervisory agencies referred 64 such violations to OFE for action.

Each supervisory agency periodically provides OFE with a detailed report of BSA examination activities and results, including the number of examinations conducted, the number of institutions in violation, and the number and type of violations found. For example, the Office of Thrift Supervision's quarterly reports show that during 1989 the agency examined about 1,600 institutions and found a total of 450 BSA violations at 265 of them.

According to an OFE official, these reports, which are the primary mechanism for sharing BSA examination information, are reviewed by OFE to determine if examinations are in fact occurring and with what frequency. The OFE staff also tries to determine whether undesirable trends

[5]Scheduling and frequency (and thus the extent to which institutions are examined during a given period) vary. The Office of the Comptroller of the Currency, for example, bases examination frequency on such factors as risk and a statistical sample, which generally means that about 18 percent of the roughly 4,300 national banks are examined during a given year. In 1989, however, the Federal Reserve, which supervised over 1,300 institutions, conducted 877 BSA compliance exams.

[6]Commission staff conduct a limited number of "cause" examinations when serious problems (which could involve BSA violations) are suspected. However, the examination function is carried out primarily by examiners from various industry self-regulatory organizations. Commission staff subsequently conduct "oversight" exams on a sample of firms reviewed by the self-regulatory organizations.

are emerging and if there is a need to provide the regulatory agencies or the industry with more training or specific guidance.

Supervisory agency representatives told us that their agencies have implemented internal audit or evaluation procedures to assess the effectiveness of the examiner or examination process, which can include BSA compliance examination activities. In an October 1989 report, the Treasury Inspector General concluded that the Office of the Comptroller of the Currency was fulfilling its BSA responsibilities and that it had designed a sound examination approach to ensure that national banks comply with BSA requirements. However, the report made recommendations for improvements such as more consistent and detailed reporting of BSA violations in examination reports and in quarterly reports to OFE. It also recommended more effective tracking of these referrals. The Comptroller's Office agreed to implement the recommendations.

## Regulation of Electronic Funds Transfer

Huge amounts of money move daily via electronic wire transfer systems, and concern is growing about their use to launder money. According to the American Bankers Association, "Wire transfers, which are essentially unregulated, have emerged as the primary method by which high volume launderers ply their trade."

"Fedwire" is the nation's primary wholesale funds transfer system used to handle payments among banks within the United States. Operated by the Federal Reserve System, Fedwire connects Federal Reserve Banks and branch offices with some 11,000 depository institutions. During 1990 the system processed about 64 million transfers, valued at $199 trillion. The Clearing House Interbank Payment System, operated by the New York Clearing House Association, is the primary wholesale electronic system supporting international wire transfers between U.S. and international banks. In 1990, the system processed some 37-million transfers, valued at about $222 trillion. SWIFT, which is owned and operated by a Belgian cooperative society, is a major international message system that worldwide institutions use to transmit information needed to initiate international electronic transfers via Fedwire and the Clearing House System. In 1990, SWIFT processed about 333-million messages.

Although their examinations focus on safety and soundness issues rather than on BSA compliance or vulnerability to money laundering, two of the three systems are subject to federal supervision. The Federal Reserve Board examines Fedwire operations during annual financial

examinations of reserve bank activities and during reviews of specific bank functions. Additionally, internal auditors from each Federal Reserve Bank conduct periodic reviews. The Clearing House System is examined every 18 months by a team of examiners from the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Comptroller of the Currency.

On October 31, 1989, Treasury issued an advance notice of proposed rulemaking requesting comments on a number of regulatory options such as requiring additional information about originators and receivers of wire transfers and the accounts involved, and the use of "know your customer" rules to verify the legitimacy of transactions. Treasury received about 115 sets of comments.

According to Treasury, there was some support for certain proposals, such as requiring additional identification procedures for noncustomer transactions. However, many commenters argued that the proposals would be burdensome, expensive, and ineffective and urged that Treasury reconsider existing data sources before implementing new regulations. Some commenters argued that it would be extremely difficult to obtain detailed information on international transfers from foreign institutions and that international agreements were needed to make the proposals work.

On October 15, 1990, Treasury issued a notice of proposed rulemaking that would require enhanced recordkeeping of funds transfers by domestic banks and nonbank financial institutions such as telegraph companies and money transmitters. The proposal, however, does not require reporting such transactions.

## Assessment of OFE Civil Enforcement

One of OFE's primary responsibilities is processing BSA civil penalty cases referred by such sources as federal supervisory agencies. Between June 1985 and September 1990 OFE completed over 300 BSA investigations and assessed 44 civil penalties totaling about $20.3 million against financial institutions.

A January 1990 Treasury Inspector General's report examined OFE operations, including its processing of civil penalty cases. The study concluded that OFE was effectively carrying out a wide range of BSA activities and initiatives and that OFE had consistently identified and applied civil penalties. The report, however, also identified several

problems, including a backlog of over 200 open civil penalty cases, inaccurate data in the civil penalty data base, data base management deficiencies, and a need to assign a higher priority to civil penalty case activities. It also noted that there were inadequate written procedures for OFE's internal processing of penalty cases.

The primary cause cited for such problems as the case backlog was a lack of staff. The Assistant Secretary for Enforcement, in his response to the report, stated that "the only cause of the backlog is the serious and long-standing shortage of staff." According to OFE officials, a task force comprised of staff detailed from other Treasury units helped to eliminate the backlog. The report contained recommendations for improved processing of civil penalty cases. Although the Assistant Secretary disputed some of these recommendations and the underlying conclusions, he indicated that various corrective actions had been or would be implemented. The Inspector General's staff concluded that these actions should correct the deficiencies identified.

## Other Supervisory Activities and Initiatives

Certain supervisory agencies also engage in other activities that can directly or indirectly foster improved BSA compliance and combat money laundering. According to a senior Federal Reserve Board official, for example, various individuals at Federal Reserve Banks responsible for such areas as examinations and criminal referrals look for "suspicious behavior" as part of their overall duties. The Federal Reserve System compiles information on cash movements into and out of its district offices and on the resulting cash surpluses and deficits. These data, which are made available to various law enforcement agencies, have been useful in identifying potential money-laundering centers.

In December 1989 the Federal Reserve Board appointed a Special Counsel in its Division of Bank Supervision and Regulation to enhance BSA compliance efforts. According to the Special Counsel, his duties include working with examiners to identify BSA violations, processing enforcement actions, conducting BSA training, reviewing examination procedures, and coordinating BSA activities inside and outside of the Federal Reserve System.

The supervisory agencies also participate in interagency organizations such as the BSA Working Group, which seeks to improve communications, coordinate activities, and resolve difficulties concerning BSA implementation. The group has examined various matters involving BSA examination procedures, referral guidelines, exemptions, wire transfers,

and legislative amendments to the BSA. Some of the regulatory agencies are also members of the Department of Justice's Bank Fraud Working Group. Among this group's primary accomplishments was the development of a uniform Criminal Referral Form to be used in reporting suspected or actual crimes, including money-laundering violations.

# Criminal Enforcement and Prosecution Activities

Certain Treasury and Justice agencies (including IRS, Customs, DEA, the FBI, and OCDETF) responsible for important criminal enforcement functions have developed the vast majority of federal money-laundering cases. These activities include international investigations such as Operations C-Chase and Polar Cap.

## Treasury's Investigative Activities

Table 4.1 shows IRS money-laundering investigative efforts over the past 3 years.

**Table 4.1: IRS Criminal Cases Involving Money Laundering**

| Case disposition | 1987 | 1988 | 1989 |
|---|---|---|---|
| Cases initiated | 698 | 679 | 1,132 |
| Cases discontinued | 155 | 142 | 179 |
| Recommendations to prosecute cases | 539 | 567 | 813 |
| Convictions | 285 | 319 | 397 |
| Cases closed | 694 | 844 | 992 |

Source: IRS Criminal Investigation Division.

## IRS Operations

IRS participates in special enforcement initiatives such as Operation Greenback. This joint effort with Customs and Justice began in South Florida in 1980 following identification of large excess cash surpluses in Federal Reserve branches servicing the area. Investigation linked these funds to drug trafficking and money laundering and showed that certain banks were not complying with BSA reporting requirements. The operation had seized almost $94 million by 1987 and was extended to other locations. While IRS staffing has been reduced, Greenback is still operational 10 years after its inception.

Using Greenback as an example, IRS has established financial investigative task forces throughout the country, often in cooperation with the Customs Service. These groups are designed to enhance BSA compliance and to identify narcotics traffickers, money launderers, and other types of criminals by tracing money flows and suspicious expenditures. About 80 units have been established nationwide, which, according to IRS, have initiated numerous significant investigations and several prosecutions of financial institutions.

## Customs' Activities

Customs' investigations program currently emphasizes three major areas—financial investigations, export enforcement, and international enforcement. The financial investigations program targets and pursues money-laundering organizations when cash is first placed into international channels. According to Customs data, the agency seized about $310 million in cash and monetary instruments under the financial law enforcement program during fiscal year 1990, as compared with over $225 million in fiscal year 1989, $165 million in fiscal 1988, and $102 million in fiscal 1987. A senior Customs official told us that the agency initiated about 4,800 financial investigations in fiscal year 1989 and that many other cases classified as narcotics investigations contain a money-laundering component.

Customs also addresses money laundering, including currency smuggling, through its inbound inspection and control, interdiction, and export enforcement activities such as Operation Buckstop. According to Customs officials, export enforcement efforts (which can target departing passengers, vehicles, and cargo shipments) resulted in 592 currency seizures totaling $33 million and 110 arrests during fiscal year 1989. The international enforcement program carried out primarily by Customs representatives in overseas offices provides intelligence, followup, and support for investigations. Customs has also implemented the Customs Commissioner's International Money-Laundering Initiative, which provides training and other support to foreign governments.

In addition to its OCDETF activities, Customs participates in such multiagency enforcement initiatives as Operation Greenback and local financial enforcement task forces. Customs has originated or participated in many of the major international money-laundering cases and contributed extensively to the development and implementation of FINCEN.

## Justice Department Efforts

The FBI does not specifically target money laundering as a separate law enforcement priority. Instead, the Bureau addresses money laundering as part of such activities as drug and "white collar" crime investigations. According to an FBI drug program analysis, the Bureau views money laundering as a supporting mechanism "inextricably enmeshed in the overall drug conspiracy." As a result, the Bureau believes that addressing money laundering separately "dilutes the impact of the principal strategic focus of our Drug Program," which includes dismantling drug organizations, arresting their leaders, and seizing illicit profits. The

Bureau's national drug strategy mandates that all narcotics cases, which numbered about 2,500 as of August 1989, address money laundering.

The Bureau's intelligence programs, including racketeering enterprise investigations, have identified narcotics money-laundering operations. The Bureau is a member of OCDETF and has originated or participated in major international money-laundering cases. The FBI also deploys asset seizure teams in some of its field offices to maximize seizure and forfeiture of criminal proceeds. The Bureau had some 4,500 forfeiture actions (amounting to about $750 million) pending in late 1989.

## DEA Activities

DEA approaches money laundering as an integral part of any thorough drug investigation. According to a DEA official, drug transactions are basically cash transactions, and, as such, potential money-laundering cases. The official went on to say that "...It would be counter-productive to try to separate any drug case from its constituent parts (production, transportation, distribution, money laundering, and investment of profits). To do so would fragment DEA's efforts and needlessly complicate our job."

DEA investigates the financial aspects of drug trafficking through its domestic enforcement program and its special enforcement operations and programs that account for much of the agency's international effort. DEA also engages in numerous foreign cooperative investigations through its 67 foreign offices and is a key participant in the OCDETF program. DEA has deployed asset removal teams to facilitate seizure and forfeiture of assets related to drug trafficking. During fiscal year 1989 DEA seized $976 million in assets, compared with $669 million in 1988.

The primary objective of DEA's financial intelligence program is to immobilize drug-trafficking organizations by hampering their ability to launder money. The financial intelligence function provided case support for major money-laundering investigations, including one case that resulted in over $100 million in asset seizures. DEA is attempting to enhance its financial intelligence capabilities, which have also been used to support foreign government anti-drug programs.

According to OCDETF's fiscal year 1988 annual report, there has been a substantial increase in the percentage of investigations involving money laundering, which "reflects developing expertise in a heretofore limited area." For example, money laundering (often in combination with other crimes) was involved in about 62 percent of all OCDETF investigations

initiated during the 6-year period from fiscal year 1983 through 1988. However, for fiscal year 1988 alone, money laundering was an investigative issue in almost 72 percent of the 448 OCDETF investigations initiated. A senior OCDETF official told us that it appears that the number of OCDETF investigations involving money laundering increased during fiscal year 1989, perhaps by as much as 10 percent.

## Major Cases

Certain major cases have provided insight into the magnitude of the money-laundering problem and demonstrated the importance of meaningful interagency coordination.

### Operation C-Chase

This Customs-initiated investigation, which involved the FBI, DEA, IRS, and several state, local, and foreign investigative agencies, revealed the important role played by international financial institutions in laundering drug proceeds. Customs agents who were able to infiltrate a Colombian money-laundering organization were assisted in laundering millions of dollars by senior bank management officials. C-Chase resulted in the arrest of 43 individuals, including several bank officials, and the identification of about $32 million in laundered funds.

Although the operation was successful, a February 1990 report by the Senate Subcommittee on Narcotics and Terrorism questioned the plea agreement between Justice and the bank involved. The bank pled guilty and forfeited $14 million but paid no fine. Charges against the bank concerning any wrongdoing known to the U.S. government were dropped. According to the Subcommittee's report, "...This lenient plea agreement has the possibility of undermining deterrence of other financial institutions from laundering money."

Justice, however, has argued that the plea agreement, which includes 5 years' probation, possible fines of $500,000 for probation violations, regulatory monitoring of bank activities, and forfeiture of over $15 million, was the best settlement available, given such circumstances as the anticipated dismissal of a major narcotics conspiracy count. According to Justice, it succeeded in obtaining a large forfeiture (as opposed to a fine), thus allowing the funds to be used specifically for narcotics enforcement. Finally, according to Justice, the agreement not to prosecute any other offenses under investigation or known to the government relates only to the U.S. Attorney's Office for the Middle District of Florida, where there were no other investigations underway. The agreement does not limit other prosecutors from charging the bank.

## Operation Polar Cap

Operation Polar Cap was designed to immobilize two major money-laundering organizations associated with the Colombian Medellin drug cartel that were laundering funds in various U.S. cities. One estimate placed proceeds from the cocaine sales in excess of $1 billion. Several federal organizations, including the FBI, DEA, Customs, IRS, OCDETF, and Justice's Narcotics and Dangerous Drug Section, participated in the case. The action was coordinated at the national and the field level. This case has resulted in over $100 million in asset seizures, more than 100 arrests, and substantial drug seizures. Polar Cap-related activities, such as freezing bank accounts, continue.

## Money-Laundering Prosecutions

Data compiled by the Executive Office for U.S. Attorneys show the number of prosecutions (i.e., matters, cases, and appeals) under the BSA and title 18, sections 1956 and 1957, that were either closed or still active during a particular year. These prosecutions involved single or multiple defendants where money laundering was either the primary or nonlead charge. In a small number of multiple defendant prosecutions, we could not determine whether money laundering was the lead charge. That is, money laundering may have been the lead charge against one or more defendants but not against all defendants charged in the case.

During fiscal year 1989 there were 2,021 closed or active money-laundering prosecutions, including 1,696 in which money laundering was the lead charge.

The prosecutions data also demonstrated the significant role played by the five primary money-laundering enforcement agencies described earlier. As shown in table 4.2, for example, these five agencies had referred 1,946, or over 96 percent, of the 2,021 cases, matters, and appeals handled in fiscal year 1989.

**Table 4.2: Money-Laundering Prosecutions by Referring Agency - Fiscal Year 1989**

| Agency | Number of referrals | Percent of total |
|---|---|---|
| IRS | 896 | 44.3 |
| Customs | 662 | 32.8 |
| FBI | 150 | 7.4 |
| DEA | 121 | 6.0 |
| OCDETF | 117 | 5.8 |
| Other | 75 | 3.7 |
| **Total** | **2,021** | **100.0** |

## U.S. Attorneys' Views

We discussed the development and prosecution of money-laundering cases with representatives of 10 U.S. Attorneys' offices. Eight of these officials told us that their offices place a high or top priority on money-laundering cases. We were told that some prosecutions, such as structuring cases, can be relatively simple. However, the officials noted that money-laundering cases can often be highly complex and labor intensive, requiring the assignment of experienced, well-trained prosecutors. The new money-laundering section in Justice's Criminal Division is charged with providing prosecutors with support and coordination.

According to one prosecutor, money-laundering statutes are very specialized and cannot simply be grouped under general crimes. Certain prosecutors asserted that because money-laundering cases often require an extensive amount of analysis, once prosecutors are assigned they are unable to work on other cases.

# Resource Allocations, Coordination, and Possible Additional Efforts

There are no specific, reliable data concerning governmentwide resources allocated to combating money laundering. However, certain agencies were able to provide some relatively specific data or estimates that suggest the problem is receiving increased attention. Despite the absence of "hard" data on resources, several agency representatives said that resource constraints were a particular difficulty.

While there has been some cooperation among federal agencies in areas such as developing criminal cases, coordination has also been a problem, specifically in information exchange. Organizations such as FINCEN and the ONDCP are seeking to address this issue.

## Anti-Money-Laundering Resource Allocations

Federal resources devoted to combating the money-laundering problem cannot be accurately measured. Our review of budgetary and appropriations material, other published documents such as drug strategies and progress reports, and discussions with numerous experts and agency officials confirmed the absence of hard data on governmentwide anti-money-laundering resource allocations.

It is not always clear which specific agency activities and functions constitute an "anti-money-laundering" effort per se. Agencies generally have not developed budgetary or resource management categories relating specifically to money laundering. Anti-money-laundering efforts, such as financial investigations, may be carried out as part of other agency activities with no separate listing of resources devoted specifically to the financial aspects of the case. The DEA, for example, does not track money-laundering cases per se, but instead requires that hours expended be recorded by specific drug identifier. The FBI addresses money laundering as part of all drug investigations and in white collar crime cases "where disguising illicitly obtained funds is necessary to enhance and insulate the main criminal conspiracy...and does not have money laundering pursuits as a separate line item."

The September 1989 ONDCP national drug control strategy report contained an estimate of about $120 million for fiscal year 1989 narcotics-related money-laundering investigations by various agencies. According to ONDCP staff members, this figure represented rough estimates for only three agencies—the FBI, Customs, and IRS. We could not verify these estimates.

## Agency-Specific Estimates

Money-laundering resource allocations data exist for certain agencies. As shown in table 5.1, IRS criminal investigation resources applied to money laundering have increased significantly in recent years.[1]

**Table 5.1: IRS Criminal Investigation Resources Applied to Money Laundering**

Dollars in millions

| Fiscal year | Number of special agents | Other/indirect staff support | Total staff years | Dollars expended |
|---|---|---|---|---|
| 1985 | 118 | 74 | **192** | $7.3 |
| 1986 | 220 | 126 | **346** | 14.1 |
| 1987 | 236 | 143 | **379** | 16.9 |
| 1988 | 314 | 206 | **520** | 23.0 |
| 1989 | 411 | 247 | **658** | 29.1 |
| 1990 | 526 | 334 | **860** | 45.3 |

Source: IRS.

Table 5.2 details resources allocated to the BSA compliance and examination function between fiscal years 1985 and 1990.

**Table 5.2: IRS BSA Examination and Compliance Resource Allocations**

| | Staff years | |
|---|---|---|
| Fiscal year | Allocated | Applied |
| 1985 | 5.29 | 3.74 |
| 1986 | 14.89 | 15.04 |
| 1987 | 28.46 | 27.46 |
| 1988 | 31.92 | 25.90 |
| 1989 | 29.12 | 32.71 |
| 1990 | 29.08 | 34.13 |

Source: IRS.

According to the IRS, resources devoted to CTR processing at the Detroit Center have increased from 143 staff years at a cost of $3.1 million in fiscal year 1985 to 483 staff years at a cost of $15.5 million (including over $3 million in contractor costs) during fiscal year 1989.

OFE staffing, which has fluctuated widely, consisted of seven permanent employees as of mid-December 1990, following the departure of the

[1]According to IRS, all personnel within the criminal investigation function (4,380 in September 1989) may play a direct or supporting role in money-laundering cases.

Director and the Compliance Section Chief. In addition to obtaining support from Treasury's General Counsel's Office, OFE has had to supplement its staff with personnel detailed from other Treasury units. There were four "detailees" assigned to OFE in mid-December, down from as many as 12 (including several individuals who were assigned to the Civil Penalty Backlog Task Force) earlier in the year. According to the OFE Director, Treasury's fiscal year 1991 budget allocated seven new permanent positions to the office.

Staffing at FINCEN totaled 150 in early December 1990, including permanent employees and personnel detailed from other agencies. When fully operational, FINCEN staff is expected to total almost 200.

Customs allocates almost 500 special agent staff years (plus support staff) to financial investigations. Additionally, we were told that about 20 headquarters financial analysts (who have been transferred to FINCEN) and several field analysts were allocated to the money-laundering effort. Customs has also established an international money-laundering investigation section which, in early 1990, had a staff of five. These resource estimates do not represent the agency's total anti-money-laundering effort, however. Resource estimates for other units within Customs responsible for such functions as related intelligence and criminal enforcement activities, passenger and cargo inspection, and collecting and processing BSA report data were not available.

In the Department of Justice, about 25 staff members (including 17 attorneys) will be allocated to the Criminal Division's money-laundering section in fiscal year 1991. Staff will be added during fiscal year 1992, according to the section's acting chief.

The supervisory agencies generally could not provide specific data concerning the level of resources devoted to the BSA or anti-money-laundering areas.

## esource Adequacy

Because no clear criteria prescribe required or acceptable federal resources and no specific governmentwide data exist, it is impossible to determine whether resources allocated to the money-laundering problem are adequate. Representatives of the regulatory agencies generally believed that existing resources were adequate to carry out BSA exams. In contrast, various experts outside government, and officials from

other agencies, particularly enforcement organizations, expressed a different view. Practically all of these individuals either said that the government was not doing enough to combat money laundering or that the government was doing all it could within existing resource constraints. Customs, DEA, FBI, and Justice's Criminal Division officials basically characterized existing resource levels as inadequate. The FBI, for example, indicated that the lack of funding for money-laundering investigative efforts was apparent in its drug program.

An IRS official noted that passage of the 1988 Anti-Drug Abuse Act expanded IRS Criminal Investigation Division responsibilities in combating narcotics/money laundering, requiring substantial funding and staffing increases during fiscal years 1990 and 1991 to handle the additional work load. Further, banking industry officials have questioned whether IRS has sufficient resources to carry out such functions as investigating money-laundering referrals received from financial institutions. An additional 154 OCDETF staff years (including 112 special agent staff years) will go to the IRS criminal investigation function during fiscal year 1991. IRS will also receive 143 additional staff years (including 95 for special agents) for activities under the 1988 Anti-Drug Abuse Act.

Due to concerns about insufficient collection of data from examinations that would help to detect money laundering, the Senate Appropriations Committee Report 101-411 to accompany H.R. 5241 required the IRS to provide semi-annual reports on examination efforts to enforce the BSA and other money-laundering statutes. The IRS is required to report on examination resource allocations (including examiners assigned to drug and money-laundering task forces), the number of audits conducted, and criminal referrals (including those recommending penalties against financial institutions).

A Customs official told us that the agency had not obtained additional financial investigation resources requested for fiscal years 1990 and 1991. Further, we were told that although an additional 125 OCDETF positions were allocated to the agency for fiscal year 1991, Customs' financial investigation staffing had been reduced by 55 positions.

As mentioned, OFE has experienced staff shortages that have contributed to such problems as backlogs in processing BSA civil penalty cases. The former Deputy Assistant Secretary for Enforcement told us that OFE resources were "grossly inadequate" and that the problem had been intensified by the increased work load caused by enactment of the

1988 Anti-Drug Abuse Act. A banking industry association official told us that OFE staffing constraints have contributed to delays in receiving regulatory interpretations and specific responses to BSA implementation questions.

Another former Deputy Assistant Secretary for Enforcement (who left Treasury in March 1989) told us that governmentwide resources allocated to combat money laundering during his tenure were not adequate and that significantly increased levels of resources needed to be allocated to such functions as training and intelligence gathering and analysis. He pointed out that in some instances scarce resources limited intelligence functions to certain direct case or prosecutive support activities, which restricted the usefulness of intelligence in targeting and developing a more proactive approach.

This former official also told us that IRS Criminal Investigation resources available to combat money laundering had been "woefully inadequate" and that the Criminal Investigation Division had to "borrow or steal" resources from other areas. Finally, he noted that OFE had been "operating on a shoestring," with many positions unfilled, and, as a result, he had to severely restrict and set priorities for OFE activities. In his opinion, an additional 5 to 10 staff members were needed to fully implement OFE's BSA training, monitoring, and related activities. He observed that OFE's international responsibilities were being carried out by one individual but actually required the efforts of three to four full-time staff members. Treasury officials subsequently told us that senior OFE staff had provided some assistance in the international area.

## Coordination Problems

Coordination problems, including "turf battles" and overlap among federal agencies in the narcotics enforcement area, have been widely reported. To some extent, similar problems have afflicted the government's anti-money-laundering activities in such areas as information exchange and feedback. According to ONDCP's September 1989 drug control strategy report, the government's ability to attack sophisticated money-laundering operations is limited because (as with drug enforcement generally) money-laundering investigations are carried out independently by agencies even where cooperation would be more effective.

Some agency officials and nongovernment experts argued that the division of authority enhances the government's efforts because competition among agencies may encourage placing a higher priority on money laundering and developing more effective techniques to counter it. Further,

with adequate coordination, multiple agency involvement can facilitate a more comprehensive and effective approach to the problem, drawing on the expertise of each participant.

However, others observed that the division of authority and the related lack of coordination, turf battles, and overlap have impaired the overall federal effort. In this regard, enactment of the 1986 Money Laundering Control Act may have exacerbated the jurisdictional rivalries between Treasury and Justice, who signed a May 1987 memorandum of understanding concerning investigative jurisdiction under the act. Treasury argued that it had developed the expertise to effectively handle money-laundering cases, while Justice argued that its agencies controlled investigations of most underlying crimes that produced the money being laundered. A memorandum of understanding between Treasury, Justice, and the U.S. Postal Service regarding money-laundering investigative jurisdiction under the 1988 Anti-Drug Abuse Act was finalized in August 1990.

Treasury's proposed comprehensive national anti-money-laundering strategy transmitted to ONDCP in July 1989 highlighted several coordination problems, including the "overlapping and uncoordinated areas of jurisdiction with regard to money laundering enforcement." Among other things, the strategy noted that existing financial enforcement and regulatory programs, which often do not incorporate the potential contributions of the financial and commercial communities, could be enhanced through central coordination.

The strategy document also pointed out that collection and analysis of information on drug organization financial flows are conducted by individual enforcement and intelligence agencies. There is no collective review that would permit effective assessment of the relative threat posed by the various organizations and methods. The strategy called for comprehensive analysis, including information from private, commercial, and financial entities, which was being underutilized. The document sought the establishment of a national money-laundering control center, which eventually emerged as FINCEN, that would centralize the collection and analysis of available financial information.

Although some agency officials and nongovernment experts said that existing information and resource-sharing mechanisms were satisfactory, most said that information exchange (such as increased availability and dissemination of BSA data) was inadequate and should be improved. FINCEN has the potential to address these problems.

Some officials have also commented on the need for improved feedback from Treasury to regulators and to the financial services industry regarding such matters as the usefulness and results of BSA reporting and "lessons learned" from criminal money-laundering investigations. The Assistant Secretary of Treasury for Law Enforcement stated publicly in 1988 that, in his opinion, Treasury had "done a poor public relations job" in not telling the private sector about the outcome of BSA reports. A 1990 American Bankers Association survey found that only 7 percent of responding banks were aware of prosecutions resulting from CTRs filed, including suspicious transaction reports.

The failure to share information may not always be attributable to interagency rivalries or an unwillingness to cooperate. There are legal restrictions on the dissemination of certain data. For example, according to a senior IRS official, section 6103 of the Internal Revenue Code (regarding confidentiality and disclosure of tax return information) restricts the IRS' ability to share such data. There are also restrictions on sharing information developed under the authority of a grand jury and through IRS audits. Additionally, there are certain restrictions on the dissemination of BSA data.

## Efforts to Improve Coordination

Efforts have been made and are underway to enhance interagency coordination in areas such as information exchange. Further, as discussed in chapter 6, the United States also participates in international activities and initiatives to improve coordination and cooperation at the "country level."

### The Financial Enforcement Committee

The Financial Enforcement Committee was established in 1987 under the auspices of the now-defunct National Drug Policy Board. Chaired by Treasury, the Committee's membership included Justice, State, Defense, INTERPOL, FBI, DEA, Customs, IRS, the Federal Reserve Board, and representatives of the intelligence community. Its objectives included developing, coordinating, and implementing federal programs designed to attack the financial operations and assets of drug-trafficking organizations.

Among the Committee's activities was a July 1987 money-laundering workshop and report that discussed laundering techniques, the emergence of new bank havens and money-laundering centers, and several "problem areas," including

- insufficient feedback and sharing of information concerning law enforcement techniques and intelligence;
- the absence of centralized management of financial law enforcement information or analysis, including insufficient data base interface and sharing of analytical techniques;
- insufficient international financial information and strategic intelligence;
- lack of a clearing house for financial investigations, which allows for the possibility of agencies "stepping on each others' toes"; and
- insufficient coordination of financial targets and investigative techniques.

The Committee's financial enforcement strategy to target both the money flow and the narcotics enterprise was adopted as part of the National Board's overall drug program. The Financial Enforcement Committee established projects to improve coordination in such areas as training, intelligence, and data base sharing. The Committee also began development of the Money Flow Model Project, a computer simulation model of domestic and international drug and other illicit money flow mechanisms. The model was intended to assist in the development and implementation of financial enforcement policies and methods and to more accurately gauge the extent of illegal financial activity and its effects.

The Financial Enforcement Committee technically went out of existence with enactment of the 1988 Anti-Drug Abuse Act, which replaced the policy board (the Committee's sponsoring organization) with ONDCP. We were told, however, that the Committee had assisted in developing some of the money-laundering issues in the ONDCP anti-drug strategy.

## FINCEN

Treasury's FINCEN, which became operational in April 1990, seeks to address the coordination problems spelled out in Treasury's national money-laundering strategy. More specifically, the unit was established because

- government data on money laundering are fragmented,
- there is no single organization responsible for gathering law enforcement and regulatory information on money-laundering techniques,
- money-laundering investigations have generally been ancillary to other crimes,
- 24-hour investigative support activities are lacking, and
- undercover operations are not coordinated.

FINCEN is a multisource intelligence and targeting initiative designed to address money laundering and the other financial aspects of crime. Although FINCEN may emphasize narcotics-related intelligence, it will deal with all types of crime, including white collar crime, fraud, and gambling. FINCEN's activities include

- integrating financial intelligence and other data from dozens of federal, state, and local agencies;
- coordinating efforts with these organizations, foreign governments, and the private sector;
- identifying and targeting money-laundering violators, violations, trends, and methods;
- providing an information clearing house and communications link to support and coordinate money-laundering investigative activities;
- conducting research and development activities concerning the economic and technological aspects of money laundering;
- recommending legislative and regulatory changes; and
- training government and private sector personnel.

FINCEN undertook a variety of activities during fiscal year 1990. These activities included handling over 32,000 data base checks and inquiries relating to a wide range of violations. Other FINCEN activities included locating and disseminating CTR and CMIR data and preparing several strategic reports concerning Federal Reserve cash flows, casas de cambio, and others.

## ONDCP

ONDCP's September 1989 strategy recommended more federal resources for coordinating money-laundering investigations. Specifically, the strategy called for establishing a multiagency Financial Targeting Group to recommend financial policies and strategies as well as to monitor and coordinate related federal activities. This group would include an advisory board comprised of government and nongovernment experts in international finance, and a multiagency Financial Analysis and Coordination Group to coordinate program activities regarding the identification, tracing, and seizing of criminal proceeds. The strategy also called for developing a proposal for a strategic drug information intelligence center.

ONDCP's January 1990 strategy renamed the Financial Targeting Group as the Drug-Related Financial Crimes Policy Group. ONDCP served as chair, with high level representation from various agencies. The group, which was established in early 1990, reviews and recommends federal

policies for curtailing the illegal flow of currency and assets into and out of the United States and within its borders. The group is also responsible for coordinating drug-related federal anti-money-laundering policies regarding financial regulation, intelligence, international financial programs, interdiction, and seizure of illicit currency and monetary instruments.

The strategy document outlined elements of the anti-money-laundering approach, including the role of FINCEN, improved cooperation between the United States and foreign financial and nonfinancial industries, and international approaches to prevent using the financial system to launder money. Finally, the strategy calls for establishing a national drug intelligence center to be supervised by the Attorney General and a multiagency advisory board. The center would coordinate with FINCEN.

## Additional Steps and Improvements Suggested

Improved coordination and communication at various levels were frequently cited as necessary steps by government and nongovernment experts. Other specific suggestions included

- more effective, better coordinated multiagency and multinational intelligence gathering and exchange possibly to be addressed by FINCEN;
- better coordinated and perhaps centralized federal training activities drawing upon enforcement, regulatory, and industry expertise;
- increased use of joint investigative efforts based on adherence to existing interagency agreements; and
- establishment of a 14th, or special, OCDETF unit to focus exclusively on major money-laundering investigations.

Other suggestions included placing greater emphasis on the development and implementation of a more proactive anti-money-laundering strategy capable of predicting and targeting (as opposed to reacting to) money-laundering schemes and violations. Some experts called for increased resource allocations for certain key participants in the anti-money-laundering effort, including OFE, the IRS Criminal Investigation Division, and DEA's Financial Intelligence group.

Our discussions with representatives of U.S. Attorneys' offices identified other suggested steps, such as

- providing more specific Justice guidance on handling money-laundering cases,
- giving more training to prosecutors,

- simplifying and clarifying money-laundering statutes,
- assuring greater financial institution compliance in filing criminal referrals and enacting legislation imposing criminal penalties against institutions that fail to file amendments of CTRs known to have been filed incorrectly, and
- enacting legislation regulating currency exchange houses, or casas de cambio.

The money-laundering section recently established in Justice's Criminal Division is charged with helping to identify legislative requirements, drafting new legislation, and providing policy and prosecution support.

A senior State Department official suggested taking such additional steps as continuing to persuade countries to (1) establish internal and international mechanisms that effectively combat the transnational aspects of crime, (2) improve their enforcement capabilities and provide legal authority to share information, and (3) ratify the 1988 United Nations Convention Against Illicit Drugs and Psychotropic Substances and enact laws implementing its terms. The official also recommended that the United States modernize and broaden the scope of its extradition treaties and continue to negotiate and quickly ratify mutual legal assistance treaties.

Coordination and communication between the federal government and the financial services industry were also cited as areas requiring improvement. Of particular concern was the need for improved federal agency feedback regarding such matters as the disposition of suspicious financial transactions reports and other referrals and the identification of money-laundering schemes discovered through investigations. Also suggested was an enhanced industry role in developing solutions to the money-laundering problem.

In an April 28, 1989, letter to the Director of ONDCP, the American Bankers Association made recommendations about how the banking industry could aid the government in curbing the drug problem. It recommended a formal government/industry advisory council. Similar proposals were made in the September 1989 ONDCP strategy. A Senate bill introduced in August 1989 also called for a government/industry advisory commission that would advise ONDCP and Treasury on money-laundering prevention initiatives.

## Anti-Money-Laundering Technology

Technological improvements designed to address the money-laundering problem are in various stages of development. For example, certain commercial banks use computer software to help identify suspicious transactions. FINCEN has contracted with the Los Alamos National Laboratory for the development of a money-laundering model (the Money Flow Model Project) that would create a statistical screening tool capable of identifying anomalous bank cash holdings and flagging potentially illicit activities. The project will also develop a model simulating the flow of money through the financial system. Laundering options available and existing reporting requirements and investigative tools will also be modeled, permitting an examination of alternative anti-money-laundering policies.

Customs employs various types of technology to combat money laundering, such as x-ray equipment. According to an agency official, Customs is also working with a contractor to develop new handheld equipment designed specifically to detect currency secreted in luggage, parcels, and other containers. In addition, Customs has developed and deployed the Automatic Currency Reader Comparator, which can be used to inventory seized currency and to track bills used in undercover operations. The equipment is capable of "reading" four bills per second and recording the denomination, serial number, and series date.

Other recommended technological steps include "bar coding" U.S. currency to facilitate identification and tracing of "dirty" money as it moves through the laundering cycles. As discussed earlier, the Crime Control Act of 1990 directs Treasury to assess this technology.

## Conclusions and Recommendation

Implementation of FINCEN's and ONDCP's drug control strategies and of certain legislatively mandated studies should help to address interagency coordination, information sharing, technological improvements, and questions about the usefulness of currency transaction data. However, resource constraints, although difficult to quantify, appear to be a continuing problem in some organizations, including OFE. Although charged with important regulatory, oversight, and monitoring responsibilities (and, as discussed in chapter 6, playing a major role in the international effort), OFE has experienced serious staffing constraints requiring the temporary assignment of personnel from other Treasury units. OFE has experienced difficulties in obtaining and filling permanent positions. If it is to effectively carry out these mandates and assume a leadership role in an area as complex and dynamic as the federal anti-

money-laundering effort, it is essential that OFE be adequately staffed with trained, experienced personnel.

Therefore, GAO recommends that the Secretary of the Treasury direct that all permanent positions allocated to OFE, including the vacant Director's position, be filled as expeditiously as possible. Treasury officials concurred with this recommendation.

# Negotiations With Foreign Governments and Other International Activities

To effectively combat criminal enterprises such as international narcotics trafficking, efforts must target the substantial revenues generated and the mechanisms used to launder these illicit gains. However, the ability to trace and confiscate drug profits is hampered by differences in bank secrecy and other national laws and practices and the absence of easy access to banking information during international financial investigations. To address these issues, the United States is implementing sections 4701 and 4702 of the 1988 Anti-Drug Abuse Act and participating in several international anti-money-laundering activities through organizations such as the Basle Committee on Banking Regulations and Supervisory Practices, the United Nations, the Financial Action Task Force, and INTERPOL. The United States has also negotiated and ratified treaties that allow law enforcement personnel to share information, including financial transactions data.

## Implementation of Section 4702

Section 4702 of the 1988 Anti-Drug Abuse Act mandates international negotiations to expand access to information on transactions involving large amounts of U.S. currency. Specifically, the Secretary of the Treasury is directed to negotiate agreements with appropriate supervisory agencies and other officials of any foreign country whose financial institutions do business in U.S. currency. These agreements are supposed to ensure that financial institutions in these countries maintain adequate records of large U.S. currency transactions (i.e., those exceeding $10,000) and that mechanisms are established to make such information available to U.S. law enforcement officials.

Highest priority is to be assigned to countries whose financial institutions the Treasury Secretary (in consultation with the Attorney General and the Director of National Drug Control Policy) determines may be engaging in transactions involving the proceeds from international narcotics trafficking, particularly U.S. currency derived from drug sales in the United States.

Treasury declined to give us a copy of its November 20, 1990, final report[1] to the President and the Congress on the outcome of the negotiations. In that report, which is classified, the Secretary is required to identify countries that have not concluded agreements regarding the exchange of financial information but whose financial institutions are engaging in transactions involving the proceeds of international narcotics trafficking. The act directs the President to impose appropriate

[1]An interim report was submitted on November 20, 1989, as mandated by the 1988 act.

penalties and sanctions where such countries are not negotiating in good faith. These penalties and sanctions include temporarily or permanently prohibiting persons, institutions, or other entities in such countries from participating in any U.S. dollar-clearing or wire transfer system and from maintaining an account with any U.S. bank or other financial institution.

Imposition of penalties and sanctions can be delayed or waived upon certification by the President to the Congress that it is in the national interest to do so. Financial institutions in such countries that maintain adequate records are also to be exempted from penalties and sanctions. In this regard, it is not entirely clear whether penalties and sanctions would be imposed selectively against certain institutions within a particular country or against the country in general.

Since Treasury and State officials denied us access to records detailing their efforts to implement section 4702, we were not able to independently verify the information that they provided regarding the selection of countries with which to negotiate.

## Early Implementation

Treasury assigned primary responsibility for implementing section 4702 to OFE; its International Section played the lead role. The section, although supported by Treasury and other agency personnel, consisted of one permanent full-time employee, the section chief, who was also responsible for other duties. As noted in chapter 5, a former Treasury official told us that the work being done under section 4702 required a full-time staff of three or four people. Five additional staff members were temporarily detailed to the international section in early 1990 from other Treasury agencies, according to the Director of OFE.

OFE took steps to implement section 4702 prior to its enactment on November 18, 1988. These included development of a "Kerry Proposal Action Plan," which was transmitted to the Assistant Secretary for Enforcement on October 31, 1988. The plan called for immediate action given the short time frame and set out a five-step approach as follows:

1. Identify target countries.

2. Consult with other federal agencies.

3. Prepare draft agreements.

4. Initiate formal approaches to foreign governments.

5. Pursue negotiations.

Section 4702 directs Treasury to consult with the Director of ONDCP regarding such matters as identifying target countries. However, ONDCP was itself established by the 1988 act. Accordingly, the implementation plan called for obtaining input from federal agencies through the Financial Enforcement Committee of the National Drug Policy Board.

Treasury obtained the views of IRS, Customs, Justice (including the FBI and DEA), State, and the intelligence community concerning which countries should be on the highest priority listing and why they should be listed. Treasury did subsequently consult with ONDCP as mandated by the act. Treasury officials told us that they did not officially ask U.S. financial institutions or trade associations for formal input or advice concerning the selection of target countries.

With regard to model or benchmark agreements, the implementation plan stated that existing agreements, such as those between the U.S. Securities and Exchange Commission and the Commodity Futures Trading Commission and their United Kingdom counterparts, the United States/United Kingdom agreement on the Cayman Islands, and U.S. Customs agreements with foreign customs services, could serve as models in drafting agreements under section 4702. According to the implementation plan, however, the initial draft agreement would be a very general model requiring "fine tuning" for each country.

According to Treasury and State officials, a single model agreement probably would not be workable, due to such factors as differences in relations with a particular country and the existence of prior agreements. A Treasury official told us that negotiators would use three different model agreements.

## Notification of Foreign Governments and Country Selection

Shortly after the 1988 act was passed, Treasury and the State Department cabled U.S. embassies in member countries of the Organization for Economic Cooperation and Development informing them of the provisions of section 4702 and requesting them to notify host governments.[2]

[2]The United States has undertaken to advise member nations concerning the enactment of measures that may conflict with laws and regulations of other members or place conflicting requirements on multinational corporations. According to Treasury and State officials, notification is required concerning measures that may have extraterritorial implications.

According to Treasury officials, using data from State Department International Narcotics Control Strategy Reports and information provided by the federal agencies consulted, they initially identified about 50 countries to be considered for section 4702 negotiations and cabled U.S. embassies located in these countries. This initial list of "action" countries reportedly included nations from practically all geographic regions, with the exception of the Eastern Bloc. In addition to explaining the provisions of section 4702, the cables requested embassy staff to contact responsible senior host country officials to inform them of the section and to gauge their willingness to cooperate. Embassies were also asked to provide a summary of host country laws and regulations concerning recording and reporting currency transactions.

OFE officials told us that they evaluated the response cables from the embassies and prepared a summary that identified each country's importance as a money-laundering center, existing recordkeeping and information-sharing mechanisms, and willingness to negotiate. We were denied access to these response cables and the summary and thus cannot verify this information. State and Treasury officials claimed that the cables and the summary were sensitive and part of the deliberative process.

Treasury officials have met with foreign government officials, foreign diplomatic representatives, and representatives from foreign central banks and bankers' associations, prosecutors, and bank regulatory officials to discuss initiatives to combat money laundering and the requirements of section 4702. Treasury officials involved in these meetings have included the Secretary, Deputy Secretary, Assistant Secretary for Enforcement, and staff members of Treasury's Offices of Financial Enforcement and of the General Counsel, and officials from the U.S. Customs Service. According to Treasury, it has used these meetings to point out the importance that it attaches to successful conclusion of agreements pursuant to section 4702. It has also stressed the need to enhance law enforcement effectiveness against money laundering and narcotics trafficking by requiring that currency transactions be recorded and such information shared.

Questions about the notification process were raised in a March 1990 House Committee on Foreign Affairs staff study mission report. According to the report, there was little indication that the United States had clearly communicated to European nations potentially affected by section 4702 what reporting requirements and level of information sharing would be considered sufficient. The report also noted

that some U.S. embassies seemed uncertain about host country banking laws or had never received clear instructions as to what negotiations were to occur. Finally, the report noted that "in the absence of clear signals from the United States, host countries are claiming that whatever banking regulations they have in place, however nebulous or inadequate, meet the requirements" of section 4702.

Treasury objected to these conclusions, asserting that State and Treasury Department offices most familiar with section 4702 matters had not been consulted before the report was issued. Treasury also advised that "it has endeavored to keep in communication with U.S. embassies in the highest priority countries and appropriate offices at the State Department." Finally, Treasury believes that it clearly communicated to the countries it had approached the regulatory requirements and sharing mechanisms necessary to comply with section 4702.

Treasury compiled a preliminary list of priority countries. According to the November 1989 interim report, the factors considered by Treasury in addition to the cable responses included

- the country's prominence as a drug money-laundering center,
- the use of the country's financial institutions to launder money,
- the existence of any drug money-laundering and financial recordkeeping statutes,
- the country's willingness to negotiate,
- the feasibility of reaching a timely agreement, and
- the possibility that the country would demand something in return for its compliance with 4702 that would not be acceptable to Treasury either as a matter of policy or law.

After further consultations Treasury narrowed the preliminary list to 18 countries. Treasury declined to list these countries in the interim report based upon the belief that disclosure "would be counter-productive and jeopardize potentially fruitful negotiations." The interim report also noted that other countries that meet the criteria have not been included based upon advice from U.S. embassies or because Treasury needed to focus its resources on a manageable program. Treasury formally notified ONDCP and the Attorney General of its selections. Subsequently, Treasury added 3 countries to its priority list, bringing the total to 21, which are listed in the classified final report.

## Current Status

An OFE official told us that Treasury has received interagency approval for three separate draft agreements to be used during negotiations by the negotiating teams. The teams include representatives of Treasury (OFE and the General Counsel), State, and Justice. The OFE Director told us that as of November 1990, formal approaches had been made to 18 countries, and discussions were underway with 17 nations. A formal agreement had been signed with Venezuela. According to the OFE Director, no country has declined to discuss implementation of section 4702.

## Effectiveness of Sanctions and Other Issues

It is difficult to say with any degree of certainty whether the sanctions mandated by section 4702 will be fully enforceable and effective. However, agency representatives did point out potential problems or "loopholes," including concerns about extraterritoriality and enforceability that had been expressed when section 4702 was being considered.

As previously mentioned, the 1988 act allows those institutions that maintain "adequate records" to be exempted from penalties and sanctions. According to a Justice official, this exemption could represent a "loophole," since an institution could claim that it keeps adequate records (thereby exempting it from penalties), and the United States could not substantiate such a claim. Treasury pointed out that if foreign banks claim not to have certain records sought by the United States, authorities would have no way to prove the contrary or to search for such records.

Treasury has questioned the enforceability of section 4702 sanctions and penalties. According to Treasury, it would be "virtually impossible to enforce sanctions," since "there would be infinite ways to disguise the origin of transactions with United States financial institutions through second, third or even fourth countries." Further, the development of offshore dollar-clearing systems could counter sanctions. Treasury also has concerns about the enforceability of section 4702 agreements once they have been signed. According to Treasury, "... It is virtually impossible to assure that countries that negotiate 4702 agreements will take adequate measures to assure full and accurate currency reporting. Our experience with the Bank Secrecy Act has demonstrated that without rigorous enforcement compliance is elusive."

A 1989 Treasury analysis noted that it is "not necessary to threaten countries with sanctions" and that a "heavy handed approach by the

United States may work against obtaining currency reporting information." Treasury argued that more could be accomplished through bilateral and multilateral diplomatic negotiations and participation in various international forums. However, Treasury officials told us in November 1990 that the agency has developed a more positive view of section 4702.

State's Assistant Legal Adviser (Law Enforcement and Intelligence) noted in August 1990 that the suggestion of sanctions retards rather than advances the prospects for successful negotiations. According to this official, the steps that are needed to combat money laundering involve the internal administration of justice, adding that sovereign "states are loath to be told" that they must adopt a U.S. system or possibly face sanctions. Some countries may view section 4702 as an extraterritorial action and decline to negotiate on this basis.

According to the State official, although the sanctions may be enforceable and sustainable by the courts, "they do not appear to establish a coherent or effective system." On the one hand, sanctions "may injure or inconvenience indiscriminately the innocent customers of those institutions against which sanctions are imposed." On the other hand, according to the State official, such institutions may continue to conduct U.S. currency transactions through third-party institutions not subject to sanctions. The official also pointed out "the possibility of retaliatory or countervailing actions by foreign governments" against U.S. financial institutions or other interests, including effective international action against drug money laundering.

## Other International Activities and Initiatives

In addition to implementing section 4702 of the 1988 Anti-Drug Abuse Act, the United States has participated in other international initiatives to address the money-laundering problem.

### The U.N. Convention

The U.N. (Vienna) Convention Against Illicit Traffic in Narcotics Drugs and Psychotropic Substances was concluded in December 1988 and establishes a basis for placing international controls on money laundering. Among other things, the U.N. Convention requires signatories to make money laundering a criminal and extraditable offense, as part of a broader provision to eliminate any legislative barriers such as bank secrecy laws that impede cooperation on investigations. In addition, the

U.N. Convention requires signatories to facilitate the identification, tracing, seizure, and forfeiture of the proceeds of narcotics trafficking and money laundering and to cooperate in enhancing law enforcement efforts to suppress narcotics trafficking and related offenses. According to Treasury, the U.N. Convention may help achieve section 4702 objectives. It entered into force in November 1990, by which time 27 countries, including the United States, had ratified it.

## The Financial Action Task Force

During the July 1989 Paris Economic Summit, heads of state and government of the G-7[3] countries and the President of the Commission of the European Community established a Financial Action Task Force to determine how governments could promote cooperation and effective action against drug-related money laundering. France chaired the task force, which came to include eight additional countries. The task force reviewed existing anti-money-laundering cooperation and considered recommendations on individual and collective preventative activities, including the adaptation of legal and regulatory systems to enhance multilateral legal assistance.

The U.S. delegation to the task force had representatives from the Treasury, Justice, and State Departments and the Federal Reserve. According to a March 1990 State Department study, the objectives of the U.S. delegation were to (1) generate support for ratification of the U.N. Convention; (2) encourage adoption of legislation that criminalizes money laundering and facilitates the identification, freezing, seizure, and forfeiture of assets (financial or otherwise) derived from illegal drug proceeds; and (3) obtain broad bilateral and multilateral cooperation on exchanges of financial information related to narcotics money laundering.

The task force report, released on April 19, 1990, contains an analysis of the nature and extent of money laundering (including methods used) and a discussion of national and international programs in place to combat the problem. The report also contained 40 recommendations in such areas as

- improving national legal systems to combat money laundering,
- enhancing the role of the financial system (including nonbank financial institutions) in addressing money laundering, and

[3]The G-7 countries include seven major industrialized nations—the United States, Japan, Germany, France, the United Kingdom, Italy, and Canada.

- strengthening international cooperation.

The task force report was endorsed by the participants of the July 1990 Houston Economic Summit, who committed their countries to full implementation of the report's recommendations. The participants also (1) extended the task force for a second year to facilitate and assess implementation and (2) invited other countries to combat money laundering and to implement the recommendations.

## INTERPOL Initiatives

Treasury and its bureaus, in cooperation with Justice (including DEA and the FBI), also developed a series of INTERPOL resolutions relating to money laundering. According to Treasury, this effort will facilitate implementation of section 4701 of the Anti-Drug Abuse Act of 1988 (which called for an international currency control agency and data base) and the currency transaction disclosure mechanism called for in section 4702.

The first resolution, adopted in June 1988 by representatives of the United States, Caribbean, and Latin American countries, called upon INTERPOL to urge member nations to record large currency transactions and to share such data with law enforcement personnel. These proposals were subsequently adopted in a second INTERPOL resolution that was approved by the INTERPOL General Assembly in November 1988. This resolution also required INTERPOL to establish an international working group to study existing mechanisms for gathering and sharing currency transaction data.

The third resolution, adopted by the working group in April 1989, called upon member countries to record large currency transactions and share such information with domestic and foreign law enforcement officials, using INTERPOL as a mechanism to transmit the data. This resolution was subsequently adopted by the INTERPOL General Assembly in late 1989. The resolution recommended three "tiers" or levels of data access. The "tier three" controls are so stringent, however, that they may not conform with INTERPOL rules on international cooperation.

INTERPOL officials told us that there had been some action on the resolution during 1990, including meetings of working groups and adoption of an INTERPOL General Assembly resolution authorizing the "tier three" data access controls. However, the international currency control agency and data bases had not been established at the time of our review.

## Mutual Legal Assistance Treaties

Mutual legal assistance treaties are bilateral agreements to provide records and assistance in criminal investigations and prosecutions of such matters as narcotics trafficking and money laundering. The United States has used treaties to exchange law enforcement information with Switzerland, the Netherlands, Turkey, and Italy. For example, the United States made a number of requests under its treaties with Switzerland, Italy, and Turkey to obtain bank records, depositions, and witness interviews that were used to aid in the successful prosecution of the "Pizza Connection" case tried in the Southern District of New York.

On October 24, 1989, the Senate approved ratification of six additional mutual legal assistance treaties with Mexico, Thailand, the Cayman Islands, Canada, the Bahamas, and Belgium. Additional treaties are currently being negotiated.

According to Treasury officials, the existence of information exchange mechanisms such as mutual legal assistance treaties was one of the factors considered when targeting countries for section 4702 negotiations. However, according to these officials, the United States could not substitute an existing mutual legal assistance treaty for a section 4702 agreement because the latter involves recordkeeping and disclosure. That is, a mutual legal assistance treaty with a country targeted for negotiations may resolve the information-sharing issue, but the question of whether the country's financial institutions maintain records of currency transactions or should be required to do so would not be addressed in such a treaty.

## The Basle Committee Statement of Principles

In December 1988 the Basle Committee on Banking Regulations and Supervisory Practices[4] adopted a statement of principles concerning money laundering. The statement, which was drafted by officials of the three primary federal bank regulatory agencies who represent the United States on the Committee, sets out basic policies and procedures that bank management should implement to help curb money laundering through national and international banking systems. The statement itself is not enforceable, and its implementation depends on national practice and law.

[4]The Basle Committee is a group established by the central bank governors of the major industrialized nations to strengthen collaboration in the supervision of international banking.

The statement encourages bank management to make reasonable efforts to fully identify all customers and to refuse significant business transactions with customers who fail to provide proper identification. Banks are also urged to ensure that business is conducted in accordance with high ethical standards and adherence to applicable laws and regulations. The statement encourages bank management not to participate in transactions that "they have good reason to suppose are associated with money laundering activities." Banks are also urged to cooperate fully with national law enforcement authorities and to adopt policies and procedures (including necessary training and internal audit steps) to ensure compliance with the statement of principles.

## Other Efforts

The Document of Cartagena, signed by the Presidents of Colombia, Peru, Bolivia, and the United States at the February 1990 Andean Summit, included provisions under which the parties agreed to

- identify, trace, freeze, and seize drug crime proceeds;
- attack the financial aspects of the drug trade;
- criminalize money laundering;
- provide exceptions to banking secrecy; and
- implement a system for forfeiting and sharing illicit drug proceeds.

The United States also participated in a February 1990 Special Session of the U.N. General Assembly that adopted a "Global Program" to combat the international drug problem through such measures as increased cooperation against money laundering. The United States is a member of an experts' panel established at the April 1990 Organization of American States Ministerial Meeting. The panel is drafting model regulations concerning such matters as the criminalization of money laundering, asset seizure, and currency transaction reporting.

Finally, the United States is cooperating with several countries in a Caribbean region anti-money-laundering initiative. Participants at a June 1990 conference agreed to propose that their governments adopt the 40 Financial Action Task Force recommendations, supplemented with 21 draft recommendations (tailored to the region) developed at the conference.

# Major Contributors to This Report

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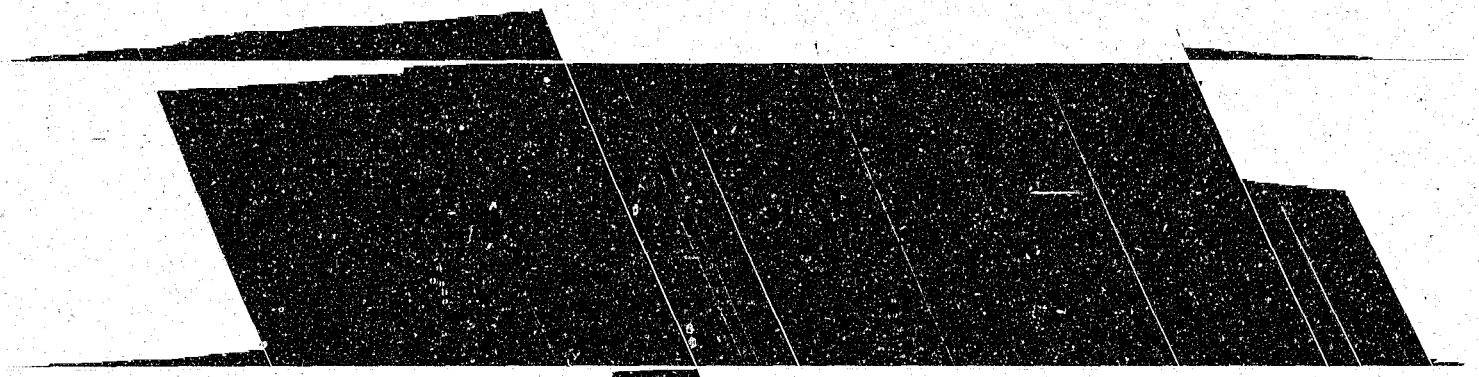

## Ordering Information