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WITNESS LIST

Hearing Before
 The Permanent Subcommittee on Investigations
 Asian Organized Crime: The New International Criminal
 June 18, 1992

Scott E. Orchard
 Staff Investigator
 Permanent Subcommittee on Investigations

Mr. "Ma"
 Member of a Hong Kong Triad
 and Convicted Heroin Smuggler

Panel

Detective Inspector Roy Teeft
 Metropolitan Toronto Police Department
 accompanied by
 Detective Kenneth Yates
 Combined Forces Asian Investigative Unit
 Metropolitan Toronto Police Department

Panel

Robert W. Koppe, Jr.
 Assistant Director
 Financial Crime Enforcement Network (FinCEN)
 U.S. Department of Treasury
 accompanied by
 Marshall Collins
 Senior Special Agent
 United States Customs Service
 and
 Marshall Heeger
 Senior Special Agent
 United States Customs Service

Donn Sickles
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STATEMENT OF SENATOR V. ROTH, JR.

June 18, 1992

Hearing Before the Permanent Subcommittee on Investigations
Asian Organized Crime: The New International Criminal

I want to commend and thank our Chairman, Senator Nunn, for continued leadership and support of our Subcommittee's investigation of Asian organized crime.

Last fall, this Subcommittee began hearings on the activities of various Asian crime groups within the United States. While we recognized that the vast majority of Asian Americans are law-abiding, hard-working and extremely productive members of society, we also heard disturbing evidence that Asian organized crime groups have become well established in the U.S. and were engaged in a wide variety of criminal activities, including drug trafficking, alien smuggling, money laundering, loan sharking, extortion, illegal gambling, prostitution, home invasions and other crimes.

We identified a Hong Kong based triad, a secret criminal group called the Wo Hop To, which had come to control most Asian organized crime activities in the San Francisco Bay area.

At those same fall hearings, FBI director William Sessions testified before the Subcommittee and promised strong action against Asian organized crime. I am happy to note that he is now

delivering on that promise. In the past few weeks, the FBI has conducted nationwide arrests of important members and associates of the Wo Hop To triad including some who were publicly identified for the first time at our hearings. These arrests are a potential major breakthrough against Asian organized crime in the U.S. I commend the men and women of the FBI for their fine work. But there is much more to be done.

In examining the structure and activities of Asian organized crime groups in this country, it has become apparent that such groups cannot be viewed simply as a domestic problem, but rather must be recognized and confronted as an international problem. Asian criminal groups personify a major new threat confronting law enforcement around the globe.

With the aid of modern technology, such as satellite telephones, pagers, and encrypted fax machines, the new international criminals instantaneously communicate with their associates across the globe. Using easily obtained phony passports and taking advantage of newly relaxed international travel restrictions as well as the greatly increased volume of international trade, the new international criminals treat national borders as nothing more than minor inconveniences to their criminal enterprises.

In contrast, law enforcement authorities are confronted with major and often impenetrable barriers in their efforts to pursue international criminals.

Our current situation is analogous to the 1920s when the United States experienced a rash of interstate bank robberies. Bank robbers, like the infamous Bonnie and Clyde, began using automobiles to rob banks and then quickly cross state lines, thereby evading state and local law enforcement jurisdiction. While we eventually remedied this problem by creating a federal bank robbery statute, the solutions to the challenge posed by the new international criminal are not so obvious.

There is no single international law enforcement agency which can assume jurisdiction. While law enforcement agencies around the globe have made substantial progress in establishing formal bilateral cooperative agreements and informal working relationships, we have nevertheless, during the course of our investigation, heard numerous complaints and concerns about the lack of ability of law enforcement agencies to obtain information, locate documents or accomplish service of process. We have heard complaints about countries that effectively serve as sanctuaries for the new international criminals.

We will hear today important testimony from a member of a powerful Hong Kong based triad who personifies the new international criminal. We will also hear from the Financial

Crimes Enforcement Center about their ongoing Asian organized crime project. International money laundering is, of course, a key aspect of international organized crime, and in my view, the potential achilles tendon of the new international criminal.

I am also very pleased to join Senator Nunn in welcoming representatives from the Toronto Police who will tell us about the Asian organized crime situation in Canada.

Testimony we will hear today about Asian organized crime involvement in counterfeit credit cards will illustrate the level of sophistication of the new international criminal as well as the tremendous costs imposed on the entire world by such criminals.

I look forward to an informative hearing. Thank you Mr. Chairman.

OPENING STATEMENT
OF
SENATOR SAM NUNN

This morning the Permanent Subcommittee on Investigations continues its series of hearings concerning Asian organized crime. Today's testimony will focus on the international aspects of Asian organized crime and its connections to the United States. These international criminals literally know no boundaries in their unscrupulous dealings, a fact that law enforcement worldwide must come together to address.

The Subcommittee's previous hearings on this issue erased any doubt that Asian criminal groups operate extensively right here in our country. Today we will expose the international capabilities of these groups and examine how these capabilities have come to haunt us in America. We will hear of the problems law enforcement faces when international boundaries consistently impede their efforts, while amounting to nothing more than inconveniences, if not aids, for the global criminal.

While a great number of countries throughout the world have today come to recognize Asian organized crime as the frightening, multifaceted entity that it is, not enough progress has been made in establishing formal cooperative relationships among those law enforcement bodies willing to address this problem. While the rhetoric often is positive, in reality, too often information is not shared, documents are not accessible, and efforts to locate criminals do not receive international assistance. Their international capabilities makes these Asian criminals a world problem and one that we should be eager to address together.

Today's witnesses bring to us some unique insights into this international web of crime. We will hear from a powerful Hong Kong triad member who will outline, among other things, his involvement in the 14K Triad, his business as a loan shark and proprietor of houses of prostitution and his narcotics importation business that at times reached into as many as nine foreign countries, including the U.S. The ease with which he operated this narcotics importation business, fostered by his organized crime connections, is especially alarming.

We will also hear from two members of the Metropolitan Toronto Police Department who are assigned to the Combined Forces Asian Investigative Unit. Detective Inspector Roy Teeft and Detective Kenneth Yates are with us today to share their thoughts on Canada's experience with Asian crime and to explain how these criminals often use their Canadian presence as a "springboard" into the United States. These officers

will also highlight the need for greater international cooperation among law enforcement via education and communication. We welcome them today and look forward to any recommendations they may make.

Additionally, Robert Koppe, Marshall Collins and Marshall Heeger of FinCEN, the Financial Crimes Enforcement Network, will outline for us its ongoing Chinese Organized Crime project. As I understand it, the goal of this project is to assess the extent to which financial crimes, including money laundering, are occurring among these criminal groups in ethnic Chinese communities across America. This includes a concentrated look at both the laundering of proceeds from heroin trafficking and the identifiable, patterned flow of "questionable" money between the United States and Hong Kong. I am greatly interested in hearing what FinCEN has learned thus far in its study and what it believes the usefulness of the study will be for law enforcement.

Visa International's Donn Sickles, Vice President for Security and Investigations, is also here today to testify regarding the highly sophisticated, global credit card counterfeiting operations of Asian criminal groups. The credit card industry, having confronted the extensive use of counterfeit credit cards in the 1980's, redesigned the cards to include enhanced security features. Nevertheless, the industry again faces significant counterfeiting in the 1990's. We will hear about electronic counterfeiting, the sophistication that is required of the criminals in this arena and the networks and schemes that these individuals use to facilitate yet another aspect of their international criminal activity.

Finally, PSI Staff Investigator Scott Orchard will lead off our witnesses this morning with new charts and descriptions of several Hong Kong based triads that have yet to be publicly disclosed in this detail. Where possible, the charts will identify the international leaders of these triads and the structure of their organizations. As has been the practice of the Subcommittee in the past, we are acutely aware of our responsibility to insist on the utmost accuracy and fairness in identifying anyone as an organized crime figure and, as such, have insisted that certain criteria be met in this identification process. This criteria was outlined in the first hearing of this series on Asian organized crime and will be detailed again this morning by Mr. Orchard.

I would again like to thank the Ranking Minority Leader, Senator Roth, for bringing this issue of Asian organized crime to the forefront and for providing his leadership throughout the investigation and hearings. I look forward to the testimony we will hear today and to continued success in working with you and your staff on this important issue in the coming months.

STAFF STATEMENT OF SCOTT E. ORCHARD, STAFF INVESTIGATOR
U.S. SENATE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
June 18, 1992

Mr. Chairman and Senator Roth, in the course of our year long investigation into Asian organized crime, we have identified a number of major Asian criminal groups which operate globally. While not all Asian criminal groups have established structured organizations in the United States, all of the major Asian crime groups have U.S. connections. The focus of today's hearing is international Asian crime groups of ethnic Chinese origin. At a future date, we will address international Asian criminal groups of other ethnic backgrounds. In terms of Chinese groups, staff has identified seven major crime groups which have criminal activities reaching the United States. These groups have origin in Hong Kong, China and Taiwan.

Of the Hong Kong-based groups, or "triads", we have identified four major groups. Most of these groups are umbrella groups for various triads which are united only by name. The largest triad is the Sun Yee On Triad. Conservative estimates of Sun Yee On membership count over 25,000 members, but many estimates are significantly higher.

Staff has prepared a chart of the Sun Yee On Triad and its' international leadership. All of the names on this chart, as in previous charts we have introduced, have been independently

corroborated by at least two law enforcement sources, and most have been corroborated by other law enforcement and informant sources as well.

The Sun Yee On was founded in the early 1950's in Hong Kong by the late Heung Chin. The group continues to be controlled by his family, through his many sons. His eldest son, Heung Wah Yim is the current leader, or Dragon Head, of the Sun Yee On. Heung Wah Yim was convicted in 1987 in Hong Kong of various crimes related to management of a triad society. Participation in triad activities or even triad membership is a criminal violation in Hong Kong. Ten other leaders of the Sun Yee On were also convicted, but all convictions were reversed on appeal. As a result, these individuals continue to promote the Sun Yee On's criminal ventures.

Several of the names on the chart of the Sun Yee On warrant additional discussion. Thomas Heung, also known as Heung Wah Wing, a Sun Yee On office bearer and one of the brothers of Dragon Head Heung Wah Yim. Thomas Heung exercises influence in the United States through associates in the Tung On Tong in New York's Chinatown. Clifford Wong was identified as the leader of this group at the Subcommittee's hearing on November Fifth of last year.

Vincent Jew, the former leader of the Wah Ching Gang in San Francisco has also been identified as an associate of the Sun Yee

On Triad. Vincent Jew fled San Francisco to the Far East in response to law enforcement pressure in 1984, and is now active in the Sun Yee On. He was identified at last year's hearings, along with Tony Young, who has been the leader of the Wah Ching in Los Angeles for several years. Both individuals have been linked to the Sun Yee On Triad, and have used their ties to the triad to control Asian entertainment brought to the West Coast from Hong Kong.

Other Sun Yee On leaders have also been tied to the United States. Francis Heung, aka Heung Wah Boor, was convicted of an Atlantic City Baccarrat scheme in 1989. The scheme involved cheating, and generated over \$2.7 million in a five month period. Francis Heung received a fine, and is now in Hong Kong running various illegal gambling establishments for the Sun Yee On.

The Sun Yee On has a presence in the United States, Canada, Australia, Thailand, Vietnam and Macao in addition to Hong Kong. The group has been linked to a wide variety of activities, including heroin trafficking and the control of movies and entertainment in Hong Kong.

The second largest group in Hong Kong is the Wo Group. This groups includes ten triads, the largest of which is the Wo Shing Wo. No significant Wo Shing Wo presence in the United States has yet been identified. However, in November of 1991, the

Subcommittee heard evidence that the Wo Hop To Triad, a member of the Wo Group, has taken control of Asian criminal activity in the San Francisco area. The Wo Hop To has subsequently been tied to activity in Los Angeles, Honolulu, Portland, Las Vegas, Atlantic City, Boston and New York, in addition to Australia and Canada.

At the Subcommittee's hearings last year, a chart was presented which detailed the structure of the Wo Hop To Triad in the United States. Today we present a chart of the international leadership of the Wo Hop To Triad. As noted last fall, the leader of the Wo Hop To Triad in Hong Kong is Chan Tai, also known as "Crazy Tai". Crazy Tai exercises authority through a number of other leaders, including Peter Chong in the United States. As Senator Roth noted in his statement, several of Peter Chong's Wo Hop To underlings have been arrested by the FBI in recent weeks. Peter Chong was subpoenaed before the Subcommittee last year, but invoked the Fifth Amendment in response to questions. The other leaders of the Wo Hop To in Hong Kong are active in promoting heroin trafficking, illegal gambling, loansharking, extortion and alien smuggling. No Tai Wah is the leader of the Wo Hop To in Australia, and is active in promoting Wo Hop To gambling operations in that country.

The 14K Triad comprises over thirty subgroups which include an estimated membership of over 20,000. This triad is loose knit in structure, and many of its subgroups do not have firmly established leadership. The Subcommittee will hear testimony

today from a 14K office bearer, and Toronto Police officials will testify later today about the 14K's activities in Canada. The 14K engages in a variety of criminal activities, including heroin trafficking, alien smuggling, counterfeit credit card manufacturing and has connections in the United States for these purposes.

The Luen Group comprises over 8,000 members in four subgroups. The subgroup with the most influence in North America is the Kung Lok Triad, which has a major base of operations in Toronto. Many Kung Lok members in Toronto have associates in the U.S. This group is also active in the control of singers from Hong Kong who come to North America to perform, and utilizes connections with individuals in New York, Atlantic City, San Francisco and Los Angeles to control singing tours.

The Big Circle Gang, which is not a traditional triad, is a relatively new group. The group consists primarily of former Red Army Guards who left China for Hong Kong. The Big Circle Gang is particularly violent, specializing in armed robberies of jewelry stores in Hong Kong as well as in heroin trafficking. Most Big Circle Gang members are also members of a triad. As will be explained by witnesses from Toronto later today, the gang also utilizes connections in the United States and Canada.

Two Taiwan-based groups are also of particular importance. The largest of these groups is the United Bamboo Gang, which has

an estimated membership of over 20,000. This group was formed by Hong Kong criminals who fled to Taiwan during a law enforcement crackdown in the mid-1950's and now operate internationally in the United States, Canada and throughout the Far East. The United Bamboo has been active in the U.S. for over a decade, and is most famous for a 1985 case in which members of the United Bamboo were recruited by the Taiwanese Defense Intelligence Bureau to murder San Francisco journalist Henry Liu. The group is particularly active in Los Angeles, Houston, New York and Vancouver, British Columbia, and has been linked to murder, kidnapping, alien smuggling, illegal gambling, loan sharking and a variety of other criminal activities in the United States.

The second Taiwan-based group is the Four Seas Gang, which has an estimated membership of over 5,000. This group, while a traditional rival of the United Bamboo, has recently worked with the United Bamboo in the United States in some ventures. The Four Seas Gang has ties in Los Angeles and New York.

We will hear a great deal more about these groups through testimony of our witnesses today.

ASIAN ORGANIZED CRIME

(Ethnic Chinese Groups)

Sun Yee Triad (Hong Kong)

- Largest Hong Kong-based Triad
- 25,000+ members
- 2,000+ office bearers
- Associates in New York City, Los Angeles, Canada, Australia and Thailand

Wo Group (Hong Kong)

- 20,000+ members within 10 subgroups
- Wo Shing Wo Triad is largest subgroup
- Wo Hop To Triad has a major base of operations in San Francisco

14K Triad (Hong Kong)

- 20,000+ members
- Over thirty subgroups
- Leadership is dispersed
- Associates in the United States, Canada, Australia and throughout the Far East

Luen Group (Hong Kong)

- 8,000+ members in 4 subgroups
- Luen Kung Lok Triad has a strong presence in Toronto and has associates in the U.S.

Big Circle Gang (PRC/Hong Kong)

- Created by former "Red Guards" from China who fled to Hong Kong
- Most members are also Triad members
- Cells active worldwide; particularly active in Hong Kong, Canada, New York

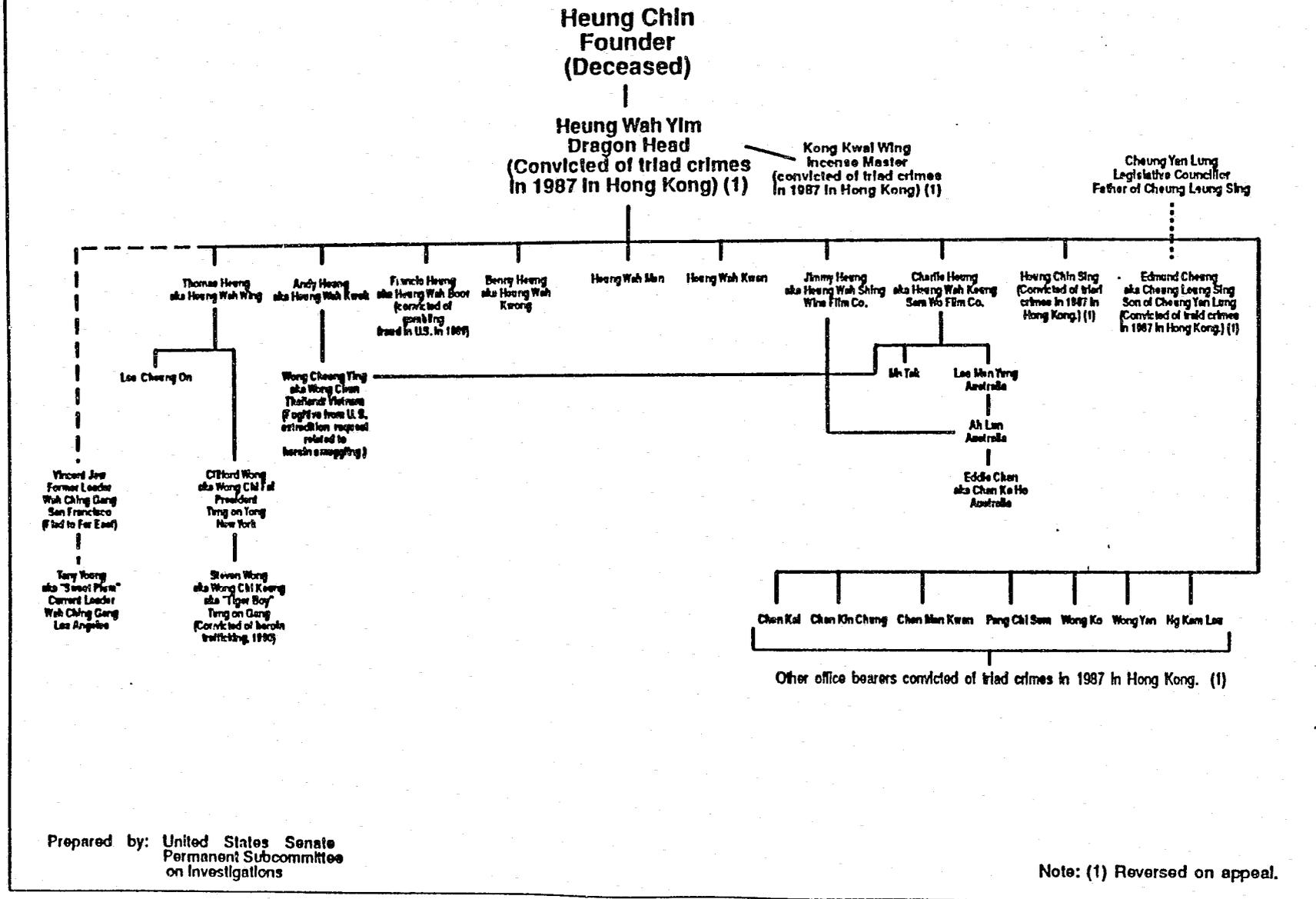
United Bamboo Gang (Taiwan)

- Largest Taiwan-based group
- 20,000+ members
- North American operations in Houston, Los Angeles, New York and Vancouver

Four Seas Gang (Taiwan)

- Second Largest Taiwan-based Group
- 5,000+ members
- U.S. operations in Los Angeles

SUN YEE ON TRIAD



Prepared by: United States Senate
Permanent Subcommittee
on Investigations

Note: (1) Reversed on appeal.

WO HOP TO TRIAD

Chan Ting Hung
aka Chan Tai
aka "Crazy Tai"
aka Sor Chai Tai
aka Tom Hung Chan
Dragon Head

Hui Lui

Peter Chong
aka Chong Bing
Keung
aka Cao Fu
aka "Uncle"
San Francisco

No Tai Wah
Australia

Kung Chung Hol
aka "Mao Tse"

Ng Lal On

Lau Wing Hop

Cheung Chi Tai

Chan Kwok Ming

Chan Kwok Keung

Lo Wai Fu

Prepared by: United States Senate
Permanent Subcommittee
on Investigations.

STATEMENT OF MR. MA

I appreciate the opportunity to testify here today under an assumed name and behind a screen. I fear that if my identity became known, my family and friends could be placed in grave danger. That is because I am a triad member. Triads are secret criminal societies. When anyone joins a triad, as I did in Hong Kong when I was only 14 years old, you must take numerous oaths of secrecy, promising never to reveal anything about the triad organization. We also took vows of allegiance to the gods and the triad, and blood was drawn from my finger.

My admission to membership in the triad was simply a natural progression, as I had been hanging out with triad members since I was 10 years old. Initially very little was required of me, because of my age. But within a few years, I often became involved in street fights, both to protect turf against rival triads, such as the Sun Yee On and the Wo Shing Wo and sometimes on behalf of the illegal business of my triad, which was the 14-K Triad, one of the larger and more powerful black societies, as they are called in Hong Kong.

At the age of 18, while still a triad member, I took an exam and joined the Royal Hong Kong Police Department. This may seem strange to you, but at the time, a large number of all the police officers were triad members. Some corrupt units of the police were paid to protect gambling dens, opium dens and houses of prostitution. Even if you wanted to be honest, it was almost

impossible because bribe money would show up regularly in your desk drawer.

After several years as a police officer, I quit the police department and opened a "call girl center" of my own. While the approval of my 14K group was necessary, it was most important to pay the police in my area for protection. This I accomplished by arranging to make monthly payments to the police. At the peak of this call girl operation, I was collecting about 50,000 Hong Kong dollars per month. This was before paying 25,000 Hong Kong dollars per month to employees, and before paying 4,000 Hong Kong dollars per month to the police.

On the other hand, I was not required to pay any percentage of my profits to the 14K leadership. Triads do not work that way. Triad members do favors for each other, protect each other, provide introductions and assistance to each other, and engage in criminal schemes with one another, but triads generally do not have the kind of strictly disciplined organizational structure that some other criminal groups like the Italian mafia have. For example, a triad member would not necessarily be required to get permission from the dragonhead (which is the name sometimes used to refer to the head of a triad) of his particular triad in order to engage in a particular criminal undertaking -- even if this particular deal involved an outsider or even a member of another triad. On the other hand, on the occasion of traditional Chinese holidays such as Chinese New Year, triad members traditionally give gifts to their "big brothers" or "uncles" who are often

office bearers in the triads. These gifts are in the form of money, referred to as "lucky money" or giving "red envelopes." I, myself, sometimes gave amounts of up to 5,000 Hong Kong dollars on such occasions.

After a time, I was promoted within the 14K Triad to the status of office bearer. I had recruited many followers, which gave me power of my own. This was partly responsible for my promotion. I was previously just a rank and file member, a "soldier" in the triad. Running my own operations and controlling a group of "little brothers" helped assure my promotion.

At this time I also became involved in loan sharking. I lent money at extremely high rates of interest. It was never necessary to use force against any of my debtors, because they knew I was a triad member. I would sometimes send some little brothers to tell a debtor to pay up or he might get unlucky. That was usually enough.

After several years in the call girl and loan sharking business, the Independent Commission Against Corruption (ICAC) was formed in Hong Kong, and suddenly the police would no longer take bribes. As a result of the establishment of the ICAC, corruption in the Hong Kong Police Department was successfully eliminated and many corrupt policemen resigned and fled. The new policemen have been doing a good job. As a result, my call girl center was closed. Many illegal businesses that had been

operating in the open were closed or forced underground by the creation of the ICAC.

In the mid 1970's I became involved in heroin trafficking. At that time Southeast Asian #3 heroin was the favorite form of heroin used in Hong Kong. This type of heroin is smoked, which is known as "chasing the dragon". Early on, I would buy #3 heroin from a 14K associate, who was importing heroin base from Thailand to Hong Kong, and converting it to #3 heroin in his lab in Hong Kong. I would then have people who worked for me sell the #3 heroin to addicts. I later made connections which allowed me to import the heroin base to Hong Kong myself, and I taught myself how to use chemistry to convert the base to processed heroin. I was now able to make more money by importing the base myself and by running my own heroin laboratory. A friend in Thailand who worked for a cargo service would ship the heroin base to me in Hong Kong. I sold the heroin wholesale to my connection in Hong Kong who would handle the retail sales in Hong Kong. I continued in this business for seven years, until the ICAC began to investigate one of my partners, which led me to flee to Taiwan.

I decided to go to Taiwan, as many other criminal figures have, because Taiwan does not have an extradition treaty with Great Britain. Taiwan was a safe place where I could avoid Hong Kong authorities. While I was in Taiwan I became familiar with a number of other fugitives, including several heroin traffickers and triad members who were wanted by police in the United States.

I spent two years in Taiwan, but stayed out of the heroin business while there.

I travelled from Taiwan to Thailand, and established a base of operations in Bangkok. I again became involved in heroin, and I would travel back and forth to Hong Kong for business. My operation was involved in importing #3 heroin to Hong Kong for local consumption. I was responsible for selling the heroin wholesale in Hong Kong. I worked with a member of the Wo Shing Yee Triad, who bought heroin base in the Golden Triangle. As I have stated previously, it is relatively easy for triad members to form criminal associations with members of other triads or with outsiders. The controlling factor is who will make the most money for you.

Based on the contacts I made in Thailand, I soon entered the #4 heroin business, and became involved in deals to ship heroin to the United States and Australia. I set up two partnerships, one of which shipped the heroin from Thailand to Hong Kong, and the other shipped from Hong Kong to the U.S. Having different partners spread the risk among several people. One of my partners lived in Chiang Mai in Northern Thailand, and was responsible for buying processed #4 heroin from sources in the Golden Triangle. The two of us would then ship the heroin to Hong Kong. A Hong Kong associate of mine shipped the heroin to the United States. This associate worked for a shipping company. He would pack packages of heroin and clothing into a suitcase, and put the suitcase into a container, which was flown

to New York's Kennedy Airport. He would fly with the load, and use his cargo company credentials to approach the plane and remove the suitcase from the container. He was then responsible for delivering the heroin to a retail connection.

Over a short period of time, we imported nearly 400 pounds of #4 "China White" heroin to the United States. Our largest single shipment was 68 units. Each unit equals 1.4 pounds. Most of our shipments were about 20 units (or 28 pounds), one half of which was mine. The markup between the initial purchase of #4 heroin in Thailand, and the sale to a Chinese wholesaler in New York was 1,000 percent. This heroin would initially be bought by my Thailand partners for \$5,000 U.S. per unit. It was then sold to my Hong Kong partnership for \$11,000 per unit. The drugs were then shipped to New York and sold to a Chinese connection for \$50,000 per unit. When the drugs were sold to a non-Chinese person for retail sale, the cost would be \$80,000-\$100,000 per unit.

During the course of these operations, I learned that one of my partners was being watched by the police. He was also charging \$15,000 per unit for transportation, so I began looking for a safer and cheaper way to ship my heroin. That was when I began to use Central American diplomats to carry my heroin.

I developed the diplomatic connection through a friend who was using Central American diplomats stationed in Japan to smuggle diamonds into Japan and Korea. He told me about this

venture, which gave me the idea to pay the diplomats to carry heroin. The diplomats were controlled by a Nicaraguan diplomat named William Tapia, who was eventually extradited to the United States and convicted of heroin smuggling. He is still in prison. The diplomats agreed to carry heroin for \$10,000 per unit, which cut my costs. One of them would go to Bangkok to pick up the heroin, which was wrapped in carbon paper to avoid airport x-ray detection. The diplomat would then carry the wrapped heroin in a suitcase to another Southeast Asian country, where he would give it to a different diplomat. The heroin was then flown to the United States or Australia. This method had the great advantage of avoiding Customs entirely, due to the couriers diplomatic status.

The diplomats carried heroin for me on three occasions, twice to the United States, and once to Australia. All three loads were successfully delivered. However, I was soon unable to continue to use this or any other method of smuggling, because I was arrested. I am still serving my prison sentence, and I have had time to reflect on the harm caused by my criminal activity. That, in part, is why I am testifying here today, to help you understand how triads and the heroin business operate.

One area I have direct experience in is money laundering. My partners and I were able to successfully transfer more than \$14 million in proceeds from U.S. heroin sales back to Hong Kong. The \$14 million was brought back through various methods. Over \$2 million in cash was carried back to Hong Kong in

suitcases. Additionally, some monies were laundered by buying diamonds in New York's diamond district. Diamonds are ideal for transport back to Hong Kong because of their small size and high value. When you buy diamonds with cash, you get a discount, and the diamonds can be sold at a higher price in Hong Kong. This allowed us to launder the heroin profits and make an additional profit on our diamond purchases. In contrast, you would have to pay a fee to have someone transport cash for you. Of course, the diamond merchants in New York never asked us to fill out any cash transaction reports, which I understand the law requires them to do. Diamonds are also perfect for such money laundering because they cannot be detected by airport metal detectors.

When it was necessary to send money to Hong Kong directly, two methods were used. The first was to wrap money in carbon paper and have it carried back in a suitcase. The second method was more complicated. I would use my associates in the 14K Triad to open accounts with Hong Kong branches of major US banks. In the U.S., associates would wire the heroin money to the Hong Kong accounts after opening accounts in the U.S. banks with less than \$10,000 deposits to avoid filing reports. I would pay a 5 percent commission to my U.S. connections for the money transfers.

My activities in the underworld have made me familiar with most of the organized criminal groups in Hong Kong. The Sun Yee On is currently the biggest and most powerful Triad in Hong Kong. They are active in many areas, including the control of

over one third of all illegal gambling in Hong Kong. They also exercise significant control over the entertainment industry in Hong Kong. Sun Yee On members own shares in many nightclubs, bars and movie production companies. They control various aspects of the Hong Kong movie business through shares in such companies, including some companies which are owned entirely by Sun Yee On members.

The Sun Yee On also has influence in New York's Chinatown. Clifford Wong, also known as Wong Chi Fai, is the head of the Tung On Tong in New York, and represents the Sun Yee On's interests.

I will be pleased to answer any questions you might have about any of these matters. I hope, however, to avoid answering questions which would reveal my identity and thus endanger myself or my family.

Triad Society Structure

Dragon Head
Head of Society
489

Deputy Leader
Second in Command
438

Vanguard
438

Senior Officials
438

Incense Master
438

Red Pole
Enforcer
426

Straw Sandal
Liaison Official
432

White Paper Fan
Advisor/Negotiator
415

Member
49



COMBINED FORCES ASIAN INVESTIGATIVE UNIT

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DETECTIVE INSPECTOR ROY TEEFT

I currently hold the rank of Detective Inspector in the Metropolitan Toronto Police Force, Ontario, Canada, and have twenty four years service, most of which has been spent as an investigator or administrator. During this time, I have been assigned to the following Investigative Units:

1. MORALITY BUREAU (VICE)
2. DRUG SQUAD
3. MAJOR CRIME
4. INTELLIGENCE SERVICES (TACTICAL UNIT)
5. HOMICIDE SQUAD
6. OFFICER IN CHARGE OF POLICE STATION DETECTIVE OFFICE
7. OFFICER IN CHARGE OF THE COMBINED FORCES ASIAN INVESTIGATIVE UNIT.

I would like to begin my testimony by giving some background information about Toronto and its population.

The total population of Metropolitan Toronto is three million persons. Of those, approximately three hundred and fifty thousand persons originate from Mainland China and Hong Kong. When the suburban areas of the city are taken into account, the number increases to approximately five hundred thousand persons.

In addition to Hong Kong Chinese, Toronto has approximately seventy thousand Vietnamese and eight thousand mainland Chinese refugee claimants.

The Metropolitan Toronto Police have a strength of approximately five thousand four hundred officers plus two thousand civilian support staff. A total of eighty four persons are deployed full time in the fight against Asian crime.

These personnel include four police station Asian Crime Units which deal primarily with street level crime and the Combined Forces Asian Investigative Unit whose mandate is to combat upper echelon organized crime figures.

Several years ago I wrote a letter and indicated that we need, "organized police to fight organized crime." It is more true today than it ever was.

Although I had investigated several murders and a major Asian heroin case, until two and a half years ago, I had very little investigative experience dealing with crime within the Asian community. I was then given the responsibility of heading an Asian Investigative Unit comprised of officers from five major Police Forces.

These Agencies include the Royal Canadian Mounted Police, Ontario Provincial Police, York Regional Police, Peel Regional Police and the Metropolitan Toronto Police Force. These police agencies represent the federal, provincial and municipal police agencies combining their resources to combat crime within the Asian community.

The unit was extremely successful and proved to be a great learning experience. I believe I now have a reasonable recipe to be used in the fight against organized crime. Like baking cookies you may add to this recipe or take away from it.

I started with approximately forty men and the realization that to succeed we had to have the ability to cover four main policing functions.

1. VISUAL SURVEILLANCE

I formed and equipped a dedicated surveillance section to support other members of the unit. This section had no other responsibilities. It was comprised of experienced officers who were investigators and familiar with the types of evidence required to tie major cases together.

The section also had the responsibility for being the cover team for undercover operators.

These officers worked together constantly to become an extremely cohesive unit. They developed a knowledge of vehicles and suspects far beyond that which could have been expected of a surveillance team used only part time.

2. A TACTICAL TEAM

This section was a street unit which investigated robberies, frauds, extortions, drugs, firearms and assisted in the various murder investigations.

This section also worked with, and supported, four other Asian street units within Metropolitan Toronto and other Forces in Ontario.

This unit developed informants through the arrest process and worked on information supplied by other sections of the Asian Investigative Unit. They also supplied intelligence information to a team of dedicated crime analysts. As the unit became more widely known, there was so much information flowing in that another responsibility became finding other units from one of the five member police forces which formed the Combined Forces project to actively work on the information.

3. THE STRATEGIC SECTION

No major police investigative unit can be totally effective without information sharing and communication with other Agencies and Forces.

Police officers world wide are territorial and tend, due to the nature of their work, to be reluctant to share information. Information is power and "The person who has the information has the control."

Unfortunately this philosophy is likely the biggest obstacle to overcome because the winner is always the criminal. To counter this mentality, I planned a part of the new unit to supply as much information as possible to other agencies, locally, nationally and internationally.

I also designed it so that officers could gather raw information from our own sources and feed that information internally to our two crime analysts.

To assist my objective I received Provincial Government funding from The Criminal Intelligence Service of Ontario which supplied dedicated computer terminals to each police district in Metropolitan Toronto. These terminals were tied to each Police Force in Ontario which had an Intelligence unit.

Our information was fed initially into this computer system to be shared.

I recommended the limitation of restrictions on information we shared except for that obtained from wiretap investigations currently being conducted, and intelligence dealing with informants.

This section was also responsible for an Asian "Hot Line" which was advertised in the community at large and functioned in a similar fashion to Crime Stoppers. Members also sat on a variety of community committees and assisted organizing community projects and lectures.

Assisting this unit were two clerks. One who spoke Vietnamese and the other, Mandarin and Cantonese.

4. THE MAJOR PROJECT SECTION

I wanted to have an electronic surveillance project operative as much as possible.

The funding for this was again provided by the Provincial Government through C.I.S.O. The primary benchmark was the requirement that projects were to deal primarily with organized crime.

The officers in this sub-unit reacted to information supplied by the other sections and vice versa. This section also relied on other sections to support them in the wiretap projects.

From the very beginning, I was cognizant that I would be questioned closely about the number of Asian officers I would have in my unit. I had only three officers of Asian descent and was unable to obtain others due to the pressing demand for them by other units.

As a consequence of the electronic surveillance projects undertaken, I was able to hire a great many Asian civilians from the community to work in the unit. I found them to be excellent and as involved and committed as any of the serving police officers.

In fact, one of my monitors was the retired senior officer in charge of the Royal Hong Kong Police Criminal Intelligence Bureau.

These civilians added a great deal of depth to the unit and taught our officers much about Asian customs, culture and language. Conversely their inclusion also introduced at least a few members of the community to the many problems police face in dealing with criminal investigations in the community at large.

Well, I've told you what the recipe was, but the foundation for all of this is dedicated officers committed to the disruption and eradication of Organized Crime. Officers who function with compassion, a sense of empathy for the victims and a realization that 99% of the community are hard working decent people.

The apparent lack of support from the community should not be misconstrued as a lack of concern for law and order. Officers in the Asian community must be educated to some of the cultural differences and fears which these citizens of our country bring with them.

A purely tactical or strategic unit working in an ethnic community will not be successful. There has to be a little of both coupled with active community input.

There is a saying by Sir Robert Peel which is widely quoted, "The police are the people and the people are the police."

Having gone through the past two and a half years dealing with problems within the Asian community, I can not think of a more appropriate phrase to describe how the challenging work of policing must be truly realized.

Earlier in my talk, I alluded to the importance of communication and the real problem existing internally between law enforcement agencies in this regard.

I should have completed the equation.....communication between the Police and the community. Allow the community to explain their problems. When you are successful in resolving them, the community feels a part of the success. They will be more supportive and less apt to criticize when we make mistakes. Even members of the Metropolitan Toronto Police make mistakes...albeit small ones.

In concert with improved channels of communication is that other buzz word of our era - education. Rest assured the contemporary criminal investigator requires constant upgrading in not only technological, but also cultural, skills, to stay abreast of changes in our society so that he or she may better serve the community.

In the context of Metropolitan Toronto we've responded to this challenge by regularly hosting courses for officers involved in Asian investigations in Toronto and inviting officers from across Canada and the United States to attend.

We've also held seminars, and lectured across Canada and the U.S.A. I've been to Hong Kong and spoken at length with officers of the Royal Hong Kong Police who've given us a great deal of assistance on investigations over the past few years.

Officers from my unit have travelled across Canada giving evidence on major cases and supporting other Police Agencies. They've also given evidence in the U.S.A. on a number of occasions.

I've come here today with Detective Ken Yates in the hope that we may, in some small way, assist this Committee in their quest for answers to a major international problem.

Speaking on behalf of the members of the Metropolitan Toronto Police Force, we are committed to the fight against organized crime and violence. We will assist all Police Agencies in any lawful way we can, including giving access to information that may be of assistance to that Agency.

Our Force has already demonstrated it's fervent commitment to this fight by giving evidence in many cases in the U.S.A. where electronic surveillance evidence gathered in Metropolitan Toronto was presented to your courts.

Our Force commitment to the fight against organized crime is supported by the citizens of our community who are all too well aware of its increase and, in particular, the increase of violent gang style crime.

Organized crime is a shared problem which knows no judicial boundaries. It can only be combatted by a unified co-operative effort by Law Enforcement Agencies on an international level.

Criminal networks exist and are successful because they communicate and help each other. Police agencies cannot succeed unless they learn very quickly to do the same. To do otherwise would jeopardize the peace and order of our democratic society.

RECOMMENDATIONS

Law Enforcement Agencies in both the U.S.A. and Canada currently have serious problems with budgets. Hard economic times affect government services as much as they harm the private sector. Accordingly, we must scrutinize the costs of each and every investigation.

Investigations which overlap jurisdictions and are of concern for several Forces and Agencies should be investigated by Joint Force Operations. This approach optimizes the use of resources, more effectively combatting organized crime.

By combining resources we also resolve two other major policing stumbling blocks; (a) communication and (b) judicial boundaries.

Due to the number of officers we are able to dedicate to the investigations, Combined Forces operations enable us to maintain visual surveillance on many known crime groups. No one Force or Agency could or should have to bear all the expenses.

The same is true for electronic surveillance projects. There is a great deal of cost involved in translations and monitoring. Using a Combined Forces approach in Ontario allows us to apply for government funding for such things as translators and the cost of renting phone lines.

Major criminal investigations in future years which affect a number of jurisdictions will have to be conducted by Joint Force Operations as it has proven to be the most effective tool in the fight against organized crime today.

Some of the areas which must be improved in Canadian Law Enforcement are:

- (A) Better education of investigators dealing with minorities and ethnic communities. This education proves to be a two way street and the community benefits from the exchange as much as the individual police officers.

In Canada, municipal police forces do not as of yet have the benefit of sharing seized assets. I understand that in the U.S.A. these funds can be used for many purposes including education.

- (B) Greater involvement of smaller Municipal Police Forces in Joint Forces Operations.

These forces deal daily with the community and respond to the needs of that community. Working in a Joint Force Operation, local Police Agencies contribute a great deal to the overall efficiency of the parent unit. You must work with the community to solve crime affecting their community.

While smaller Forces do not have the funds to undertake major investigations, larger Federal Agencies don't have the community involvement to get the necessary support of and feedback from the citizens.

In Canada, we must have stronger immigration laws. If I had been speaking to you several months ago I would likely have spoken much more harshly than I am now. Over the past several months our federal government has been working on new laws that will enable us to remove bogus refugee claimants and ship these individuals out of our country.

Over the past few years, our lax immigration laws have affected our American neighbours by allowing criminals into Canada who have been using our country as a springboard into the U.S.A. where they continue their criminal activities.

One of the problems we will have prior to 1997 is the influx of Triad members from Hong Kong. At present, intelligence information alone is not sufficient to prevent their entry into Canada. If they do not have criminal convictions it appears we will have an extremely hard time in preventing their entry.

Co-operation between Law Enforcement Agencies in Canada and the United States seems to be very good. However I believe there should be more dialogue between the Forces and Agencies.

At times politics seems to become a barrier which inhibits the flow of information so necessary to fight organized crime. I believe, as I have previously stated, there has to be more involvement and information sharing of municipal forces on a national and international level.

Cost prevents officers from Municipal and smaller forces from attending many of the seminars and information sessions. If a funding mechanism could be set up for these Agencies I believe the flow of critical information could only improve.

In the area of credit card counterfeiting there are a number of things that can be done to alleviate this situation. The problem we all now face started in the Pacific Rim countries. As schemes were perfected they were exported to North America and Europe.

The experts in the current trends are the officers in the Pacific Rim countries and in particular those from Hong Kong.

We obviously must maintain better ongoing contacts with Hong Kong. Additionally I believe seminars and lectures would improve our knowledge of current trends.

Criminal law in the United States involving access devices is much stronger than any in Canadian law. Your law fits the counterfeit card crimes. Canada has laws that tend to fit stolen, lost or altered cards but none to fit counterfeit cards.

When the card holder is from another country it makes prosecution that much harder. In Canada we are presently lobbying for a change in the laws to make them similar to American access device laws. This is being done in cooperation with the Canadian Bankers Association.

Heroin smuggling by Asian organized crime syndicates has been going on for quite some time. In the past two years we've had one major case, "Project Dragon" dealing exclusively with heroin smuggling. The market is the United States and the heroin is springboarded from Canada into that market.

Heroin investigations are time consuming and very costly due to the required translation necessary for a successful court prosecution. They can not be done by smaller Forces unless funding is supplied or a joint force type of operation is commenced.

There are very few good informants involved in these kinds of operations for very obvious reasons. It is hard to introduce undercover operators to such tightly knit organizations. Electronic surveillance is therefore essential for any hope of success to be realized.

Sadly if there is one area where there appears to be communication problems between Agencies and Forces it is in the investigation of international heroin smuggling.

Such inquiries are expensive and dangerous, with limited opportunities to obtain information critical to the successful prosecution of parties involved.

I reiterate my belief that a Joint Forces style operation could alleviate a number of the major stumbling blocks in this area.

CONCLUSION

As I have indicated earlier, I believe the answer to Organized Crime within the Asian community is a shared response through the co-operative efforts of the community with the various levels of policing.

Communication and above all, education is essential.

As 1997 approaches and the British lease to Hong Kong terminates, Canada and the United States must be extremely cognizant of the pending migration of Triad members from Hong Kong to our shores.

We now know of many office bearers of the various Triad groups who are planning to settle in Canada and the United States.

The Police and community of both our nations share a common desire for a safe and secure home for our families free from any violence and crime.

This dream is only possible by the shared and co-operative effort of all levels of government based on a common desire to assist the community most affected, the Asian community.

I hope Detective Yates and I have helped in some small way to protect and assist the Asian communities most affected by Organized Crime, the cancer of the nineties.



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DETECTIVE KENNETH YATES

I currently hold the rank of Detective in the Metropolitan Toronto Police Force, Ontario, Canada, and have fifteen years service, most of which has been spent as an investigator. During this time, I have been assigned to the following Investigative Units:

1. Youth Bureau
2. Criminal Investigation Bureau
3. Plainclothes Unit (Vice)
4. 52 Division (Precinct) Asian Crime Unit.
5. Asian Organized Crime, Intelligence Services.
6. Officer in Charge of the Strategic Intelligence Section, Combined Forces Asian Investigative Unit.

For the past eight years I have been assigned as both an Investigator and Intelligence officer in the Asian Community. As a result of the knowledge and experience I have gained, I have been qualified as an expert witness approximately ninety times in relation to Asian Crime and Asian Organized Crime, and have testified in this capacity in Provincial Court, the Ontario Court of Justice, and the Supreme Court of Ontario.

POPULATION TRENDS

Hong Kong continues to be the number one source country for immigrants to Canada. Statistics for 1990 show that 29,261 persons entered Canada from Hong Kong, and in 1991 - 22,105.

In comparison, during 1990, a total of 7,989 persons entered Canada as immigrants from the People's Republic of China, and in 1991 - 13,466.

Total immigration to Canada during 1990 was 214,230 persons and in 1991 - 226,596

RECENT VIOLENCE

There have been a number of significant changes in Asian crime patterns throughout Ontario during 1991. In essence, these changes primarily took place in the larger Urban centres throughout Southern Ontario.

In particular, Metropolitan Toronto experienced a growth in violence which reached epidemic proportions. From December, 1990 to December 1991, eighteen persons, mostly Vietnamese in origin, were shot in the downtown Chinatown area, eight of whom died of injuries sustained.

These shootings, signified a new era in Asian Crime within Ontario with the use of fully automatic weapons in two of the occurrences.

In 1992 thus far, there has been a reduction in the number of shootings and related homicides. This is seen as encouraging, however, it is felt to be somewhat temporary, and in part a result of agreements between the groups to share the wealth, especially in relation to lucrative illegal gambling.

Successful investigations leading to the arrests and convictions of persons involved in the recent murders and shootings in Toronto's Chinatown, including members of the New York based Vietnamese gang "Born To Kill", are also considered a major factor in the reduction of violence.

Further violence is anticipated however, as the various gangs and individuals compete with each other to arm themselves with more powerful weapons such as fully automatic machine pistols. In the Asian criminal subculture, the most violent groups become the most powerful and consequently make the most money. In order to be powerful and have the most "Face", or respect, one must have the weapons and be bold enough to use them.

Recent trends also indicate an increase in Vietnamese criminals distributing SouthEast Asian Heroin in Toronto. As drugs are considered a catalyst for a myriad of other criminal activities, this factor must also be taken into account when looking to the future situation of crime within our Asian Communities.

ASIAN CRIMINAL GROUPS - TRIAD SOCIETIES

The Asian criminal scene in Toronto is, like many other locations in North America, in a constant state of flux.

During the late nineteen seventies and early eighties, all criminal activity in Toronto's Asian Community was run by Triad Societies such as the Kung Lok and Ghost Shadows who were later to become members of the 14k Triad.

With the advent of refugee "Boat People" from both North and South Vietnam into North America, Triad Societies were unable to cope with the surge of violence which was dispensed in a ruthless manner by their Vietnamese criminal rivals.

With the retreat of Triad Society members, the Vietnamese quickly assumed control of criminal activities such as Armed Robberies, Extortions, Illegal Gambling and related crime such as Protection Rackets and Loansharking.

Because of this takeover and subsequent loss of crucial income for their organizations, the Triad Societies in Toronto are no longer cohesive units as they once were, and in fact no longer exist as organizations.

As Triad power declined in Toronto, it appears that the Vietnamese presence has also reduced the strength of the Triads in the United States. Like a domino effect, the old Triad leader network that existed between Toronto, Boston and California, collapsed.

There is sufficient evidence at hand to suggest that the network is still in place but the criminal personalities have changed. TRAN Asau, prior to his murder on August 16th, 1991, is known to have definite connections with a person in Los Angeles involved with the Asian Entertainment Industry and a known associate of Wo Hop To Triad member, Peter CHONG in San Francisco.

As the Asian criminal scene in Toronto evolves, a number of Triad members in Toronto are acting in concert with both Big Circle Boys and Vietnamese gangs. This is considered to be significant, in that characteristics from each ethnic group will complement each other to become a formidable adversary for Law Enforcement to deal with.

We must also maintain a perspective on what Triad members are, and that is criminals first, Triad members second. There is no mystique, but membership does provide access to an exclusive worldwide fraternity of criminals.

As the Asian criminal subculture has evolved during the last decade, it has become obvious that in order to survive, some groups have compromised and instead of vying for power which in turn is money, have begun working in concert for mutual financial advantage.

The current status of individual Triad members, is that some have become inactive, but a number are acting as free agents if you will with persons who are not necessarily fellow Triads. In this framework, they continue to commit covert criminal activity such as Heroin Importation and Alien Smuggling.

Others continue to maintain a monopoly on the control of entertainers from Hong Kong.

Those persons involved in the promotion of Hong Kong entertainers are identified as follows:

MO Shui Chuen Danny

TSOI Ip Shun Raven

KWAN Yee Man Charlie

TRAN A Sau (Deceased - murder victim
August 16th, 1991).

BIG CIRCLE BOYS

During late 1987, a new phenomenon entered into the Asian Crime scene in Canada. "BIG CIRCLE BOYS" or "DAI HUEN JAI", are criminals from the Province of Canton, People's Republic of China, who utilize Alien Smuggling rings located in the Far East to facilitate their arrival in Canada in order to take advantage of the Federal Governments's Refugee Program.

These criminals, are responsible for a tremendous increase in the volume of criminal activity committed in Asian Communities throughout Canada's major Urban Centres. Since their arrival in Canada, "BIG CIRCLE BOYS" have proven themselves to be highly sophisticated in their methods of committing crime and evading detection.

A great many of them are, in my opinion, criminally brilliant and make Vietnamese and Triad members appear amateur in comparison, especially when one considers they are currently progressing through their criminal infancy in North America.

From investigations conducted, it is clear many of the groups operating are made up of cells comprising ten to twenty members, many of whom have direct access to other active criminals in the Far East, including credit card and currency counterfeiters, travel document forgers, and, more importantly, Heroin producers in the Golden Triangle.

In addition, there is abundant intelligence indicating approximately four out of ten refugee claimants entering Canada from the PRC, are subsequently smuggled into the United States.

A number of these persons who are smuggled into the United States, go to New York in order to consolidate a base for criminal operations such as large scale Heroin Importation, Alien Smuggling, and counterfeit credit card distribution, using Canada as a transshipment point for contraband between the Far East and the U.S.

As their criminal activities continue with Triad members and Vietnamese Gangs in Canada, Big Circle Boys have immediate access to the Asian criminal network which is already established throughout North America. This network provides an immense outlet for the contraband available to them in the Far East, and the potential threat to peace and security is limited only to the imagination, especially in the area of Heroin distribution.

In 1991, Big Circle Boys have committed large scale frauds with the use of counterfeit credit cards, most of which are supplied by counterfeiting syndicates in Hong Kong, Malaysia, and Singapore. These highly sophisticated syndicates, are responsible for a large proportion of the fifty million dollar loss experienced by Canadian Financial Institutions in 1991 through Fraud.

In Toronto, a number of Big Circle Boys are acting in concert with high ranking Triad members. Most of this activity is covert in nature.

This merger is historic and cultural in nature and is thought to evolve from Hong Kong where Triad Societies, in particular the 14k, who have their roots in Canton Province, have worked in concert with "BIG CIRCLE BOYS" during criminal joint ventures for a number of years.

VIETNAMESE

As I previously mentioned, a number of the shootings that took place in Toronto during 1991, can be attributed to American Vietnamese gang members entering Canada from the Eastern Seaboard and attempting to gain a foothold in the lucrative criminal activities controlled by local Vietnamese gangs.

Of special note, several of these occurrences are directly related to the infamous American Vietnamese Gang known as the "BORN TO KILL"/"CANAL STREET BOYS", originating in New York City.

In addition to these shootings, there has been a dramatic increase in the number of Armed robberies committed throughout Southern Ontario. Losses in Toronto for 1991 alone, were well over one million dollars.

A number of these robberies, can also be attributed to American Vietnamese Gang members, namely the Born To Kill who are known to have a number of Vietnamese criminal associates in Toronto, Montreal, Calgary and Vancouver where they have also been involved in shootings and armed robberies.

Toronto Vietnamese gang members are known to have Vietnamese criminal associates throughout both the United States and Canada wherever a major Asian Community exists.

Past investigations have proven that these associates will assist each other in their criminal endeavours, be it providing haven from opposing gangs or Law Enforcement, to identifying potential robbery or extortion victims and supplying weapons to carry out their tasks.

Crimes committed by roaming Vietnamese from other jurisdictions provide an almost impossible task for Law Enforcement to solve as the perpetrators know the chance of being identified, unless arrested at the scene of the crime, is very slim indeed. These roaming Vietnamese gang members can be described as nothing less than "Domestic Terrorists".

OTHER CRIMINAL GROUPS - U.S. CONNECTIONS

As a result of the decline of Triad Societies as cohesive organizations in Toronto, and the fact that we have had to deal with a number of violent crimes committed by Vietnamese, there has been little international criminal intelligence gathered on these Triad subjects in relation to their U.S. connections.

We are aware, however, that the wife (YUEN Wai Chu) of the alleged leader of the Wo Hop To Triad in Hong Kong, CHAN Ting Hung, has been residing in Toronto since 1989. Her current status is "Work Permit", and she is presently employed at one of the larger Chinese restaurants in downtown Toronto.

During 1990, it is known that CHAN himself applied for a visitor's visa to Canada "to explore a new business venture". This application was cancelled by the Canadian High Commission in Hong Kong after it was discovered he had a criminal record.

The significance of these facts, are, I'm sure, appreciated by the members of this subcommittee, after hearing evidence in relation to the recent Wo Hop To activities in California.

To date, we have no criminal intelligence to indicate there are any Sun Yee On Triad members in the Toronto area.

CRIMINAL ACTIVITY - CANADA - U.S. BORDER

HEROIN SMUGGLING

Asian Law Enforcement investigators in Canada have, in the last two to three years, seen a dramatic increase in the amount of Heroin seizures from South East Asia entering the country.

This is borne out by statistics showing a ninety eight percent increase in Heroin seized during 1991 compared to 1990. The total for 1991 being eighty four kilos in comparison to 44 kilos in 1990.

In addition, criminal intelligence indicates more and more Big Circle Boys are importing Heroin from the Far East into Canada. Much of this is destined for the United States as Canada does not have the numbers of addicts to support such large quantities of Heroin.

Prices of Heroin have also dropped dramatically in Toronto which indicates an abundance of the drug. In 1990, one pound of No. 4 Heroin sold for \$140,000.00. The current selling price is now \$80,000.00 per pound which is a \$60,000.00 reduction.

Importation methods include such simple things as concealment inside metal coat buttons to letters sent through the postal system from China.

On the other end of the spectrum, there are the sophisticated organizations who import large quantities of the drug.

During 1990, one such Big Circle Boy Organization became the focus of an eleven month Combined Forces Asian Investigative Unit investigation known as Project DRAGON.

Utilizing wiretaps for eight months and after intercepting approximately forty five thousand calls, ninety five of which related to Heroin, the investigation, with outstanding assistance and co-operation from members of Group 41 of the Drug Enforcement Administration in New York, and the U.S. Attorney's Office in addition to information shared with the FBI, led to seizures in New York totalling twenty four pounds of No. 4 Heroin, a number of firearms, body armour, and cash.

A further seizure in Toronto of over one pound of No. 5 Heroin which was analyzed as being 99% pure, was also made.

The main Toronto target, a refugee claimant from the People's Republic of China, and a Big Circle Boy, was intimately involved in an ongoing conspiracy with a number of major Heroin importers in New York including four Chinese males arrested in September 1990 in possession of \$8.6 Million cash.

This Toronto male was eventually arrested and convicted in New York after being indicted on a conspiracy to distribute heroin with one of the males found in possession of the millions of dollars in cash.

Documents seized from these persons showed they had imported between 800 and 1200 pounds of Heroin between 1988 and 1990, and had realized a profit on the wholesale level of \$72 million, most of which was transferred back to the Far East.

All those persons arrested, were illegally in the United States from the People's Republic of China.

ALIEN SMUGGLING ORGANIZATIONS

During 1990, the Metropolitan Toronto Police in conjunction with RCMP, Immigration and Passport Section, and USINS Buffalo, conducted a Joint Forces investigation named Project Overflight into the operation of a large scale Alien Smuggling Organization operating from the Far East into Canada and the U.S.

This investigation, which was initiated by the Combined Forces Asian Investigative Unit, showed that over a two year period, the organization had smuggled over twelve hundred persons into Canada, including a large number of "BIG CIRCLE BOYS", whom, upon their arrival into Canada had applied for Refugee status.

During the investigation, intercepts showed a direct connection between the Smuggling Organization in the Far East to a Triad member in Toronto, and also to the Chairman of the Fukienese Society in New York City who had five hundred persons in China waiting to be smuggled to New York.

This connection resulted in the head of the Smuggling Organization in Bangkok, agreeing to finance the operation of bringing the five hundred Fukienese to Canada, and then on to the United States.

At \$15,000. per head, this would have meant the Organization would have financed \$7.5 Million dollars up front. An additional charge of \$4,500 per head was to be levied for being smuggled into the U.S. from Canada.

This financing gives some idea of the scope that this organization was capable of, and equals a major multi-national corporation in their operations.

The North American segment of this Organization was run by both Triad members and "BIG CIRCLE BOYS" with Vietnamese heavily involved in the smuggling of Aliens from Canada into the U.S.

Criminal intelligence indicates a number of those persons who arrived in Canada and claimed to be refugees from mainland China were in fact Hong Kong citizens.

This Organization was neutralized in August 1990, when numerous arrests were made in Hong Kong and Toronto where the leader of the Organization was arrested while visiting Canada illegally from Hong Kong.

Statistics for Refugee claims from China in both 1990 and 1991 illustrate that these International Investigations can make a dramatic difference. Statistics show in 1990 there were 2993 such claims in comparison to 1445 in 1991, resulting in a 48 percent reduction.

COUNTERFEIT CREDIT CARDS

This continues to be a major world wide problem. In Canada, counterfeit cards began appearing in the fall of 1990, the source of which was the Far East whose syndicates supplied Big Circle Boy Refugee claimants.

Since that time, Big Circle Boys in Canada have expanded and diversified their credit card activities to the point of committing Break and Enters to steal card embossers and encoding machines.

These machines enable them to emboss cards and program the magnetic strip on the back of the cards with surreptitiously obtained genuine card holder information which is obtained by corrupt employees working in hotels, restaurants, and stores or wherever persons use credit cards.

There have been a number of cases in the U.S. which are connected with Canada including New York City where Big Circle Boys are known to be distributing cards. Law Enforcement Agencies have also conducted credit card investigations in Washington D.C., and Los Angeles, California where Big Circle Boys have been involved, and I'm sure there are many more.

Our Agency in Toronto is in regular contact with the Royal Hong Kong Police, and the Independent Commission Against Corruption in Hong Kong to exchange intelligence information pertaining to counterfeit credit card syndicates in an attempt locate and arrest the syndicate members responsible for the manufacture of the cards.

Close liaison is also maintained with the credit card companies and banks in order to reduce the number of frauds taking place.

It is anticipated that in the future, counterfeit credit card usage in Canada will increase because of the lack of appropriate legislation and sentencing, but also because of the simplicity in committing the crime.

The counterfeiters are producing almost perfect reproductions of the genuine cards which are usually the "Gold" or "Platinum" credit limit type.

The lawful cardholder, whose information is encoded onto the magnetic strip usually does not receive a bill for merchandise purchased with his card information, until two to three months after the crime has been perpetrated if the counterfeit card is used in a country other than where the cardholder resides. Chances of getting caught in the act, therefore, are very slim.

When considering the United States, there is a huge untapped market for Big Circle Boys to sell and distribute these cards. In comparison to Canada's fifty million dollar loss, if one goes by the rule of thumb that the United States is ten times as large in population as Canada, losses, if counterfeit card activity reaches the same proportions as Canada, mean the United States could see a half billion dollar a year criminal industry.

CONTROL OF ASIAN ENTERTAINMENT

Control of Asian entertainment in Toronto has, for the past ten to fifteen years has been rigidly controlled by Triad Society members acting in concert with their counterparts in the U.S.

Criminal Intelligence indicates this will continue because most, if not all Hong Kong entertainment artists are under Triad control in that jurisdiction. It is then, a natural progression for that control or subtle extortion, which Triad members consider to be artist "Promotion", to be continued during their tours of North America.

RECOMMENDATIONS

The Combined Forces Unit of which I am a member, has, I believe, all the components necessary for any jurisdiction to successfully combat the growing problem of Asian Organized Crime.

Each component complements the other to produce an effective weapon against the criminal element and credit for it's creation must go to Detective Inspector Teeft.

Starting with a good intelligence base which identifies the specific groups that are engaged in the various criminal activities, the other components are able to build up a case and obtain the necessary evidence for a successful prosecution.

Because of the International nature of these crimes, electronic surveillance is absolutely necessary to successfully investigate and prosecute members of these multinational conspiracies.

Dedicated surveillance teams attached to Asian investigative units also play an integral role in the overall efficiency of the investigation process, and through time develop the expertise necessary in Asian crime tactics to further enhance the overall efficiency of investigations.

With respect to improvement by Law Enforcement Agencies in general, I know, having worked in Asian Crime for over eight years, that Asian investigators throughout North America, the Far East, and the United Kingdom, are constantly in communication with each other to share information and ideas.

We probably have the best network in existence in Law Enforcement and I am very proud of what we have achieved in the past. That is not to say there is no room for improvement, for we must strive to keep the channels of communication open and not be afraid to use new initiatives.

The spirit of assistance and co-operation between Law Enforcement Agencies in the United States and Canada is excellent. Having been involved in two major International investigations, I can speak from personal experience in this regard and say that assistance from such Agencies as the DEA in New York City and INS Buffalo, during our Heroin and Alien Smuggling investigations, can only be described as truly phenomenal. The same can be said for the Royal Hong Kong Police who have also proved to be outstanding.

Although the spirit of co-operation between International Agencies is very strong, this alone cannot solve the problems we face now, or in the unpredictable future relating to 1997. Law Enforcement at the present time, is simply overwhelmed by the sheer volume of criminal activity committed on a National and International basis by these Asian Organized Crime Groups.

IMMIGRATION LAWS

Future projections relating to Asian Organized Crime within Canada indicate further growth in criminal activity, the extent of which depends on a number of factors.

One major factor to consider, is the Federal Immigration Policy which dictates as to who will enter the country as Immigrants/Refugees and who are deported after committing serious crimes. I understand that the Canadian Government is to table a new bill in Parliament in the very near future to address this problem.

Up to the present time, there have been no persons deported to either Vietnam or the People's Republic of China, which at present are considered the source countries for most of the crime problems inherent with the Asian Communities of Canada.

As such, there is no deterrent factor for the perpetrators of serious crimes, as prison is not perceived by them to be a strong deterrent but the prospect of being deported is.

Secondly, as 1997 rapidly approaches and Immigration from Hong Kong continues, not only can we expect a growth of Triad members within Canada if they are not refused entry, the number of potential victims of crime will also increase dramatically.

Criminal Intelligence shows a number of high ranking Triad members have already applied to emigrate to Canada, and we should consider ourselves naive if we think they will not continue their criminal activity upon arrival to the North American continent.

The new law abiding immigrants from the Far East, with their traditional mistrust of Police and Government, will no doubt become easy prey for the Asian Organized Crime Groups in operation, thereby placing further demands on Law Enforcement to fulfil it's obligations of protecting this segment of society.

STEMMING THE FLOW OF CONTRABAND

In Canada, and I believe the situation is similar in the United States, it is becoming increasingly difficult to obtain authorization to conduct electronic surveillance during investigations.

Recent decisions handed down by the courts in Canada make it almost impossible to use informant information because at the time of trial, in order to prevent the identity of the informant becoming public, the information given has to be edited from the Application Affidavit.

As a result, the Affidavit collapses and the evidence obtained during the wiretap declared inadmissible. The charges against the defendants are then withdrawn by the court.

This creates an impossible situation for Law Enforcement who obviously have to obtain information of covert criminal activity from informants who know the identity of persons involved and methods of how the crime is being committed.

Relocation of informants is one answer, but this proves to be an almost impossible task within the Asian Community.

If Law Enforcement is to be successful in stemming the flow of Heroin, Aliens and other contraband to North America, and I cannot stress this point strongly enough, we must be given support in the form of strong legislation to conduct wiretaps.

Although we must all be cognizant of individual freedoms and the right to privacy, surely it is in the public interest and for the good of our communities to have members of these criminal organizations removed from law abiding societies for which they have no respect. In addition, funding for these lengthy and costly investigations must also be made available if we are to be successful in attaining our objectives.

Project Overflight is a vivid example of the costs saved by the state by reducing the number of Aliens smuggled into Canada. Funding of this investigation has saved Canada multi millions of dollars in Social Security payments, manhours that would have been expended on criminal investigations, court costs for subsequent trials, and money spent on incarcerating those convicted of committing crimes.

As the situation stands at the present time, we are handcuffed while attempting to carry out our responsibilities, whereas the criminals carry on their activities with impunity.

This creates a great deal of frustration within Law Enforcement who have a sincere desire to protect the people they are sworn to serve, but cannot do so without the necessary tools to do the job.

In conclusion, I would like to say that as we approach the year two thousand, Asian Organized Crime presents a formidable challenge to both Governments and Law Enforcement alike whose responsibilities are to legislate and enforce the law.

We must be decisive, strong, and take a bold stand if we are to protect our nations and the communities who rely upon us to provide a safe and peaceful environment in which to live.

STATEMENT OF
ROBERT W. KOPPE, JR.
ASSISTANT DIRECTOR, OFFICE OF STRATEGIC ANALYSIS,
FINANCIAL CRIMES ENFORCEMENT NETWORK
U.S. DEPARTMENT OF THE TREASURY
TO THE
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS

June 18, 1992

Mr. Chairman and Members of the Subcommittee, I am pleased to present this testimony before your Subcommittee's hearing on "Asian Organized Crime -- The International Criminal." I am Robert W. Koppe, Jr., Assistant Director of the Office of Strategic Analysis, Financial Crimes Enforcement Network.

The Financial Crimes Enforcement Network ("FincEN") was created on April 25, 1990, by Order of the Secretary of the Treasury, to help combat national and international money laundering operations, primarily those involving the proceeds of narcotics trafficking. FincEN provides analytical intelligence support to law enforcement and bank regulatory agencies and monitors the trends and patterns of money laundering that its analyses reveal. It supports ongoing criminal investigations and assists in the coordination of law enforcement anti-money laundering efforts.

Examples of FinCEN's involvement in successful law enforcement investigations include:

OPERATION CLEAN HANDS: FinCEN has provided continued support to the U.S. Postal Inspection Service task force during Operation Clean Hands. The U.S. Postal Inspectors executed arrest and search warrants in Miami, Florida, on the residences of two money laundering suspects, involved in a money exchange house in Ecuador. A total of \$20 million was seized. On January 28, 1992, FinCEN was advised by U.S. Postal Inspection Service, New York, that two defendants pled guilty in Federal District Court on charges stemming from information supplied by FinCEN in support of this investigation.

POLAR CAP V: This case represents a coordinated, multi-agency investigation of a major international money laundering operation by the U.S. Customs Service, the Internal Revenue Service, the Drug Enforcement Administration, and the Federal Bureau of Investigation. In November 1991, these agencies executed 30 search and seizure warrants and 35 arrest warrants in New York; Fort Lauderdale, Florida; Providence, Rhode Island; Los Angeles, California; and Atlanta, Georgia. Those arrested included key figures in a network which laundered most of the money generated by the Cali and Medellin cocaine cartels' narcotics trafficking activity.

FinCEN has supported the Polar Cap V investigations nationwide. Agents and analysts from FinCEN were detailed to Miami, Los Angeles, and New York. As a result of these assignments, the analysts and agents were instrumental in providing assistance in the location of account information and asset locations. The Polar Cap V investigations have so far resulted in the arrest of 42 individuals, and in the seizure of \$10 million in assets.

OPERATION CHINA BEACH: FinCEN has provided support to an investigation concerning the seizure of 1,200 lbs. of heroin in San Francisco. FinCEN provided information on individuals holding Asian passports traveling to or from the Los Angeles and San Francisco areas, and specifically profiled targeted suspects and businesses involved in the case.

Asian Organized Crime

Increasing Asian involvement in criminal activity, especially in North America, has resulted in recent scrutiny of Asian Organized Crime (AOC) by law enforcement. Many Asian groups have been identified by law enforcement as engaging in organized criminal activity. According to these sources, the AOC groups currently posing the greatest criminal threat are the Chinese Triads, criminally influenced Tongs, Japanese Yakuza, and various Vietnamese criminal groups. Reportedly, all four groups are involved in murder, kidnapping, extortion, drug trafficking,

prostitution, gambling, weapons smuggling, smuggling of illegal aliens, insurance fraud, and money laundering. Of the groups from Asia engaging in criminal activities, law enforcement sources generally agree that Chinese Organized Crime (COC) groups pose the greatest threat today.

FinCEN Chinese Organized Crime Study

FinCEN has begun to analyze information on the methods and mechanisms used by COC to disguise the nature, origin, and beneficial ownership of the proceeds of illicit activity, which is, by definition, how they launder money. We are analyzing the money laundering process, which involves a series of transactions that ultimately provide the funds with a false provenance and the appearance of legitimacy.

Since initiation of FinCEN's study on COC money laundering, FinCEN has conducted numerous interviews of investigators and other experts on Chinese crime group activity. Interviews have been completed in several areas of the country with heavy Asian concentrations, including Los Angeles, San Francisco, Boston, New York City, and Atlantic City (New Jersey). Various law enforcement, prosecutorial, regulatory, and intelligence agencies have contributed intelligence to FinCEN's money laundering data collection effort. Through our interviews and research, we have identified and studied many COC cases, focusing primarily on the major investigations, currency seizures,

and the financial aspects of these investigations. Our study is continuing, and we are compiling the data gleaned from our research to date.

Law enforcement officials have indicated that while money laundering has always been associated with organized crime, federal authorities are becoming increasingly aware of the extent of the problem as it relates to COC. The law enforcement community has only limited information regarding COC money laundering methodology. Law enforcement officials generally agree that it is very difficult to develop concrete knowledge because of a number of factors, such as linguistic and cultural barriers and a lack of Asian police officers and federal enforcement agents to tackle the COC problem.

FincEN has developed examples and anecdotal information of how law enforcement officers believe COC groups are currently laundering illegal proceeds. The general consensus of law enforcement officials throughout the U.S. is that the money laundering methods utilized by Chinese Organized Crime members bear a striking resemblance to that of other criminal groups with two significant additions -- the laundering of illegal proceeds through legal "card clubs" and through the underground banking system. I will discuss these in more detail later in my testimony.

Our preliminary findings reveal that, historically, Hong Kong has been used as a laundering site for much of the illicit proceeds generated by COC. Illicit proceeds derived

from drug sales, gambling, theft, and extortion are smuggled into Hong Kong to be laundered and subsequently repatriated to the United States.

Hong Kong is one of the most important banking centers in the world. In an average business day, more than 50 billion U.S. dollars are exchanged through the Hong Kong financial community. Hong Kong has no currency exchange controls and no currency transaction reporting requirements. These factors attract both legitimate and illegitimate businessmen.

Various methods reportedly used by COC to launder money are:

Wire Transfers

Law enforcement sources indicate that COC groups frequently move money via wire transfers. Large amounts of currency are reportedly wired through the U.S. from and to Hong Kong, Taiwan, and other Southeast Asian countries.

Currency Smuggling

On several occasions currency has been seized from Chinese Organized Crime members. As they attempted to board commercial flights to Hong Kong, they were caught trying to smuggle substantial amounts of currency in their luggage. An intelligence source suggests that large amounts of COC illegal proceeds are being physically smuggled out of the United States through Canada to Hong Kong.

An example of a large smuggling operation involved a prominent Chinese-American, who has been indicted along with five others for money laundering, Bank Secrecy Act violations, and traveling in aid of racketeering. This individual, who has since pleaded guilty, is associated with the attempted smuggling of over \$1 million dollars of illicit drug profits out of the United States via Chicago to Hong Kong. While some of this Chinese organization's illegal profits were smuggled out of the U.S. in bulk form, large portions were being wired transferred to Hong Kong, often through Japan.

Information received from one law enforcement source indicates that Chinese Organized Crime members use non-sophisticated methods to import/export currency such as the mailing of bulk shipments, body packers/money swallowers, wire transfers, and physical transportation of bulk cash.

COC members who are involved in laundering illicit proceeds also reportedly use cash intensive businesses (e.g., fish wholesalers, travel agencies, and restaurants) in order to exchange small denomination bills for large bills. Once this exchange is effected, the currency is then smuggled out of the United States.

Smuggling Illegal Aliens

As reported by law enforcement, another lucrative endeavor by Chinese Organized Crime groups in the U.S. (which helps support their money laundering activities) is

the smuggling of increasing numbers of Chinese illegal aliens into the United States in what U.S. Immigration officials say is a steady flow. Federal law enforcement sources report that each illegal alien typically pays from \$35,000 to \$50,000 to Chinese smugglers, many of whom have connections to Chinese Organized Crime. The smugglers use illegal documents and an array of circuitous routes by land, sea, and air to avoid detection.

Once in the U.S., according to law enforcement sources, these aliens become essentially indentured servants, working in sweatshops in the garment district, restaurants, laundries, or other businesses. They work as long as five years, often seven days a week, day and night, for minimum wage or less while living in squalor to pay off the loans that brought them here. Some are lured to the quicker money to be made by smuggling drugs, becoming enforcers, or engaging in prostitution for the Chinese gangs that paid for their entry into the United States. Often, in exchange for their freedom, the aliens smuggle currency (usually \$50,000 in \$100 and \$50 denominations) out of the United States without filing a Report of International Transportation of Currency or Monetary Instruments (CMIR). The Bank Secrecy Act requires each person who physically transports, mails, ships, or causes the transportation, mailing, or shipment of currency or bearer negotiable monetary instruments in an aggregate amount exceeding \$10,000 into or out of the United

States to file a CMIR, Customs Form 4790, at the time of arrival, departure, mailing, or shipment.

Underground Banking System

The Chinese "underground banking system" is one of the major problems law enforcement faces because of the difficulty encountered in tracing currency movements. Large amounts of money are moved by COC groups internationally in an underground banking system that operates on tradition and trust. There is a historical distrust for traditional banks among the Chinese. With this underlying its development, the underground banking system also grew out of political turmoil resulting from Communist takeovers in many countries where the Chinese reside, and its existence was reinforced in the countries where expatriate Chinese experienced harassment. Operated by money changers, gold shops, and trading companies, according to law enforcement sources, the underground banking system is linked by kinship ties to the Chinese-dominated heroin production business and to an intricate web of other Chinese commercial interests.

Record-keeping within the underground banking system is almost nonexistent, with coded messages, "chits," and simple telephone calls used to transfer money from one country to another. This system allows the transfer of funds from one country to another in a matter of hours, provides complete customer anonymity, provides total security, can be used to

convert gold or other items into currency or to convert one currency into another of the customer's choice.

Gambling

Law enforcement sources suspect that gambling is an enormous source of funds, as well as a method of money laundering, for Chinese Organized Crime figures in southern and northern California. In the fall of 1984, several California communities began to license gambling facilities known as "card clubs." These clubs offer a list of approved card games which include the very popular Asian game called "Pai Gow." The card clubs offer opportunities for extortion, money laundering, and tax evasion. Law enforcement sources believe that an extensive amount of money laundering and profit skimming takes place in card clubs.

Several methods reportedly used by COC members to launder funds at card clubs include:

- The money launderer may buy large amounts of chips with cash, then bet only a small portion of the chips (10%-20%), spread out over several tables. The money launderer then will cash in the remaining chips after he or she has gambled so as to make it appear that this money is derived from gambling.

- The money launderer may deposit a large amount of cash in a credit account at a card club, then he or she will withdraw most of it later so as to make it appear that the money is derived from gambling.
- The money launderer deposits a large amount of cash in his or her player account, then buys chips from the account and divides the chips among several people. These people cash in the chips giving the appearance that this money is derived from gambling.
- The money launderer physically exchanges small denomination bills for larger ones at card club windows.

Card clubs are legal in the State of California. These clubs are licensed by the State's Department of Justice and are regulated by the municipality in which they operate. There are 302 licensed card clubs in California. The top 30 clubs generate approximately 90% of the total gaming revenues in California.

Law enforcement officials indicate that the only transaction records maintained by card clubs are player bank records. Regardless of how much money is exchanged at the playing table, there are no records recording the transactions at the table.

The Internal Revenue Code requires trades and businesses to file Form 8300, Report of Cash Payments Over \$10,000 Received in a Trade or Business, each time a cash payment in excess of \$10,000 is received in one transaction, or two or more related transactions. Traditionally, there have been many problems with currency reporting by gambling establishments. Additionally, even Form 8300 reporting, if done, would not extend to transactions in which cash is paid out by a card club, such as cash winnings payments.

Intelligence indicates that Chinese Organized Crime groups in northern California use legal card clubs to launder substantial amounts of illicit proceeds from gambling, loan sharking, extortion, prostitution, and narcotics trafficking activities. Many bookmakers and other criminals allegedly maintain "cage" or "player" accounts at card clubs where they can deposit large amounts of currency and maintain balances to pay other "bookies," to secrete funds, and to avoid scrutiny by law enforcement authorities.

Preliminary FincEN Analysis

FincEN has provided law enforcement agencies with a preliminary analysis of unusual or suspect currency flow activity within certain California areas. The preliminary analysis was based on Federal Reserve data and Department of Treasury's Financial Database information. The areas of focus were the focal points of suspected COC activity.

FinCEN Currency Flow Analysis

FinCEN plans to complete an in-depth analysis of those areas exhibiting unusual currency flows which may indicate money laundering activity on the part of Chinese Organized Crime groups. This analysis will incorporate case information, currency flow data, and other database information.

FinCEN has examined CMIR data reflecting the reported inbound and outbound currency figures for Hong Kong, China, Taiwan, Thailand, and South Korea with respect to total reported currency transportations for the period 1988-1991. Currency figures for China, Taiwan, Thailand, and South Korea were, by comparison, negligible; our emphasis is on Hong Kong as the major Far East repatriator of U.S. currency. We have also compared reported inbound currency transportations from Hong Kong with comparable data on three other primary countries returning U.S. currency -- Mexico, Argentina, and Panama.

Total reported U.S. inbound currency activity remained relatively stable during 1988, 1989, and 1990, but increased 87% in 1991 to over \$20 billion (see Chart 1). Reported outbound currency activity, by contrast, increased considerably in 1988 and 1989, reaching a peak in 1990 at over \$32 billion, and then decreasing 14% in 1991 (see Chart 1). It is estimated that one-half to two-thirds of U.S. currency in circulation (\$150-\$200 billion, of \$307 billion total) is held overseas, and while the gap between

TOTAL OUTBOUND AND INBOUND CURRENCY ACTIVITY AS REPORTED ON CMIRs 1988 - 1991

DOLLARS (IN BILLIONS)

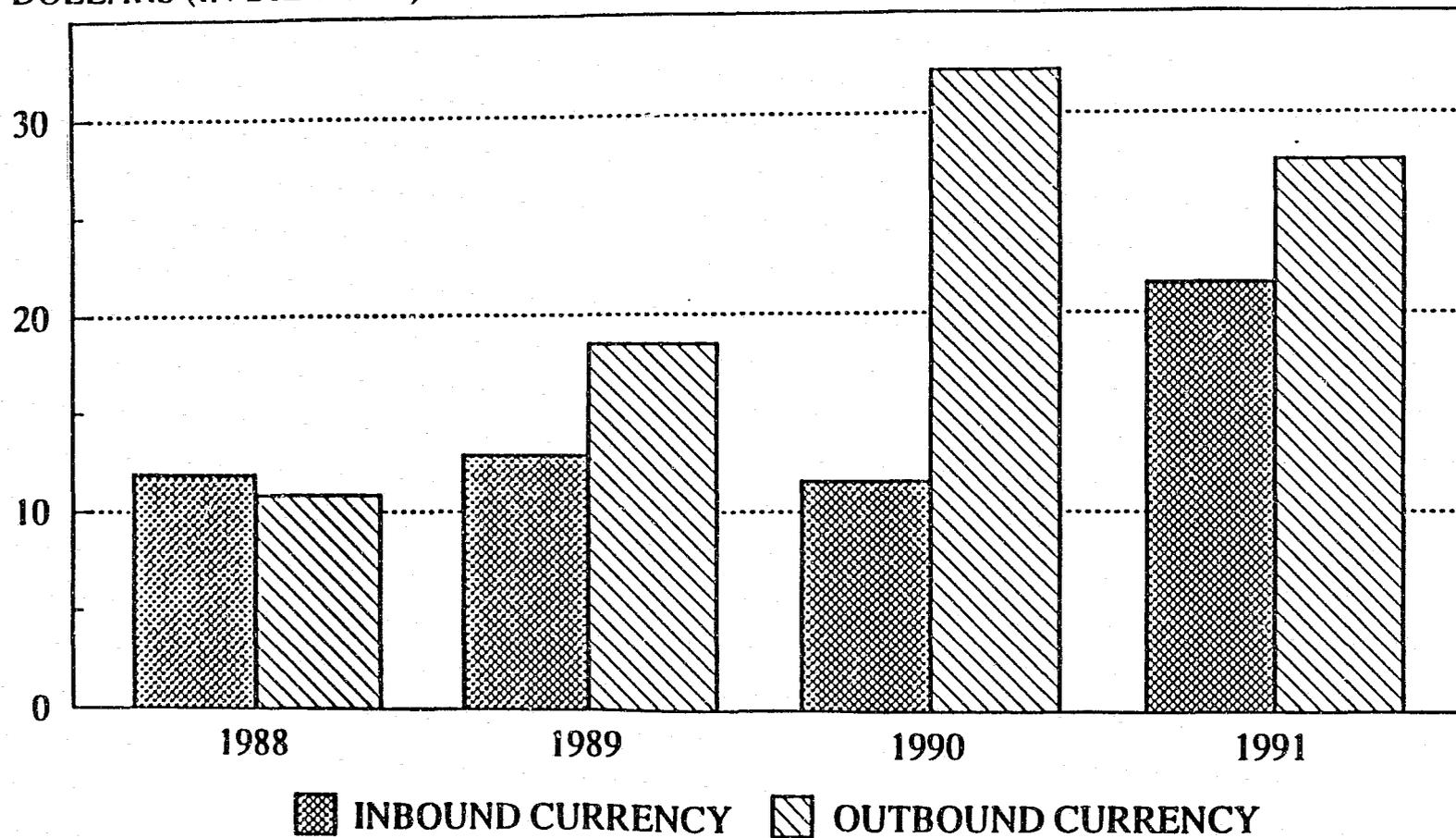


CHART 1

outbound and inbound currency narrowed in 1991, there was still a considerable net export of U.S. currency.

One possible partial explanation for the sharp rise in dollars returning to the U.S. is the issuance of the new \$100 bill in August 1991. This may have caused a repatriation of existing \$100 notes to be exchanged for the new notes. FinCEN is continuing to examine these currency figures along with Federal Reserve and commercial bank currency shipment data to determine the extent of the impact of the new \$100 note and to identify any other significant trends or explanations.

Possible explanations for the 1988-1990 increase in exported/outbound currency are federal law enforcement efforts and the cooperation of financial institutions. The early and mid-1980's saw the proliferation of "smurfing" activities. Smurfing is the practice of deliberately structuring numerous cash transactions at less than \$10,000 each, at one or more financial institutions, in order to avoid the \$10,000 Currency Transaction Reporting threshold. As smurfing increased, so did law enforcement efforts to combat it. These efforts included enforcement of bank compliance with the BSA reporting requirements and enhanced cooperation between banks and law enforcement.

Financial institutions also began their own training programs in money laundering awareness and established "know your customer" policies, which have helped protect them from liability and to enhance further cooperation with law

enforcement and regulatory personnel. These efforts made the smurfing option less attractive, and much currency that might have been "smurfed" began to be physically exported, possibly causing an increase in the outbound currency reporting on CMIRs.

Chart 2 illustrates reported outbound and inbound currency activity to/from Hong Kong for the period 1988-1991. Outbound currency figures increased unremarkably during this time period. Inbound currency activity, however, exhibited some significant fluctuations. From 1988-1990, inbound currency activity decreased from over \$1.5 billion to under \$700 million, yet at the same time the actual number of CMIR filings increased. In 1991, the number of inbound CMIR filings increased only 16%, while the inbound dollar amount increased 540% to over \$3.8 billion.

Two possible explanations for this dramatic increase are the repatriation of existing \$100 notes and the impending re-annexation of Hong Kong to China in 1997. We believe that the repatriation of \$100 notes may account for some of this activity. Unfortunately, the CMIR form does not identify how much of the returned currency is in \$100 notes. The impending re-annexation of Hong Kong to China in 1997 may be causing some capital flight from Hong Kong to the U.S. and to other countries. The extent of these and other possible factors causing the return of U.S. currency is difficult to determine, but FinCEN is continuing to monitor the situation.

OUTBOUND AND INBOUND REPORTED CURRENCY ACTIVITY TO / FROM HONG KONG 1988 - 1991

DOLLARS (IN MILLIONS)

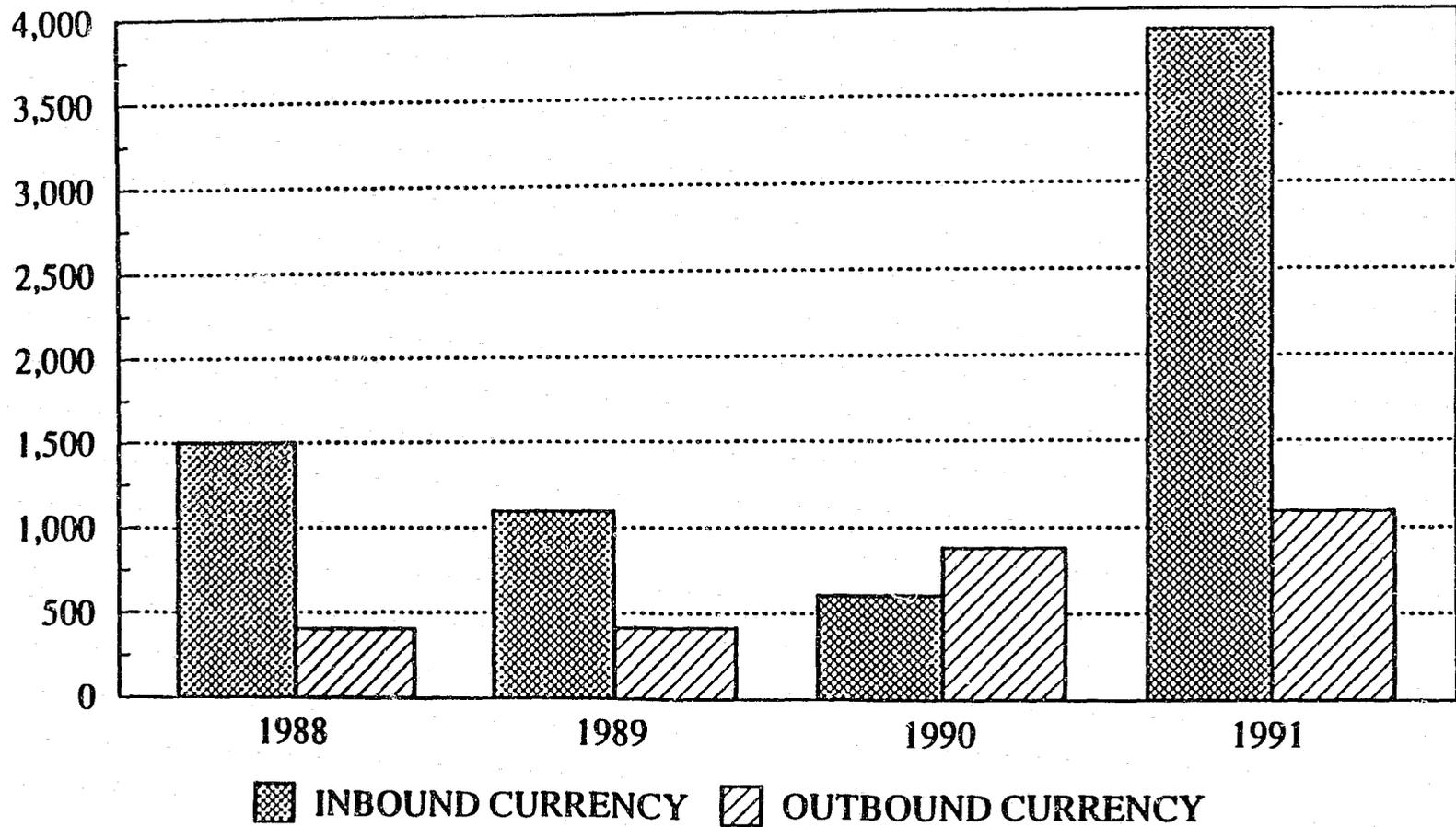


CHART 2

Chart 3 illustrates the amount of currency (as reported on CMIRs) returned to the U.S. by the top four countries returning U.S. currency during 1988-1991. Hong Kong is the second largest repatriator of U.S. currency behind Mexico, followed by Argentina and Panama. The table below lists each of these countries' percentage of total reported U.S. currency returned.

Percentage of Total Reported U.S. Currency Returned

	1988	1989	1990	1991
MEXICO	26.6%	30.6%	29.2%	20.4%
HONG KONG	12.7%	8.5%	5.3%	18.0%
ARGENTINA	1.9%	7.4%	6.4%	4.7%
PANAMA	3.7%	4.1%	6.5%	4.1%

One explanation, at least in part, for Hong Kong's strong showing is its dominance as a center of banking and finance in the Far East. Much U.S. currency that makes its way to many of the surrounding countries eventually reaches Hong Kong for shipment to the U.S. This fact, combined with the lack of currency transaction reporting requirements, makes Hong Kong an excellent target area for the laundering of large amounts of U.S. currency.

When discussing what this CMIR data represents and the conclusions that may be drawn from it, it is important to understand the limitations of the data, which include:

TOP FOUR COUNTRIES RETURNING U.S. CURRENCY 1988 - 1991

DOLLARS (IN BILLIONS)

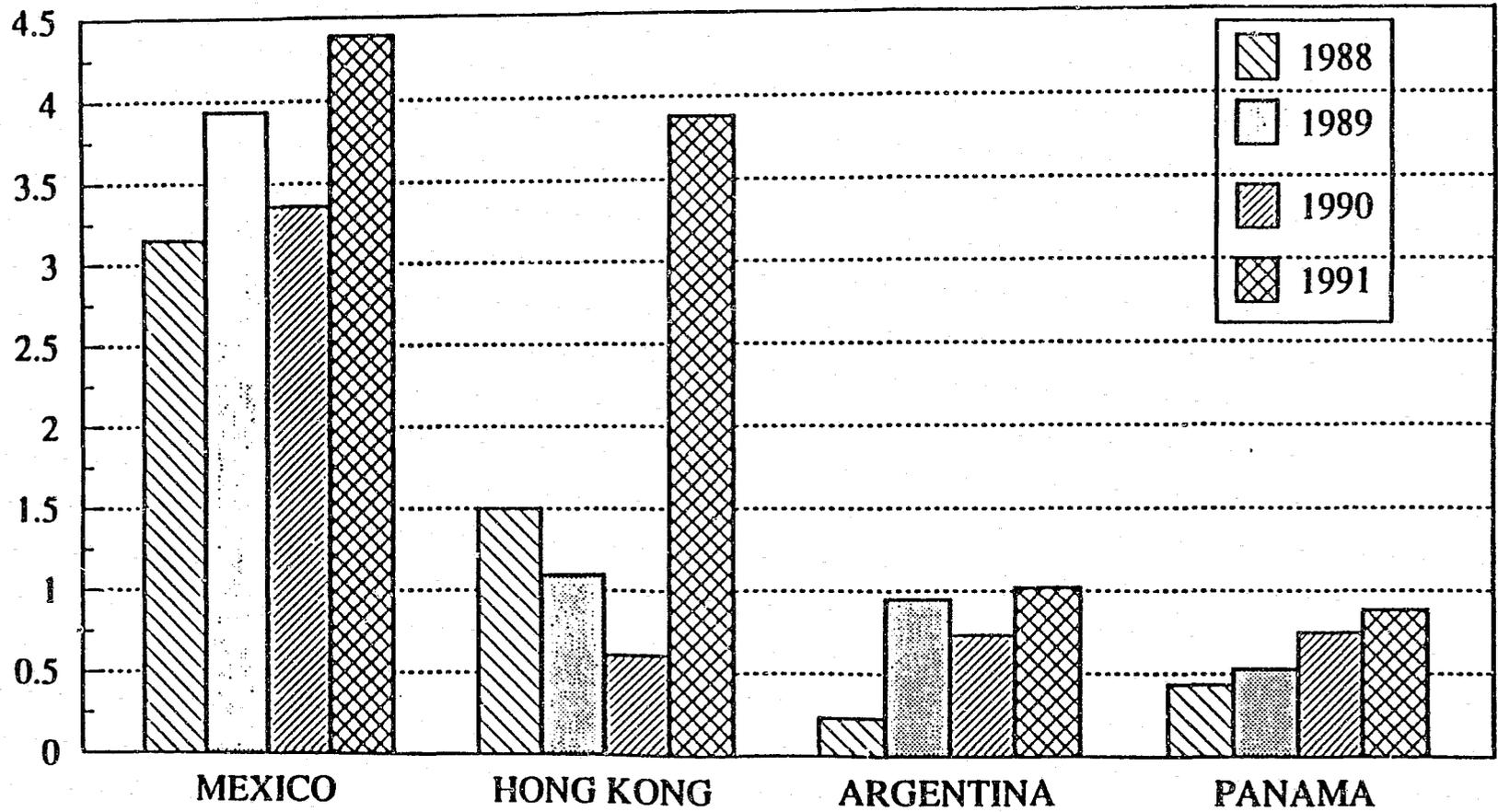


CHART 3

- CMIRs represent only reported currency transportations; there is significantly more currency crossing our borders than is reported. For example, currency has been illegally smuggled across the southwest border into Mexico, and then "legitimately" brought back into the U.S. with a CMIR filed reporting its importation. This ~~can~~ can be used by the smuggler as documentation showing a "legitimate" source for the currency (imported from Mexico). This type of scheme could cause inbound figures to be significantly higher than outbound figures (as in Mexico's case).
- There are instances where currency shipments may be double-reported. This usually occurs when a bank ships currency to a foreign bank via commercial carrier. The bank will file a CMIR as will the courier when crossing the border. Since it is estimated that banks account for 80% of the currency shipped out of the U.S., this may pose a significant problem. FinCEN is attempting to determine the extent of this problem.

It is also important to remember and take into consideration the many factors that influence international finance before trying to pinpoint specific causes for currency flows and fluctuations.

FincEN Activities

FincEN provides direct support to law enforcement agencies engaged in investigating Asian Organized Crime cases. In FY 1991, FincEN generated a total of 58 intelligence reports in support of AOC cases. During FY 1992 through May 31, 1992, FincEN generated 25 intelligence reports on Asian-related heroin investigations. FincEN also provides proactive targeting information to law enforcement agencies. To date, FincEN has provided law enforcement agencies with 23 proactive targeting reports concerning Asian Organized Crime activities.

Conclusion

FincEN is continuing to procure financial intelligence on COC money laundering from law enforcement. By so doing, we will be able to analyze this information collectively, to gain a better understanding of the specific money laundering methodology used by COC members. Accordingly, we will be better able to identify the location of COC funds; this will aid law enforcement in making asset seizures. In addition, we will learn more about criminal group patterns and trends, thus enabling law enforcement agencies to better target COC violators and violations.

I thank you Mr. Chairman, and the other Members of this Committee, for the opportunity to share with you the results of FincEN's efforts to learn more of the techniques and

methodologies COC groups use to launder the profits of their illicit activities, both domestically and internationally. I would be pleased to answer questions concerning FinCEN's activities in the analysis of Chinese Organized Crime.

STATEMENT OF
VISA INTERNATIONAL
BEFORE THE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
OF THE
COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE
JUNE 18, 1992

VISA International submits this statement in connection with its oral testimony presented on June 18, 1992 to the Permanent Subcommittee on Investigations of the Committee on Governmental Affairs ("Subcommittee") regarding the role of Asian organized crime groups in the important global problem of credit card fraud. The Subcommittee is to be commended for holding these hearings concerning this growing problem and its impact on the peoples and economies of many nations.

VISA International is submitting this statement on its own behalf, as well as on behalf of MasterCard International Incorporated. MasterCard International shares VISA International's strong concern with the important international credit card fraud issues being considered by the Subcommittee. Given time constraints, this statement primarily reflects the experience of VISA International with respect to international credit card fraud. MasterCard International would like to submit an additional statement to the Subcommittee concerning its experiences in this regard.

VISA International is an international membership association comprised of over 22,000 financial institutions in the United States and around the world that are licensed

to use the VISA service marks in connection with payment systems, including credit cards. Through its members, VISA International provides a global network for effecting transactions and is the largest and most widely recognized consumer payments system in the world. VISA International itself does not directly serve consumers or merchants. It provides world-wide telecommunications services, sets operating standards and develops new payments products, enabling its members to provide their customers with a convenient, low-cost means of consummating a high volume of transactions throughout the world. Member institutions determine the terms and conditions of providing VISA services to their customers, both cardholders and merchants. This structure encourages competition among members and with other payments systems.

VISA International is headquartered in San Mateo, California, with its U.S. Region headquarters located there as well. The Latin America Region headquarters is in Miami, Florida; the Canadian Region headquarters is in Toronto; the Asia-Pacific Region headquarters is in Tokyo, and the Europe, Middle East, and Africa ("EMEA") Region headquarters is in London.

Each Region has its own investigative staff responsible for identifying and monitoring bankcard fraud activities and working with the member banks of the Region to control fraud. VISA International also has a headquarters staff responsible for coordinating multi-Regional investigations and assisting the Regions with their programs and activities.

VISA's Efforts to
Address Credit Card Fraud

VISA's¹ full-scale efforts to combat credit card fraud began in the early 1980s when there was a sudden and dramatic upsurge in the use of counterfeit cards. This upsurge peaked in 1984 when VISA members sustained nearly \$40 million in losses from transactions involving counterfeit credit cards. Approximately 90% of these losses occurred in the United States, a substantial portion of which was attributed to organized crime activities.

Early credit cards were relatively easy to counterfeit, requiring little more than embossing numbers on a simple, silk-screened piece of plastic. The bankcard industry redesigned the card to incorporate a number of

¹ The name "VISA" is used herein to mean VISA International, its United States affiliate, VISA U.S.A. Inc. ("VISA U.S.A."), and related VISA member associations.

enhanced security features which made it much more difficult to counterfeit. While the hologram was introduced as one of these security features, it was the enactment of the Credit Card Fraud Act of 1984 that provided much needed support to VISA's fraud-prevention activities. The Credit Card Fraud Act, which made credit card fraud a federal crime, greatly assisted in reducing losses from counterfeit credit cards in the United States to to approximately 20% of the overall \$12.4 million in losses sustained from this type of fraud worldwide in 1988.

While the counterfeiting of VISA cards declined steadily during the late 1980s, today it is on the rise again, due primarily to the criminal activities of extremely sophisticated, organized counterfeiting rings in VISA's Canadian, Asia-Pacific and EMEA Regions. Of particular concern today is electronic counterfeiting, which involves the encoding of fraudulently obtained account information on the magnetic stripe of either lost, stolen or counterfeit credit cards. These methods may account for as much as 90% of all losses from counterfeit credit cards reported.

VISA and its financial institution members have aggressively addressed electronic counterfeiting practices and have remained committed to pursuing all appropriate

measures to combat this growing international problem. In this regard, VISA actively cooperates with international enforcement agencies. For example, in cooperation with the International Association of Credit Card Investigators ("IACCI"), VISA U.S.A. regularly presents educational programs designed to heighten the awareness of both merchants and law enforcement officers regarding counterfeit credit card activities throughout the United States.

VISA also is continuing to educate its member financial institutions and consumers about fraudulent credit card practices. For example, VISA U.S.A. has sent several communications to its member financial institutions concerning the problem of counterfeit credit cards and has prepared "statement stuffers" for members to distribute to cardholders warning of the dangers posed by credit card fraud. VISA U.S.A. has developed fraud awareness manuals and videotape programs for both its members and law enforcement officials in an effort to heighten their awareness of credit card fraud activities. Also, VISA U.S.A. presently is preparing a curriculum on credit card fraud to be used at the Federal Law Enforcement Training Center. VISA U.S.A. keeps its members advised on fraud concerns through its Strategic Information Line, an

electronic bulletin board utilized by VISA U.S.A. members as an information exchange resource.

Asian Crime Groups and
New Types of Credit Card Fraud

Just as the threat of substantial losses due to traditional forms of credit card counterfeiting resulted in the introduction of enhanced security features in the credit card itself, the placement of electronic verification terminals at merchant locations in the 1980s and the enactment of the Credit Card Fraud Act, the new threat of counterfeit and re-encoded magnetic stripes demands a technological response. It is relatively easy and inexpensive to re-encode a valid account number onto an existing magnetic stripe, as well as to re-emboss a different account number of the face of a stolen card.

Valid account numbers are often obtained for fraudulent purposes from unsuspecting VISA cardholders by criminals working in various, otherwise legitimate merchant locations, such as hotels and restaurants. These account numbers and other personal information are then furnished to criminals who encode the data on the magnetic stripe of counterfeit or stolen credit cards.

The counterfeiting of the credit card's magnetic stripe has emerged as a major threat to the global credit card payments system. Losses resulting from the alteration and/or re-encoding of the magnetic stripe have been experienced by all major credit card associations. While this threat first emerged in Asia and the Pacific, it has increasingly become a worldwide problem.

To reduce the risk from mass magnetic stripe counterfeiting, VISA International now requires that card issuers add a card verification value to the stripe. The card verification value is a unique check value calculated from the data encoded on the stripe using a secure cryptographic process. Once encoded on the stripe, the card verification value can prevent magnetic stripe counterfeit transactions by validating the other credit card information contained on the magnetic stripe during the authorization process.

While this process prevents the encoding of counterfeit cards and the re-encoding of lost or stolen cards, it will not stop "skimming." Skimming is the process by which the magnetic stripe information on a legitimate, valid card can be copied onto the magnetic stripe of a counterfeit, lost or stolen card. VISA is currently

implementing a long-term plan to utilize magnetic verification value technology known as the "watermark magnetic stripe."

Asian organized crime groups involved in credit card fraud are generally comprised of individuals from various elements who do not always stay with one specific crime group, but move among groups. There is, however, usually a common denominator among these groups which provides a network for their activities. For example, the members may be from the same geographical region, may know someone within the group or may have a family member within the group, etc. The dominant factors often are that members are of the same ethnic group and speak the same dialect.

The majority of the organized crime groups have their origin in Hong Kong, Malaysia or Taiwan and the leaders of the groups usually remain in these locations. The groups reportedly have recruited individuals from the Peoples' Republic of China who have criminal backgrounds and may now be recruiting former members of the Chinese Army from Southern China who have been recently released from the Army. By joining with the organized crime groups in Hong Kong these new recruits are provided an easy and quick way

to make money. They are useful to the groups, because these recruits, if caught, are expendable.

The usual modus operandi of these crime groups is as follows. Valid cardholder account numbers and expiration dates of the accounts are obtained from crime group associates at various merchant locations or, in some cases, from crime group associates in banks. The account numbers preferred by the crime groups are from business credit cards and "gold" cards because of their higher credit limits. Lost or stolen cards are re-embossed and re-encoded with this account information. Recently, there has been an increase in the number of new counterfeit cards being manufactured by criminal organizations in Taiwan, Hong Kong, and China which have the technology necessary to replicate or counterfeit the hologram. These new cards are also embossed and encoded with compromised valid account numbers. The embossing and encoding usually takes place in Hong Kong and Malaysia as well as on location where crime group members will be making their purchases.

The leaders of the crime organizations usually recruit a group of about six young Chinese males to travel to various locations around the world to purchase goods. These individuals are provided with stylish clothing and

accessories to give the impression of affluent travelers which enables them to blend in with the clientele of the targeted merchants.

The target country or city usually is easily accessible by air, is a normal tourist destination, has high-value items available for purchase (such as, jewelry, watches, electronics, high-fashion clothing), has lax laws and/or prosecution relating to credit card fraud, and, generally has a native Asian community that includes elements who are willing to provide a support role and assist in identifying specific merchants that would be susceptible to fraudulent activities.

The group of criminals usually travels using their own legitimate passports and other identification documents. The counterfeit credit cards, along with counterfeit identification supporting the credit cards, are usually sent by legitimate worldwide courier services to a contact in the target destination so the mission will not be jeopardized in the event that the members and their luggage are searched as they enter the country.

Purchases are made with the counterfeit cards until the criminals are unable to obtain authorizations, at which

time they dispose of the cards or re-encode the magnetic stripes with new account numbers. The items purchased are either shipped to a contact in another country (generally a duty-free location) where the merchandise is sold; or the merchandise is sold to a cooperating merchant in the country where it was purchased. In the latter instance, the proceeds are deposited in a local bank account and then wire-transferred to a bank account in the crime group's home country.

As this counterfeit activity increases around the world, there have been more and more instances of cases involving Asian organized crime group activity in the United States which affects United States banks. For example, valid United States VISA cardholder account numbers may be obtained anywhere in the world, as outlined above, and encoded on counterfeit credit cards which will be used worldwide. A summary of recent cases that actually occurred in the United States and Guam provides some examples of the problem.

In March 1992, two Chinese males were detained in Phoenix, Arizona after attempting to buy an expensive watch at a local jewelry store. One of the suspects was in possession of two counterfeit VISA cards. The cards bore

the graphics of a U.S. bank; however, the numbers on the cards were VISA account numbers issued by a Japanese bank. The same VISA account numbers were also used for purchases in Hong Kong following the incident in Phoenix. Also, the names embossed on the cards previously had been used on counterfeit cards in Guam in January of this year. In addition, an address in California on a bank account related to these card numbers was identified as being associated with an Asian crime group. This account had been used to transfer funds to a Hong Kong bank.

Since the end of February 1992, over 20 VISA account numbers from one U.S. bank have been compromised at a Chinese merchant location in Seattle, Washington. There has been fraudulent activity on these accounts involving counterfeit account data in Toronto and Vancouver, Canada, as well as Seattle. Investigation is ongoing in this matter, and it appears that crime group members may be using extortion methods to persuade some merchants to accept counterfeit cards for purchases of high-value merchandise.

Last fall, three crime group members were arrested in Guam after having purchased over \$300,000 worth of expensive watches. They had entered Guam from Hong Kong, while the counterfeit credit cards had been concealed in a

hollowed-out book that had been sent by courier from Hong Kong. The credit card graphics were of a Hong Kong bank and the VISA account numbers were from banks in the U.S., the United Kingdom and Japan. One of the individuals indicated to enforcement authorities that they were "testing" the market in Guam with the intent of continuing on to Hawaii and the West Coast of the United States.

The majority of losses from counterfeit credit cards are associated with magnetic stripe counterfeiting. White plastic counterfeiting, where the face of the card contains no graphics or trade name and the back has only the magnetic stripe, is associated with collusive merchants; the counterfeiting of the magnetic stripe onto valid cards affects legitimate and innocent merchants.

Canada has had significant problems with credit card fraud. Canada's problem arise, in part, from the lack of adequate laws and prosecution resources. Canadian authorities are presently reviewing current laws to develop an enforcement strategy and determine whether new legislation should be enacted. Canada, as a member of the British Commonwealth, is also more susceptible to infiltration by crime group members because of the ease of entry from Hong Kong, a British territory.

Apprehension of perpetrators along with prosecution and incarceration are important factors in controlling the growth of the problem, but the organized crime groups are quite aware of these factors as they plan their operations. Where the rewards are great and the risk of apprehension and prosecution is low, counterfeit activity will continue to increase.

Combatting Credit Card Fraud

VISA continues to look at new technology in order to improve the security features of credit cards themselves and the credit card payments system as a whole. One method to protect the account number from being skimmed is the Watermark Magnetics™ process. This technology would be used to determine the magnetic verification value of the magnetic stripe. It improves the security of the current magnetic stripe by embedding within the stripe a serial number which cannot be altered or effectively copied. This serial number can be read in specially equipped terminals and ATMs and could be used in conjunction with the card verification value discussed above. VISA is utilizing the possibilities of this new technology in a long range plan to improve security. The more sophisticated the technology, the more money and time must be invested by criminal groups in order

to defeat the security features. This new security technology is being shared among the bankcard industry associations in order to enable all credit card issuers to minimize their fraud losses.

As for the current law enforcement effort in the United States, the investigation of credit card fraud must compete for resources and enforcement priorities with investigations of other crimes. This competition sometimes causes delay. Also, investigation of these new types of credit card fraud is complicated, time-consuming, and crosses enforcement jurisdictions and national borders. These factors hamper the investigation and prosecution of credit card crimes.

The Secret Service, Federal Bureau of Investigation, and Postal Inspection Service have all been cooperative in working with VISA; however, they have been limited by a lack of resources to allocate to this type of credit card fraud problem. Of benefit would be more resources for agents knowledgeable about and trained in investigating Asian crime groups and dedicated to working these cases in conjunction with investigators of the bankcard associations. There is increasing evidence that these groups commit many types of crimes and the proceeds of

their counterfeit activity help to finance other criminal activity. The groups are global in scope and are able to exploit the weaknesses of a system, whether it be commercial or governmental.

VISA has established a worldwide 24-hour investigative assistance desk that has multilingual operators available to expedite investigative requests between countries and time zones. In addition, VISA has initiated a program to identify those nations that have been targeted by these crime groups because of inadequate criminal laws and enforcement, and is working with its members and the other bankcard associations to enact criminal legislation in these countries to deal with credit card fraud.

VISA also has been meeting with international investigative organizations, such as IACCI, Interpol and the International Association of Asian Organized Crime Investigators, in order to increase their awareness of the problem and to advise them of our willingness to assist and provide expertise in their investigations. VISA has recently brought into the Security and Fraud Investigations Department of VISA International an expert in card and travelers cheque manufacturing and printing to examine

recovered counterfeit cards and travelers cheques that have not been examined by foreign law enforcement agencies. This expert will identify the common cards that are being used around the world and advise the foreign investigative jurisdictions involved.

VISA and MasterCard believe that Congress should appropriate new, or re-allocate existing, funding and resources to combat the international credit card fraud problem and Asian crime groups in particular. In addition, U.S. law enforcement agencies should augment existing inter-agency coordination within the U.S. government, between federal and state authorities and internationally, in bilateral and multilateral contacts.

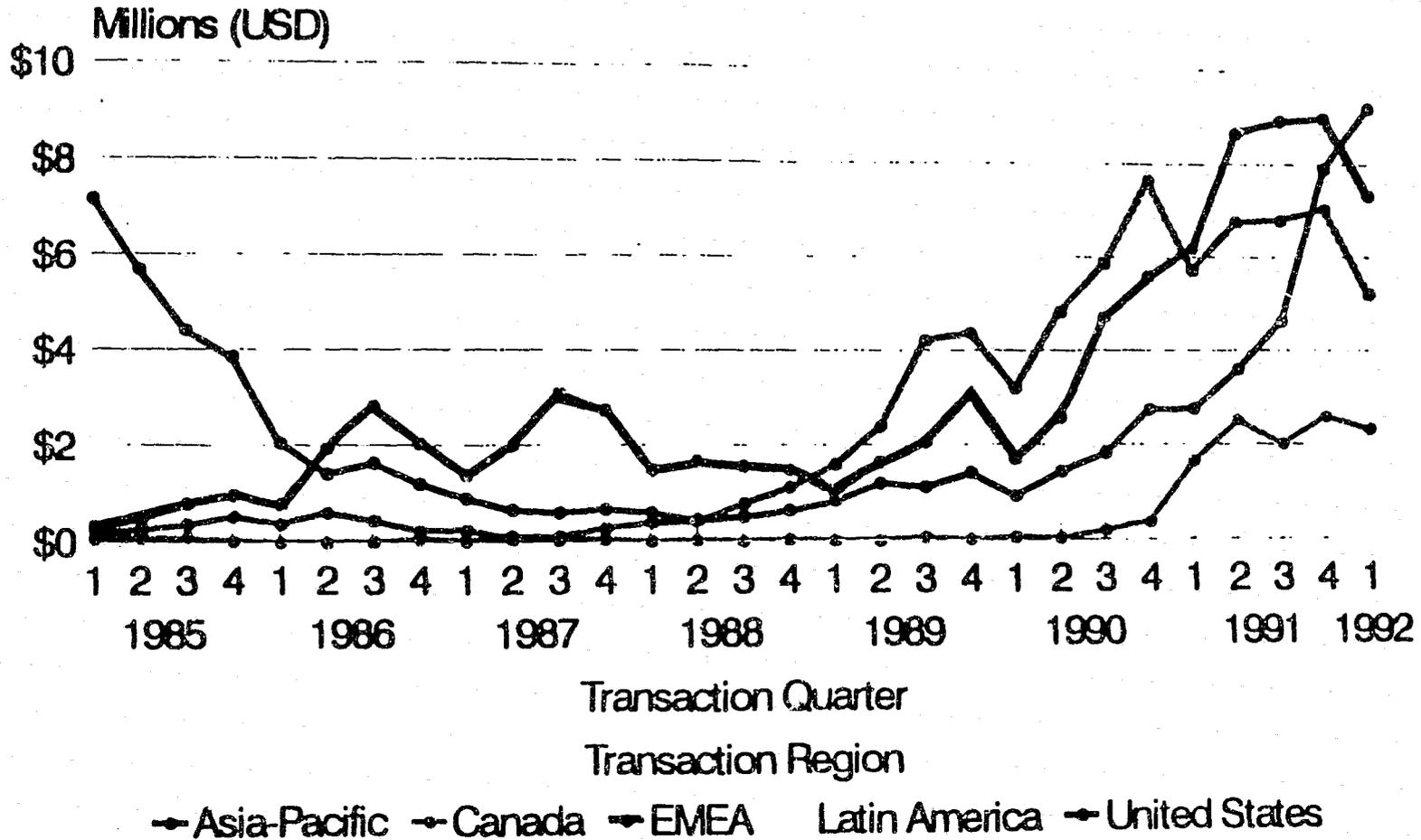
Congress also should amend the Credit Card Fraud Act to grant state and local prosecutors authority to enforce this statute in the federal and/or state courts. MasterCard and VISA have worked closely with these law enforcement officers and has found them to be responsive in pursuing credit card fraud under state law. This grant of additional authority would expand the statutory tools available to state and local prosecutors and bring additional enforcement resources to bear on the problem of credit card fraud.

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VISA and MasterCard International appreciate this opportunity to present their views to the Subcommittee. MasterCard and VISA have been working closely with the Senate and House Judiciary Committees and other concerned Congressmen and Senators to develop and enact amendments to the Credit Card Fraud Act which would expressly address other new types of credit card frauds. In addition, VISA and MasterCard have worked with the Congressional appropriations committees to help secure additional enforcement resources to combat credit card fraud. MasterCard and VISA intend to continue these efforts. In addition, VISA and MasterCard would be pleased to work with the Subcommittee and its staff in other initiatives designed to expressly address the international fraud activities that the Subcommittee is now investigating.

Visa International

Worldwide Visa Card Counterfeit Losses



Reported as of 2 June 1992. The First Quarter 1992 is 85 percent complete.

Visa International

Worldwide Visa Card Counterfeit Losses

