National Money Laundering Strategy

national money **July 2002** laundering strategy

2002
NATIONAL MONEY LAUNDERING STRATEGY

FOREWORD

We release the 2002 *National Money Laundering Strategy* into a world that changed dramatically as a result of the villainous terrorist attacks on September 11, 2001. It is imperative that the federal government pursue a national strategy to attack the financial underpinnings of crime, including the financing of terrorist groups. It is only by working cooperatively together that we can cut off the financial lifeblood that terrorists and other criminals depend on to support their acts of cowardly murder. We must address this task in new and dramatically different ways.

On June 6, 2002, President Bush proposed the most extensive reorganization of the federal government in over 50 years. Legislation is now pending in the Congress to establish the Department of Homeland Security to secure our nation and to prevent terrorist attacks within the United States, reduce our vulnerability to terrorism, and to minimize the damage and recover from attacks that may occur. The Department of Homeland Security will better focus and concentrate the government's skills and resources in this crucial mission.

The *2002 Strategy* paves the way forward. The *Strategy* directs the government's resources against money launderers and those who finance terrorist activities and individuals. It is a good plan and a critical mission.

We will take the fight to the criminals, to the terrorists, and to those who support them financially. We will pursue relentlessly, and work cooperatively with the private sector, financial regulators, and our international partners to detect, prevent, deter, and punish money laundering and the financing of terrorist groups.

The President and the American people are committed to this fight, and we will win.

Paul H. O'Neill
Secretary of the Treasury

John Ashcroft
Attorney General

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Glossary of Abbreviations

AFMLS — Asset Forfeiture and Money Laundering Section, Department of Justice
APEC — Asia Pacific Economic Cooperation
APG — Asia Pacific Group on Money Laundering
ATF — Bureau of Alcohol, Tobacco and Firearms, Department of the Treasury
BJA — Bureau of Justice Assistance, Department of Justice
BSA — Bank Secrecy Act
BMPE — Black Market Peso Exchange
C-FIC — Financial Crime-Free Communities Support Program
CFTC — Commodity Futures Trading Commission
CMIR — Currency or Monetary Instrument Report
CTR — Currency Transaction Report
DEA — Drug Enforcement Administration, Department of Justice
EOUSA — Executive Office of United States Attorneys, Department of Justice
FATF — Financial Action Task Force on Money Laundering
FBAR — Foreign Bank Account Report
FBI — Federal Bureau of Investigation, Department of Justice
FDIC — Federal Deposit Insurance Corporation
Fed — Federal Reserve Board
FinCEN — Financial Crimes Enforcement Network, Department of the Treasury
FIU — Financial intelligence unit
FSF — Financial Stability Forum
GCC — Gulf Cooperation Council
GTO — Geographic Targeting Order
HIDTA — High Intensity Drug Trafficking Area
HIFCA — High Risk Money Laundering and Related Financial Crime Area
IEEPA — International Emergency Economic Powers Act
ILEA — International Law Enforcement Academy
INCSR — International Narcotics Control Strategy Report
IFI — International financial institution
INL — Bureau for International Narcotics and Law Enforcement Affairs, Department of State
IRS-CI — Internal Revenue Service — Criminal Investigations, Department of the Treasury
IMF — International Monetary Fund
JTTF — Joint Terrorism Task Force
MLCA — Money Laundering Control Act of 1986
MLCC — Money Laundering Coordination Center, U.S. Customs Service, Department of the Treasury

MLSA —— Money Laundering Suppression Act of 1994
MOU —— Memorandum of Understanding
MSB —— Money Services Business
NCCTs — Non-Cooperative Countries or Territories
NCUA —— National Credit Union Administration
OAS —— Organization of American States
OCC —— Office of the Comptroller of the Currency, Department of the Treasury
OCDETF — Organized Crime Drug Enforcement Task Force
OECD — Organization for Economic Cooperation and Development
OFAC —— Office of Foreign Assets Control, Department of the Treasury
OFC —— Offshore Financial Center
OGBS — Offshore Group of Banking Supervisors
OGC —— Operation Green Quest, U.S. Customs Service
OJP —— Office of Justice Programs, Department of Justice
ONDCP — Office of National Drug Control Policy
OTS —— Office of Thrift Supervision, Department of the Treasury
SAR —— Suspicious Activity Report
SAR-BD — Suspicious Activity Report for Securities Brokers and Dealers
SARC —— Suspicious Activity Report for Casinos
SEC —— Securities and Exchange Commission
SOD —— Special Operations Division, Department of Justice
TFRG —— Terrorism Financial Review Group, FBI
USPIS — United States Postal Inspection Service

2002 NATIONAL MONEY LAUNDERING STRATEGY

EXECUTIVE SUMMARY

In September 2001, the Bush Administration released its first *National Money Laundering Strategy*. In that *Strategy*, we shifted the government's focus to the investigation and prosecution of major money laundering organizations. The reasoning is straightforward – limited federal law enforcement resources should be directed and concentrated to ensure their greatest impact and effectiveness. The *2001 Strategy* also emphasized the importance of asset forfeiture as the most direct method of depriving criminals of their ill-gotten gains.

We need highly trained and experienced criminal investigators to dismantle large, complex, money laundering schemes and to undertake significant asset forfeiture investigations. For this reason, the *2001 National Money Laundering Strategy* proposed the development of advanced money laundering training courses for federal agents and prosecutors. Successful prosecution of large-scale money launderers also requires increased coordination and partnership between federal, state and local, and foreign law enforcement agencies, and the private sector. Thus, the *2001 Strategy* developed a comprehensive plan to enhance coordination. Finally, for the first time, we began to consider systematically how to measure the results of our efforts.

In Fiscal Year 2001, the law enforcement agencies of the Departments of the Treasury and Justice seized over $1 billion in criminal assets, with over $300 million of that amount attributable to money laundering cases.

The *2002 National Money Laundering Strategy* reports on the progress that has been made to implement the Goals and Objectives of the *2001 Strategy*. We identified baseline numbers for money laundering transactions in a variety of American cities; negotiated an international agreement with four governments to plan a coordinated fight against the Black Market Peso Exchange; and provided advanced money laundering training to front-line investigators. In Fiscal Year 2001, the law enforcement agencies of the Departments of the Treasury and Justice seized over $1 billion in criminal assets, with over $300 million of that amount attributable to money laundering cases.

We must concentrate enforcement efforts on large-scale money laundering enterprises. In Fiscal Year 2000, 1,106 defendants were sentenced pursuant to the three money laundering sentencing guidelines then in effect. Seventeen percent of those sentenced to prison received a longer sentence because of their role as a "leader, organizer, manager, or supervisor" of the laundering activity. Conversely, 83% of those convicted for federal money laundering offenses were not considered leaders of the money laundering operation. Additionally, almost 20% of those sentenced to prison laundered in excess of $1 million. Thus, 80% laundered smaller amounts of money. These statistics indicate that we should be able to focus our domestic enforcement efforts more precisely on dismantling major money laundering operations.

Of course, our strategy to combat money laundering does not focus on law enforcement alone. We must also improve work with our international partners to eliminate safe havens for money launderers, and we must continue to hone our regulatory efforts. The Goals, Objectives, Priorities, and Action Items discussed in the *2002 Strategy* set forth our agenda for improvement, and identify particular individuals and offices who will be held accountable for accomplishing our mission.

Since September 11, 2001, our mission has changed in important ways. The *2002 National Money Laundering Strategy* breaks important new ground, and, for the first time, describes a coordinated, government-wide strategy to combat terrorist financing. We will apply the lessons we have learned from the federal government's efforts against money laundering to attack the scourge of terrorism and to deny terrorist groups the ability to finance their acts of cold-blooded murder. By aggressively pursuing the money trails left by criminals and terrorists, law enforcement can identify and capture those involved and deny terrorist entities the funds necessary to finance further acts of terror. This is a top priority for us in the remainder of 2002.

In addition, we will establish an interagency targeting team to help focus our efforts and resources against the most significant money laundering organizations and systems, such as individuals who smuggle bulk cash and terrorist groups, like the Colombian FARC, and seek to jail more of the money laundering masterminds.

The 2002 National Money Laundering Strategy breaks important new ground, and, for the first time, describes a coordinated, government-wide strategy to combat terrorist financing.

We will also work with the international financial institutions, such as the World Bank and International Monetary Fund, and the multinational Financial Action Task Force to improve and monitor anti-money laundering compliance efforts throughout the world.

Finally, in this *Strategy* we recognize the necessity and significance of rewarding those who have made great strides in preventing money laundering and dismantling major money laundering enterprises. To that end, we announce the development of the Secretary's Distinguished Service Award for Financial Crime Investigations to honor outstanding work performed in significant money laundering cases. The Secretary's Award will be issued annually by the Secretary of the Treasury to recognize exceptional contributions to combating major money laundering activity.

Highlights of the *2002 Strategy* include:

(1) TERRORIST FINANCING — presents government's first plan to attack financing networks of terrorist entities;

(2) CHARITIES — focuses attention on the use of charities and other non-governmental organizations to raise, collect, and distribute funds to terrorist groups;

(3) TARGETING TEAM — creates an interagency group to identify and target significant money laundering organizations and systems used by money launderers, including the smuggling of bulk cash and the use of alternative remittance systems, such as hawala;

(4) USA PATRIOT ACT — describes work done to implement these landmark money laundering provisions;

(5) METRICS – charts for the first time ways to monitor our progress and establishes a "traffic light" reporting system to evaluate the results of federal anti-money laundering efforts;

(6) FINANCIAL ACTION TASK FORCE – reports on our progress in the multinational Financial Action Task Force (FATF) to revise its internationally recognized anti-money laundering standards and to identify and monitor the progress of non-cooperative countries and jurisdictions.

INTRODUCTION

Our previous *National Money Laundering Strategies* set forth an action plan for how law enforcement, regulatory officials, the private sector, and the international community could take concrete steps to make it harder for criminals to launder money generated from their illegal activities. Following the terrorist attacks against the United States on September 11, 2001, we also recognize that the fight against money laundering is integral to the war against terrorism, and that effective anti-money laundering policies will save innocent lives.

The fight against money laundering is integral to the war against terrorism.

We still do not know the full magnitude of the money-laundering problem. The various efforts to attempt to answer this question over the years have been unsatisfactory. Some organizations attempted to estimate the magnitude of global money laundering based on models of tax evasion, money demand, and ratios of official GDP and nominal GDP. These studies, however, indicate wide windows of variance. For example, former IMF Managing Director Michel Camdessus estimated the global volume of laundering at between two to five percent of the world's gross domestic product, a range which encompasses sums between $600 billion and $1.8 trillion. U.S. Government agencies have not yet developed a more reliable measure to date.

In 2002, we will begin to develop a model to determine the magnitude of money laundering in the U.S. We will make our hypotheses in developing the model explicit so that the model can be critiqued – and refined – in future years. If appropriate, we will invite proposals from the private sector and academia for how to develop the model and will consider issuing a contract to a non-government entity to work on the model. This will not be an easy, speedy, or contentious free task, but it is one that we are committed to accomplishing.

The *2002 Strategy* continues the work initiated in the *2001 Strategy* to attempt to develop reliable measures and to set forth a clear method for analyzing how well the government is doing to combat money laundering. Our methods for measuring our performance should be consistent with the President's Management Agenda articulated in the 2003 Budget. Therefore, during 2002, we will develop a "traffic light" scorecard to track our performance, assess how well we are executing the initiatives described in the *2002 Strategy*, and provide an indication of where we stand at a given point in time. We will analyze federal resources devoted to anti-money laundering endeavors so that actual costs are understood and can shape future budget allocations. In 2002, we will continue to review the *quantitative* measures of our results and try to incorporate *qualitative* factors that will give greater context to the *quantitative* figures. These efforts are described in Goal 1 of the *2002 Strategy*.

The fight against terrorist financing is similar to the work against money laundering that has preceded it, and is discussed in Goal 2. This fight will require extensive law enforcement cooperation, an effective regulatory regime, an engaged private sector to help identify suspicious and potentially criminal conduct, and the commitment of the international community to eliminate safe havens for money launderers and those who finance terrorism.

Nevertheless, there are significant adjustments that we will have to make if we are to win this battle against terrorists and those who fund them. The financial dealings of a terrorist organization are difficult to investigate since their funds may come from the proceeds of otherwise legitimate businesses that terrorist operatives may own and donations they have received from sympathetic entrepreneurs. Since the early 1990s, terrorist groups have also relied increasingly on monies from like-minded non-governmental organizations and charities that appear to be legitimate humanitarian, social, and political enterprises and who carry out other work in addition to their support for terrorism. Terrorist groups have also sought to move their funds outside the traditional, and highly regulated and supervised, Western banking network. The underground banking systems that terrorists frequently use rely entirely on trust between the parties to a transaction. Oftentimes, these transactions do not leave a paper financial trail comparable to the one that would have been left if the transaction had taken place in a traditional financial setting, such as a bank.

The attitude of the international community must also change, quickly and permanently.

The attitude of the international community must also change, quickly and permanently. For too many years, nations have tolerated weaknesses in legal and regulatory systems around the

world that enable money launderers to find safe harbors to conduct their illegal activities without fear of detection or capture. We cannot tolerate a similar laxity in the war against terrorists and those who fund them. We will take appropriate measures against those regimes that do not move forcefully to deny terrorists access to the resources necessary to conduct their terrorist activity. As President Bush stated, "We put the world's financial institutions on notice: if you do business with terrorists, if you support them or sponsor them, you will not do business with the United States of America."[1]

At the same time, we must continue to advance the significant progress against money laundering that we have achieved to date, and we lay out our agenda for how to do so in Goals 3, 4, 5, and 6.

The overriding goal of the 2002 Strategy is to deny terrorist groups access to the international financial system, to impair the ability of terrorists to raise funds, and to expose, isolate, and incapacitate the financial networks of terrorists.

This fourth edition of the *National Money Laundering Strategy* is the first to address the issues surrounding terrorist financing. The overriding goal of the *2002 Strategy* is to deny terrorist groups access to the international financial system, to impair the ability of terrorists to raise funds, and to expose, isolate, and incapacitate the financial networks of terrorists. The lessons learned from our previous undertakings against money laundering must now be applied to attack the scourge of terrorism and to deny terrorist groups the ability to finance their acts of cold-blooded murder. By aggressively pursuing the money trails left by all criminals and terrorists, law enforcement can identify and capture those involved and can deny terrorist entities the funds necessary to finance further acts of terror.

Reducing the ability of terrorist groups to finance their operations requires a multi-dimensional approach. Law enforcement, the private sector, intelligence agencies, financial regulators, and the international community each have important roles to play. These various actors must continue to work together and cooperate with one another to ensure the success of our efforts

These efforts require effective leadership and coordination. The Departments of the Treasury and Justice will reconvene the Money Laundering Steering Committee to guide these efforts and to provide the necessary level of coordination and cooperation among all the participating departments and agencies.

The war against terrorists and those who fund them is a war that the United States will win.

The stakes are high, and we must remain focused on defeating the enemy: international terrorism.

The war against terrorists and those who fund them is a war that the United States will win. In the pages ahead, we lay out an aggressive approach to attack both the financing of terrorist groups and money laundering organizations. We look forward to reporting on our results and accomplishments in the *2003 Strategy*.

[1] Remarks of President George W. Bush, Nov. 7, 2001.

GOAL 1:

MEASURE THE EFFECTIVENESS OF ANTI- MONEY LAUNDERING EFFORTS

Since public resources are limited, decision-makers must be provided with adequate information to decide how to deploy those resources most effectively. We will continue the efforts begun under the *2001 Strategy* to measure the effectiveness of the resources spent on federal anti-money laundering efforts.

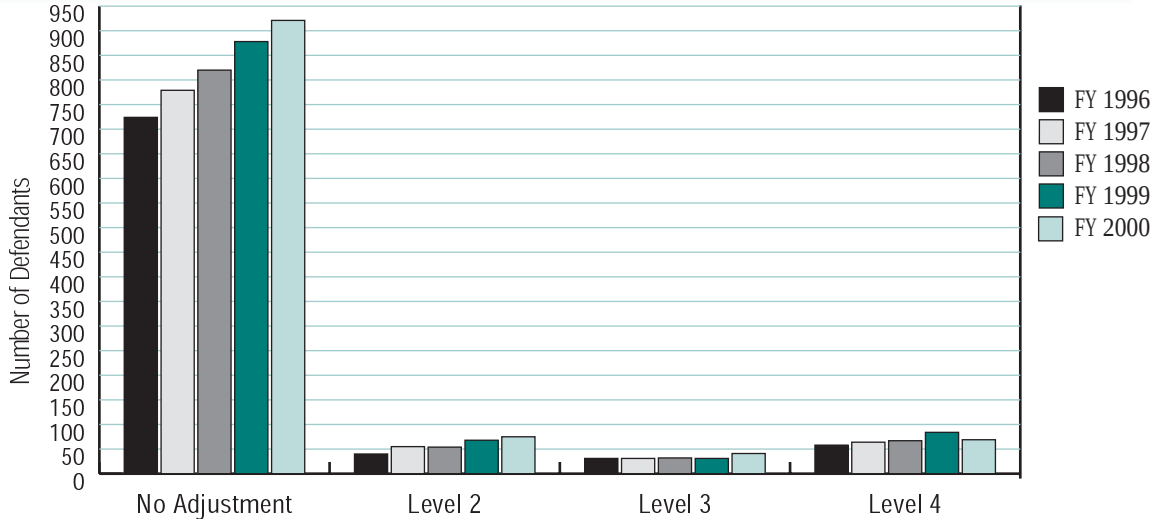
At the same time, measuring the magnitude of money laundering remains difficult. In the past, some organizations have attempted to estimate the magnitude of global money laundering based on models of tax evasion, money demand, and ratios of official GDP and nominal GDP. These studies, however, do not accurately describe the magnitude of global money laundering, often indicating windows of variance. For example, former IMF Managing Director Michel Camdessus estimated the global volume of laundering at between two and five percent of the world's gross domestic product, a range which encompasses sums between $600 billion and $1.8 trillion. U.S. Government agencies have not yet developed a more reliable measure to date.

In 2002, we will begin to get a possible answer to this open question. We will seek to develop a model to determine the magnitude of money laundering in the U.S. We will make our hypotheses in developing the model explicit so that the model can be critiqued – and refined – in future years. If appropriate, we will invite proposals from the private sector and academia for how to develop the model and will consider issuing a contract to a non-government entity to work on the model. This will not be an easy, speedy, or contentious free task, but it is one that we are committed to accomplishing.

We will seek to develop a model to determine the magnitude of money laundering in the U.S.

Although defining the scope of money laundering remains a problem, we cannot delay measuring the success of our efforts

Defendants with Money Laundering as the Primary Sentencing Guideline by Role in the Offense

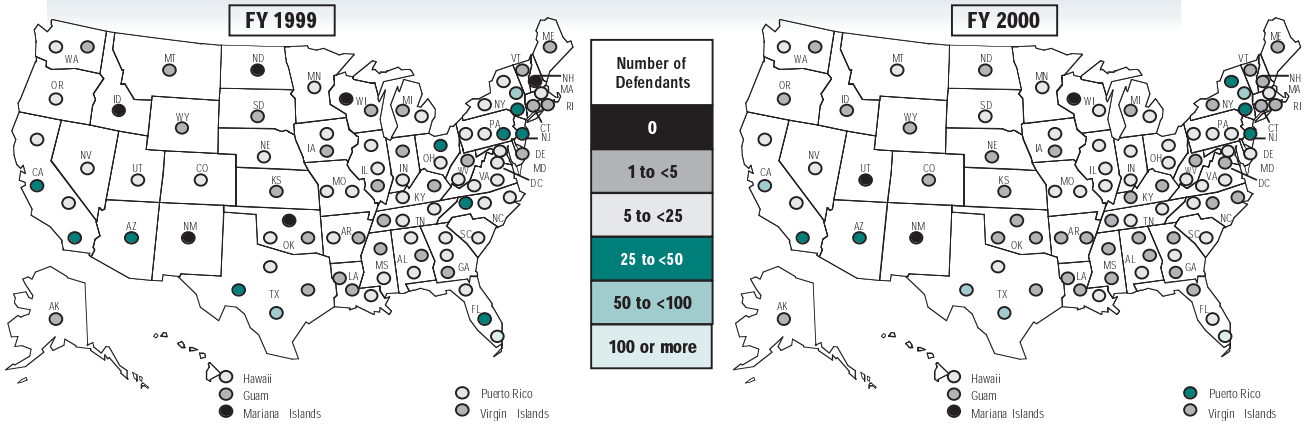


Sentencing Adjustment by Role in the Offense

	No Adjustment	Level 2 (Manager, Organizer Supervisor or Leader)	Level 3 (Manager of 5 or More Participants)	Level 4 (Leader or Organizer of 5 or More Participants)
FY 1996	724	40	31	58
FY 1997	779	55	31	64
FY 1998	820	54	32	67
FY 1999	878	68	31	84
FY 2000	921	75	41	69

Source: *U.S. Sentencing Commission*

Money Laundering Defendants Sentenced by District



FY 1999	District	No.
Districts with the Highest Number of Money Laundering Defendants	Florida, Southern	129
	New York, Eastern	78
	Texas, Southern	54
	New Jersey	42
	New York, Southern	35
	California, Southern	34
	Texas, Western	31
	Pennsylvania, Eastern	30
	California, Central	29
	Arizona	27
	North Carolina, Western	27
Total FY 1999 Money Laundering Defendants		1,061

FY 2000	District	No
Districts with the Highest Number of Money Laundering Defendants	Florida, Southern	103
	New York, Eastern	79
	Texas, Southern	62
	Texas, Western	60
	California, Central	56
	New York, Southern	44
	Puerto Rico	43
	Arizona	36
	California, Southern	32
	New York, Northern	29
Total FY 2000 Money Laundering Defendants		1,106

Source: *U.S. Sentencing Commission*

until the magnitude question is determined more rigorously. While deceptively easy to articulate in the abstract, the task of developing meaningful performance measures for the federal law enforcement agencies engaged in combating money laundering has proven to be quite difficult. In FY 2002, more work remains to be done on this important goal of assessing how well the government is doing in identifying, disrupting, and dismantling money laundering organizations, while recognizing that it may never be possible to develop perfect measurements.

The 2000 Sentencing Commission data is instructive. In FY 2000, 1,106 defendants were sentenced pursuant to the three money laundering sentencing guidelines then in effect.[2] Ninety percent (988) of these defendants pleaded guilty, and about 82% (901) received prison sentences. Forty-eight percent (530) of these money laundering defendants received one to five years of imprisonment and about 35% (330) received less than one year, or no imprisonment at all. The average length of imprisonment in FY 2000 for all money-laundering defendants was 38 months.[3]

Approximately 17% of those sentenced (185) received a longer sentence because of their role as a "leader, organizer, manager, or supervisor" of the laundering activity. This statistic helps the government measure its success in attacking the higher echelons of a money laundering enterprise. Almost 20% of those sentenced laundered in excess of $1 million. This measure helps the government to assess the significance of the money laundering organization that was disrupted by enforcement and prosecution efforts.

The Sentencing Commission also provided useful information about where money laundering cases are prosecuted. In Fiscal Year 2000, approximately one-half of all money laundering cases were prosecuted in just eight judicial districts: 1) Southern District of Florida; 2) Eastern District of New York; 3) Southern District of Texas; 4) Western District of Texas; 5) Central District of California; 6) Southern District of New York; 7) Southern District of California; and 8) Northern District of New York. The districts with the highest number of prosecutions are those with the highest number of Suspicious Activity Report (SAR) filings. The latest intelligence

[2] In November 2001, the Sentencing Guidelines were amended by consolidating section 2S1.2 (Engaging in Monetary Transactions in Property Derived from Specified Unlawful Activity) with section 2S1.2 (Laundering of Monetary Instruments, Engaging in Monetary Transactions in Property Derived from Unlawful Activity).

[3] The average sentence length for all defendants sentenced to prison by a federal judge in FY 2000 was 46 months.

reports from the National Drug Intelligence Center indicate that these same areas also have the highest risk for drug money laundering, and it is not surprising that money laundering and related financial crimes frequently appear to be concentrated in particular geographic areas.

Prosecution statistics alone are not an accurate measure of performance. The decision to bring a money laundering charge depends on a variety of factors, including an assessment of the admissibility of evidence, the likely sentence if the defendant is convicted, and the availability of other charges which would establish the same result. Additionally, it is more difficult, and involves far more resources, to investigate and prosecute an entrenched money launderer operating in a foreign country than to prosecute a single courier for the undeclared outbound transportation of cash. Statistically, each counts as a single prosecution, yet both the resources needed and qualitative impact of the cases are far different. As described in this Goal, we will continue to refine our performance measures so that we can try to account for these critical qualitative factors.

Legal changes to the asset forfeiture procedures adopted by Congress in 2000 may encourage prosecutors to rely less often on money laundering charges as a basis for federal forfeiture proceedings. Thus, despite the best efforts of law enforcement, it is possible that we will see a statistical decline in the total number of money laundering cases brought to federal court. In addition, the federal sentencing guidelines applicable to money laundering cases were recently amended. These amendments lower the sentence length for several kinds of white-collar cases, and may reduce the incentive of prosecutors to pursue some money laundering charges in an indictment.

Although the Sentencing Commission data is incomplete by itself, analysis of this data is instructive and provides the starting point for meaningful baselines and metrics.

- We now know that over 80% of all money launderers that were sentenced did not receive a leadership enhancement.
- We now know that almost 80% of those sentenced laundered less than $1 million.
- We know that some districts, even densely populated districts, prosecuted a limited number of money laundering cases.

These statistics show that we can improve our ability to focus on major money laundering prosecutions and target large organizations.

Of course, it is not enough merely to pledge to do better, we must have ways to meaningfully quantify our efforts. With the baselines discussed above developed, for the first time, we will be able to develop metrics to evaluate our progress. We are also seeking to develop new baselines within the *Strategy* by measuring the assets we siezed and forfeited, and developing a uniform case reporting system. But metrics cannot be developed in a vacuum. It would be possible as we draft the strategy to simply come up with new metrics that we should meet – increase prosecution of leaders by 50% or have money laundering cases in all judicial districts. But these would be metrics without meaning. Those would be metrics without the commitment and participation of the entire government. During the *2002 Strategy* process, we will seek to develop meaningful metrics using these and other baselines described below by working with the Department of Justice on this project and obtaining input from all interested government stake holders.

We will seek to develop meaningful metrics using these and other baselines and obtaining input from all interested government stake holders.

Our methods for measuring our performance under the *Strategy* should also be consistent with the President's Management Agenda articulated in the 2003 Budget. During 2002, we will develop a "traffic light" scorecard to track our performance, assess how well we are executing the initiatives described in the *2002 Strategy*, and provide an indication of where we stand at a given point in time. The scorecard will use green for success, yellow for mixed results, and red for unsatisfactory. The scoring will be overseen by an interagency Money Laundering Steering Committee co-chaired by the Departments of the Treasury and Justice.

The *2002 Strategy* advances the commitment to establish effective measurement systems that was initiated by the *2001 Strategy*. It reports on the development of a uniform case reporting system that contrasts and compares efforts across agency lines and helps determine where resources are best spent. It discusses the progress we have made to date in estimating the commission fees money laundering professionals set for their services. As a national strategy document, the *2002 Strategy* continues the review of federal resources devoted to anti-money laundering endeavors so

that actual costs are understood and shape future budget allocations. In 2002, we will continue to review the *quantitative* measures of our results and try to incorporate *qualitative* factors that will give greater context to the *quantitative* figures.

The 2002 Strategy continues the review of federal resources devoted to anti-money laundering endeavors so that actual costs are understood and shape future budget allocations.

* Objective 1: Develop measures to determine effectiveness of efforts to combat terrorist financing.

After the terrorist attacks on September 11, the President declared that "starving the terrorists of funding" would be a primary objective in the war on terrorism. The President also declared that this new war will be a conflict "without battlefields and beachheads," in short, an unconventional war. The escalation of

More than 160 countries have blocking orders in force, including those countries where an overwhelming amount of terrorist assets are located or likely to be found.

the financial front in the war on terrorism also requires us to evaluate whether our efforts in this war — against terrorist cells in remote parts of the world, as well as rogue (or national) governments, such as the former Taliban regime in Afghanistan — are working.

Priority 1: An interagency team will develop measures of success to assess our progress in the fight against terrorist financing.

Lead: Department of the Treasury

2001 Accomplishments: This is a new priority, so there are no accomplishments to report.

2002 Action Items: The Treasury along with other relevant agencies, including the Departments of State and Justice, will develop methods and measures of success that reflect the evolving nature of the successive stages of the fight against terrorism financing.

As discussed at the beginning of Goal 2, the President signed Executive Order 13224 on September 23, 2001 blocking the assets of 27 individuals and organizations affiliated with the September 11th attacks. As of June 10, 2002, the list of blocked terrorist organizations and individuals and their supporters under this E.O. had grown to 210.[4]

As of June 10, 2002, the list of blocked terrorist organizations, individuals, and their supporters had grown to 210.

We have achieved significant results since September 2001. All but a handful of small countries or rogue nations now express cooperation with the terrorist financing campaign. More than 160 countries have blocking orders in force, including those countries where an overwhelming amount of terrorist assets are located or likely to be found. Although these measures have been useful, a more comprehensive approach to assessing the effectiveness of our efforts against terrorist financing is necessary as this war moves into its successive stages.

An interagency team will develop new measures consistent with the approach set forth in the President's Management agenda.

[4] The list of individuals and entities designated under E.O. 13224 can be found at http://www.ustreas.gov/offices/enforcment/sanctions/terrorism.html. *See also,* http://www.interpol.int/public/terrorism/financing.asp, and http://www.un.org/docs/sc/committees/Afghanistan/Afgist.html

* Objective 2: Institutionalize systems to measure the success of money laundering enforcement efforts and results.

Priority 1: Devise and implement a "traffic light" results reporting system to report on progress on *Strategy* goals.

Lead: Assistant Secretary for Enforcement, Department of the Treasury; Assistant Attorney General, Criminal Division, Department of Justice.

2001 Accomplishments: This is a new priority, so there are no accomplishments to report.

2002 Action Items: Develop a "traffic light" scorecard for money laundering enforcement. Present the new scorecard in the *2003 Strategy*.

Not just terrorist financing, but all money laundering enforcement results should be measured in a manner consistent with the President's Management Agenda. During 2002, the Departments of the Treasury and Justice will co-chair an interagency effort to develop a "traffic light" scorecard relating to money laundering enforcement results. The measures will seek to track our performance, assess how well we are executing each of the six goals described in the *2002 Strategy* (and future *Strategies*), and provide an indication of where we stand at a given point in time. We will seek to publish the scorecard in the *2003 Strategy*. Thereafter, a Money Laundering Steering Committee co-chaired by the Departments of the Treasury and Justice will oversee the completion of the scorecard.

While highly relevant, a focus of effectiveness that limits itself to money laundering prosecutions, seizures, and forfeitures by federal law enforcement agencies does not present an accurate view of the government's overall efforts and results. As articulated in this *Strategy*, the federal government is engaged in the fight against money laundering on domestic and international fronts, employing enforcement and regulatory activity. Regulations and other restrictions should make it harder for money launderers to move their money anonymously through correspondent accounts. Examinations of financial institutions that include a robust anti-money laundering component should ensure that financial institutions and their employees are exercising their responsibilities to detect and prevent the movement of laundered money. Technical training and assistance provided by U.S. Government agencies should lead to enhanced supervisory regimes in problematic jurisdictions, and make it harder for potential launderers to exploit weak spots in international enforcement. Legislative changes, domestically and internationally, should inhibit the ability of launderers to move their illicit cash undetected through the international financial system by closing loopholes that had previously been open.

These regulatory steps must also be taken into account when assessing the results of the government's efforts to combat money laundering, but it is difficult meaningfully to quantify these results and to measure the total deterrent effect of our efforts. We can quantify the number of jurisdictions that improve their anti-money laundering legal frameworks in a given year, as we do in Goal 6, Objective 1 of this *Strategy*. We can quantify the number of bank and non-bank supervisory examinations conducted by federal financial regulators in a given year.[5] And, we can also quantify the amount of anti-money laundering technical assistance and training the U.S. provides in a given year, as we do in Goal 6, Objective 2, Priority 1.

What we cannot quantify easily are the results that can be attributed to these efforts.

What we cannot quantify easily, however, are the results that can be attributed to these efforts. We cannot know how many laundered funds attributable to organized crime or terrorist activities did not pass through the global financial system because a particular jurisdiction enacted a stronger anti-money laundering regime. We cannot know how many additional SARs were filed by a financial institution as a result of an examination that includes a Bank Secrecy Act (BSA) compliance review. These are difficult issues, and we will continue in 2002 to build upon the work begun since the publication of the *2001 Strategy* in September 2001.

[5] For example, in 2001, the Securities and Exchange Commission (SEC) conducted 639 examinations which included a review of an institution's compliance with the reporting requirements of the Bank Secrecy Act (BSA). The SEC conducted 737 of these examinations in 2000. The New York Stock Exchange (NYSE) examined 521 of its member institutions in 2001 and 319 in 2000, which includes examinations for BSA compliance. The National Association of Securities Dealers Regulation, Inc. (NASDR) conducted 1783 examinations of its members in 2001 and 1808 in 2000. Like the NYSE figures, these examinations include reviews for BSA compliance. The Office of the Comptroller of the Currency (OCC) conducted 700 BSA compliance examinations in 2001 and 802 in 2000. The National Association of Credit Unions (NACU) examined 6,708 institutions for compliance with the BSA in 2001 and 6.951 institutions in 2000.

Priority 2: Devise and implement a uniform money laundering case reporting system.

Lead: Assistant Secretary for Enforcement, Department of the Treasury; Director, Organized Crime Drug Enforcement Task Force, Department of Justice

2001 Accomplishments: Following the publication of the *2001 Strategy*, the Director of FinCEN, the Chief of DOJ's Asset Forfeiture and Money Laundering Section, and the Director of the Bureau of Justice Statistics met to develop a uniform case reporting mechanism.

Numbers alone cannot tell us whether the federal government is targeting major violators within a money-laundering organization.

The meeting participants examined the range of case reporting systems currently in use, and the efforts that would be necessary to redesign and implement a uniform case reporting system from scratch, since there is a wide variation even between agencies in the same Department. It was determined that the cost involved in taking any one system used by a federal law enforcement agency as the relevant model outweighed the potential benefit since the different investigative agencies have different goals, missions and performance measures. One automated information system currently used by a federal agency could serve as an acceptable starting point for designing a uniform system to measure the results of anti-money laundering law enforcement efforts.

2002 Action Items: (1) Consider adapting the case reporting system used by an existing federal agency for use by federal law enforcement agencies.

(2) By November 2002, develop recommendations for how qualitative factors, such as case significance and length of prison sentence, can be incorporated into quantitative measures of success.

There are several statistical measures that can be identified, monitored, and reported to provide a better understanding of how well the government is performing in its fight against money laundering. The numbers of investigations, prosecutions, and convictions, in the context of other information, can provide useful information.[6] Numbers alone, however, cannot tell us whether the federal government is targeting major violators within a money-laundering organization or whether our investigations are netting lower-level operatives and sending them to prison. Since laundered proceeds represent flows of value from the commission of the underlying criminal offenses, related seizures and the eventual forfeitures that result from them also provide the government with some insight into how well we are disrupting those flows.

The case reporting system currently in use by a federal agency can serve as a valuable starting point for developing a uniform case reporting system for money laundering case investigations. That system captures data from all the federal enforcement agencies, and provides a complete description of all investigations, prosecutions, indictments, and convictions as reported by federal prosecutors. The U.S. Attorney Offices are the centralized depository for information once a case reaches the stage for federal prosecution since every federal prosecution requires the involvement of a U.S. Attorney's office.

However, relying solely on information provided by U.S. Attorney's Offices would under-report federal enforcement efforts because those statistics would not capture money-laundering investigations that do not result in a prosecution case decision by a U.S. Attorney's Office.[7] We will work with the federal law enforcement agencies to attempt to capture and report relevant data in a common way.

Incorporating Qualitative Factors

We will explore how to incorporate qualitative factors to assess the results of federal money laundering efforts, such as the average length of sentence a convicted money launderer receives. This

[6] Legal changes to the asset forfeiture procedures adopted by Congress in 2000 may encourage prosecutors to rely less often on money laundering charges as a basis for federal forfeiture proceedings. Thus, despite the best efforts of law enforcement, it is possible that we will see a statistical decline in the total number of money laundering cases brought to federal court. In addition, it should be noted that the federal sentencing guidelines applicable to money laundering cases were recently amended. These amendments lower the sentence length for several kinds of white-collar cases, and may reduce the incentive of prosecutors to pursue some money laundering charges in an indictment. *See* U.S. Sentencing Guideline § 2S1.1 (2001)

[7] Some federal money laundering investigations result in a prosecution in state court. Other federal money vestigations are concluded before the case is presented to the U.S. Attorney's Office for a decision to prosecute. Other cases are resolved through civil proceedings or administrative forfeitures, and these statistics are also not captured by the system used by U.S. Attorney Offices.

information, together with information obtained from the U.S. Sentencing Commission, which includes information about the length of a sentence, the role in the offense played by an individual (which can indicate the significance of the defendant in the money laundering scheme), and the base offense level corresponding to the amount of money laundered,[8] can be analyzed to determine any regional or national trends for the sentence a convicted money launderer receives. The data can be analyzed to see if there are any spikes of money laundering activity in particular jurisdictions, which can help determine whether the federal anti-money laundering resources committed to a particular geographic area need to be adjusted.

The Departments of the Treasury and Justice will recommend how to incorporate some qualitative and additional quantitative factors in the money laundering case reporting system.

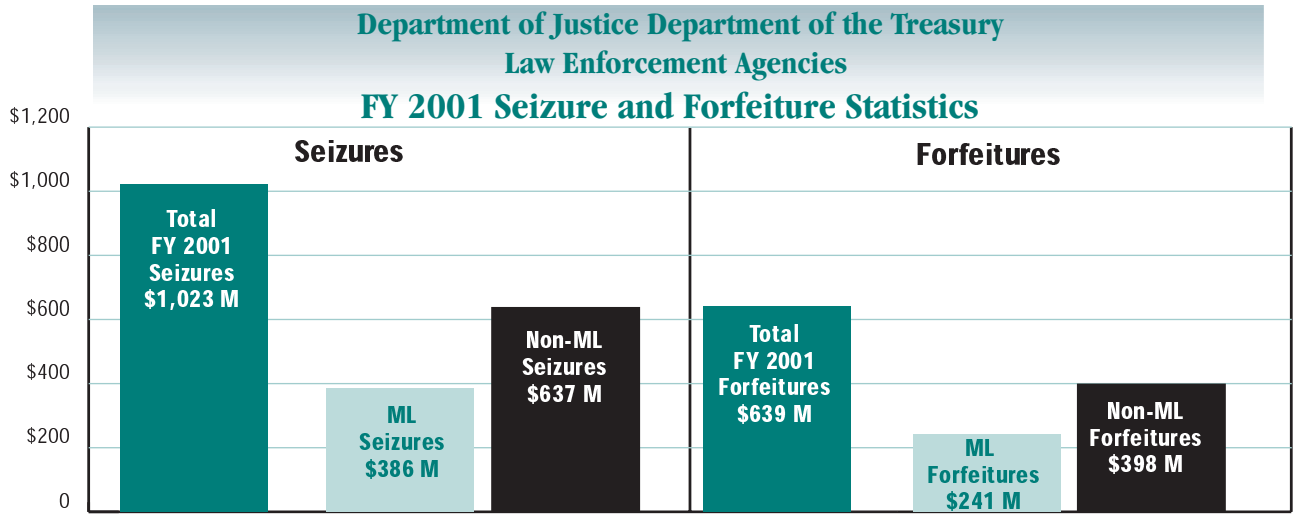
Priority 3: Measure assets forfeited or seized pursuant to money laundering prosecutions.

Lead: Director, Executive Office of Asset Forfeiture (EOAF), Department of the Treasury; Chief, Asset Forfeiture and Money Laundering Section (AFLMS), Criminal Division, Department of Justice.

2001 Accomplishments: EOAF and AFMLS established a common definition of money laundering for determining money laundering related asset seizures and forfeitures.

2002 Action Items: Establish a reporting system to quantify the forfeiture of assets related to money laundering activity, and modify as necessary.

Federal law enforcement must continue to refine the methods used to measure the costs and benefits of asset forfeiture strategies so that future programs can allocate resources where they are most needed and productive. A comprehensive system of measurement must distinguish between seizures and forfeitures related to money laundering. Accurate measurements will allow federal law enforcement to measure quantitatively the benefits of anti-money laundering efforts, including all "criminal contributions" that underwrite enforcement programs in the form of civil and criminal asset forfeitures.



Total FY 2001 Seizures:	$1,023,279,777	
Total Seizures Related to Money Laundering	$385,882,597	37.7%
Total Non-Money Laundering Seizures	$637,397,180	62.3%

Total FY 2001 Forfeitures:	$639,469,124	
Total Forfeitures Related to Money Laundering	$241,362,783	37.7%
Total Non-Money Laundering Forfeitures	$398,106,341	62.3%

NOTE: This data provides an indication of the extent of the money laundering activity for the given fiscal year. However, the actual magnitude of money laundering activity may not be accurately reflected in this chart. Alternative enforcement theories, prosecutorial discretion, and investigative security make a completely accurate measure extremely difficult. For example, many cases containing a money laundering component, such as Title 21 (proceeds of narcotics trafficking) seizures, are not reported as money laundering cases. Likewise, additional statutory authority resulting from the Civil Asset Forfeiture Reform Act (CAFRA), specifically 18 U.S.C. § 981(a)(1)(C), moderated the need to apply the money laundering violations to certain types of cases and, as a result, these cases may now be reported under the "Non-Money Laundering" category. Other "Non-Money Laundering" activity may include fraud, Customs trade violations, facilitating property used to further the commission of certain violations, and other such violations. It is also important to note that some seizures and forfeitures reported as "Money Laundering" activity may have only a small or limited money laundering component, for example seizures effected to protect an expansive investigation into other violations.

Source: *Department of Justice Law Enforcement Agencies: Federal Bureau of Investigation, Drug Enforcement Agency, U.S. Postal Inspection Service and the Food and Drug Administration Department of the Treasury Law Enforcement Agencies: U.S. Customs Service, Internal Revenue Service (Criminal Investigation), U.S. Secret Service and the Bureau of Alcohol, Tobacco and Firearms*

[8] At publication time, the most recent information from the U.S. Sentencing Commission is for FY 2000.

As required by the 2001 *National Money Laundering Strategy*, EOAF and AFMLS met to develop a reporting system that would identify forfeited assets arising out of money laundering prosecutions. The Departments will work to achieve a consensus about what data can be used to establish realistic and meaningful performance measures.

A comprehensive system of measurement must distinguish between seizures and forfeitures related to money laundering.

The Departments of the Treasury and Justice will continue to meet with the affected bureaus to assess systems capabilities and to determine what modifications of existing systems may be necessary. EOAF and AFMLS will continue to explore ways to standardize the methods they use to identify costs associated with seizure and forfeiture activities arising out of money laundering investigations, with the objective of reporting like categories of expenses. This will enable policy makers to make more informed determinations about how resources are being used and how they can best be allocated.

Priority 4: Research other methods for determining the effectiveness of federal anti-money laundering efforts, including how law enforcement activities affect the cost of laundering money.

Lead: Director, Financial Crimes Enforcement Network (FinCEN); Money Laundering Coordination Center (MLCC), U.S. Customs Service; Chief, Asset Forfeiture and Money Laundering Section, Criminal Division, Department of Justice

2001 Accomplishments: In 2001, the Customs Service's Money Laundering Coordination Center completed a study to determine the percentage commission charged to launder money in narcotics cases. High, low and average commissions from undercover cases were calculated and compared to similar figures for a five-year period. The study revealed that the commission rate averages between four to eight percent with a high of 12 percent of the principal involved. This study will serve as a baseline for tracking commission percentage charges over time, and can be used to assess the risks criminals, themselves, associate with laundering money in various U.S. cities.

2002 Action Items: Analyze "cost of doing criminal business" initiatives to develop a pricing model for laundering money in non-narcotics related cases.

The market commission price charged by someone engaged in the business of laundering money should also reflect, to some extent, the perceived street risk of getting caught by the government's efforts. It should be possible to estimate the money laundering commission charged in various U.S. cities and markets to provide an indicator of where enforcement efforts are more successful. An increase in the commission rate, over time, should indicate that the *Strategy* is having the desired effect.

The criminal underground economy is subject to many of the same principles of microeconomics that govern lawful economic activities. Professional money launderers offer criminal groups a service, and the market price of their service is subject to variations caused by changes in supply and demand. Effective law enforcement efforts against professional money launderers should lower the total supply of those offering money laundering services both by putting current service providers in jail and by reducing the number of providers willing to enter the business, since the risk of going to jail increases.

The commission rate averages between four to eight percent with a high of 12 percent of the principal involved.

Knowing about changes in the money-laundering commission rate helps decision-makers decide how to target enforcement resources. Since the commission rate reflects a market valuation of the risk to the launderers, a marked decline in the commission rate charged in a given locale could indicate that the launderers do not fear detection and capture. Policy makers could then decide to allocate more enforcement resources to that area and see the effect of that enhanced enforcement effort on criminal behavior.

Commissions, also known as "points", are the fees the launderers charge to launder drug proceeds. These commissions are typically a negotiated amount paid as a percentage of the total amount laundered. Commission rates vary from city to city, broker to broker, and the amount of money to be laundered. Frequently, a broker will accept the market rate in a particular metropolitan area. A number of factors may affect the commission rate charged by the broker. For example, in some areas, such as Los Angeles and Houston, the market commission rate is lower than

comparable cities because the narcotics traffickers have devised economical ways to transport the money across the U.S. border. Thus, launderers who move money via wire remitters have to charge a lower rate to compete with the narcotics trafficking organization and make their services attractive as an avenue to launder the money.

The U.S. Customs Service has conducted many successful undercover money laundering investigations and has begun to capture the underground market price for services to move illegal drugs and to launder criminal monies. Another federal agency has conducted a study relating to the cost of doing business for alien smuggling. FinCEN will lead an effort to examine these business model assessments to determine if a systematic model can be constructed to apply to all types of money laundering cases. In addition, Customs will continue its work and study the commission percentages in various "markets" or cities. This information will help to outline regional and national trends, and provide important background for decision-makers as they decide how to allocate limited federal law enforcement resources.

Commission rates vary from city to city, broker to broker, and the amount of money to be laundered.

<u>Priority 5</u>: Review the costs and resources devoted to anti-money laundering efforts to allow for informed budget allocations.

Lead: Assistant Secretary for Management, Department of the Treasury; Assistant Secretary for Enforcement, Department of the Treasury; Assistant Attorney General for Administration, Department of Justice; Executive Office of the President, Office of Management and Budget

2001 Accomplishments: During the first quarter of FY 2001, Treasury convened separate meetings of law enforcement, financial regulators, and budget experts to devise a common definition of money laundering for budgetary analytical purposes. Treasury worked with the Office of Management and Budget (OMB) to identify agency units that were involved in the prevention, investigation or prosecution of money laundering. OMB issued a budget data request (BDR) to those agencies for information. OMB received information pursuant to its request, but analytical disagreements prevented a fuller development of the material prior to September 11.

2002 Action Items: By December 2002, analyze results from budget data request and work to ensure that requests relating to work against terrorist financing are also incorporated.

In 2001, OMB issued a budget data request (BDR) concerning the federal government's anti-money laundering efforts to attempt to establish the baseline spending on these efforts. The BDR was intended to serve as a "budget crosscut", an attempt to cut across agency lines and their separate appropriations to understand just what level of federal resources is devoted to a particular undertaking. Just as budget crosscuts are undertaken to calculate government-wide spending to combat narcotics and terrorism, so, too, this tool can be applied to government anti-money laundering efforts. OMB received information pursuant to its data call, but analytical disagreements prevented a complete development of the material prior to September 11. This effort will recommence in 2002. We anticipate that with increased effort, the group will be able to reach consensus and resolve these disagreements.

Having a comprehensive view of federal anti-money laundering costs is essential to permit policy makers and Congress to draw informed conclusions about the effectiveness of the federal government's anti-money laundering initiatives.

Having a comprehensive view of federal anti-money laundering costs is essential to permit policy makers and Congress to draw informed conclusions about the effectiveness of the federal government's anti-money laundering initiatives. Experience has shown that these budget crosscuts will offer a clearer picture over time of actual costs as agencies refine their techniques for calculating specific program costs.

In 2002, we will work with OMB to identify ways to isolate and quantify federal anti-money laundering costs more precisely so as to provide the best available information for the FY 2004 budget build. We will also seek to include information relating to the government's efforts to stop the financing of terrorist entities as part of the budget crosscut.

GOAL 2:

FOCUS LAW ENFORCEMENT AND REGULATORY RESOURCES ON IDENTIFYING, DISRUPTING, AND DISMANTLING TERRORIST FINANCING NETWORKS

We will direct every resource at our command to win the war against terrorists, every means of diplomacy, every tool of intelligence, every instrument of law enforcement, every financial influence. We will starve the terrorists of funding.

President George W. Bush
September 24, 2001

In responding to the attacks on the World Trade Center and the Pentagon, President Bush directed the entire U.S. Government to marshal its resources in a global war against terrorism.[9]

The U.S. Government has moved aggressively to attack terrorist financing by refocusing its ongoing anti-money laundering efforts.

Attacking terrorist financing is not an end in itself, but is one front in a global campaign to destroy international terrorist organizations and to prevent other terrorist acts.

Attacking terrorist financing is not an end in itself, but is one front in a global campaign to destroy international terrorist organizations and to prevent other terrorist acts. The goal of this proactive mission is ultimately to save lives by preventing the use of funds to fuel terrorism.

However, the scourge of terrorist financing is complex, and it requires that the U.S. Government synchronize its efforts, domestically and internationally. Our law enforcement, intelligence, and regulatory agencies possess tremendous resources, which are most effective when they are used in a coordinated manner. We will be successful in this campaign only if our efforts are unified.

Characteristics of Terrorist Financing

Motivation

Unlike drug traffickers and organized crime groups that primarily seek monetary gain, terrorist groups usually have non-financial goals such as seeking publicity, political legitimacy, political influence, and dissemination of an ideology. Terrorist fundraising is a means to these ends. This requires us to use existing anti-money laundering laws in ways they have not been used before and to evaluate existing laws to see if they are adequate to identify and address the threats posed by terrorist financing transactions, especially since existing financial reporting requirements may not be a sufficient tool to enable law enforcement to detect funds used to finance terrorist operations.

Small Sums with Deadly Effects

While they do not seek financial gain as an end, international terrorist groups need money to attract and retain adherents and support their presence and activities locally and overseas. Some foreign terrorist organizations also need funds for training camps, firearms and explosive materials, media campaigns, buying political influence, purchasing insurance policies for suicide bombers, and even to undertake social projects such as hospitals, orphanages, and schools — largely with the aim of maintaining membership and attracting sympathetic supporters. Indeed, for many terrorist groups the planning and execution of violent attacks seem to comprise a small part of their total budget.

International terrorist groups need money to attract and retain adherents and support their presence and activities locally and overseas.

With only relatively small sums from the proceeds of traditional illegal activities, terrorist financing contrasts with the finances of a drug trafficking network, which earns virtually all of its profits from illegal activities and moves huge amounts of money. The financial dealings of a terrorist organization, whose members tend to live modestly and whose funds may be derived from outwardly innocent contributors to apparently legitimate humanitarian, social

[9] On September 23, 2001, the President, by Executive Order (E.O.) 13224, directed the Secretary of the Treasury, the Secretary of State, and other appropriate agencies, to "den[y] financing and financial services to terrorists and terrorist organizations." 66 F.R. 49079, 49081 (Sept. 25, 2001). E.O. 13224 blocks all property and interests in property of the terrorist-related individuals and entities designated under the order. *See* Appendix 12 for the text of E.O. 13224.

and political efforts, are considerably more difficult to investigate than those of a drug trafficker.

Terrorists, like criminals motivated by profit, do rely on ordinary criminal activity, such as robbery, drug trafficking, kidnapping, extortion, and currency counterfeiting, to fund part of their terrorist activities. Terrorist groups may divert some of the proceeds from their criminal activities to their terrorist efforts. However, a much larger portion of the terrorists' funding comes from contributors, some of whom know the intended purpose of their contribution and some of whom do not.

Since the early 1990s, terrorist groups have relied increasingly on donations for financial support, much of it from like-minded NGOs in the West and Persian Gulf states.

Origins of Financial Support

Terrorist groups tap a range of sources for their financial support. Illicit revenues derived from the proceeds of traditional criminal activities may be commingled with legitimate funds because radical organizations have been able to draw on profits from commercial enterprises and on donations from witting and unwitting sympathizers. Terrorist funds may be derived from a variety of sources,[10] including otherwise legitimate commercial enterprises[11] and non-governmental organizations (NGOs).[12]

Moving Terrorist Money

Individual financial transactions tied to terrorist operations typically involve amounts that are small enough to be moved without triggering the existing thresholds that require notification to law enforcement or regulatory authorities. These transactions are often camouflaged as legitimate business, social, or charitable activities. As a result, it becomes difficult to follow terrorist money trails. At the front end of the process — the fundraising stage — small

Individual financial transactions tied to terrorist operations are often camouflaged as legitimate business, social, or charitable activities. As a result, it becomes difficult to follow terrorist money trails.

amounts can be funneled through a series of collection points and then periodically moved to intermediaries around the world for onward distribution and transmission. At the operational stage,

There is evidence that non-traditional money movement systems, such as hawala and other alternative remittance systems, have been used as links in the terrorist financial chain.

small amounts are moved using a variety of traditional money transfer mechanisms, including money remitters, credit/debit cards, ATM accounts and physical transportation.[13]

There is also evidence that non-traditional money movement systems, such as hawala and other alternative remittance systems, have been used as links in the terrorist financial chain. These

[10] Several rogue nations provide material assistance or resources to terrorists and some provide financial support to terrorists. Other governments have also been a source of financial support for some terrorist organizations.

[11] Terrorist groups earn profits from businesses they own and also secure donations from sympathetic entrepreneurs. Examples of such businesses include construction companies, honey shops, tanneries, banks, agricultural commodities growers and brokers, trade businesses, bakeries, restaurants, bookstores, and other proprietorships.

[12] Since the early 1990s, terrorist groups have relied increasingly on donations for financial support, much of it from like-minded NGOs in the West and Persian Gulf states.

[13] Shell banks, shell companies, and accounts held by nominees can be used to camouflage terrorists' interactions with legitimate financial institutions.

non-traditional systems include: the shipment of bulk currency;[14] the use of money service businesses, such as money transmitters, to move small amounts of funds; use of money changers;[15] and the use of alternative remittance systems, such as hawala or hundi.[16]

The United States has identified 210 terrorist-related individuals and entities, and the U.S and international community have blocked over $112 million in terrorist-related assets. Over 160 countries have blocking orders in force, and over 500 accounts have been blocked.

Results Since September 11th

The campaign against terrorist financing requires a multi-faceted approach. Our efforts to date have focused on cutting the flow of funds to terrorist groups as well as safeguarding the long-term security of the international financial system against abuse by terrorist financiers. Since this battle is international in nature, our initiatives have also focused on obtaining international cooperation and assistance in this endeavor. We have achieved marked success to date.

1. On September 23, 2001, President Bush signed Executive Order 13224 requiring the blocking of all property and interests in property of certain designated terrorists and related entities. Pursuant to that Order, the United States has identified 210 terrorist-related individuals and entities, and the U.S and international community have blocked over $112 million in terrorist-related assets. In addition, 211 countries and jurisdictions have pledged support for our efforts, over 160 countries have blocking orders in force, and over 500 accounts have been blocked. Moreover, federal law enforcement has concentrated its efforts in an unprecedented way on investigating terrorist financing networks.

2. In October 2001, the Financial Action Task Force on Money Laundering (FATF) convened an Extraordinary Plenary meeting in Washington, D.C. to discuss measures to address terrorist financing. At this meeting, the FATF adopted Eight Special Recommendations regarding terrorist financing.[17] These standards have become an international benchmark for fighting terrorist financing at a structural level. At the same time, the Egmont Group of Financial Intelligence Units (FIUs) met to discuss ways of sharing more efficiently financial information that might be relevant to terrorism investigations. As part of these efforts, we have provided necessary technical assistance and training to many countries seeking to improve their legal and regulatory systems.

3. On October 26, 2001, President Bush signed into law the USA PATRIOT Act[18], a landmark piece of legislation that provides law enforcement and financial regulators with significant new tools to detect, investigate, and prosecute money laundering, and broad legal authority to require

[14] Cash carried by trusted operatives is the most difficult to track because it usually leaves no paper trail.

[15] Money changers play a major role in transferring funds in Asia, the Americas, the Middle East, and other regions. Their presence is largest in countries where cash is an accepted me ans to finalize business deals and where large numbers of expatriates work to remit funds to family abroad. Money exchanges can wire funds anywhere in the world via their accounts at conventional banks, and they can be used as intermediaries between a criminal or terrorist and a legitimate financial institution. In many jurisdictions, they typically are subject to less regulation and other scrutiny than banks.

[16] These systems are prevalent throughout Asia (especially the subcontinent) and the Middle East as a means of servicing expatriate communities that have not had access to or have traditionally avoided banks that are subject to government monitoring or controls. Such systems frequently rely on a trust-based relationship in which currency given by a sender to a broker or dealer in one part of the world is paid out of funds maintained by a second intermediary to the designated recipient in an another part of the world, minus a small commission. Such systems are particularly vulnerable to criminal financial activity, including terrorist financing, because of the anonymity, lack of record keeping, and reliance on an ethnic-based personal trust associated with the transactions.

[17] The text of the FATF Eight Special Recommendations on Terrorist Financing are set forth in Appendix 11 .

[18] Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 ("USA PATRIOT" Act), Pub.Law 107-56 (Oct. 26, 2001).

the forfeiture of assets related to terrorism. In addition, this Act set the groundwork for greater public/private cooperation with the nation's financial institutions in working to uncover the financial network that financed the attacks, to identify other potential terrorists, and to shut off the flow of funds to terrorist organizations.

The special recommendations include: criminalizing the financing of terrorism and associated money laundering, freezing and confiscating terrorist assets, reporting suspicious transactions related to terrorism, and reviewing the adequacy of laws and regulations relating to entities, such as non-profit organizations, that can be abused for the financing of terrorism.

These achievements lay the groundwork for our multi-pronged campaign against terrorist financing.

* Objective 1: Implement a multi-pronged operational strategy to combat terrorist financing.

President Bush has stated that the top priority of the United States government is to prevent future terrorist attacks and to bring terrorists to justice. The goal of identifying, disrupting, and dismantling terrorist financing networks is critical to our overall anti-terrorism strategy.

An inter-agency group coordinates the fight against terrorist financing. Participants include representatives of the Departments of Treasury, Justice, and State, the National Security Council, and the intelligence community. This group considers evidence of terrorist financing networks and coordinates multiple strategies for targeting terrorist individuals, groups, and their financiers and supporters.

Priority 1: Direct and concentrate intelligence resources on gathering critical financial information related to terrorism and money laundering.

Lead: Director, Central Intelligence Agency; Director, Federal Bureau of Investigation.

2002 Action Items: (1) Focus collection efforts on high-impact targets that support terrorist groups that threaten the United States and its interests. (2) Coordinate terrorist financing and anti-money laundering intelligence gathering efforts within the intelligence, law enforcement, and regulatory communities.

President Bush has stated that the top priority of the United States government is to prevent future terrorist attacks and to bring terrorists to justice. The goal of identifying, disrupting, and dismantling terrorist financing networks is critical to our overall anti-terrorism strategy.

Collection of information by the intelligence community is a critical part of the U.S. Government's ability to discover how terrorist financial networks operate and how criminal groups move their illicit money. Since September 11th, additional resources have been devoted government-wide to the collection of information

Intelligence information must also continue to support law enforcement's ability to determine how criminal networks launder their illicit profits.

about terrorist support networks. These resources are committed to focusing on targeting entities that support terrorist groups. This effort will be measured on a periodic basis by how much information (in the form of reports or analysis) is gathered and passed to the inter-agency community by the intelligence community that relates to these types of targets. Intelligence information must also continue to support law enforcement's ability to determine how criminal networks launder their illicit profits,

so that appropriate steps can be taken to shut off those routes and to seize the laundered funds.

Priority 2: Identify and block assets of terrorists and those individuals and entities who financially or materially support terrorist organizations.

Lead: Department of the Treasury; Department of State.

2002 Action Items: (1) Identify high-impact targets for potential designation as Specially Designated Global Terrorists (SDGTs). (2) Enhance collection of evidence to support SDGT designations. (3) Designate and block the assets of SDGTs.

The war against the financing of terrorist groups requires a fresh perspective and innovative weapons. The President unleashed one such weapon by signing Executive Order (E.O.) 13224 on September 23, 2001.[19] That order, issued under the authority of the International Emergency Economic Powers Act (IEEPA) (50 U.S.C. 1701 et seq.) declared a national emergency with respect to acts and threats of terrorism committed by foreign terrorists against the United States. E.O. 13224 blocks all property and interests in property of the terrorist-related individuals and entities designated under the order. The E.O. also provides broader powers

Executive Order (E.O.) 13224 declared a national emergency with respect to acts and threats of terrorism committed by foreign terrorists against the United States.

to block the assets of those who provide financial or other services to terrorists and their supporters and those determined to be associated with terrorists, wherever they are located. Any transaction or dealing in the U.S. in blocked property, or interests in such blocked property, is prohibited. Under E.O. 13224, 210 entities and individuals have been designated and $34.3 million has been blocked domestically as of June 10, 2002, and $77.8 million has been blocked by our allies as of the same date.

Investigative agencies, regulatory agencies, and the financial community all must play a role in denying terrorists financial support by identifying and blocking their assets. Our strategy for blocking terrorist assets includes: identifying and designating targets as Specially Designated Global Terrorists (SDGTs) under E.O. 13224;[20] locating and tracking SDGT assets and accounts; pre-notifying allies; and blocking the assets of designated entities or individuals by order of the Secretary of the Treasury or Secretary of State.

Any transaction or dealing in the U.S. in blocked property is prohibited. 210 entities and individuals have been designated and $34.3 million has been blocked domestically as of June 10, 2002.

The emphasis for the United States Government must be on targeting the financial substructure of terrorist organizations worldwide. The concentration will remain on al Qaida support networks, so as to prevent any further terrorist attacks against the United States, but it will also focus on other terrorist networks, as appropriate, such as the FARC and AUC, that pose a grave risk to U.S. interests around the world. The ultimate measure of success in this effort will be designations that rupture terrorist financing flows and deter those who would otherwise provide material support and financing to terrorist groups.

Priority 3: Deploy diplomatic resources to ensure international cooperation in tracking and freezing the assets of terrorist financiers and networks abroad.

Lead: Department of State.

2002 Action Items: (1) Gain the support of partners abroad in freezing assets simultaneously by providing critical technical and legal assistance to allow such countries to take coordinated blocking action with the United States. (2) Expand channels to enhance the

[19] E.O. 13224 is republished in Appendix 12. Earlier Executive Orders and U.S. law had already targeted certain other terrorist assets.

[20] The designations will be based on recommendations by an interagency Policy Coordinating Committee (PCC), chaired by the Department of the Treasury.

sharing of information on a real-time basis by establishing and enhancing direct contacts with relevant foreign officials and agencies. (3) Coordinate alternative ways of confronting known terrorist supporters through "quiet" diplomatic channels.

The United States understands that our efforts to track and disrupt the financing of terrorist groups cannot be successful unless we obtain the support of our international partners. Since September 11th, we have worked very closely with our allies in all regions of the world to combat the scourge of terrorist financing. All but a handful of the countries around the world have pledged their support to our efforts.

The United States must target the financial substructure of terrorist organizations worldwide.

The Departments of State, Treasury, and Justice and the intelligence community, will work to enhance the level of cooperation currently received from our partners abroad, including the blocking of assets held by terrorist entities. We will continue discussions with our allies to help ensure that the international community can take unified action and prevent terrorist groups from having access to the assets they need to finance their acts of terrorism.

We will continue discussions with our allies to help ensure that the international community can take unified action and prevent terrorist groups from having access to the assets they need to finance their acts of terrorism.

This will entail the following action: (1) providing critical technical and legal assistance to countries, in coordination with the United Nations and other multilateral efforts, to allow such countries to take coordinated blocking action with the United States and other countries that identify terrorist supporters or financiers; (2) devising strategies to use multilateral organizations to help deliver such technical assistance; and (3) using bilateral and multilateral channels to impel countries to take coordinated action with us, as well as unilateral steps, in the ongoing effort to identify terrorist supporters.

As part of this effort, there needs to be greater information sharing among countries in ways that allow for real-time exchanges of critical leads and documents. To this end, U.S. Ambassadors in critical posts are leading interagency coordination teams, including country and legal attachés at the embassy, to work with our allies to coordinate law enforcement action, to share information about suspect individuals and entities, and to address jointly how best to deal with suspected terrorist supporters and financiers. In addition, we will begin holding regional training and informational sessions in U.S. posts abroad to ensure that U.S. personnel overseas will effectively obtain relevant information from their foreign counterparts. The U.S. Government is also addressing this issue multilaterally, whenever possible, as seen in the G-7, G-8, and Financial Action Task Force (FATF) contexts. In particular, we are using the 58-member Egmont Group of Financial Intelligence Units (FIUs), of which FinCEN is a part, to promote the extent and quality of financial information being shared internationally as well as to develop operational FIUs in those countries with key economies in parts of the world where FIUs do not exist.

U.S. Ambassadors in critical posts are leading interagency coordination teams to work with our allies to share information about suspect individuals and entities.

The U.S. Government is also developing approaches to engage with foreign governments in "quiet diplomacy" to address the problem of known terrorist supporters living abroad. Various strategies may be necessary depending on the targets identified, the countries where the targets reside or are located, and the way in which the terrorist financing may be stopped. The U.S. Government will devise particular strategies with respect to how to engage with countries to deal with suspected terrorist support networks and adherents.

* Objective 2: Identify and target the systems and methods used by terrorist financiers.

Terrorists and those who sponsor and finance them exploit vulnerabilities in both the "traditional" and non-traditional financial systems. Terrorist groups move funds through the formal financial system by, among other things, channeling wire transfers, money orders, cashier's checks, and bank drafts through shell corporations and nominees, and third parties who act on behalf of a principal.

Priority 1: Identify and target the methods used by terrorist supporters to raise and move money to terrorist groups through formal financial systems.

> **Lead:** Department of the Treasury; Federal Bureau of Investigation (FBI).
>
> **2002 Action Items:** (1) Develop enhanced information sharing with the financial community. (2) The FBI, in conjunction with participating agencies, will complete a review of traditional financial systems used by the September 11th terrorists.

Information is the most critical weapon in the war against terrorist financing. The information-sharing provisions of the USA PATRIOT Act provide for increased sharing of information not only within the government but also with and among the financial community.

The banking and financial industry and its Federal regulators are important components of the U.S. efforts to combat terrorist financing. Financial institutions are often the financial front-line of defense, since their employees can help to identify the transactions of suspected terrorists. Recent events underscore the need for financial organizations to conduct effective and enhanced due diligence.[21] Law enforcement, in coordination with the financial sector and international bodies, is attempting to determine if there are any specific indicators of terrorist-related money laundering that may be distinguishable from classic money laundering. This effort will help law enforcement to identify suspects and to determine if there is a way to detect proactively suspicious activity related to terrorism.

To this end, FinCEN issued an advisory to financial institutions in January 2002, that set forth some aspects of financial transactions that are indicative of terrorist funding.[22] In April 2002, FATF issued a typologies document, entitled "Guidance for Financial Institutions in Detecting Terrorist Financing Activities," to help assist the financial community to determine how traditional financial systems can and have been misused by terrorists.[23] We will continue this outreach, in an effort to see if the government can learn from the financial and banking sectors about patterns and trends that they may witness related to terrorist financing. FinCEN will issue updated advisories to reflect uncovered patterns of terrorist financial behavior.

A North Carolina jury convicted several individuals in June 2002 for racketeering, conspiracy, and conspiracy to commit money laundering for funneling profits from a cigarette smuggling operation to the terrorist group Hezbollah.

The FBI is leading an interagency effort to understand how the September 11th terrorists exploited existing vulnerabilities in traditional financial systems. When this review and investigation are completed, appropriate officials from law enforcement and federal financial regulators can meet to determine what changes, if any, to implement to prevent further exploitations of those vulnerabilities.

The extensive revisions to the U.S. anti-money laundering regime contained in the USA PATRIOT Act, described in greater detail in Goal 4, contemplate an even greater role for both the banking industry and its regulators in our fight against terrorist financing. For example, new information sharing provisions contained in section 314 of the Act afford financial institutions greater flexibility

[21] Suspicious Activity Reports (SARs) can be an important tool in combating terrorist financing, even though the small sums moved by terrorists may often fall below the SAR reporting thresholds. The banking agencies and FinCEN will provide whatever information is available to financial institutions about suspected terrorist financing networks.

[22] Immediately following the September 11th attacks, FinCEN established a Financial Institutions Hotline (1-866-556-3974) for financial institutions to report voluntarily to law enforcement suspicious transactions that may relate to recent or potential terrorist financial activity. For more information about the hotline and the advisory, *see* the FinCEN website: http://www.fincen.gov.

[23] For a copy of the FATF guidance, *see* the FATF website: http://www.fatf-gafi.org.

in evaluating potential risks and sharing their concerns with both the federal government and amongst themselves.[24] We will use these expanded channels of information sharing to empower the private sector in determining how best to defend the traditional banking system from abuse. In so doing, we will be in a better position to develop appropriate criteria and regulations that will help law enforcement uncover or prevent the movement of money for terrorist financing purposes.

New information sharing provisions afford financial institutions greater flexibility in evaluating potential risks and sharing their concerns with both the federal government and amongst themselves.

Priority 2: Concentrate on informal value transfer systems, such as hawalas, as a means of moving money.

Lead: Financial Crimes Enforcement Network (FinCEN).

2002 Action Items: (1) FinCEN and the National Institute of Justice will conduct studies on alternative remittance systems, including hawalas. (2) An interagency working group will develop recommended "best practices" for the alternative remittance industry. (3) By September 2002, FinCEN will establish a Non-Traditional Methodologies Section to develop expertise in understanding how non-traditional systems are used to move criminal proceeds, especially by terrorist financiers.

Because of its anonymity and secrecy, hawala is known by law enforcement to have been used as a money laundering mechanism for alien smuggling, drug trafficking, and terrorist financing in some parts of the world.

Non-traditional systems, known generally as alternative remittance systems, refer to a family of monetary remittance systems that provide for the transfer of value outside of the regulated financial industry.[25] These systems, including hawala, rely primarily on trust and the extensive use of connections, such as family relationships and regional ethnic affiliations. Hawala makes minimal or often no use of any sort of negotiable instrument. Transfers of money take place based on communications between a network of hawaladars, or hawala dealers.[26] Because of its anonymity and secrecy, hawala is known by law enforcement to have been used as a money laundering mechanism for alien smuggling, drug trafficking, and terrorist financing in some parts of the world.

[24] On March 4, 2002 FinCEN issued an interim rule and proposed regulations encouraging information sharing among law enforcement, regulators, and financial institutions concerning known or suspected terrorists or money launderers. The regulations, promulgated pursuant to section 314 of the PATRIOT Act, also permit financial institutions, after providing notice to Treasury, to share information with each other and report to law enforcement activities that may relate to money laundering or terrorism. Concomitantly, Section 362 requires the Secretary of the Treasury to establish a network in FinCEN to allow financial institutions to file BSA reports electronically through a secure network and provide financial institutions with alerts regarding suspicious activities.

[25] These systems are known by a variety of names reflecting ethnic and national origins pre-dating the emergence of modern banking and other financial institutions. Included, among others, are systems such as *hawala, hundi, fei ch'ien, phoe kuan, hui k'uan, ch'iao hui and nging sing kek*. These systems provide mechanisms for the remittance of currency or other forms of monetary value — most commonly gold — without physical transportation or use of contemporary monetary instruments.

[26] The FATF-XI Report on Money Laundering Typologies contains the following description of a typical hawala transaction. "Funds which are to be moved from the United Kingdom to India, for example, will be provided to a UK hawaladar in UK currency or some other form. This hawaladar then contacts another hawaladar by phone or fax at the destination and requests that an equivalent sum (minus a small percentage charge) be paid out in Indian rupees or gold to the individual designated by the customer in the UK. The process can also move funds in the opposite direction. In instances where accounts become imbalanced between hawaladars over time, the accounts are settled through reciprocal remittances, trade invoice manipulation, gold and precious gem smuggling, the conventional banking system, or by physical movement of currency."

In late 2001, FinCEN and DOJ's National Institute of Justice contracted with experts to develop and deliver reports in fall 2002 on terrorist financing systems. The report to FinCEN, to be based primarily on law enforcement investigative information, will focus on the use of these systems in terrorist fundraising and the movement of funds associated with terrorist activity in the U.S. In addition, the DOJ study addresses the international implications of terrorist financing systems. These initiatives will enable the government to identify how informal systems have been used to facilitate terrorist financing[27] and how such systems interact with the mainstream financial community.[28]

Our strategy is (1) to force terrorist financiers to reduce reliance on hawala and similar systems and to channel their money into more transparent, formal financial transactions; (2) to regulate hawaladars so that legitimate hawaladars comply with financial reporting structures; and (3) to target the illegal use of hawala for intensive investigation.

To this end, Treasury will lead an interagency process to develop a set of internationally accepted standards or "best practices" for the alternative remittance industry. This goal will be pursued in the context of the Financial Action Task Force (FATF) Special Recommendations on Terrorist Financing and the Asia Pacific Group (APG) recommendations on Alternative Remittance and Underground Banking Systems, both of which call for enhanced regulatory oversight. As part of this effort, the U.S. Government participated in a worldwide hawala conference held in the United Arab Emirates in May 2002, that resulted in the Abu Dhabi Declaration calling on all countries to regulate hawalas based on the FATF Special Recommendations. In addition, FinCEN hosted a hawala seminar for domestic law enforcement agencies in May 2002, and will sponsor an international seminar in October 2002 as part of an Egmont Group-United Nations training session to be held in Mexico.

With respect to enforcement, the IRS will work in concert with FinCEN to gauge the extent to which hawala operators are in compliance with BSA registration and suspicious activity reporting requirements for MSBs. Law enforcement and regulatory attention will also focus on the hawala settlement process where transactions often reenter traditional financial systems. By focusing on the reentry of funds into the traditional financial system, law enforcement can then leverage the existing regulations that exist for the financial industry.

Treasury will lead an interagency process to develop a set of internationally accepted standards or "best practices" for the alternative remittance industry.

<u>Priority 3</u>: Focus enforcement and regulatory efforts on alternative means of moving and hiding money, such as wire remitting outlets, bulk-cash smuggling, and trade in precious stones and commodities, to deter the funding of terrorist groups.

Lead: Department of the Treasury; Department of Justice.

2002 Action Items: Law enforcement will investigate the links between precious stone and commodity trading and the funding of terrorist groups. By March 2003, the Departments of Treasury and Justice will produce a report as to how money is being moved or value is being transferred via the trade in precious stones and commodities.

Terrorists, like other criminals, move money and transfer value in a variety of ways. Wire transfers of illicit funds, for example, are readily concealed among the vast number of wire transfers moved

[27] The risk of misuse of hawala by terrorist organizations and cells is considerable. Al Barakaat is a financial and telecommunications conglomerate founded in 1989 and operating in 40 countries around the world. It is involved in telecommunications, wire transfer services, Internet service, construction, and currency exchange. On November 7, 2001, the U.S. designated Al Barakaat as an SDGT and blocked its assets. U.S. authorities seized records and closed Al Barakaat offices in four states. On the same day, the international community shut down a hybrid hawala operation known as Al-Barakaat, which was being used to move money through Dubai into Somalia and other countries.

[28] While hawala may appear to be cumbersome and risky, remitters may be motivated to use it for several reasons. A hawala transaction may be relatively cost-effective because of hawaladars' low overhead, integration with existing business activities, and avoidance of foreign exchange regulations and taxes. A hawala remittance can often also be completed more quickly than an international wire transfer that involves at least one correspondent bank. For customers without social security numbers and adequate identification, banking relationships are problematic. The hawaladar, however, often requires nothing from the remitter but his cash and a basis for the trust inherent in hawala transactions, usually a link based on cultural or ethnic relationships. The anonymity and lack of paper trail also hides the remittance from the scrutiny of tax authorities. Lastly, some areas of the world are poorly served by traditional financial institutions while the hawaladar may offer a viable alternative.

daily by electronic funds transfer systems. Law enforcement has historically pursued successful investigations against individuals and organizations that utilize money-remitting businesses to transfer proceeds across state and country borders.

In Operation Goldmine, law enforcement uncovered the activities of Speed Joyeros (Speed Jewelers), a Panamanian gold and jewelry business that laundered the narcotics proceeds of numerous Colombian drug traffickers. 1.6 tons of finished gold jewelry and 2.3 tons of finished silver jewelry have been seized.

Various schemes appear primarily designed to evade federal record-keeping, reporting, and customer identification requirements which are in place to detect money laundering. These activities include basic structuring of money transfer transactions below the reporting and identification dollar amount thresholds mandated by government; the use of multiple money transfer agent businesses and/or parent remitter companies to avoid overall monitoring and detection by the industry; and frequent use of falsified names, addresses, and receipts as a "cover" justification for the substantial illicit funds transfers.

The law enforcement community has long suspected that bulk cash smuggling is used by some terrorist organizations to move large amounts of currency. In response to the September 11th events, Customs utilized an outbound currency operation, *Operation Oasis*, and refocused their efforts to target 23 identified nations involved in the laundering of money.[29] These efforts will continue.

Federal law enforcement will continue to work with other agencies and departments within the U.S. Government to address how and to what degree the trade in diamonds (in particular "conflict diamonds"), precious stones like tanzanite, gold, and other precious metals are being used to launder money, to finance terrorist groups, and to transfer value. By March 2003, the Departments of Treasury and Justice will produce a report as to how money is being moved or value is being transferred via the trade in precious stones and commodities. This will then form the basis for an informed strategy as to how to address this financing mechanism.

Between October 2001 and February 2002, Customs made over 200 seizures through Operation Oasis preventing the movement of over $10 million.

Priority 4: Investigate the use of non-governmental organizations to raise, collect, and distribute funds to terrorist groups as well as wealthy individuals who donate to terrorist movements.

Lead: Department of Justice; Department of the Treasury.

2002 Action Items: (1) Identify and track foreign NGOs, including charitable organizations, that are used to funnel money in support of terrorism, terrorists, or terrorists' families. (2) Develop "best practices" for foreign NGOs in order to assist them in establishing compliance programs. 3) Assist foreign central banks, finance ministries and regulators, through training and information sharing, to enhance their efforts to regulate fundraising groups that finance terrorism.

The use of non-governmental organizations (NGOs), including charities, to raise funds in support of terrorist groups is an area that demands further attention from the U.S. Government. Investigation and analysis by the law enforcement and intelligence communities has yielded information indicating that terrorist organizations utilize charities and NGOs to facilitate funding and to funnel money. Charitable donations to NGOs are commingled and then often diverted or siphoned to groups or organizations that support terrorism. Fundraising may involve community solicitation in the United States, Canada, Europe, and the Middle

[29] As of May 3, 2002, *Operation Oasis* has seized over $13 million in bulk cash. The Customs Service has primary jurisdiction for enforcing those regulations requiring the reporting of the international transportation of currency and monetary instruments in excess of $10,000 (31 U.S.C. § 5316 et al.). The USA PATRIOT Act has enhanced the Customs Service ability to investigate these activities by making inbound and outbound smuggling of bulk cash a criminal offense for which Customs has exclusive investigative jurisdiction (31 U.S.C. § 5332(a)). By criminalizing this activity, Congress has recognized that bulk cash smuggling is an inherently more serious offense than simply failing to file a Customs report.

East or solicitations directly to wealthy donors. Though these NGOs may be offering humanitarian services here or abroad, funds raised by these various charities are diverted to terrorist causes. This scheme is particularly troubling because of the perverse use of funds donated in good will to fuel terrorist acts and because of the privacy and First Amendment protections traditionally afforded in this area.

Terrorist organizations utilize charities and non-governmental organizations (NGOs) to facilitate funding and to funnel money.

The IRS regulates charities operating under Section 501(c)(3) of the Internal Revenue Code, and it has a wealth of knowledge concerning how charities function and how unscrupulous criminals can abuse them. In coordination with law enforcement, as appropriate, the IRS Tax Exempt and Government Entities Operating Division will investigate suspect charities of all stripes that provide financial and material support to terrorist groups. The IRS is also drafting guidance concerning the deductibility of contributions made to organizations designated as terrorist-related organizations under Presidential Executive Orders 13224 and 12947.

The United States will work to develop international "best practices" on how to regulate charities to prevent their abuse and infiltration by terrorists and their supporters.

The United States will work, within the context of the FATF Eight Special Recommendations, to help develop international "best practices" on how to regulate charities to prevent their abuse and infiltration by terrorists and their supporters. At the June 2002 FATF Plenary meeting, the United States presented a paper that will form the basis for a discussion of international standards. As part of this effort, the U.S. Government will identify high-risk areas and deploy multi-agency teams to assist host governments in applying charitable regulation "best practices". These teams will be composed of experts from various agencies to ensure all aspects of terrorist financing are addressed. The teams will also meet with representatives of foreign central banks, finance ministries, and regulators to encourage the development of efforts in particular countries to regulate fundraising groups that finance terrorism.

Priority 5: Identify and focus on the use of the Internet for cyberfundraising as a means of raising funds for terrorist groups.

Lead: Department of the Treasury; Department of Justice

2002 Action Items: By April 2003, the law enforcement community will conduct a study, in coordination with the intelligence community, to determine how the Internet is used to raise and move funds to terrorist groups.

The use of the Internet to raise, spend, and move money is now common. There are indications that terrorist groups use the Internet to communicate, to recruit, and to raise money for their respective causes. As terrorist groups recruit young people, including students, engineers, and computer specialists, their use of the Internet to raise funds is likely to increase. The federal law enforcement community has the expertise and capabilities to address this issue in a concerted way.[30] The Departments of the Treasury and Justice will conduct a study by April 2003, to determine how the Internet is, or could be used, by terrorist groups to raise and move money.

* Objective 3: Improve international efforts to dismantle terrorist financing networks.

Because terrorism and terrorist financing are global in nature, international cooperation is an essential component of the U.S. strategy to combat terrorist financing. The broad international effort to combat terrorist financing encompasses the international financial institutions (IFIs) as well as other multilateral organizations. At the urging of the U.S. and other nations, the IFIs and several multilateral bodies adopted action plans that extend their work to include issues related to terrorist financing and more comprehensive coverage of anti-money laundering. This systemic approach to dealing with the vulnerabilities in the financial system is essential to the long-term stability of the financial system and its security against abuse by terrorist financiers.

[30] The U.S. Secret Service, through its regional Electronic Crimes Task Forces, the U.S. Customs Service, through its Cyber Smuggling Center, and the FBI, through its cybercrime units and the National Infrastructure Protection Center, are particularly well-suited to this task.

Priority 1: Improve collaborative international efforts to isolate terrorist financing networks and provide information to the U.S.

Lead: Coordinator of Counterterrorism (SC/T), and Assistant Secretary of State, Bureau of Economic Affairs (EB), Department of State; Department of the Treasury; Department of Justice.

2002 Action Items: (1) By December 15, 2002, establish guidelines for the type of background information useful and necessary for countries to issue blocking lists. (2) Issue regular reports on international cooperation to monitor blocking orders in place, timeliness of blocking actions, amount of assets blocked, and number of networks shut down.

Sharing of information among international partners is essential to allow coordinated and timely actions against targeted entities. The current international processes for delivering background information or providing notification of actions are determined by the vicissitudes of bilateral contacts and are often inconsistent. Thus, there is a need to devise standards for improving designation by establishing generally recognized standards for notification and information sharing about targets.

International cooperation is an essential component of the U.S. strategy to combat terrorist financing.

The U.S. Government will continue its efforts to encourage key allies to join the United States when it issues new lists of terrorists and terrorist entities whose assets are subject to blocking. As part of this effort, the State and Treasury Departments will continue to urge on a bilateral basis the submission of names for designation. Specifically, the United States will ask countries to share information about and propose designations for terrorist-related individuals and entities that reside or operate within their respective jurisdiction. We will monitor international cooperation by compiling reports on the number of blocking orders in place, timeliness of blocking actions, amount of assets blocked, and number of networks shut down.

We will also move quickly to investigate and block the assets of those terrorist individuals and entities identified by other countries or regional groups, as we have already done in the case of certain terrorists designated by the European Union. In addition, the United States will work with its allies, through the G-7, G-8, and other multilateral processes, to establish common criteria for pre-notification and the background information necessary to substantiate a designation.

We will move quickly to investigate and block the assets of those terrorist individuals and entities identified by other countries or regional groups.

Priority 2: Provide technical assistance to jurisdictions willing and committed to fight terrorist financing networks.

Lead: Coordinator of Counterterrorism (SC/T) and Assistant Secretary of State, Bureau for International Narcotics and Law Enforcement Affairs (INL), Department of State; Department of the Treasury; Department of Justice.

2002 Action Items: By October 2002, recommend a plan to prioritize the delivery of U.S. and foreign technical assistance to willing and committed foreign countries for combating terrorist financing.

In implementation of United Nations Security Council Resolution (UNSCR) 1373, the U.S. has provided the UN Security Council Counter-Terrorism Committee a report that identifies training and other technical assistance related to combating terrorism that potentially can be provided to foreign countries. The U.S. has convened an inter-agency working group, co-chaired by S/CT and INL, to consider how best to optimize U.S. Government technical expertise to enhance international capabilities to fight terrorist financing networks. The U.S. will continue to provide information through various international fora on courses and training and technical assistance plans available, and will encourage other governments to do the same so that assistance to targeted recipient countries is coordinated and non-redundant.

In addition, as part of their action plans to combat terrorism financing and address money laundering concerns, the IMF and World Bank will increase technical assistance to enable countries to implement appropriate international standards to strengthen

financial systems. As part of this effort, the IFIs will work with the United States and other donors to maximize the effective use of the resources available.

Priority 3: Urge countries and territories to implement counter-terrorism financing standards in regional and multilateral fora.

Lead: Department of the Treasury; Assistant Secretary, INL, Department of State.

2002 Action Items: Coordinate with regional and multilateral organizations and fora to develop and implement appropriate standards to combat the financing of terrorism.

The U.S. and other G-7 and G-20 Finance Ministers and Central Bank Governors have agreed to comprehensive action plans to combat the financing of terrorism. These action plans encompass an intensified commitment to freeze terrorist assets and for rapid completion by the FATF, IMF, and World Bank of a framework for assessing the compliance of the FATF 40 Recommendations and the FATF 8 Special Recommendations for terrorist financing as part of financial sector assessments by the IMF and World Bank. Such efforts are vital to establish the appropriate policy regimes and framework to combat the financing of terrorist entities. The Asian-Pacific Economic Cooperation (APEC), the Manila Framework Group, and the Association of South East Asian Nations (ASEAN) Regional Forum have also all agreed to focus their efforts on combating terrorist activities and the financing of terrorism. The U.S. government will use all institutional channels to push for the establishment of counter-terrorist financing standards.

The Asian-Pacific Economic Cooperation (APEC), the Manila Framework Group, and the Association of South East Asian Nations (ASEAN) Regional Forum have agreed to focus their efforts on combating terrorist activities and the financing of terrorism.

GOAL 3:

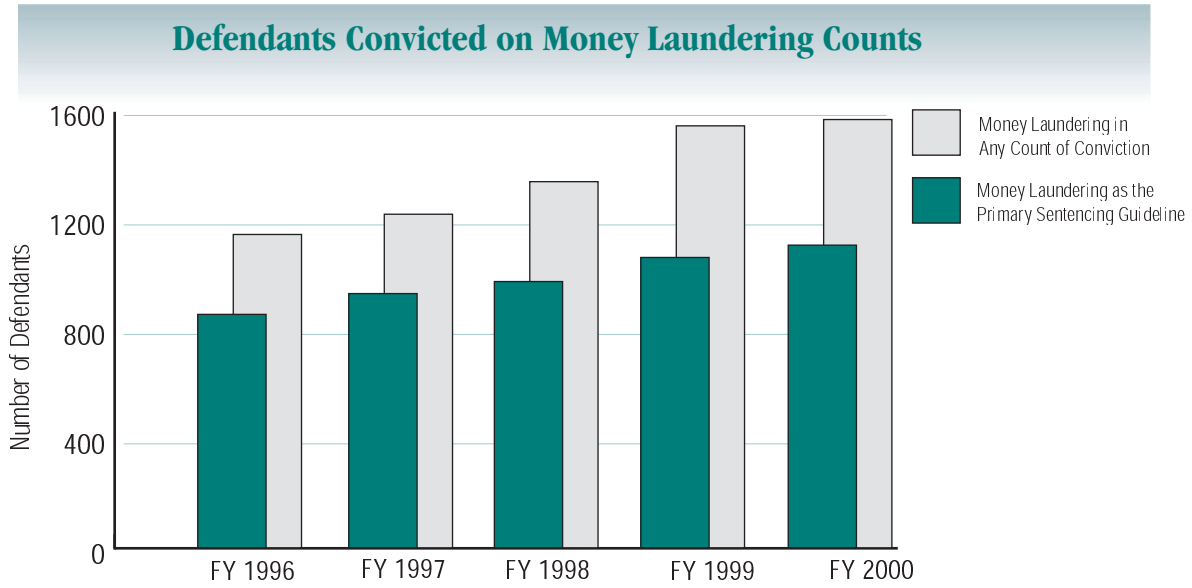
INCREASE THE INVESTIGATION AND PROSECUTION OF MAJOR MONEY LAUNDERING ORGANIZATIONS AND SYSTEMS

The 2001 Strategy recognized that law enforcement must focus its efforts on the investigation, prosecution and disruption of major money laundering organizations. This remains our focus for 2002. In Fiscal Year 2001, federal law enforcement agencies seized over $1 billion in criminal-based assets, and forfeited over $639 million to the federal fisc.[31]

Federal law enforcement resources are limited, so they must be concentrated where they will have the greatest impact — large-scale investigations and prosecutions that disrupt and dismantle entire criminal organizations and systems. This concentration and consolidation of federal law enforcement efforts must also include increased awareness and focus, where appropriate, on investigations that relate to terrorist financing and links to terrorist organizations.

Federal law enforcement resources are limited, so they must be concentrated where they will have the greatest impact — large-scale investigations and prosecutions that disrupt and dismantle entire criminal organizations and systems.

The effect of large-scale investigations and prosecutions should be traceable, over time, in the types of individuals convicted and



Number of Defendants

	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000
ML as the Primary Sentencing Guideline	853	929	973	1,061	1,106
ML in Any Count of Conviction	1,145	1,219	1,338	1,542	1,565
	1,998	2,148	2,311	2,603	2,671

Total Defendants Convicted of Money Laundering

Source: *U.S. Sentencing Commission*

[31] Approximately $386 million of the assets seized and $241 million of the assets forfeited to the government related to money laundering investigations. Thus, money laundering related cases accounted for some 38% of both assets seized and forfeited by federal law enforcement agencies in FY 2001. *See* Chart on p.11 and p.37.

sentenced in federal court for money-laundering related offenses. In Fiscal Year 2000, the latest year for which data is currently available, approximately 17% of persons sentenced in federal court for money laundering violations received a longer sentence because of their role as a "leader, organizer, manager, or supervisor" of laundering activity. Almost 20% of the defendants sentenced in federal money laundering cases during FY 2000 laundered in excess of $1 million.[32] The Sentencing Commision statistics also show that a disproportionately high number of cases are prosecuted in a very few districts. Our goal in 2002 is to continue to focus on large impact cases. Federal law enforcement efforts will target the arrest, prosecution, conviction, and sentencing of more "managers" in the money laundering organizations as well as organizations laundering over $100,000.[33]

DEA and the U.S. Attorney's Office in the Southern District of New York concluded a long-term investigation targeting the money laundering and narcotics activities of the Khalil Kharfan Organization operating in Colombia, Puerto Rico, Florida, and the New York Tri-State area. To date, the investigation has revealed that this organization laundered in excess of $100 million in narcotics proceeds.

Federal law enforcement efforts will target the arrest, prosecution, conviction, and sentencing of more "managers" in the money laundering organizations as well as organizations laundering over $100,000.

To accomplish this goal, we will have to overcome a number of obstacles. The most significant impediment we will seek to remedy in 2002 is the lack of fully effective interagency coordination in the investigation of major money laundering cases. Of course, federal law enforcement agencies have cooperated with one another and participated in numerous successful joint investigations for many decades. However, we have not instituted sufficient mechanisms for making joint decisions about what major money laundering organizations and systems to target and how to investigate and prosecute them before those investigations are initiated. Our solution to this problem is presented in Objective 1, below. Additionally, since the federal government's best and most experienced money laundering investigators and prosecutors cannot be assigned to every case, we will also focus our efforts in 2002 to raise the level of advanced money laundering and asset forfeiture training to those on the front lines of our efforts. Our proposal to accomplish this task is described in Objective 2. Finally, in Objective 3, we lay out some important next steps in our work against a particular money laundering system, the Black Market Peso Exchange (BMPE), to broaden the efforts of the private sector and international community against the BMPE.

We announce the development of the Secretary's Award and the Treasury Financial Crime Award to honor outstanding work performed in significant money laundering cases.

As we seek to overcome these obstacles, we also seek to reward those who have already made progress to overcome them. To that end, we announce the development of the Secretary's Award and the Treasury Financial Crime Award to honor outstanding work performed in significant money laundering cases. The Secretary's Award will be issued annually by the Secretary of the Treasury to recognize exceptional results in combating major money laundering. The Treasury Financial Crime Award will be case specific, and be awarded for outstanding work on significant anti-money laundering investigations and prosecutions.

[32] U.S. Sentencing Commission, FY 2000 sentencing data.

[33] Due to lags in reporting times, the statistics showing how well the government's efforts succeeded in FY 2001 may not be reported by the U.S. Sentencing Commission until some time in 2004.

* Objective 1: Enhance inter-agency coordination of money laundering investigations.

The terrorist attacks of September 11 produced many changes, and instituted a rethinking of how law enforcement agencies do business. Federal law enforcement agencies have concluded that it is vitally important to cooperate and coordinate with one another to investigate priority targets whenever it is possible to do so. Despite the excellent work of thousands of agents in the field who participate on interagency task forces, the law enforcement agencies of the Departments of the Treasury and Justice can do a much better job of coordinating their investigations of money laundering organizations and systems.

To address this problem, the Departments of the Treasury and Justice will co-lead an interagency effort to identify potential money laundering-related targets, and then deploy the necessary law enforcement, regulatory, and intelligence assets to attack those agreed upon targets. This approach has been tried successfully in the investigation of narcotics trafficking organizations.

Where appropriate, the High-Risk Money Laundering and Financial Crime (HIFCA) Task Forces, described in more detail in Objective 2, will take the operational lead on investigations initiated by the money laundering targeting group. The Departments will leverage the work of other interagency task forces, including High Intensity Drug Trafficking Area Task Forces (HIDTA), Organized Crime and Drug Enforcement Task Forces (OCDETF), Joint Terrorism Task Forces (JTTF), Electronic Crimes Task Forces, and Special Operations Division (SOD)-Financial on priority money laundering cases.

Priority 1: Establish interagency targeting team to identify money-laundering related targets for priority enforcement actions.

> **Lead:** Assistant Secretary for Enforcement, Department of the Treasury; Assistant Attorney General, Criminal Division, Department of Justice.
>
> **2001 Accomplishments:** This is a new priority, so there are no accomplishments to report.
>
> **2002 Action Items:** Create an interagency team to identify priority money-laundering related targets by August 2002 for coordinated enforcement actions.

Law enforcement works best when the resources and talents of each participating agency are joined together and harnessed to a common objective. That common objective can best be achieved when every law enforcement agency is similarly focused. To improve interagency coordination in money laundering investigations, the Departments of the Treasury and Justice will co-lead an interagency effort to identify money-laundering related entities and to target them for coordinated enforcement action. These targets can be particular money laundering organizations, but they can also be systems used or exploited by money launderers, such as the smuggling of bulk cash, unlicensed money transmitters, wire remitters, and certain types of alternative remittance systems, including hawalas.

Law enforcement works best when the resources and talents of each participating agency are joined together and harnessed to a common objective.

The interagency coordinating team will establish strategic objectives and identify an agreed-upon set of targets. As appropriate, existing interagency task forces, such as HIFCAs, HIDTAs, OCDETFs, SOD, Electronic Crimes Task Forces, and others will develop operational plans to investigate the targets selected. The interagency team will seek to ensure that the operational plans contain the full mix of resources available to the federal government, and that the plans consider how best to use regulatory measures, intelligence information, and diplomatic efforts, as necessary.

Targets can be particular money laundering organizations, but they can also be systems used or exploited by money launderers, such as the smuggling of bulk cash, unlicensed money transmitters, wire remitters, and certain types of alternative remittance systems, including hawalas.

Priority 2: Create uniform set of undercover guidelines for federal money laundering enforcement operations.

Lead: Assistant Secretary for Enforcement, Department of the Treasury; Assistant Attorney General, Criminal Division, Department of Justice.

2001 Accomplishments: This is a new priority, so there are no accomplishments to report.

2002 Action Items: By September 2002, develop set of uniform federal guidelines for money laundering undercover operations to ensure the full participation of all federal enforcement agencies.

Undercover and foreign operations by federal law enforcement agencies are a potent weapon in detecting and disrupting money-laundering organizations.

At present, federal law enforcement agencies do not have a uniform set of undercover guidelines applicable to money laundering investigations. This lack of guideline uniformity inhibits some agencies from participating in investigations that have an overseas component. The Departments of the Treasury and Justice will meet during 2002 to explore whether it is possible to adopt a harmonized set of guidelines so that law enforcement agencies can more effectively investigate cases together.

Priority 3: Work with U.S. Attorney's Offices to develop Suspicious Activity Report (SAR) Review Teams where they do not exist but could add value.

Lead: Assistant Secretary for Enforcement, Department of the Treasury; Assistant Attorney General, Criminal Division, Department of Justice.

2001 Accomplishments: There are no accomplishments to report.

2002 Action Items: By August 2002, create priority list of five U.S. Attorney's Offices that do not currently use SAR review teams and that could benefit from a SAR review team. Work with the Executive Office of U.S. Attorneys and the individual U.S. Attorneys in those districts to encourage them to create SAR review teams with the participation of the necessary federal agencies.

The interagency targeting team described in Priority 1, above, is a necessary component of our efforts to coordinate better enforcement activity, but it is not sufficient. Law enforcement agencies must also be alert to suspicious activity reported by financial institutions pursuant to the Bank Secrecy Act (BSA).[34]

A SAR in August 1998 reported a series of suspicious transfers of large sums of money from a Russian bank correspondent account to accounts in the Bank of New York. Based on the SAR, the FBI's Russian Organized Crime Task Force and the U.S. Attorney's Office for the Southern District of New York opened an investigation of Peter Berlin and his wife, Ludmila Edwards, a BONY account executive. Seizure warrants were executed against the BONY accounts and several other Berlin entities, as well as the correspondent account for a Russian bank at the Bank of New York, and resulted in seizures totaling $21,631,714 from 11 different accounts. Berlin and his wife subsequently pled guilty to conspiracy, money laundering, and conducting an illegal money transmittal business, and agreed to criminal forfeitures totaling approximately $8.1 million.

[34] The BSA, and the regulations of the Federal regulatory agencies, requires financial institutions to file, among other forms, Suspicious Activity Reports (SARs) and Currency Transaction Reports (CTRs). *See, e.g.*, 12 C.F.R. 208.62. SARs deter money launderers from placing their illicit money in U.S. financial institutions, since the investigation of information derived from SARs leads to the detection and arrest of many individuals engaged in money laundering. SARs also provide valuable information to enable law enforcement to generate investigative leads, to understand complex financial relationships in ongoing investigations, and to identify forfeitable assets. A Suspicious Activity Report form is available on FinCEN's website, <http://www.fincen.gov/forms.html>.

Although it is not possible for law enforcement and regulatory officials to investigate thoroughly every SAR filed,[35] law enforcement and regulatory officials must review the SARs that are filed in a systematic way so that they can concentrate attention on priority targets. This analysis benefits from the experience, expertise, and decision making each agency contributes as part of a SAR review team.

SAR review teams evaluate all SARs filed in their respective federal district. Teams should be composed of an Assistant United States Attorney and representatives from federal, state, and local law enforcement agencies. In 2002, we will identify five U.S. Attorney's Offices that have a substantial amount of financial crime and that do not currently benefit from the added value of a multi-agency SAR review team. The Departments of Treasury and Justice will work cooperatively with the Executive Office of U.S. Attorneys and the individual U.S. Attorney's Offices to encourage them to create interagency SAR review teams with wide-based participation.[36]

* Objective 2: Refine mission of high-risk money laundering and related financial crime area (HIFCA) task forces.

High-Risk Money Laundering and Related Financial Crime Area (HIFCA) Task Forces were intended to improve the quality of federal money laundering investigations by concentrating the money laundering investigative expertise of the participating federal and state agencies in a unified task force. HIFCAs are supposed to leverage the resources of the participants and create investigative synergies, but these goals have not been fully accomplished to date.

A number of obstacles still remain before the mission of the HIFCAs can be fully realized.

The *2001 Strategy* refocused the mission of the HIFCA Task Forces to disrupt and dismantle large-scale money laundering systems or organizations, and HIFCA Task Forces initiated over 100 investigations during 2001. However, a number of obstacles still remain before the mission of the HIFCAs can be fully realized. For example, the federal law enforcement agencies have provided different levels of commitment and staffing to the Task Forces. Few of the HIFCAs have succeeded in integrating non-law enforcement personnel to its work. During 2002, the Departments of Treasury and Justice will review what has worked and what has not since the initial designation of the HIFCAs, and will seek to implement appropriate changes.

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The Departments of the Treasury and Justice need to continue to review and refine the operational mission, composition, and structure of the HIFCA Task Forces to ensure that they succeed in their mission. The Departments will work to make sure that HIDTA, OCDETFs, HIFCAs, Special Operations Division (SOD)-Financial, and other relevant task forces investigate and coordinate their activities on appropriate cases.[37]

Priority 1: Review the structure of HIFCA Task Forces to remove obstacles to its effective operation.

Lead: Assistant Secretary for Enforcement, Department of the Treasury; Assistant Attorney General, Criminal Division, Department of Justice; Director, Organized Crime and Drug Enforcement Task Force.

2001 Accomplishments: The *2001 Strategy*, published in September 2001, refocused the aims and

[35] In Fiscal Year 2001, FinCEN received 182,253 SARs and 1,149 casino SARs (SARCs).

[36] SAR review teams can also review selected wire transfers. Wire transfers of illicit funds are readily concealed among the estimated 700,000 daily transfers that move some $3 trillion by electronic funds transfer systems. Expanding the review of suspicious activity reports also to include the selective review of wire transfers can help law enforcement agencies coordinate their efforts to investigate and prosecute money-laundering organizations.

[37] To ensure systematic coordination of overlapping targets and investigations, HIFCA drug-based money laundering investigations will be initiated as OCDETF investigations. In appropriate cases, HIFCA agents could assist on interagency investigations focusing on the financing of terrorist networks, currently performed by Operation Green Quest, the Joint Terrorist Task Forces, and the Terrorist Financial Review Group.

Task Forces become operational and conduct investigations designed to result in indictments, convictions, and seizures, rather than focus primarily on intelligence-gathering. Each of the six HIFCA Task Forces is actively investigating cases, and HIFCA Task Forces initiated over 100 investigations in 2001.[38]

2002 Action Items: By December 2002, the interagency HIFCA Coordination Team will review the progress of each of the six existing HIFCAs, and assess how the HIFCA Task Force concept has worked to date. By February 2003, the HIFCA Coordination Team will recommend what changes, if any, to make to the HIFCA concept so that the HIFCAs can achieve their mission objectives.

HIFCAs have tremendous potential, but that potential needs to be focused and properly directed. An interagency HIFCA review team will review the accomplishments of the HIFCA Task Forces to date, and propose recommendations to ensure that the HIFCAs have the optimal chance to reach their potential to leverage the investigative expertise and talents of all the participating HIFCA agencies. The review team will examine structural and operational issues including how to fund the co-location of HIFCA Task Forces absent funds appropriated for that purpose, appropriate performance measures to evaluate the accomplishments of the HIFCAs, staffing, and oversight responsibilities.

HIFCAs have tremendous potential, but that potential needs to be focused and properly directed.

The Assistant Secretary for Enforcement, Department of the Treasury, and the Assistant Attorney General, Criminal Division, Department of Justice will receive the recommendations of the HIFCA review team and decide how to proceed.

The HIFCA review team will examine existing operations and make recommendations to ensure that each HIFCA:

- is composed of all relevant federal, state, and local enforcement authorities; prosecutors; and financial supervisory agencies as needed;
- works closely with existing task forces within the HIFCA area, including Joint Terrorist Task Force, HIDTA, OCDETF, and Electronic Crime Task Forces[39];
- focuses on appropriate cases, including those cases referred by the interagency working group described in Objective 1, Priority 1 above, and develops comprehensive asset forfeiture plans;
- incorporates uniform guidelines, discussed above at Objective 1, Priority 2, to ensure the maximum possible participation of all federal law enforcement agencies;
- utilizes effectively Bank Secrecy Act (BSA) information that FinCEN provides as well as FinCEN's data mining expertise;
- works closely with the financial community in its area, and conducts regular outreach training on appropriate topics, such as SAR compliance issues; and
- incorporates relevant money laundering and asset forfeiture training conducted by the Federal Law Enforcement Training Center, in conjunction with the Asset Forfeiture and Money Laundering Section (DOJ) and law enforcement training components.

The HIFCA review team will also examine whether the HIFCA Task Forces can install a secure intranet connection to ensure an effective means of communication between the various HIFCAs.

Priority 2: Designate new HIFCAs as needed.

Lead: Assistant Secretary for Enforcement, Department of the Treasury; Assistant Attorney General, Criminal Division, Department of Justice.

2001 Accomplishments: The *2001 Strategy* designated two new HIFCAs — the Northern District of

[38] As the *2002 Strategy* goes to press, most of these investigations are still ongoing.

[39] Section 105 of the PATRIOT Act directed the U.S. Secret Service to develop a national network of electronic crime task forces, based on the successful model of its New York Electronic Crimes Task Force.

Illinois (Chicago) and the Northern District of California (San Francisco). The new HIFCAs are operational and have been responsive, as appropriate, to the events of September 11.

2002 Action Items: (1) Review applications for HIFCA designations, and make timely recommendation to the Departments of the Treasury and Justice for decision. (2) Designate additional HIFCAs as appropriate, following the completion of the HIFCA review described above. (3) If additional HIFCAs will be designated during 2002, explore designating another "system" HIFCA, such as the use of unlicensed money services businesses or alternative remittance systems.

This *Strategy* does not announce the designation of any additional HIFCAs, although applications will continue to be accepted and analyzed by the HIFCA Coordination Team.[40] Treasury and Justice are continuing to evaluate the operation and performance of the six existing HIFCAs, and will only designate additional HIFCAs in 2002 if there is a strong reason to do so.[41] Treasury will consult with Justice to determine whether it could be appropriate to establish a "system" HIFCA that would focus on one or more non-traditional methods used to move funds.

A prospective HIFCA applicant must submit an application to FinCEN that includes:

- a description of the proposed area, system, or sector to be designated;
- the focus and plan for the counter-money laundering projects that the HIFCA designation will support;
- the reasons such a designation is appropriate, taking into account the relevant statutory standards; and
- a point of contact.

* Objective 3: Dismantle the Black Market Peso Exchange (BMPE) Money Laundering System.

The Black Market Peso Exchange (BMPE) is the largest known money laundering system in the Western Hemisphere. Colombian narcotics traffickers are the primary users of the BMPE, repatriating up to $5 billion annually to Colombia.

Customs and DEA, together with Colombia's Departamento Administrativo de Seguridad arrested 37 individuals in January 2002 as a result of Operation Wire Cutter, a 2 1/2 year undercover investigation of Colombian peso brokers and their money laundering organizations. Investigators seized over $8 million in cash, 400 kilos of cocaine, 100 kilos of marijuana, 6.5 kilos of heroin, nine firearms, and six vehicles.

The BMPE is a system that converts and launders illicit drug proceeds from dollars to Colombian pesos. Typically, narcotics dealers sell Colombian drugs in the U.S. and receive U.S. dollars. The narcotics traffickers thereafter sell the U.S. currency to a Colombian black market peso broker's agent in the United States. In return for the dealer's U.S. currency deposit, the BMPE agent deposits the agreed-upon equivalent[42] of Colombian pesos into the cartel's bank account in Colombia. At this point, the cartel has successfully converted its drug dollars into pesos, and the Colombian broker and his agent now assume the risk for

[40] The HIFCA Coordination Team is comprised of representatives from DOJ's Asset Forfeiture and Money Laundering Section, the Office of Enforcement of the Treasury Department, FinCEN, the U.S. Customs Service, the Internal Revenue Service, the Secret Service, the Federal Law Enforcement Training Center, FBI, DEA, the U.S. Postal Inspection Service, the Executive Office for U.S. Attorneys, the Executive Office for OCDETF, and the Office of National Drug Control Policy.

[41] The 1998 Strategy Act requires the *National Money Laundering Strategy* to designate HIFCAs when it is appropriate to do so. The statute provides a list of factors to be considered in designating a HIFCA: (1) demographic and general economic data; (2) patterns of BSA filings and related information; and (3) descriptive information that identifies trends and patterns in money laundering activity and the level of law enforcement response to money laundering in the region. The statute does not mandate that HIFCAs be designated solely in geographic terms; HIFCAs also can be created to address money laundering in an industry, sector, financial institution, or group of financial institutions. *See* 31 U.S.C. 5341(b)(8) & 5342(b).

[42] The currency transaction rate is discounted because the broker and his agent must assume the risk of evading BSA reporting requirements when they later place the dollars into the U.S. financial system.

integrating the drug dollars into the U.S. banking system. The broker funnels the money into financial markets by selling the dollars to Colombian importers, who then purchase U.S. goods that are often smuggled back into Colombia to avoid taxes and customs duties.

Over the last five years, law enforcement has scored a number of successes in combating the BMPE, as evidenced by the *Operation Wire Cutter* and *Operation Sky Master* cases, summarized in Appendix 7. However, law enforcement efforts, alone, will not succeed in dismantling the BMPE and similar trade-based money laundering systems. The private sector must be vigilant to the misuse of their products, and our international partners must step-up their efforts in our common fight. We discuss, below, how we will accomplish these objectives in 2002.

Priority 1: Educate the private sector to ensure implementation of the BMPE anti-money laundering guidelines.

Lead: Deputy Assistant Secretary, Money Laundering and Financial Crimes, Department of the Treasury; Deputy Assistant Attorney General, Criminal Division, Department of Justice.

2001 Accomplishments: The Departments of Treasury and Justice met with senior industry officials to discuss additional preventive measures that industry could take to combat the BMPE. The U.S. Customs Service's Office of Investigations, Financial Division, hosted a workshop to assist the industries in developing BMPE anti-money laundering compliance programs and guidelines designed to minimize the likelihood that their products will be sold on the black market in Colombia. In the workshop, industry officials circulated a discussion paper on voluntary money laundering prevention guidelines for U.S. manufacturers.

2002 Action Items: By October 2002, conduct a workshop for industry leaders to finalize voluntary money laundering prevention guidelines. The Departments of the Treasury and Justice will work with industry to publicize these guidelines broadly and encourage others to implement anti-money laundering programs based upon the guidelines, and adapted to their needs and business practices.

The BMPE functions when peso brokers are able to facilitate the purchase of U.S. manufactured trade goods with illicit proceeds. A major step towards dismantling the BMPE is to ensure that merchants are able to identify these transactions so that they can take steps to prevent their occurrence. Therefore, law enforcement must continue its efforts to educate the business community about BMPE activity, especially those industries that are particularly vulnerable to the BMPE.

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A New York City policeman pled guilty in March 2002 to laundering between $6 and $10 million obtained from the sale of drugs in the New York City area. Proceeds of the drug sales were driven to Miami, Florida, and delivered to various businesses, which accepted the drug money as payment for goods, such as video games, calculators, print cartridges, bicycle parts and tires, which were subsequently exported to Colombia.

The Deputy Assistant Secretary, Money Laundering and Financial Crimes, and the Deputy Assistant Attorney General, Criminal Division, will host a private industry workshop by October 2002 to assist industry to finalize the "Voluntary Money Laundering Prevention Guidelines for U.S. Manufacturers to Address the Colombian Black Market Peso Exchange Problem" and to develop a plan to publicize and launch the guidelines to other business communities by December 2002.

Priority 2: Train law enforcement to identify, understand, investigate, and prosecute BMPE schemes.

Lead: Director, Federal Law Enforcement Training Center, (FLETC); Money Laundering Coordination Center (MLCC), U.S. Customs Service.

2001 Accomplishments: FLETC provided basic BMPE training to approximately 360 students of the U.S. Customs Service in FY01. FLETC provides this BMPE training as part of its Financial Investigations training. Customs provides advanced BMPE training to Treasury agents through the Asset Forfeiture and Financial Training (AFFI) seminar sponsored by its Academy's Advanced Training Division. Approximately 120 agents and intelligence analysts were trained during FY01 and Customs expects to train the same number of individuals during FY02.

2002 Action Items: By August 2002, FLETC will develop a training module on the BMPE, which will focus on its structure, related money laundering schemes, international implications, culpable parties, and specific investigative techniques.

Just as the private sector must be vigilant about how money launderers can exploit their products, law enforcement must stay current about permutations to the BMPE that have arisen as a result of successful law enforcement efforts, such as *Operations Wire Cutter* and *Sky Master*. In 2002, FLETC will develop a comprehensive BMPE training course. FLETC expects to offer basic training in BMPE investigations to approximately 800 students during FY 2002. In developing this BMPE training, FLETC will interview topical experts and study successful investigations. An analysis of these cases will help reveal the various techniques employed by BMPE money launderers, identify successful investigative tools, and highlight regional similarities and differences. FLETC will debrief long-term BMPE undercover agents to understand the mechanics of the typical money movements in BMPE cases, and identify areas of weakness within BMPE schemes to focus investigative efforts.

In addition, Customs will enhance its website, at www.customs.gov, that: (1) promotes awareness of the BMPE money laundering system; (2) lists "red flags" that are possible indicators of BMPE activity and provides points of contact for persons engaged in international commerce to report when suspected BMPE-related transactions are taking place; and (3) links users to the OFAC website's list of Specially Designated Narcotics Traffickers (SDNTs) with whom U.S. persons are prohibited from dealing. Customs will coordinate a working group to design and implement a mechanism to link consumer industry web sites to the BMPE web site. This system will allow consumers to query a specific corporate web site, and provide consumers with information that will help them to identify and to avoid transactions possibly linked to the BMPE money laundering system.

Customs will enhance its website, at www.customs.gov, that lists "red flags" that are possible indicators of BMPE activity and provides points of contact for persons engaged in international commerce to report when suspected BMPE-related transactions are taking place.

Priority 3: Conclude multinational study with the governments of Colombia, Aruba, Panama, and Venezuela in the cooperative fight against the BMPE.

Lead: Director, Narcotics Policy Section, Office of Enforcement, Department of the Treasury; Chief, Asset Forfeiture and Money Laundering Section, Department of Justice.

2001 Accomplishments: Our international partners are vital components of the USG strategy to attack the BMPE. On August 29, 2000, at the initiative of Treasury Enforcement, representatives from Colombia, Aruba, Panama, Venezuela, and the U.S. signed a Directive establishing the "Black Market Peso Exchange System Multilateral Working Group." The Working Group met four times to discuss: how the BMPE money laundering system affects each of the respective countries; how the BMPE system operates in each country; loopholes in existing laws; methods to improve international cooperation; the role of free trade zone authorities and merchants in the BMPE; and how each government regulates international commerce.

The Working Group issued a Mutilateral Experts Report. Senior officials from each government reviewed this report, and, in a public signing ceremony in Washington, D.C., issued a statement on March 14, 2002 supporting the recommendations.

The senior officials recognized that governments may need to consider amending national laws or issue new regulations to achieve the objectives of the recommendations. They directed the experts to reconvene in July 2003 to review progress in implementing the recommendations and to report on the results achieved in combating trade-based money laundering. The statement and the Mutilateral Experts Report are published in Appendix 8.

2002 Action Items: (1) Initiate efforts, in collaboration with Aruba, Panama, and Venezuela to submit to the Caribbean Financial Action Task Force (CFATF) the experts report and to encourage CFATF countries to undertake measures to build on its recommendations. (2) Work with Colombia to submit the report to the South American FATF-style body, GAFISUD, and encourage GAFISUD to undertake measures to build on the report's recommendations.

Although much of the narcotics-related money laundering involves Colombia, Colombia does not bear the brunt of the BMPE alone. The report recognized that trade-based money laundering is a global problem. The report calls on FATF and the FATF regional groups to act on its recommendations, which seek to prevent the movement of trade-based money laundering activities to jurisdictions that do not currently have procedures in place to address it and to deter unfair trade competition. The senior officials encouraged the widest possible dissemination of the report and timely action by governments.

Trade-based money laundering is a global problem.

* Objective 4: Improve anti-money laundering and asset forfeiture training.

As money launderers continue to modify their activities in response to law enforcement and regulatory measures, law enforcement officials must receive sufficient training to recognize the new approaches taken by the launderers and respond appropriately. Thus, it is vitally important that law enforcement and regulatory officials receive concentrated and advanced training in anti-money laundering legal authorities and investigative techniques.

Priority 1: Develop and provide advanced money laundering training to HIFCA Task Force participants.

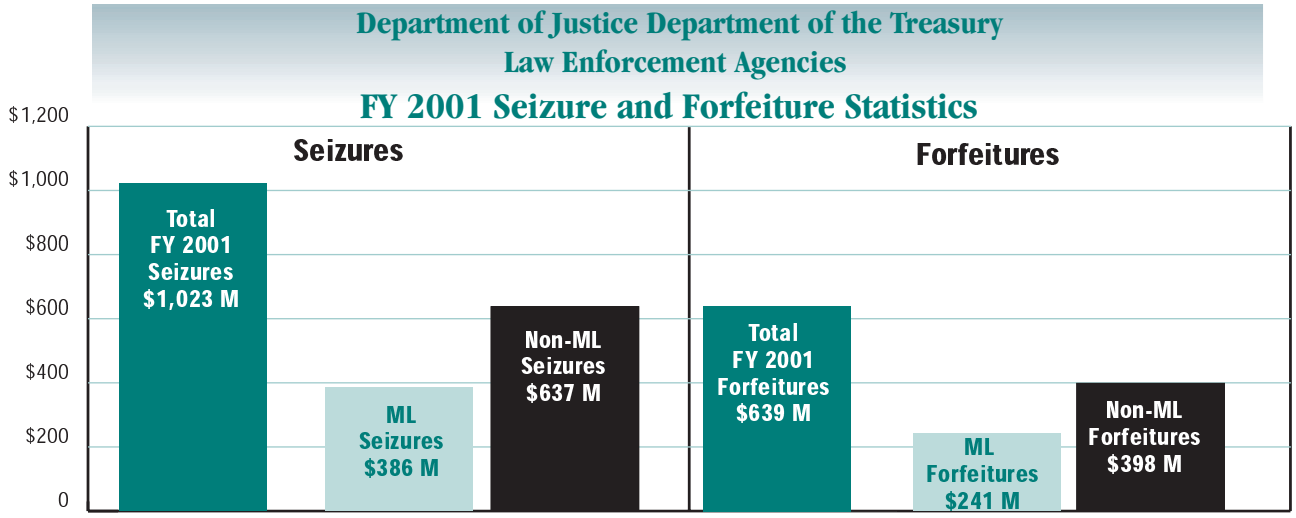
Lead: Deputy Assistant Secretary, Money Laundering and Financial Crimes, Department of the Treasury; Director, Federal Law Enforcement Training Center (FLETC); Director, Organized Crime and Drug Enforcement Task Force (OCDETF); Chief, Asset Forfeiture and Money Laundering Section, Criminal Division, Department of Justice.

2001 Accomplishments: FLETC, in close cooperation with DOJ's Asset Forfeiture and Money Laundering Section, developed an advanced money laundering training module for HIFCA Task Force participants, which was presented in New York City in January 2002. Approximately 140 representatives from each of the HIFCA Task Forces participated in the three-day advanced training seminar. The training focused on operational issues, the impact of the PATRIOT Act, asset forfeiture issues, and ensuring that the HIFCA members were up-to-date on the full range of inter- and intra-agency capabilities available to fight money laundering operations.

2002 Action Items: Provide advanced money laundering training to HIFCA Task Force participants to ensure that federal, state, and local enforcement agents have the necessary training and expertise to investigate and prosecute major money laundering schemes and organizations.

Law enforcement officials must receive sufficient training to recognize the new approaches taken by the launderers and respond appropriately.

FLETC and the DOJ anti-money laundering training components are revising the advanced money laundering training course they developed in 2001, and will offer specialized training to each of the six HIFCA locations between May and November 2002.



Total FY 2001 Seizures:	$1,023,279,777	
Total Seizures Related to Money Laundering	$385,882,597	37.7%
Total Non-Money Laundering Seizures	$637,397,180	62.3%

Total FY 2001 Forfeitures:	$639,469,124	
Total Forfeitures Related to Money Laundering	$241,362,783	37.7%
Total Non-Money Laundering Forfeitures	$398,106,341	62.3%

NOTE: This data provides an indication of the extent of the money laundering activity for the given fiscal year. However, the actual magnitude of money laundering activity may not be accurately reflected in this chart. Alternative enforcement theories, prosecutorial discretion, and investigative security make a completely accurate measure extremely difficult. For example, many cases containing a money laundering component, such as Title 21 (proceeds of narcotics trafficking) seizures, are not reported as money laundering cases. Likewise, additional statutory authority resulting from the Civil Asset Forfeiture Reform Act (CAFRA), specifically 18 U.S.C. § 981(a)(1)(C), moderated the need to apply the money laundering violations to certain types of cases and, as a result, these cases may now be reported under the "Non-Money Laundering" category. Other "Non-Money Laundering" activity may include fraud, Customs trade violations, facilitating property used to further the commission of certain violations, and other such violations. It is also important to note that some seizures and forfeitures reported as "Money Laundering" activity may have only a small or limited money laundering component, for example seizures effected to protect an expansive investigation into other violations.

Source: *Department of Justice Law Enforcement Agencies: Federal Bureau of Investigation, Drug Enforcement Agency, U.S. Postal Inspection Service and the Food and Drug Administration Department of the Treasury Law Enforcement Agencies: U.S. Customs Service, Internal Revenue Service (Criminal Investigation), U.S. Secret Service and the Bureau of Alcohol, Tobacco and Firearms*

The Departments of Treasury and Justice also conducted a substantial amount of fundamental, advanced, and specialized training to task forces, agencies, investigators, and prosecutors through components such as the Office of Legal Education (OLE), AFMLS, FBI-Quantico, DEA-Quantico, FLETC, and the Executive Office of Asset Forfeiture (EAOF). By the end of FY 2001, for example, OLE and AFMLS conducted 32 different financial investigations, money laundering, and asset forfeiture courses, reaching 3,000 federal law enforcement agents and AUSAs; participated as trainers in over 140 federal and state money laundering and asset forfeiture conferences; and distributed over 150,000 publications and training materials. FLETC provided money laundering and asset forfeiture training, international banking and money laundering training, and international banking and money laundering training on 14 separate occasions in FY 2001, reaching 645 students in the U.S. and, overseas, through course offerings to the International Law Enforcement Academy (ILEA) in Budapest, Hungary.

The Organized Crime and Drug Enforcement Task Forces (OCDETF) offered several "follow the money" training sessions in 2002 to provide a practical tool kit to agents and prosecutors of the investigative techniques and skills fundamental to conducting a financial investigation. One course was offered in Dallas in January 2002. Additional courses were held in New York City in March 2002 and Atlanta in April 2002.

In 2002, the Departments of Treasury and Justice want to build on this training expertise, and continue to incorporate the experiences obtained during successful large-scale money laundering investigations and prosecutions, including those focusing on the shipment of bulk cash and the exploitation of money services businesses and alternative remittance systems. The trainers and the HIFCA Task Force members will educate each other, so that the Departments can continue to refine their programs to use a "lessons learned" approach concentrating on how best to set up, operate, investigate, and prosecute major money laundering schemes and operations.

Priority 2: Provide asset forfeiture training to federal, state, and local law enforcement officials that emphasizes major case development.

Lead: Deputy Assistant Secretary, Money Laundering and Financial Crimes, Department of the Treasury; Director, Federal Law Enforcement Training Center (FLETC); Chief, Asset Forfeiture and Money Laundering Section, Criminal Division, Department of Justice.

2001 Accomplishments: The *2001 Strategy* placed a high premium on developing advanced asset forfeiture training that would focus on the lessons learned from successful large-scale money laundering investigations and prosecutions such as Operations *Wire Cutter*, *Casablanca*, *Dinero*, and *Greenback*. FLETC, in close cooperation with DOJ's AFMLS and Treasury's Office of Enforcement developed an advanced money laundering training module for HIFCA Task Force participants that was previewed in January 2002. The training focused on operational issues, the impact of the PATRIOT Act, asset forfeiture issues, and ensuring that the HIFCA members were up-to-date on the full range of inter- and intra-agency capabilities available to fight money laundering operations.

2002 Action Items: By August 2002, FLETC and the training components of the Department of Justice will modify its Advanced Asset Forfeiture training to include relevant provisions of the PATRIOT Act. FLETC will present this course twice during the remainder of FY 2002 at centralized locations. FLETC will limit attendance to asset forfeiture specialists from each HIFCA.

In Fiscal Year 2001, federal law enforcement agencies seized over $1 billion in criminal-based assets, and forfeited over $639 million. The 2002 *Strategy* requires the continued education of federal, state, and local investigators, analysts, and prosecutors concerning asset forfeiture statutory modifications and case law developments. Advanced asset forfeiture training programs must inform law enforcement of significant statutory changes, and instruct them how to investigate and prosecute successfully under the new provisions.

The *2001 Strategy* required FLETC to develop and deliver Advanced Asset Forfeiture training to HIFCA members. FLETC expects to present a 12-16 hour course two times during the remainder of FY 2002 at centralized locations, and will limit attendance to asset forfeiture specialists from each HIFCA. By August 2002, the Advance Asset Forfeiture training will be developed using existing courses with modifications that emphasize the USA PATRIOT Act.

An investigation of a Queens, N.Y. luxury used car dealership suspected of laundering illegal narcotics proceeds resulted in the seizure of bank accounts belonging to the owner of the Six Stars Auto Sales. He pled guilty to structuring currency and agreed to the forfeiture of four luxury vehicles and $942,000.

Training programs must also reflect the *Strategy's* primary emphasis — to focus enforcement efforts against terrorist groups and major money laundering organizations. Training programs will teach investigators, analysts, and prosecutors how to use federal forfeiture statutes to the fullest extent to deny criminals and terrorists the benefit of their proceeds.

Training programs will teach investigators, analysts, and prosecutors how to use federal forfeiture statutes to the fullest extent to deny criminals and terrorists the benefit of their proceeds.

The Treasury Executive Office for Asset Forfeiture (EOAF), together with DOJ's AFMLS, have actively supported FLETC in the assessment of existing training modules relative to the expertise required to seize and forfeit criminal assets, particularly stressing high impact forfeitures, and the implications of the Civil Asset Forfeiture Reform Act (CAFRA) and the USA PATRIOT Act.

Priority 3: Increase awareness and use of the new anti-money laundering provisions of the PATRIOT Act.

Lead: Deputy Assistant Secretary, Money Laundering and Financial Crimes, Department of the Treasury; Deputy Assistant Attorney General, Criminal Division, Department of Justice; Director, Federal Law Enforcement Training Center (FLETC); Director, Office of Legal Education (OLE), Executive Office of United States Attorneys (EOUSA).

2001 Accomplishments: This is a new priority, so there are no accomplishments to report.

2002 Action Items: (1) By November 2002, develop additional ways to promote new law enforcement tools created in the PATRIOT Act, including a possible website to address PATRIOT Act issues and suggestions. (2) By December 2002, FLETC will develop a training module on the practical uses of the new provisions of the PATRIOT Act based on the field experience of the law enforcement agencies. (3) By January 2003, the Departments of Treasury and Justice will sponsor additional advanced PATRIOT Act training for relevant law enforcement agencies.

The anti-money laundering provisions contained in the PATRIOT Act, and implemented through the regulations described in Goal 4, represent significant new tools for law enforcement to combat international money laundering. The Departments of the Treasury, through FLETC, and Justice, through its Asset Forfeiture and Money Laundering Section (AFMLS), will develop training regimens that focus on the practical application of the anti-money laundering provisions of the PATRIOT Act based on the real-world field experience of the agents using these powers.

In the fall of 2002, Treasury will hold a conference for federal prosecutors regarding OFAC's role in freezing terrorist assets, and explore ways to seize additional terrorist assets for forfeiture. The conference will discuss additional authorities created by the PATRIOT Act, and how these authorities can best be used to achieve high impact forfeitures of terrorist assets. The conference will also analyze existing federal law enforcement strategies to target terrorist finances and consider some alternative strategies.

GOAL 4:
PREVENT MONEY LAUNDERING THROUGH COOPERATIVE PUBLIC-PRIVATE EFFORTS AND NECESSARY REGULATORY MEASURES

Efforts to prevent money laundering must include an effective regulatory regime and close cooperation between the public and private sectors to deny money launderers easy access to the financial sector. Congress recognized the importance of comprehensive regulations and the role of the private sector in combating money laundering in the anti-money laundering provisions of the PATRIOT Act. Our top priority in 2002 will be to implement the PATRIOT Act and to assess its initial impact on our ability to combat money laundering.

Policy makers must continue to balance the needs of law enforcement against the compliance costs of the financial industry and the privacy interests of the public.

In creating and implementing effective regulatory procedures, policy makers must continue to balance the needs of law enforcement against the compliance costs of the financial industry and the privacy interests of the public. The federal government must propose and enforce reasonable and cost-effective regulations and guidance procedures. The government will also continue its efforts to ensure that investigators make effective use of required reporting data.

The provisions of the PATRIOT Act will increase law enforcement's ability to succeed in the fight against money laundering.

* Objective 1: Implement the new anti-money laundering provisions of the USA Patriot Act.

A critical new tool to assist law enforcement in the fight against money laundering is the International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001, which the President signed into law on October 26, 2001. These provisions constitute Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 ("PATRIOT Act").[43] Congress, the White House, and the Departments of Treasury and Justice all worked closely together to produce the package of anti-money laundering proposals contained in the PATRIOT Act.

The anti-money laundering provisions of the PATRIOT Act address various deficiencies in current money laundering laws and enhance both criminal and civil money laundering enforcement and asset forfeiture capabilities. As described more fully below, these provisions will increase law enforcement's ability to succeed in the fight against money laundering, including narcotics-based, fraud-based, and terrorist-based money laundering.

The mandatory filing of SARs has produced changes in criminal behavior.

The PATRIOT Act moves the battle against money laundering into the 21st century. The comprehensive anti-money laundering programs implemented by U.S. banks and depository institutions have forced money launderers to change the way that they introduce and move their illicit money through U.S. financial institutions. The mandatory filing of SARs, Currency Transaction Reports (CTRs), and other reports required under the Bank Secrecy Act (BSA) has produced changes in criminal behavior. Criminals can no longer walk into U.S. financial institutions and attempt to deposit large amounts of cash without arousing suspicion and investigation. As criminals look for alternative methods to move their illicit cash into the financial system, we must be vigilant and introduce countermeasures that will, for example, prevent securities brokers and money service businesses from becoming the preferred avenues of laundering money.

[43] Pub. L. 107-56 (Oct. 26, 2001).

Many of the anti-money laundering provisions of the PATRIOT Act are not self-implementing, and Treasury is responsible for drafting numerous implementing regulations. To accomplish this task, Treasury is chairing a number of interagency efforts to develop appropriate regulations to bring the PATRIOT Act measures into effect on a timely basis. This work will continue expeditiously throughout 2002 and is a significant priority of Goal 4. Aggressive implementation of the PATRIOT Act will restrict avenues of money laundering that are not adequately accounted for in the existing BSA reporting regime.

Increasing the transparency of correspondent account information should deter criminals from using this method of laundering their money through U.S. financial institutions.

Priority 1: Draft regulations to implement the anti-money laundering and asset forfeiture provisions of the PATRIOT Act.

Lead: Assistant Secretary for Enforcement, Department of the Treasury; General Counsel, Department of the Treasury.

2001 Accomplishments: The PATRIOT Act was enacted on October 26, 2001. Immediately after its enactment, the Department of Treasury organized interagency teams to address each provision of the Act for which Treasury has a responsibility to draft regulations.[44]

2002 Action Items: Complete work on PATRIOT Act sections to ensure that measures will take effect on a timely basis.

Treasury and its interagency partners face an immense task in implementing the far-reaching new provisions of the PATRIOT Act on the accelerated schedule directed by Congress. This process is made more challenging by the fact that many of the new provisions impose regulations on various sectors and financial institutions that have not previously been subject to comprehensive anti-money laundering regulations. To produce sensible regulations within the deadlines imposed, the interagency teams are educating themselves about the affected industries. These regulations cannot be drafted in a vacuum. Although private sector representatives are not permitted to be members of the working groups, the working groups are nevertheless obtaining input from the affected industries on the nature and operation of their businesses.

Several of the anti-money laundering provisions in Title III are in effect as of the date the *2002 Strategy* went to press, and Treasury has issued the necessary regulations and guidance to the affected industry sectors. These provisions address important aspects of our anti-money laundering regime, including: (1) requiring anti-money laundering compliance programs at a wide range of financial institutions;[45] (2) preventing "shell banks" from gaining access to the U.S. financial system;[46] (3) developing a SAR reporting system for brokers and dealers in securities;[47] (4) having foreign correspondent banks identify their owners and appoint an agent in the U.S. to receive service of legal process;[48] (5) providing

[44] Deputy Secretary Dam oversees the Treasury Department's overall implementation of the PATRIOT Act.

[45] On April 24, 2002 Treasury issued interim final rules prescribing the minimum standards for these programs. 67 Federal Register 21110 (April 29, 2002). These anti-money laundering programs will help to ensure that money launderers cannot evade detection by moving their illicit activity from traditional avenues of money laundering to less traditional avenues. The regulations temporarily exempt certain financial institutions from the requirement to have a program in place as of April 24, 2002.

[46] On December 20, 2001 Treasury issued a proposed rule to codify interim guidance that Treasury had issued in November 2001outlining the steps financial institutions should take to ensure that their correspondent accounts are not used to move proceeds directly or indirectly through such foreign "shell banks." Treasury's proposed rule also applies these requirements to brokers and dealers in securities. *See* 66 Federal Register 67459 (Dec. 28, 2001) and 66 Federal Register 59342 (Nov. 27, 2001).

[47] Treasury, after consultation with the Securities and Exchange Commission and the Board of Governors of the Federal Reserve System, published proposed regulations in December 2001 requiring broker-dealers to report suspicious transactions under the relevant BSA provisions. 66 Federal Register 67670 (Dec. 31, 2001). The SAR broker-dealer rule closely mirrors the reporting regime currently in place for banks, and sets the SAR reporting level at $5,000. Final rules were issued on July 1, 2002. *See* 67 Federal Register 44048 (July 1, 2002).

[48] Like the shell bank prohibition, Treasury has proposed to extend this requirement to brokers and dealers in securities. *See* 66 Federal Register 67459 (Dec. 28, 2001). As with the shell bank provision of the PATRIOT Act, the proposed regulation will curtail the illegitimate use of correspondent accounts. Law enforcement and regulatory authorities will have an enhanced ability to obtain information about monies passing through

FinCEN access to reports by non-financial trades and businesses concerning cash transactions in excess of $10,000;[49] and (6) facilitating the exchange of information between law enforcement and the private sector, as well as between financial institutions, about potential money laundering and terrorist financing activity.[50]

Priority 2: Expand the types of financial institutions subject to effective Bank Secrecy Act requirements, as necessary.

Lead: Assistant Secretary for Enforcement, Department of the Treasury; Director, Financial Crimes Enforcement Network (FinCEN).

2001 Accomplishments: On December 31, 2001, FinCEN issued a proposed rule to require securities brokers and dealers to file suspicious activity reports in connection with customer activity that indicates possible violations of law or regulation, including violations of the BSA. The proposed SAR broker-dealer rule closely mirrors the reporting regime currently in place for banks, and sets the SAR reporting level at $5,000. The comment period for this proposed rule expired on March 1, 2002. This accomplishment fulfills a goal not only of the *2001 Strategy*, but also section 356 of the PATRIOT Act.

2002 Action Items: (1) By July 2002, Treasury will issue a final rule with an accompanying form for suspicious activity reporting by securities brokers and dealers (SAR-BD). (2) FinCEN will work with the SEC and the Self-Regulatory Organizations (SROs) in the securities industry to develop compliance guidance for the industry and continue to educate the industry about the need to develop systems to detect and prevent potential money laundering in the securities industry. (3) Treasury, in consultation with the SEC and the Commodity Futures Trading Commission (CFTC), will evaluate money laundering threats and vulnerabilities and determine whether to extend suspicious activity reporting to other entities, including futures commission merchants and mutual funds (open-end registered investment companies.)

The SAR broker-dealer rule closely mirrors the reporting regime currently in place for banks, and sets the SAR reporting level at $5,000.

Previous *National Money Laundering Strategies* noted that depository institutions are subject to more stringent BSA requirements than other types of financial institutions. Prior to January 2002, only those institutions that came under the jurisdiction of the federal bank supervisory agencies were required to file SARs. To help improve this situation, the *2001 Strategy*

The 2001 Strategy called upon the Department of the Treasury to issue final rules requiring suspicious activity reporting by money services businesses (MSBs) and casinos, and to work with the SEC in proposing rules for suspicious activity reporting by brokers and dealers in securities. Treasury accomplished this task.

[49] While certain non-financial trades and businesses have had an obligation for many years to file a report with the Internal Revenue Service when receiving over $10,000 in cash or cash equivalents, confidentiality provisions within the Internal Revenue Code often prevented law enforcement from obtaining access to those reports. Section 365 of the PATRIOT Act provides that non-financial trades and businesses must also file such reports with FinCEN. Thus, law enforcement will now have access to information that can indicate that money-laundering activity may be occurring within a particular trade or business.

[50] The exchange of information relating to money laundering is a critical element of an effective anti-money laundering scheme. Treasury issued proposed regulations and an interim rule on March 4, 2002 to encourage information sharing between law enforcement, regulators, and financial institutions concerning known or suspected terrorists or money launderers, as called for by section 314 of the PATRIOT Act. The interim regulations permit financial institutions to share information with one another, after providing notice to Treasury, in order to report to law enforcement activities that may relate to money laundering or terrorism. The institutions are required to maintain the confidentiality of the information exchanged. The proposed regulations authorize FinCEN, acting on behalf of a federal law enforcement agency investigating money laundering or terrorist activity, to request that a financial institution search its records to determine whether that institution has engaged in transactions with specified individuals, entities, or organizations. 67 Federal Register 9874 (March 4, 2002).

called upon the Department of the Treasury to issue final rules requiring suspicious activity reporting by money services businesses (MSBs) and casinos, and to work with the Securities and Exchange Commission (SEC) in proposing rules for suspicious activity reporting by brokers and dealers in securities. Treasury accomplished this task, and is considering, consistent with the PATRIOT Act, whether any additional categories of entities should be subject to a SAR reporting regime.

Treasury continues to work closely with the SEC and the securities industry's self-regulatory organizations (SROs) to ensure that each broker-dealer will develop and implement effective anti-money laundering compliance requirements.

FinCEN established a MSB web site, www.msb.gov. As of May 6, 2002, over 10,600 MSBs registered with FinCEN.

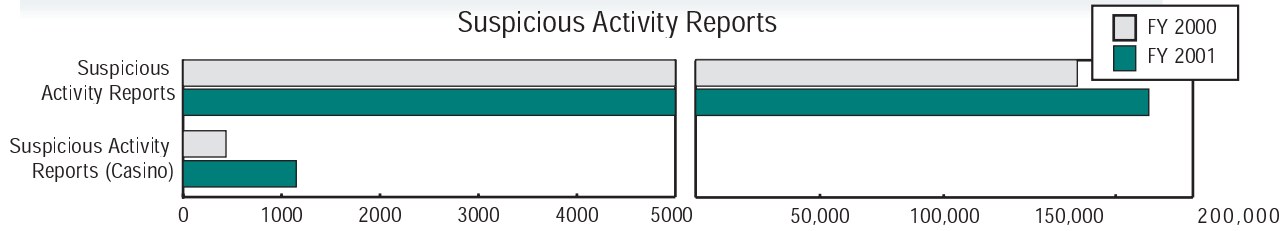
Implementation of a SAR regime for the securities industry is an extension of FinCEN's broader effort to implement a comprehensive system of suspicious activity reporting for all significant providers of financial services. An interagency team will evaluate whether other types of entities not currently covered by SAR reporting requirements, but similar to broker-dealers, such as futures commission merchants, mutual funds, and others, should be subject to a reporting regime.

Priority 3: Improve quality of SAR filing by money services businesses (MSBs) and casinos who are required to report suspicious activity.

Lead: Director, Financial Crimes Enforcement Network (FinCEN); Assistant Secretary for Enforcement, Department of the Treasury; Compliance Director, Small Business/Self-Employed Division, Internal Revenue Service (IRS).

2001 Accomplishments: The money service businesses (MSB)[51] registration took effect on December 31, 2001, and the SAR rule came into effect on January 1, 2002. By December 31, 2001, FinCEN established an interim procedure for MSB SAR reporting, distributed MSB registration guidance materials, and established an MSB web site, www.msb.gov. As of May 6, 2002, over 10,600 MSBs registered with FinCEN.[52] In coordination with the IRS Detroit Computing Center (DCC), FinCEN created a registration database and established a specific response team for MSB inquiries.[53]

Bank Secrecy Act Filings



Suspicious Activity Reports	FY 2000	FY 2001
Suspicious Activity Reports	153,502	182,253
Suspicious Reports (Casino)	436	1,149

Source: *FinCEN*

[51] The MSB industry is comprised of more than eight multi-national corporations and 160,000 independent or local businesses across the country that serve as agents of the larger companies or offer independent products.

[52] Through its contractor, FinCEN provided information packets to 10,745 entities. Within 30 days of the December 31, 2001 effective date, 7,793 had registered as MSBs and, as of May 6, 2002, 10,658 were registered.

[53] The Secretary of the Treasury has delegated the responsibility to the IRS to examine certain non-bank financial institutions, including MSBs, to ensure compliance with the BSA. *See* 31 C.F.R. § 103.46(b)(8) and Treasury Directive 15.41. The IRS performs essential functions to administer the BSA, including identifying institutions that are subject to BSA requirements, educating them regarding their BSA obligations, and conducting BSA compliance examinations. By late 2001, IRS Small Business/Self-Employed Division (SBSE) established a separate group that is responsible for Anti-Money Laundering (AML) compliance, and constructed a new approach to AML compliance consistent with the restructured IRS organization.

On March 29, 2002, FinCEN published in the Federal Register a request for additional comments on its proposed rule to require casinos and card clubs to file reports of suspicious activity.[54] FinCEN anticipates issuing a final rule by December 2002.

2002 Action Items: (1) Monitor compliance with MSB registration and SAR requirements and work with the industry to ensure full awareness of the requirements. (2) Develop MSB SAR guidance and publish the final MSB SAR form. (3) Create guidance materials, training tools, and other compliance aids and continue to develop BSA guidance, for MSBs and casinos and card clubs. (4) Extend the MSB outreach campaign to regional and local levels.

Our efforts to work with and to educate financial institutions that file suspicious activity reports do not end once the SAR requirement is in place. FinCEN and the appropriate regulatory agencies will work throughout the year to improve the guidance available to MSBs and casino and card clubs and to make the material available in as helpful a format as possible.

Priority 4: Increase utilization of existing Currency Transaction Report (CTR) filing exemptions for low-risk financial transactions, and consider expansion of CTR exemptions.

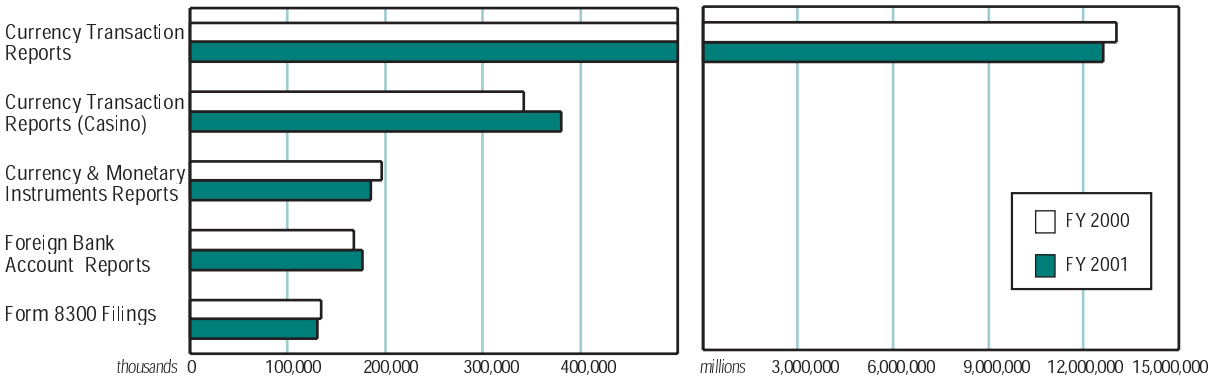
Lead: Assistant Secretary for Enforcement, Department of the Treasury; Assistant Secretary for Financial Institutions, Department of the Treasury; Director, Financial Crimes Enforcement Network (FinCEN).

2001 Accomplishments: There are no accomplishments to report.

2002 Action Items: (1) In October 2002, Treasury will report to Congress on the possible expansion of the statutory exemption system and methods for improving utilization of the exemption provisions. (2) FinCEN will work with financial institutions to increase utilization of current CTR filing exemptions and will conduct meetings with at least 15 financial institutions by December 2002.

Bank Secrecy Act Filings

Financial Transactions Reports



Financial Transactions Reports	FY 2000	FY 2001
Currency Transaction Reports	13,040,064	12,594,533
Currency Transaction Reports (Casino)	342,320	380,858
Currency & Monetary Instruments Reports	196,564	185,156
Foreign Bank Account Reports	168,280	177,153
Form 8300 Filings	134,489	130,446

Source: *FinCEN and the IRS*

[54] 67 Federal Register 15138.

The BSA requires certain financial institutions to preserve specified transaction and account records, and file CTRs for currency transactions of more than $10,000 with the Department of the Treasury.[55] These reporting requirements, however, also impose costs on the financial sector, and the government must be sensitive to these added costs. The *2002 Strategy* remains committed to ensuring that the costs imposed on financial institutions are neither unreasonable nor overly burdensome to accomplish their purpose.

In 1994, Congress enacted legislation to reduce the number of CTRs filed by exempting certain low-risk transactions, including currency transactions conducted by state government agencies or other financial institutions, entities on major stock exchanges, and "qualified business customers" who operate cash intensive businesses and make frequent cash deposits.[56] Section 366 of the PATRIOT Act requires Treasury to report to Congress in October 2002 on the possible expansion of the statutory exemption system and methods for improving utilization of the exemption provisions for CTRs.[57]

Reporting requirements impose costs on the financial sector, and the government must be sensitive to these costs.

The Treasury Department must work to educate the financial sector about CTR-exempt transactions. FinCEN estimates that if financial institutions complied with current exemptions, annual CTR filings would be reduced by at least 30 percent, substantially decreasing the burden imposed on the financial sector, FinCEN, and FinCEN's customers. We must work with financial institutions to determine why they are not taking advantage of the exemptions, and develop mechanisms that will enable them to change their reporting systems so that exempted transactions are not reported to the Treasury Department.

In 2002, FinCEN will also work to establish a highly secure network to enable financial institutions to file required BSA reports electronically and to provide financial institutions with alerts regarding suspicious activities that warrant immediate and enhanced scrutiny. This project, called for under section 362 of the PATRIOT Act, will eliminate the time delays inherent in processing records filed in paper format, and will permit both law enforcement and financial institutions to act quickly when the circumstances warrant. FinCEN is contracting with a private sector vendor to construct the secure web, and will have a pilot system operating by mid-2002.

Many entities in the financial sector continue to report exempted transactions.

<u>Priority 5</u>: Review procedures concerning requirement for foreign banks that maintain a correspondent account in the U.S. to appoint an agent who is authorized to accept service of legal process.

Lead: Under Secretary for Enforcement, Department of the Treasury; Under Secretary for Domestic Finance, Department of the Treasury.

2001 Accomplishments: The *2001 Strategy* identified as a priority requiring foreign banks that maintain a correspondent account in the U.S. to appoint an agent who is authorized to accept service of legal process.

Section 319(b) of the PATRIOT Act requires financial institutions that provide a U.S. correspondent account to a foreign bank to maintain records of the foreign bank's owners and to identify an agent in the United

[55] *See* 31 C.F.R. 103.22; 31 U.S.C. § 5313.

[56] *See* 31 U.S.C. § 5313(d)-(g) (providing mandatory CTR-filing exemptions including transactions between depository institutions, state or federal agencies, deposits by any business or category of businesses that have little or no value for law enforcement purposes, and discretionary exemptions including "qualified business customers").

[57] In September 1997, FinCEN published the final rule for the first stage ("Phase I") of the process to reform the CTR exemption procedures. Phase I categories include: other banks operating in the United States; federal, state, or local government departments and agencies; federal, state, or local entities otherwise exercising governmental authority; entities listed on the major national stock exchanges; and certain subsidiaries of the entities listed on those stock exchanges. In September 1998, FinCEN published the rules for the second stage ("Phase II") of the process to revise and streamline the procedures by which banks may exempt a transaction in currency in excess of $10,000 from the requirement to file a CTR. 63 Federal Register 50147 (Sept. 21, 1998). Phase II categories include non-listed businesses and payroll customers. Many entities in the financial sector, however, continue to report exempted transactions.

States designated to accept service of legal process for records regarding the correspondent account. Treasury's December 20, 2001 proposed rule also addressed this provision of the PATRIOT Act.

2002 Action Items: Treasury will convene a study in December 2002 to determine if foreign banks with a correspondent account in the U.S. have appointed an agent authorized to accept service of legal process and whether law enforcement agencies have encountered any difficulties serving legal process on those agents.

The PATRIOT Act authorized the Secretary and the Attorney General to issue a summons or subpoena to any foreign bank that maintains a correspondent account in the United States and request records related to such correspondent account, including records maintained outside of the United States relating to the deposit of funds into the foreign bank. Failure to comply with the subpoena could lead the U.S. bank to terminate its correspondent relationship with the subpoenaed entity.

Treasury will convene a study in December 2002 to determine if foreign banks with a correspondent account in the U.S. have appointed an agent authorized to accept service of legal process and whether law enforcement agencies have encountered any difficulties serving legal process on those agents to obtain necessary records.

* Objective 2: Develop strategies to respond to changes in money laundering practices.

Professional money launderers adjust their practices in response to effective law enforcement operations and regulatory schemes to look for the next loophole that may be vulnerable to exploitation.

Professional money launderers adjust their practices and look for the next loophole that may be vulnerable to exploitation.

Law enforcement and regulatory officials must remain vigilant and seek to identify potential future money laundering vulnerabilities that the professional criminals are seeking. The priorities in this section seek to accomplish that task.

Priority 1: Review current examination procedures of the federal supervisory agencies to determine whether enhancements are necessary to address the ever-changing nature of money laundering, including terrorist financing.

Lead: Deputy Comptroller, Compliance, Office of the Comptroller of the Currency (OCC), Department of the Treasury; Assistant Secretary for Enforcement, Department of the Treasury.

2001 Accomplishments: During 2001, the federal regulatory agencies enhanced their anti-money laundering procedures to address emerging risks. These steps included reviewing risks arising from business activity with entities in non-cooperative countries and territories,[58] evaluating bank controls over high-risk areas of their business, such as foreign correspondent accounts, and conducting targeted BSA examinations.

Following the events of September 11th, the regulatory agencies issued a joint statement that encouraged banking organizations to work with law enforcement and to review their records to determine if there were any transactions or relationships with suspected terrorists. The agencies also issued guidance to assist banks in the reporting and filing of SARs that could be related to terrorist activity.

The regulatory agencies have also assisted banking organizations with their implementation of the PATRIOT Act during the examination process and through industry outreach.

2002 Action Items: Review existing examination procedures and, when necessary, revise, develop and implement new examination procedures consistent with comprehensive anti-money laundering and anti-terrorism regulations.

Since 1999, the federal bank supervisory agencies have adopted anti-money laundering compliance and examination procedures that are risk-focused and, when appropriate, require transaction testing during bank examinations. The examination procedures evaluate a bank's system to detect and report suspicious activity, and identify common vulnerabilities and money laundering schemes (including, structuring, the Black Market Peso Exchange, Mexican Bank Drafts, and factored third-party checks). Examination procedures also focus on high-risk products and

[58] For a fuller discussion of non-cooperative countries and territories, *see* Goal 6.

services, including special use accounts, private banking, and correspondent banking.

Federal bank supervisory agencies have adopted risk-focused anti-money laundering compliance and examination procedures.

Risk-focused examination procedures concentrate less on an institution's technical compliance and more on ensuring that banks implement effective systems to manage operational, legal, and reputation risks as they pertain to anti-money laundering efforts and BSA compliance.[59]

The federal bank supervisory agencies will continue to consider how banks test compliance with their anti-money laundering controls as required under existing rules, and whether any changes would be appropriate, especially in light of alterations to the BSA pursuant to the PATRIOT Act. The bank supervisory agencies will determine if there is any additional guidance that could be provided to assist in the identification of terrorist activity at or through a bank.[60]

Priority 2: Study how technological change impacts money laundering enforcement.

Lead: Deputy Assistant Secretary, Money Laundering and Financial Crime, Department of Treasury; Assistant Attorney General, Criminal Division, Department of Justice; Director, United States Secret Service; Director, Financial Crimes Enforcement Network (FinCEN).

2002 Action Items: By November 2002, Treasury will devise a study to examine whether and how technologically advanced payment systems have been used to launder dirty money. The study will be designed to recommend strategic responses, as necessary, and will be provided to the interagency targeting team described in Goal 2, Objective 1, Priority 1.

These faceless transactions and the greater anonymity they afford pose new challenges to law enforcement.

Technology provides money launderers new avenues to disguise the source and ownership of their illicit proceeds. Internet money transfers and new payment technologies such as "e-cash,"[61] electronic purses, and smart-card based electronic payment systems, make it more difficult for law enforcement to trace money laundering activity and potentially easier for money launderers to use, move, and store their illegitimate funds. Although the Bank Secrecy Act requires financial institutions to file reports and record transactions, changes in technology permit "peer to peer" transactions that can take place without the movement of funds through a financial institution. These faceless transactions and the greater anonymity they may afford pose new challenges to law enforcement that must be addressed.

The Department of the Treasury will organize an interagency study group by October 2002 to determine if advanced payment systems have been used to launder money, and consider the implications of technological change on money laundering enforcement efforts.

[59] These compliance systems are required by various provisions in Title 12 of the U.S. Code and their implementing regulations.

[60] The OCC chaired a working group of federal bank supervisory agencies in 1999 to review existing bank examination procedures relating to the prevention and detection of money laundering at financial institutions, focused primarily on the effectiveness of the revised examination procedures that were developed in accordance with the Money Laundering Suppression Act of 1994 (MLSA). The OCC will continue to work with the other federal bank supervisory agencies on this important issue.

[61] Electronic cash, or "e-cash," is a digital representation of money and may reside on a "smart card" or on a computer hard drive. Using special readers, users subtract stored monetary value from the card or, in the case of computer e-cash, deduct monetary value from the electronic account when a purchase is made. When the monetary value is depleted, the user discards the card or, in some systems, restores value using specially equipped machines. Telephone calling cards are the most widely used stored-value smart cards. Smart cards can also store vast quantities of data in a highly secure manner. Smart cards can serve many functions, including credit, debit, security (building or computer access), and storage of medical or other records. Depending on the specifications determined by the issuer, e-cash value stored on a smart card may be transferred between individuals in a peer-to-peer fashion or between consumers and merchants.

GOAL 5:
COORDINATE LAW ENFORCEMENT EFFORTS WITH STATE AND LOCAL GOVERNMENTS TO FIGHT MONEY LAUNDERING THROUGHOUT THE UNITED STATES

State and local governments play an important role in money laundering prevention, detection, and enforcement, and the *2002 Strategy* seeks to draw upon these important resources to bring all assets to bear in the fight against money laundering. State and local officials have in-depth knowledge about the activities and persons that operate within their jurisdiction. However, they often lack the financial resources to parallel the federal government's efforts. We must continue to find ways to leverage state and federal efforts and provide training with limited budgets. We must also continue to review and to make any necessary improvements to the means and methods by which non-federal law enforcement agencies can access potential investigative information possessed by the federal government.

The interaction of HIFCA and C-FIC participants allows both the federal and state and local participants to accomplish far more than they could do alone.

The Departments of the Treasury and Justice will continue to administer the Financial Crime-Free Communities Support Program (C-FIC) to provide seed grants to state and local law enforcement agencies involved in the fight against money laundering. C-FIC grants permit non-federal enforcement agencies to pursue innovative strategies against money laundering and, whenever possible, to participate in HIFCA Task Forces. The interaction of HIFCA and C-FIC participants allows both the federal and state and local participants to accomplish far more than they could do alone.

* Objective 1: Provide seed capital for state and local counter-money laundering enforcement e efforts.

The Money Laundering and Financial Crimes Strategy Act of 1998 created the C-FIC program.[62] Overseen by the Department of the Treasury and administered by the Department of Justice's Bureau of Justice Assistance (BJA), Office of Justice Programs (OJP), C-FIC is designed to provide technical assistance, training, and information on best practices to support state and local law enforcement efforts to detect and prevent money laundering and other financial crime activity. In FY 2001, Congress appropriated $2.9 million for C-FIC, and in September 2001, Treasury awarded approximately $2.1 million in C-FIC grants to eight different agencies throughout the country. Treasury has requested $2.9 million from Congress in FY 2002 to fund the third year of the C-FIC program.

C-FIC grants are intended to launch innovative programs and to permit local decision makers to see the potential effect those programs would have if funded at the local level.

The C-FIC program operates on a competitive basis. C-FIC grants are to be used as seed money for state and local programs that seek to combat money laundering within their areas. C-FIC monies are not a perpetual source of funds. The grants are intended to launch innovative programs, and to permit local decision makers to see the potential effect those programs would have if funded at the local level. State and local personnel can use grant funds, for example, to build or expand financial intelligence computer systems, train officers to investigate money laundering activity, or hire auditors to monitor money flows in certain types of high-risk businesses. In assessing and analyzing the peer review rankings of C-FIC applicants, BJA and Treasury give special preference, pursuant to 31 U.S.C. § 5354(b), to applicants who "demonstrate collaborative efforts of two or more State and local law enforcement agencies or prosecutors who have a history of Federal, State, and local cooperative law enforcement and prosecutorial efforts in responding to such criminal activity."[63] Treasury and BJA have also worked in close cooperation to ensure that all C-FIC award

[62] *See* Pub. L. 105-310, 112 Stat. 2941 (1998).

winners within HIFCA areas participate actively on the HIFCA Task Forces. We will continue to pair C-FIC grantees with HIFCA Task Forces to ensure coordinated federal and local anti-money laundering investigations.

We will continue to pair C-FIC grantees with HIFCA Task Forces to ensure coordinated federal and local anti-money laundering investigations.

The emphasis of the C-FIC program is to award grants to applicants who propose a strategic and collaborative response to money laundering activity. An applicant's location in or near a HIFCA is a favorable factor in evaluating C-FIC candidates, since HIFCAs are areas that have been formally designated as areas of serious money laundering concern that merit an increased focus of federal, state, and local efforts. Although state and local programs within HIFCAs are particularly appropriate grant candidates, any qualifying state or local law enforcement agency or prosecutor's office may compete for and be eligible to receive a C-FIC grant. Applications for 2002 C-FIC grants are available on the BJA website.[64]

Treasury and BJA will evaluate how each C-FIC grantee did relative to the performance measures the applicant set for itself.

Priority 1: Review applications and award grants under the C-FIC program.

Lead: Deputy Assistant Secretary, Money Laundering and Financial Crimes, Department of the Treasury; Director, Bureau of Justice Assistance (BJA), Department of Justice.

2001 Accomplishments: Treasury awarded approximately $2.1 million in C-FIC grants to eight different agencies throughout the country. 24 C-FIC applicants sought funds in July 2001. BJA sent the completed applications to panels of peer reviewers who ranked the applications. Representatives of Treasury, BJA, and DOJ Criminal Division considered all the applications and the peer review rankings and comments, and recommended the list of grantees to Treasury.

2002 Action Items: By September 2002, complete review of C-FIC applications and award approximately $2.5 million in C-FIC grant funds to eligible applicants.

Priority 2: Evaluate the progress of existing C-FIC grant recipients.

Lead: Deputy Assistant Secretary, Money Laundering and Financial Crimes, Department of the Treasury; Director, Bureau of Justice Assistance (BJA), Department of Justice.

2001 Accomplishments: BJA collected information from the nine initial C-FIC award winners about the activities they have initiated based on the grant funds. Since the grant term of these awards has not expired yet, it is still premature to evaluate how well any grantee has used its C-FIC monies.

2002 Action Items: (1) Treasury and Justice will collect information from all 17 C-FIC recipients to help evaluate the effectiveness of the program to date. (2) Treasury and BJA will meet by August 2002 to determine how to modify the measures of effectiveness section of the C-FIC application to obtain more qualitative data. (3) BJA will collect information semi-annually from each C-FIC recipient, including information about forfeitures leading to repayment of C-FIC monies. (4) BJA will lead site visits to some C-FIC recipients for an on-site program evaluation.

[62] *See* Pub. L. 105-310, 112 Stat. 2941 (1998).

[63] 31 U.S.C. § 5354(b).

[64] The application package for the 2002 round of C-FIC grant funds appears on the BJA web site, www.ojp.usdoj.gov/BJA. It is anticipated that the Department of the Treasury will award approximately $2.5 million in C-FIC grant monies, and that no single C-FIC grant will exceed $300,000.

[65] The C-FIC funded program collaborates with the Arizona Department of Public Safety and the Arizona Banking Department, together with U. S. Customs, INS, IRS-CI, and the Southwest Border HIFCA.

Many of the inaugural C-FIC grantees have had an opportunity to put their grants to work. There is no single performance measure of success to apply to the C-FIC grantees since no two proposals are alike. Nevertheless, the C-FIC application requires the applicant to provide three quantitative measures of how to assess its performance. At the conclusion of the grant period, Treasury and BJA will evaluate how each C-FIC grantee did relative to the performance measures the applicant set for itself. We report below on some of the initial successes of the 2000 C-FIC grant recipients.

The *Arizona Attorney General's Office* may be the most successful C-FIC grantee to date. C-FIC funds led to the initiation of 26 cases, resulting in 58 arrests and 15 seizures, totaling over $1 million, including the seizure of a money transmitter business with four outlets.[65] The Arizona Attorney General's Office received approximately $300,000 in 2000 to develop a Southwest Border Money Transmitter Program. Arizona used the funds to hire two individuals and to train a total of seven. The program has worked with the Pennsylvania, New Jersey, Texas, and Florida Offices of Attorneys General and the Florida Department of Law Enforcement. The Arizona AG's office has introduced legislation in the State Legislature to strengthen the Arizona statutes relating to money transmitters, and has shared drafts of this legislation with two other C-FIC grantees, the Iowa Attorney General and the Illinois State Police.

C-FIC funds led to the initiation of 26 cases, resulting in 58 arrests and 15 seizures, totaling over $1 million, including the seizure of a money transmitter business with four outlets.

The *Texas Attorney General's Office* use of C-FIC monies resulted in the opening of 30 cases and produced 23 indictments. All the cases involved the smuggling of bulk currency and were brought under the Texas money laundering statute. The Texas Attorney General's Office received $236,000 in C-FIC monies in 2000 to fund a bulk currency prosecution project in order to expand the number of bulk cash smuggling investigations and prosecutions.

Use of C-FIC monies resulted in the opening of 30 cases and produced 23 indictments. All the cases involved the smuggling of bulk currency.

The *Illinois State Police* used C-FIC monies to create a new unit that has participated in 78 total investigations. The Illinois State Police received $245,000 in C-FIC funds in 2000 to create a money laundering intelligence and investigations support unit. The three C-FIC funded analysts work with the Chicago HIFCA and HIDTA to review pertinent SARs. The unit has opened nine money laundering cases to date based on SAR analysis, and assists other agencies with SAR and other financial data analysis.

The C-FIC funded analysts work with the Chicago HIFCA and HIDTA to review pertinent SARs

The 2001 grantees and the approved use of their C-FIC monies were:

Wisconsin Department of Justice: The Wisconsin Department of Justice received C-FIC funds to create an analytical section within the Wisconsin Financial Investigation Task Force, a group currently consisting of the Wisconsin Division of Criminal Investigation and IRS-CI, with assistance from the Gaming Enforcement Bureau. C-FIC monies fund two intelligence analysts, who will concentrate their efforts on the movement of bulk cash between Milwaukee and Chicago as well as possible money laundering activity at casinos on Native American lands.

Cook County State's Attorney's Office: The Cook County State's Attorney's Office was awarded C-FIC funds to create and staff a unit to focus on money laundering mechanisms used by street

[65] The C-FIC funded program collaborates with the Arizona Department of Public Safety and the Arizona Banking Department, together with U. S. Customs, INS, IRS-CI, and the Southwest Border HIFCA.

gangs, middlemen, and narcotics trafficking organizations operating in the Chicago area.

The unit will be the first such unit to be established in a local prosecutor's office in the region.

The unit will be the first such unit to be established in a local prosecutor's office in the region. C-FIC monies will fund the salaries of a senior-level prosecutor, an investigator, and a part-time auditor as well as to provide some money laundering training for the staff.

New York City Office of the Special Narcotics Prosecutor: The New York City Office of the Special Narcotics Prosecutor received C-FIC funds to create a money laundering unit that will be made up of prosecutors, investigators, forensic accountants, and paralegals. The money laundering unit will create a database of information obtained from informants and cooperating witnesses in New York City who have been debriefed about money laundering methods and techniques.

Manhattan District Attorney's Office: The Office of the New York County District Attorney's Office (Manhattan DA's Office) was awarded C-FIC funds to add additional personnel to its Money Laundering and Tax Crimes Unit. The C-FIC funded personnel are to focus their efforts on investigating and prosecuting non-narcotics related money laundering cases, especially white-collar crimes, including tax crime, and will examine cases involving proceeds laundered through travel agencies, telecommunications businesses, realty companies, beauty salons, and grocery stores in Manhattan. C-FIC funds the salaries of two Assistant District Attorneys, a financial analyst, and a paralegal in the Money Laundering and Tax Crimes Unit.

Orange County District Attorney's Office: The Orange County District Attorney's Office obtained C-FIC funds to hire personnel to follow the money trail of gang-controlled prostitution activity in Orange County. A threat assessment conducted by a regional gang enforcement team determined that violent street gangs or organized crime groups own, operate, or protect 75% of the County's houses of prostitution, and that these establishments may produce $100 million in income for gangs in Orange County.

Pierce County Washington Prosecuting Attorney: The Pierce County Washington Prosecuting Attorney was awarded C-FIC funds to create a regional anti-money laundering central office that will be co-located with other collaborative units in the county. The anti-money laundering office will trace the flow of funds out of Washington State, collect intelligence and provide analysis, and create a database of money laundering schemes operating in the region. The C-FIC-funded anti-money laundering office will investigate criminal enterprises that have laundered funds through Wyoming and Montana, as well as casinos and then transported those winnings into Canada. C-FIC funds cover the salaries and budgeted overtime of a project director, prosecutor, and office assistant, as well as provide training and computer equipment.

Iowa Attorney General's Office: The Iowa Attorney General's Office obtained C-FIC funds to create an interagency financial crimes task force. The interagency task force will produce a threat assessment and identify money laundering methods and sources of crimes in Iowa, and then target the identified money laundering mechanisms in the state. The task force will include a wide variety of state enforcement agencies and seek to include regulatory officials, non-bank financial institutions, casinos, and casino regulatory officials.

San Jose Police Department: The San Jose Police Department received C-FIC funds to prepare a threat assessment on the vulnerability of the high-tech sector in Silicon Valley to money laundering. The threat assessment is to examine the scope and incidence of money laundering in the Silicon Valley and identify potential threats to the jurisdiction.[66]

BJA will circulate questionnaires semi-annually to C-FIC award winners to collect statistical information (number of arrests, indictments, seizures, and forfeitures that related to the C-FIC program) to help determine the effectiveness of the grants and measure the performance of the grant recipients. The questionnaire will also measure the program's coordination and cooperation with HIFCA Task Forces, and track any repayments that the C-FIC grantees have made as a result of forfeitures resulting from C-FIC funded efforts. Treasury and BJA will discuss how to modify the measures of effectiveness and questionnaires in an effort to capture more qualitative data. BJA will host a conference of all C-FIC grant recipients in 2002 to explore common issues and will conduct several on-site visits to C-FIC award winners to evaluate how well the C-FIC grant monies have been spent.

[66] On January 17, 2002, the San Jose Police Department submitted a letter to BJA declining the grant funds.

* Objective 2: Improve coordination with state and local enforcement agencies.

HIFCA Task Forces are designed to include the participation of all relevant state and local enforcement, regulatory, and prosecution agencies. The *2002 Strategy*, continues to focus our efforts on ensuring that the relevant and willing state and local agencies participate as active members of the HIFCA Task Forces.

Priority 1: Increase involvement of state and local enforcement agencies through participation in the HIFCA Task Forces and SAR Review Teams.

Lead: Assistant Secretary for Enforcement, Department of the Treasury; Assistant Attorney General, Criminal Division, Department of Justice.

2001 Accomplishments: The C-FIC money laundering grant program has increased the participation of state and local actors on the HIFCA Task Forces. BJA included a special condition on C-FIC grants awarded to agencies within a HIFCA area requiring them to participate on the HIFCA Task Force. This approach bore success. In Chicago, for example, Illinois State Police financial analysts, funded by a C-FIC grant, analyze the SARs reviewed by the Chicago HIFCA. In Los Angeles, the LA HIFCA includes representatives from not only the Federal law enforcement agencies, but also representatives from the California Department of Justice, San Bernardino Sheriff's Office (another C-FIC award recipient), and a coalition of agencies under the headings LA CLEAR and LA IMPACT.

The active participation of state and local enforcement, regulatory, and prosecution agencies is vital to the success of federal money laundering programs.

The New York/New Jersey HIFCA Task Force utilizes the talents of the New York City District Attorney's Offices and the New York State Banking regulators in its work, and is a good model of federal, state, and local cooperation and coordination.

2002 Action Items: (1) Each HIFCA Task Force will evaluate how it has integrated state and local participation into its money laundering investigations and prosecutions. (2) By November 2002, each HIFCA Task Force will report on the participation of state and local enforcement, regulatory, and prosecution agencies in the Task Force, and identify what additional steps the Task Forces will need to take to include the participation of all relevant entities.

New York's efforts to include the New York State Banking regulators in its work has proven to be particularly effective.

The active participation of state and local enforcement, regulatory, and prosecution agencies is vital to the success of federal money laundering programs. The interagency HIFCA coordination team will continue to work with each of the HIFCAs to encourage the full participation of state and local enforcement authorities in the work of the HIFCA Task Forces. Chicago, Los Angeles, and New York/New Jersey all rely on the considerable talents of their state and local partners. New York's efforts to include the New York State Banking regulators in its work has proven to be particularly effective, and the remaining HIFCAs will be encouraged to incorporate regulatory partners whenever practical to do so.

A good model to emulate is the "El Dorado" Task Force, which is led by U.S. Customs and IRS.

A good model to emulate has been established by the New York "El Dorado" Task Force, which is led by U.S. Customs and IRS.[67] Comprised of 185 individuals from 29 federal, state, and local agencies, the "El Dorado" Task Force is one of the nation's largest and most successful financial crimes task forces, having seized $425 million and arrested 1,500 individuals since its inception in 1992.

Priority 2: Coordinate anti-money laundering regulatory efforts with state and local entities.

Lead: Deputy Assistant Secretary, Money Laundering and Financial Crimes, Department of the Treasury.

[67] El Dorado receives funding from the Office of National Drug Control Policy's High-Intensity Drug Trafficking Area (HIDTA) initiative.

2001 Accomplishments: This is a new priority, so there are no accomplishments to report.

2002 Action Items: By October 2002, identify state and local regulatory agencies that can be included in anti-money laundering efforts, especially new efforts undertaken as a result of the implementation of the PATRIOT Act.

State and local regulatory bodies, such as State Banking, Credit Union, and Insurance Commissioners are prepared to participate actively in the fight against money laundering and the funding of terrorist networks. This participation is especially important as Treasury works with its interagency partners to implement the anti-money laundering provisions of the PATRIOT Act. By October 2002, Treasury will identify and form a working group with state and local regulatory institutions that can increase their efforts to combat money laundering.

As Treasury works on regulations to implement the PATRIOT Act, the working group will interact with the relevant state and local regulatory partners and provide model language that the states can consider adopting.

* Objective 3: Enhance the effectiveness of state and local law enforcement's access to and use of Bank Secrecy Act (BSA) data.

The active participation of state and local law enforcement in accessing BSA data is crucial to their effectiveness in combating money laundering. State and local law enforcement agencies have direct access to BSA information through FinCEN's Gateway Program. This program is available to all 50 states, the District of Columbia, and the Commonwealth of Puerto Rico. It is imperative that FinCEN have the capability to control access and audit usage of the BSA information that it maitains.

Priority 1: Provide the most effective and efficient methods for accessing BSA data and improve the Gateway System.

Lead: Director, Financial Crimes Enforcement Network (FinCEN); Assistant Secretary for Enforcement, Department of the Treasury.

2001 Accomplishments: The *2001 Strategy* directed FinCEN to perform at least 10 field inspections and audits of Gateway user locations, and FinCEN exceeded this goal. These field audits ensure that the financial information accessed via Gateway is maintained in a secure manner. FinCEN also conducted meetings with users in the field to explore how to improve the system, by moving from a manual to automated notification system.

2002 Action Items: (1) Enhance law enforcement's electronic access to BSA data in a secure environment, and develop a plan to provide Gateway users with access via secure web technology. (2) Continue to expand the automated alert process for Gateway and conduct at least 15 field inspections by December 2002. (3) Publish by September 2002 the first in a series of "newsletters" to educate Gateway users about issues such as system changes, trends in usage, and success stories.

Access to BSA-related data through Gateway is provided through a secure and carefully monitored system, and FinCEN is developing a plan to provide Gateway users with access via secure web technology. FinCEN's managers and Gateway personnel audit queries through record reviews and on-site visits to ensure all inquiries are connected to actual or potential criminal violations. FinCEN will conduct an additional 15 field inspections in 2002 to ensure that the system is functioning as planned and that users are protecting the data that passes over the Gateway network.

Continued, updated training will inform Gateway users of system changes and money laundering trends.

FinCEN will provide training for state and local law enforcement officers, to reinforce the importance of the available BSA-related information, and to demonstrate how to access, analyze, and use the information in money laundering investigations. Continued, updated training will inform Gateway users of system changes and money laundering trends. The Gateway "newsletters" will provide one way to keep users current on relevant issues.

Technological advances in the delivery of data require FinCEN to evaluate new and emerging capabilities and incorporate appropriate systems to further enhance the Gateway program. One of the key elements of the Gateway process allows FinCEN to alert two or more agencies about information on the same subjects of interest. This alert process provides a coordination mechanism for money laundering investigations conducted worldwide, and permits a more efficient use of scarce investigative resources. FinCEN will also continue to explore potential methods for improving the alert function with field users during 2002.

GOAL 6:

STRENGTHEN INTERNATIONAL ANTI- MONEY LAUNDERING REGIMES

The fight against money laundering must go beyond domestic efforts. Money launderers cannot be permitted to escape detection merely by moving funds across borders and dispersing those funds to countries with weak anti-money laundering regimes. Computer and communications technology now provide the means to transfer funds quickly and easily, and under-regulated financial sectors provide secrecy havens for tax evaders and money launderers alike.

Money launderers cannot be permitted to escape detection merely by moving funds to countries with weak anti-money laundering regimes.

It is therefore vital that all jurisdictions take action to protect their respective financial sectors from money laundering. Unfortunately, various jurisdictions have critical deficiencies in their anti-money laundering regimes: they have not enacted laws that prohibit money laundering; they do not aggressively enforce existing anti-money laundering legislation; or they fail to cooperate internationally to investigate and prosecute money launderers at large. These legal and regulatory deficiencies lead to regimes that are not sufficiently transparent, allowing criminals and terrorist groups to flourish.

Our principal international goal in the 2002 Strategy is to reduce the number of countries with vulnerable anti-money laundering regimes.

Our principal international goal in the *2002 Strategy* is to reduce the number of countries with vulnerable anti-money laundering regimes. This effort requires the U.S. Government to work as part of multinational bodies, such as the 29 country Financial Action Task Force (FATF) and the International Financial Institutions (IFIs), such as the World Bank and International Monetary Fund, to set and reinforce international standards and to provide technical assistance and training to jurisdictions willing to make the necessary changes. It also requires a sustained effort and commitment by jurisdictions with substandard counter money laundering regimes and systems.

Due in large part to pressure generated from the NCCT process, many of the 15 countries currently on the NCCT list have enacted significant legislation to address money laundering.

We made good progress toward this goal in 2001. In June 2001, the first four countries – the Bahamas, the Cayman Islands, Liechtenstein, and Panama – were removed from the FATF non-cooperative countries and territories (NCCT) list after implementing significant reforms to their anti-money laundering regimes. In June 2002, four additional countries – Hungary, Israel, Lebanon, and St. Kitts and Nevis – were removed from the list after FATF determined that they had also implemented significant reforms. Due in large part to pressure generated from the NCCT process, many of the 15 countries currently on the NCCT list have enacted significant legislation to address money laundering. A summary of the reforms each country has enacted can be found in Appendix 10. Only one country – Nauru – has made insufficient progress.

The G-7 and G-20 Finance Ministers and Central Bank Governors meeting in the final quarter of 2001 both agreed on comprehensive action plans to combat terrorism financing[68] in the wake of September 11, 2001. In early February 2002, the G-7 reaffirmed their commitment to this effort and recognized that further action is required, including an intensified commitment to freeze terrorist assets and quick completion by the FATF, IMF, and World Bank of a framework for assessing compliance with international standards to include the FATF 40 and the FATF 8 Special Recommendations on terrorist financing.[69]

[68] Statement of G-7 Finance Ministers and Central Bank Governors, including Action Plan to Combat the Financing of Terrorism, October 6, 2001. Communiqué of the G-20 Finance Ministers and Central Bank Governors, including G-20 Action Plan on Terrorist Financing, November 17, 2001.

[69] Statement of G-7 Finance Ministers and Central Bank Governors, including Action Plan: Progress Report on Combating the Financing of Terrorism, February 9, 2002.

In October 2001, the Asian-Pacific Economic Cooperation (APEC) Forum leaders called on the APEC Working Groups to accelerate their work on anti-money laundering and countering terrorist financing. At the meeting of the Manila Framework Group in December 2001, Group members agreed to work with the IFIs and other international bodies in combating terrorist financing activities and they welcomed the work of the IMF and World Bank in helping countries implement international standards and codes in financial sector assessments.

In October 2001, the Asian-Pacific Economic Cooperation (APEC) Forum leaders called on the APEC Working Groups to accelerate their work on anti-money laundering and countering terrorist financing.

At its meeting in March 2002, the Association of South East Asian Nations (ASEAN) Regional Forum (ARF) endorsed a United States proposal to organize a workshop for ARF participants on financial measures against terrorism, which will be co-hosted by Malaysia. The goal of the workshop is to help participants develop and implement counter-terrorism financial action plans. Participants also discussed possible next steps for action by the ASEAN Regional Forum.

* Objective 1: Advance initiatives of FATF and FATF-style regional organizations.

In 2001, FATF continued its role as the premier multilateral body in the international effort against money laundering, and focused, for the first time, on the fight against terrorist financing. The U.S. supports FATF financially and plays an active role in its governance and significant FATF initiatives. Through these initiatives – including identifying and taking action against non-cooperative jurisdictions, and setting international standards for anti-money laundering regimes – FATF seeks to limit the access of terrorists, narcotics traffickers, and other organized criminals to the international financial system.

In addition to FATF, the U.S. will continue to support the globalization of anti-money laundering efforts through the efforts of FATF-style regional bodies.[70] These bodies have ensured that FATF's standards and initiatives have a wide scope and effect through their cooperation with FATF and through their own initiatives. The U.S. will continue to assist and participate in these bodies during 2002.

FATF seeks to limit the access of terrorists, narcotics traffickers, and other organized criminals to the international financial system.

Priority 1: Through FATF, identify non-cooperative countries and territories (NCCTs) and monitor their progress.

Lead: Under Secretary for Enforcement, Department of the Treasury; Assistant Attorney General, Criminal Division, Department of Justice; Assistant Secretary, International Narcotics and Law Enforcement Affairs (INL), Department of State.

2001 Accomplishments: Numerous NCCT jurisdictions enacted and began implementing significant anti-money laundering legislative reforms. These jurisdictions include Dominica, Grenada, Guatemala, Hungary, Israel, the Philippines, Russia, St. Kitts and Nevis, and St. Vincent and the Grenadines.

2002 Action Items: (1) Work with FATF partners to consider whether new jurisdictions should be added to the NCCT list. (2) Monitor the progress made by listed jurisdictions in addressing identified deficiencies and implementing corrective measures. (3) Monitor progress made by jurisdictions removed from the NCCT list. (4) Work to take action multilaterally against jurisdictions that make inadequate progress.

FATF is engaged in a major initiative to identify non-cooperative countries and territories in the fight against money laundering. Specifically, this has meant the development of a process to identify critical weaknesses in anti-money laundering systems that serve

[70] The FATF-style regional bodies are the Asia Pacific Group on Money Laundering (APG), Financial Action Task Force of South America (GAFISUD), the Caribbean Financial Action Task Force (CFATF), the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (PC-R-EV), and the newly-formed Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG).

as obstacles to international cooperation in this area. The goal of this process is to reduce the vulnerability of financial systems to money laundering by ensuring that all jurisdictions adopt and implement sufficient measures for the prevention, detection, and punishment of money laundering.

Only one country – Nauru – has made insufficient progress triggering countermeasures by FATF.

In June 2000, FATF issued an initial list of 15 NCCT jurisdictions. One year later, four countries – the Bahamas, the Cayman Islands, Liechtenstein, and Panama – were removed from the list after implementing significant reforms to their anti-money laundering regimes. At that time, Burma, Egypt, Guatemala, Hungary, Indonesia, and Nigeria were added to the list. In September 2001, FATF identified two new jurisdictions – Grenada and Ukraine – as non-cooperative.[71] At its most recent meeting in June 2002, FATF removed four additional countries — Hungary, Israel, Lebanon, and St. Kitts and Nevis – from the NCCT list after they also implemented significant reforms. Of the 15 countries remaining on the NCCT list, due in large part to pressure generated from the NCCT process, many have now enacted most, if not all, of the necessary legislation and have moved to the implementation stage of the process. Most of the others on the list are actively engaged in enacting legislative reforms. A summary of the reforms each country has enacted can be found in Appendix 10. Only one country – Nauru – has made insufficient progress triggering countermeasures by FATF. (*See, infra*, at Objective 4, Priority 2 for a discussion of the U.S. implementation of FATF countermeasures with respect to Nauru). In the coming year, FATF will consider countermeasures concerning the few additional NCCT countries that have failed to take adequate steps to address FATF's concerns.

Priority 2: Work with FATF countries to complete the revision of the Forty Recommendations.

Lead: Under Secretary for Enforcement, Department of the Treasury; Assistant Attorney General, Criminal Division, Department of Justice

2001 Accomplishments: FATF established several working groups to facilitate the revision of the Forty Recommendations. These working groups focused on updating the Recommendations in the areas of customer identification requirements for financial institutions, identification of beneficial owners, the treatment of corporate vehicles and trusts, and the extension of anti-money laundering requirements beyond financial institutions. The U.S. played an active role in this effort and developed language included in a consultation paper. This work culminated in May 2002, at a Special FATF Plenary in Rome during which FATF finalized a consultation paper that presents options and seeks the views of non-FATF members and the private sector.

2002 Action Items: Begin drafting the revised Recommendations during fall 2002 with an anticipated completion date of spring 2003.

The international community has recognized the Forty Recommendations as the standard of an effective anti-money laundering regime.

In 1990, the FATF established the Forty Recommendations, articulating the essential elements of an effective national anti-money laundering regime. The international community has since recognized the Forty Recommendations as the standard of an effective anti-money laundering regime. The Financial Stability Forum, established by the G-7, has included the Forty Recommendations as one of the twelve standards in its Compendium of Standards. The International Monetary Fund and World Bank have also generally recognized the FATF Forty Recommendations as the international standard in combating money laundering, and are working to incorporate them into their operations (*See, infra*, at Objective 3). The United Nations Convention on Transnational Organized Crime (the "Palermo Convention") included specific reference to the FATF Forty Recommendations in connection with the provision requiring states to implement measures to control money laundering.

FATF periodically revises the Forty Recommendations to address new anti-money laundering challenges. In 1996, for example,

[71] A full list of non-cooperative countries and territories can be found at www.fatf-gafi.org.

FATF revised the recommendations: (1) to expand the predicate offenses for money laundering beyond drugs to all serious crimes; (2) to require mandatory suspicious transaction reporting; and (3) to recognize the inherent threat posed by new technologies. To preserve the continued vitality of the FATF Forty Recommendations and reflect the experience of the international community in this area over the past eleven years, FATF is again revising its principles for action. In 2000 the FATF agreed to initiate a review of the Forty Recommendations, including issues relating to customer identification requirements for financial institutions, identification of beneficial owners, the treatment of corporate vehicles and trusts, and the extension of anti-money laundering requirements beyond financial institutions.

* Objective 2: Ensure that technical assistance is available to jurisdictions willing and committed to strengthening its anti-money laundering efforts.

The U.S. cannot combat money laundering effectively as long as there are safe havens available to move illicit proceeds. We must also stand ready to provide countries seeking to reform their systems the necessary training and technical assistance to do so. The U.S., however, has limited resources available to accomplish this task, and cannot go it alone. In 2002, the U.S. will seek to provide targeted and effective assistance to countries throughout the world that are seeking to become full international partners in the fight against money laundering and work with international bodies to ensure that international experts can provide technical assistance and training within their region.

We must stand ready to provide countries seeking to reform their systems the necessary training and technical assistance to do so. The U.S. cannot go it alone.

Priority 1: Provide technical assistance to jurisdictions – particularly those on the NCCT list – to develop strong domestic anti-money laundering legislation.

Lead: Assistant Secretary for International Narcotics and Law Enforcement Affairs (INL), Department of State; Assistant Secretary for Enforcement, Department of the Treasury; Assistant Attorney General, Criminal Division, Department of Justice.

2001 Accomplishments: The State Department coordinated the provision by U.S. Government agencies of technical assistance or training to thirteen countries on the FATF NCCT list. Six of the jurisdictions provided this technical assistance and training from the U.S. were removed from the FATF NCCT list. The U.S. also provided money laundering technical assistance to numerous countries, including Guatemala, the Marshall Islands, the Philippines, Lebanon, Ukraine, Russia, Dominica, Grenada, and St. Vincents, and will continue to provide assistance in 2002 to those NCCTs that demonstrate the political will for reform. On November 19, 2001, Treasury Secretary O'Neill and Philippine President Arroyo signed a Memorandum of Intent committing the United States to assist the Philippines in the implementation of its new anti-money laundering law and to establish an FIU, and FinCEN provided assistance to the Philippine FIU.

2002 Action Items: (1) Deliver U.S. and international technical assistance to address the money laundering deficiencies in jurisdictions that demonstrate a willingness to cooperate in the fight against money laundering and terrorist financing. (2) Implement the Memorandum of Understanding between the U.S. and the Philippines.

On November 19, 2001, Treasury Secretary O'Neill and Philippine President Arroyo signed a Memorandum of Intent committing the United States to assist the Philippines in the implementation of its new anti-money laundering law.

The Departments of State, Treasury, and Justice offer various international anti-money laundering training and technical assistance programs. Most of the funding used to carry out this training and technical assistance is appropriated to the Department of State, and State's Bureau for International Narcotics and Law Enforcement Affairs (INL) coordinates the anti-money laundering

training and technical assistance delivered by U.S. agencies. State INL seeks to coordinate the delivery of these programs to avoid duplication of efforts, identify gaps in training, and to ensure that training efforts are comprehensive and effective. The U.S. expended over $3.5 million in international anti-money laundering training and technical assistance programs in 2001.[72]

An inter-agency team, established as a result of the *2001 Strategy*, will continue to meet in 2002 to coordinate and ensure that technical assistance draws upon the proper mix of private sector, governmental, and international resources, and will devise a plan to govern the provision of 2002 aid. The Department of State will also seek to increase the anti-money laundering technical assistance role played by other G-7 countries and the United Nations Global Program Against Money laundering.

The U.S. expended over $3.5 million in international anti-money laundering training and technical assistance programs in 2001.

The Philippine government has demonstrated a commitment to address money laundering through passing new anti-money laundering legislation. The U.S. has developed an action plan and will provide technical assistance to the Philippines to help build an effective anti-money laundering infrastructure. As a first step, the U.S. will assist the Philippines to establish a fully functional financial intelligence unit.[73]

* Objective 3: Work with the International Financial Institutions (IFIs) to Incorporate International Standards on Combating Money Laundering and Terrorist Financing into their Operations.

Money laundering and terrorism financing weaken the rule of law, and increase the risks to domestic and global financial systems. All relevant international bodies, including the International Financial Institutions (IFIs), have a role, and should be engaged in the effort to strengthen domestic regimes throughout the world in order to protect the global financial system.

In April 2001, the Executive Boards of the International Monetary Fund (IMF) and World Bank agreed that both institutions should participate more in the global effort against money laundering. As part of the enhanced effort, the IFIs agreed to work with their member countries to incorporate anti-money laundering standards into their surveillance and operational activities. The IFIs also agreed to increase the technical assistance that they provide in this area, to increase their research in this area, to work cooperatively with relevant international anti-money laundering groups, and to help educate countries about the importance of protecting themselves against money laundering.

The Executive Boards of the International Monetary Fund (IMF) and World Bank agreed that both institutions should participate more in the global effort against money laundering.

Following the September 11, 2001 terrorist acts, the Executive Boards of the IMF and World Bank supported action plans to extend the work of both institutions to strengthen legal and institutional frameworks to counter money laundering and to combat the financing of terrorism.

Priority 1: Encourage the IFIs to incorporate international anti-money laundering standards, including standards to combat the financing of terrorism, into the IFI's ongoing work and programs.

Lead: Deputy Assistant Secretary, International Monetary and Financial Policy, Department of the Treasury

2001 Accomplishments: The U.S. and many other nations, including the G-7 countries, made significant progress with the IFIs in fostering inclusion of the FATF 40 and FATF 8 Special Recommendations on Terrorism Financing in the operations of the IFIs. FATF and staff of the IMF and World Bank prepared a comprehensive methodology document covering all aspects of the FATF 40 and FATF 8 Special Recommendations.

[72] Department of State, *2001 International Narcotics Control Strategy Report*, at XII-3.

[73] FinCEN has hosted a delegation from the Philippines FIU and has developed an action plan to assist the newly created FIU.

2002 Action Items: (1) In 2002, the U.S. will continue to urge the IFIs to incorporate the FATF Forty Recommendations and 8 Special Recommendations on Terrorist Financing into their ongoing operations and evaluations of member countries. (2) The IFIs will incorporate international anti-money laundering and counter terrorist financing standards into their Financial Sector Assessment Programs (FSAPs). (3) The U.S. and other FATF members will work in collaboration with the IFIs to prepare a Report on the Observance of Standards and Codes (ROSC) methodology document on anti-money laundering and combating terrorist financing. The drafters hope to submit the document to the Executive Boards of the IMF and World Bank for their endorsement in 2002.

In the wake of September 11, 2001, the Executive Boards of the IMF and World Bank agreed to extend the involvement of both institutions beyond anti-money laundering to efforts aimed at countering terrorist financing. Both the IMF and World Bank agreed to incorporate anti-money laundering and counter terrorist financing standards into their Financial Sector Assessment Programs (FSAPs). The IFIs also agreed to help countries identify gaps in their anti-money laundering and counter terrorist financing regimes while analyzing a country's legal and institutional frameworks. The current draft of the joint Fund/Bank enhanced financial sector assessment methodology incorporates the FATF Recommendations on anti-money laundering and terrorist financing.

FATF established a working group to develop a Report on the Observance of Standards and Codes (ROSC) methodology document to guide the assessment of each country's adherence to the FATF 40 Recommendations and 8 Special Recommendations against terrorist financing. The working group continues to work closely with the IMF and World Bank to converge the ROSC methodology document into the IMF/World Bank FSAP methodology, in order to provide comprehensive coverage of the FATF Recommendations in the context of the IFIs assessment of 12 key codes and standards. A separate ROSC module would provide a comprehensive and articulated guide for assessing the status and performance of a country's anti-money laundering regime.

* Objective 4: Use all available tools to deter and punish money laundering and terrorist financing.

The United States will combat international money laundering and terrorist financing by taking forceful action against threats, as necessary. The U.S. will advise our financial institutions of jurisdictions that present increased risks to ensure that enhanced scrutiny is applied. The U.S. may also initiate appropriate countermeasures against those countries that do not make adequate progress in developing acceptable anti-money laundering regimes, including countermeasures newly authorized by section 311 of the PATRIOT Act. Countermeasures should be imposed, when possible, in conjunction with our international partners and only after an evaluation of their foreign policy implications and of the potentially adverse effects on the U.S. The interagency group on terrorism financing, including Treasury's Office of Foreign Assets Control (OFAC), may also concentrate its asset blocking efforts in those jurisdictions.

The United States will combat international money laundering and terrorist financing by taking forceful action against threats, as necessary. Countermeasures should be imposed, when possible, in conjunction with our international partners.

Priority 1: Update FinCEN Advisories to domestic financial institutions concerning jurisdictions that pose international money laundering risks.

Lead: Under Secretary for Enforcement, Department of the Treasury.

2001 Accomplishments: The U.S. issued eight formal Advisories to U.S. financial institutions with respect to countries that were added to the FATF NCCT list in 2001.

2002 Action Items: Update Advisories for NCCT jurisdictions as appropriate.

The Department of the Treasury has authority under the Bank Secrecy Act to issue bank advisories to domestic financial institutions in response to countries that fail to implement appropriate anti-money laundering regimes. Advisories ensure that our financial institutions are informed about the heightened risk of doing business with entities and financial institutions in these countries. Advisories were issued with respect to the jurisdictions named to the list in April 2002. Additional updated advisories will reflect the progress made by the NCCT countries in addressing the deficiencies previously identified by the FATF. These

Advisories, coupled with FATF's multilateral initiative to name non-cooperative jurisdictions, encourage countries to improve their anti-money laundering regimes and to meet international standards.

Advisories ensure that our financial institutions are informed about the heightened risk of doing business with entities and financial institutions.

Priority 2: Initiate appropriate countermeasures against non-cooperative jurisdictions and jurisdictions of "primary money laundering concern."

Lead: Secretary of the Treasury; Secretary of State.

2001 Accomplishments: In January 2002, the Treasury Department issued an Advisory to U.S. financial institutions informing them of their responsibility under the PATRIOT Act to terminate correspondent banking relationships with "shell" financial institutions in Nauru.

2002 Action Items: (1) Initiate appropriate countermeasures against jurisdictions that make inadequate progress in combating money laundering or that have been identified as constituting a "primary money laundering concern." (2) Ensure that U.S. financial institutions terminate their correspondent accounts with "shell" banks.

Nauru Countermeasures: On December 5, 2001, FATF announced that its members would impose countermeasures against Nauru, a country on the NCCT list that had failed to adequately place money laundering controls on its large offshore financial sector. The U.S. honored its commitment to FATF on December 20, 2001, when Treasury issued a proposed rule pursuant to section 313 of the PATRIOT Act, requiring U.S. financial institutions to terminate correspondent banking relationships with foreign shell banks. The Treasury Department issued an Advisory in January 2002 to U.S. financial institutions highlighting this obligation with respect to the 400 offshore banks in Nauru which are believed to be shell banks.

Section 311 provides the Secretary with the express authority to protect the financial system from specific, identified risks posed by money laundering

Consideration of Additional Special Measures: The U.S. will continue to monitor developments and to assess whether to invoke any of the special measures the Secretary of the Treasury may impose pursuant to section 311 of the PATRIOT Act.[74] Section 311 provides the Secretary with the express authority to protect the financial system from specific, identified risks posed by money laundering by applying graduated, proportionate measures against a foreign jurisdiction, foreign financial institution, type of transaction, or account that the Secretary determines to be of "primary money laundering concern." The five special measures include such steps as requiring domestic financial institutions to keep records and report transactions, identify beneficial owners, obtain information about certain accounts, such as correspondent accounts, and, if necessary terminate accounts.

* Objective 5: Enhance international cooperation and effectiveness in investigating and prosecuting money launderers.

To successfully investigate and prosecute persons involved in complex, transnational money laundering schemes, U.S. law enforcement agencies must work in close coordination with their foreign counterparts. Recently, in *Operation Wire Cutter*, the U.S. Customs Service and the Drug Enforcement Administration (DEA) teamed with Colombia's Departamento Administrativo de Seguridad to arrest 37 individuals as a result of a 2 1/2 year undercover investigation of Colombian peso brokers and their money laundering organizations. Investigators seized over $8 million in cash, 400 kilos of cocaine, 100 kilos of marijuana, 6.5 kilos of heroin, nine firearms, and six vehicles.

[74] Section 311 directs the Secretary to consult with the Chairman of the Board of Governors of the Federal Reserve System, other appropriate federal banking agencies, the Secretary of State, the Securities and Exchange Commission, the Commodity Futures Trading Commission, and the National Credit Union Association Board in selecting which special measure to take pursuant to section 311.

The *2002 Strategy* recognizes that this type of international cooperation and coordination is critical in the global fight against money laundering. Although foreign law enforcement officials do cooperate with each other on a case-by-case basis, the United States should enhance international law enforcement efforts by continuing to stress the importance of asset forfeiture as a tool to combat money laundering.

The 2002 Strategy recognizes that international cooperation and coordination is critical in the global fight against money laundering.

Priority 1: Enhance international cooperation of money laundering investigations through equitable sharing of forfeited assets.

Lead: Assistant Secretary for Enforcement, Department of the Treasury; Assistant Attorney General, Criminal Division, Department of Justice; Assistant Secretary, Bureau of International Narcotics and Law Enforcement Affairs (INL), Department of State.

2001 Accomplishments: From its inception in 1989 through March 2002, the international asset-sharing program administered by the Department of Justice has resulted in the forfeiture by the United States of $389,229,323, of which $171,467,512 has been shared with 26 foreign governments that cooperated and assisted in the investigations. Justice shared more than $11.5 million with foreign countries in FY 2000. As of March 2002, Justice had shared approximately $500,000 with international partners in FY 2002. Since 1994, the Department of the Treasury shared over $22 million with eighteen different countries.

2002 Action Items: Representatives from Treasury's Office of Enforcement, Treasury's Executive Office of Asset Forfeiture (EOAF) and Justice's Asset Forfeiture and Money Laundering Section (AFMLS) will develop action items to enhance international cooperation in money laundering investigations through the equitable sharing of assets.

On June 6, 2002, EOAF and AFMLS hosted a symposium of foreign attachés and counterparts assigned to Washington, DC embassies to discuss the process of international equitable sharing, as well as the effect of the PATRIOT Act on asset sharing. EOAF and AFMLS will continue to develop an outreach program for U.S. attachés assigned abroad, emphasizing the need for international cooperation in money laundering investigations.

Sharing the proceeds of forfeited assets among nations enhances international cooperation by creating an incentive for countries to work together in combating international drug trafficking and money laundering. The value of sharing confiscated proceeds is acknowledged in the United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances. Article 5, paragraph 5(b)(ii) provides that parties may enter into agreements on a regular or case-by-case basis to share the proceeds or property derived from drug trafficking and money laundering.[75] One commentator noted: "Such asset-sharing agreements may be among the most potent inducements to international cooperation and may result in significant enhancements of law enforcement capabilities in producing and transit states."[76]

U.S. law permits the U.S. to transfer forfeited assets to a foreign country.[77] As a general rule, the amount of the forfeited funds shared with the cooperating foreign country should reflect the proportional contribution of the foreign government in the specific case that gave rise to forfeiture relative to the assistance provided by other foreign and domestic law enforcement participants.

[75] United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, Dec. 20, 1988, 28 I.L.M. 493, art. 5, at 504-07 (1989).

[76] David P. Stewart, *Internationalizing the War on Drugs: The U.N. Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances,* 18 Den. J. Int'l L. & Pol'y 387, 396 (1990).

[77] *See* 18 U.S.C. § 981(i)(1). To transfer forfeited proceeds or property to a foreign country, the following requirements must be satisfied: (i) direct or indirect participation by the foreign government in the seizure or forfeiture of the property; (ii) authorization by the U.S. Attorney General or Secretary of the Treasury; (iii) approval of the transfer by the U.S. Secretary of State; (iv) authorization in an international agreement between the United States and foreign country to which the property is being transferred, and, if applicable, (v) certification of the foreign country under the Foreign Assistance Act of 1961. *Id.*

Priority 2: Improve information exchange on tax matters to ensure effective enforcement of U.S. tax laws.

Lead: Assistant Secretary of the Treasury for Tax Policy.

2001 Accomplishments: The United States has signed tax information exchange agreements with the Cayman Islands, Antigua and Barbuda, The Bahamas, the British Virgin Islands, and the Netherlands Antilles. These agreements provide for the exchange of information on specific request for criminal and civil tax matters.

2002 Action Items: Continue to expand and improve our tax information exchange relationships with other countries, focusing particularly on significant financial centers around the world.

Tax treaties and tax information exchange agreements are vital to the effective enforcement of U.S. tax laws.

The United States has an extensive network of tax treaties and tax information exchange agreements (TIEAs). These arrangements are vital to the effective enforcement of U.S. tax laws because they enable the United States to obtain information from other countries that we otherwise would be unable to obtain. In addition, because of the links between money laundering and tax evasion, the United States believes that such agreements are a valuable tool in the fight against money laundering. Countries that cooperate with the United States on tax information exchange are unlikely to be attractive centers for money laundering, because U.S. persons who use such countries for money laundering risk being prosecuted in the United States for tax evasion.

Countries that cooperate with the United States on tax information exchange are unlikely to be attractive centers for money laundering

Our current tax treaty and TIEA network covers many of the world's financial centers. However, some significant financial centers have yet to enter into such an agreement with the United States. In addition, some of our existing tax treaties do not provide for the exchange of information for all U.S. tax matters. Accordingly, we will continue to work aggressively to expand and improve our tax information exchange relationships, particularly with significant financial centers, consistent with our aggressive pursuit of better international information exchange.

Priority 3: Enhance mechanisms for the international exchange of financial intelligence through support and expansion of membership in the Egmont Group of Financial Intelligence Units (FIUs).

Lead: Director, Financial Crimes Enforcement Network (FinCEN); Assistant Secretary for Enforcement, Department of the Treasury.

2001 Accomplishments: FinCEN coordinated 435 investigative information exchanges with 67 foreign jurisdictions, and reached out to domestic law enforcement to utilize the Egmont network, supporting over 100 domestic law enforcement cases involving 60 foreign jurisdictions. Additionally, FinCEN supported efforts to expand the international network of Egmont FIUs by five countries in 2001, for a total of 58 countries.[78]

2002 Action Items: (1) By July 2002, FinCEN will connect at least seven new FIUs to the Egmont Secure Network. (2) FinCEN will also support the expansion of the number of investigative information exchanges via the financial intelligence unit network, consistent with the Egmont Group principles and the PATRIOT Act.

Properly functioning FIUs add value to U.S. investigations by providing rapid financial information

Financial Intelligence Units (FIUs) play an important role in the ability of many countries to attack money laundering and other financial crime, and play an increasingly important role in sharing appropriate information across borders. Properly functioning FIUs

[78] FinCEN provided technical assistance to 22 countries ranging from intensive training courses to review of draft anti-money laundering legislation and hosted visits of law enforcement or diplomats from over 53 countries. FinCEN also connected 11 additional FIUs to the Egmont Secure Network, for a total of 43 FIUs on that network.

add value to U.S. investigations by providing rapid financial information that, generally, may not be available via the usual law enforcement channels.

There are now 69 financial intelligence units participating in the "Egmont Group" of FIUs. There is a need to increase exchanges between FIUs to increase support to law enforcement, to enhance the effectiveness of exchanging sensitive information in a secure fashion, and to provide more training opportunities for FIU personnel around the world. FinCEN will initiate a program to better inform law enforcement agencies of the opportunity to obtain financial intelligence from our Egmont partners. FinCEN will report to U.S. law enforcement on a regular basis on Egmont developments, including trends analysis to enhance the efforts of our domestic law enforcement agencies to complete the financial component of civil and criminal investigations.

Priority 4: Enhance Standardized Customs Reporting.

Lead: Commissioner, U.S. Customs Service, Department of the Treasury.

2001 Accomplishments: This is a new priority, so there are no accomplishments to report.

2002 Action Items: Institute G-7 standard for electronic customs reporting and seek to expand use to five non G-7 countries by November 2002.

Internationally standardized electronic customs reporting can help uncover trade-based money laundering that is effected though over-invoicing or payment for non-existent shipments. These trade techniques create a false paper record of transactions that permit an individual or commercial entity to transfer value from one jurisdiction to another or to create a false set of accounting records.

Standardized electronic customs reporting can help uncover trade-based money laundering effected though over-invoicing or payment for non-existent shipments.

If a customs administration suspects a particular transaction, a quick way to investigate that transaction initially would be to compare the information reported on the inbound side of the transaction with information received by the exporting country on the outbound side of the transaction. Discrepancies in the data over what and how much of an item was shipped could trigger further investigation. For example, if Company A, located in the U.S. reports, in its Customs shipping declaration that it is shipping goods worth $10 million to the United Kingdom, but, on arrival in the U.K., files an invoice declaring that $1 million of goods has entered England, then Company A may be laundering $9 million or engaging in $9 million worth of financial fraud.

Currently, comparing two country's trade data about the same transaction must either be done manually or by translating one country's data into a format compatible with the other country's data. This comparison can be done faster and more efficiently if both countries use a standardized electronic format, allowing more transactions to be processed. Currently, it can be difficult even to find the other country's corresponding record of an international trade transaction. Standardized formats with standard transaction identifiers would alleviate that problem.

The G-7 countries have recently developed international standards for electronic customs reporting. Mexico and APEC have also been involved.

The G-7 countries have recently developed international standards for electronic customs reporting. The U.S. Customs Service intends to implement these as part of its program to modernize its computer system, the Automated Commercial Environment (ACE) program. In addition to the G-7 countries, the rest of the European Union and the World Customs Organization support adoption of the standard. Mexico and APEC have also been involved in the work program. The G-7 approach, in which similar formats are used for both export and import data, provides the ideal message structure to allow comparison of the export and import reporting of the same transaction. By using bill of lading numbers, invoice numbers, or unique consignment reference numbers as standard transaction identifiers, it would be possible to quickly find and compare the data reported on both sides of the transaction. If a discrepancy in the two sets of underlying data is found, further investigation may be warranted.

Appendix 1:

CONSULTATIONS

The following Agencies, Bureaus, and Offices contributed to the *2002 National Money Laundering Strategy*:

Central Intelligence Agency
Commodity Futures Trading Commission
Department of Justice
— Asset Forfeiture and Money Laundering Section
— Criminal Division
Department of State
Department of the Treasury
Drug Enforcement Administration
Executive Office of United States Attorneys
Federal Bureau of Investigation
Federal Deposit Insurance Corporation
Federal Law Enforcement Training Center
Federal Reserve Board
Financial Crimes Enforcement Network
Internal Revenue Service
National Credit Union Administration
National Security Council
National Economic Council
Office of the Comptroller of the Currency
Office of Foreign Assets Control
Office of Homeland Security
Office of National Drug Control Policy
Office of Thrift Supervision
Treasury Executive Office of Asset Forfeiture
United States Customs Service
United States Postal Inspection Service
United States Secret Service
United States Securities and Exchange Commission

Appendix 2:

Money Laundering Seizures and Forfeitures Methodology

A working group comprised of staff members from the Departments of the Treasury and Justice asset forfeiture programs identified elements necessary for ensuring the consistent reporting of seizure and forfeiture information related to money laundering activities. Specifically, the working group defined the following violations as pertaining to money laundering:

18 U.S.C. Section 1956 – Laundering of Monetary Instruments
18 U.S.C. Section 1957 – Engaging in Transactions Derived from Unlawful Activity
18 U.S.C. Section 1960 – Illegal Money Transmitting Businesses
31 U.S.C. Section 5313 – Failure to File Currency Transaction Report (CTR)
31 U.S.C. Section 5316 – Currency and Monetary Instrument Report (CMIR) Violation
31 U.S.C. Section 5317 – Forfeiture resulting from Failure to File CMIR
31 U.S.C. Section 5324 – Structuring Financial Transactions
31 U.S.C. Section 5316 – Bulk Cash Smuggling (added by USA PATRIOT Act)

All assets identified as seized or forfeited pursuant to one or more of the violations listed above are reported as assets pertaining to money laundering activity.

It is important to note that this methodology presents data based on assets associated with money laundering. Seized and forfeited assets are included in these statistics if the primary violation or any additional violation refers to money laundering.

Appendix 3:

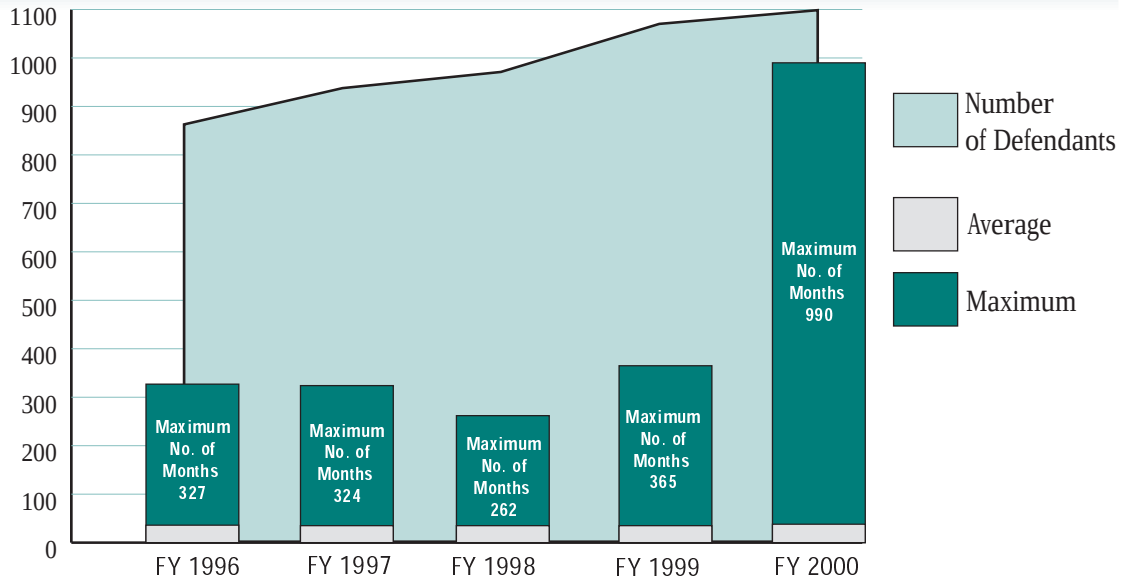
U.S. Sentencing Commision Money Laundering Statistics
Money Laundering Defendants Sentenced by District

District	FY 1996		FY 1997		FY 1998		FY 1999		FY 2000	
	No. of Defendants	Percent of Total	No. of Defendants	Percent of Total	No. of Defendants	Percent of Total	No. of Defendants	Percent of Total	No. of Defendants	Percent of Total
Alabama, Middle	1	0.1%	5	0.5%	3	0.3%	4	0.4%	2	0.2%
Alabama, Northern	2	0.2%	3	0.3%	3	0.3%	5	0.5%	3	0.3%
Alabama, Southern	2	0.2%	6	0.6%	4	0.4%	13	1.2%	5	0.5%
Alaska	2	0.2%	2	0.2%	3	0.3%	3	0.3%	2	0.2%
Arizona	9	1.1%	12	1.3%	11	1.1%	27	2.5%	36	3.3%
Arkansas, Eastern	3	0.4%	8	0.9%	5	0.5%	3	0.3%	1	0.1%
Arkansas, Western	1	0.1%	4	0.4%	1	0.1%	5	0.5%	3	0.3%
California, Central	26	3.1%	18	1.9%	17	1.7%	29	2.7%	56	5.1%
California, Eastern	11	1.3%	8	0.9%	7	0.7%	12	1.1%	7	0.6%
California, Northern	10	1.2%	9	1.0%	16	1.6%	14	1.3%	18	1.6%
California, Southern	40	4.7%	14	1.5%	20	2.1%	34	3.2%	32	2.9%
Colorado	1	0.1%	9	1.0%	4	0.4%	5	0.5%	3	0.3%
Connecticut	8	0.9%	9	1.0%	7	0.7%	4	0.4%	4	0.4%
Delaware	4	0.5%		0.0%	5	0.5%	1	0.1%	6	0.5%
District of Columbia	2	0.2%	7	0.8%	4	0.4%	5	0.5%	4	0.4%
Florida, Middle	28	3.3%	43	4.6%	48	4.9%	25	2.4%	18	1.6%
Florida, Northern	11	1.3%	10	1.1%	4	0.4%	7	0.7%	1	0.1%
Florida, Southern	72	8.4%	92	9.9%	84	8.6%	129	12.2%	103	9.3%
Georgia, Middle	1	0.1%	4	0.4%	5	0.5%	11	1.0%	8	0.7%
Georgia, Northern	13	1.5%	9	1.0%	3	0.3%	6	0.6%	4	0.4%
Georgia, Southern	7	0.8%		0.0%	8	0.8%	3	0.3%	3	0.3%
Guam		0.0%		0.0%	8	0.8%	1	0.1%	1	0.1%
Hawaii	3	0.4%	3	0.3%	8	0.8%	6	0.6%	6	0.5%
Idaho		0.0%	2	0.2%	1	0.1%		0.0%	2	0.2%
Illinois, Central	4	0.5%	4	0.4%	4	0.4%	5	0.5%	8	0.7%
Illinois, Northern	26	3.1%	18	1.9%	11	1.1%	11	1.0%	19	1.7%
Illinois, Southern	3	0.4%	2	0.2%	3	0.3%	3	0.3%	20	1.8%
Indiana, Northern	5	0.6%	1	0.1%	7	0.7%	4	0.4%	5	0.5%
Indiana, Southern	10	1.2%	5	0.5%	6	0.6%	5	0.5%	11	1.0%
Iowa, Northern		0.0%	9	1.0%	6	0.6%	5	0.5%	7	0.6%
Iowa, Southern	1	0.1%	1	0.1%		0.0%	3	0.3%	4	0.4%
Kansas	4	0.5%	5	0.5%	4	0.4%	3	0.3%	4	0.4%
Kentucky, Eastern	2	0.2%	2	0.2%	5	0.5%	1	0.1%	4	0.4%
Kentucky, Western	6	0.7%	8	0.9%	4	0.4%	5	0.5%	2	0.2%
Louisiana, Eastern	6	0.7%	20	2.2%	11	1.1%	12	1.1%	7	0.6%
Louisiana, Middle	1	0.1%	1	0.1%	2	0.2%	1	0.1%	2	0.2%
Louisiana, Western	7	0.8%	6	0.6%	9	0.9%	3	0.3%	1	0.1%
Maine	1	0.1%	1	0.1%		0.0%	4	0.4%	2	0.2%
Mariana Islands, Northern		0.0%	2	0.2%		0.0%		0.0%		0.0%

District	FY 1996		FY 1997		FY 1998		FY 1999		FY 2000	
	No. of Defendants	Percent of Total	No. of Defendants	Percent of Total	No. of Defendants	Percent of Total	No. of Defendants	Percent of Total	No. of Defendants	Percent of Total
Maryland	4	0.5%	11	1.2%	16	1.6%	5	0.5%	7	0.6%
Massachusetts	13	1.5%	15	1.6%	16	1.6%	5	0.5%	14	1.3%
Michigan, Eastern	13	1.5%	15	1.6%	18	1.8%	14	1.3%	21	1.9%
Michigan, Western	5	0.6%	2	0.2%	4	0.4%	1	0.1%	4	0.4%
Minnesota	2	0.2%	7	0.8%	5	0.5%	12	1.1%	12	1.1%
Mississippi, Northern	4	0.5%	1	0.1%	4	0.4%	3	0.3%	1	0.1%
Mississippi, Southern	8	0.9%	8	0.9%	4	0.4%	9	0.8%	2	0.2%
Missouri, Eastern	7	0.8%	8	0.9%	9	0.9%	8	0.8%	12	1.1%
Missouri, Western	8	0.9%	12	1.3%	20	2.1%	9	0.8%	6	0.5%
Montana	1	0.1%	7	0.8%	3	0.3%	1	0.1%	5	0.5%
Nebraska	3	0.4%		0.0%	2	0.2%	7	0.7%	1	0.1%
Nevada	3	0.4%	12	1.3%	12	1.2%	18	1.7%	24	2.2%
New Hampshire	1	0.1%	1	0.1%	1	0.1%		0.0%	1	0.1%
New Jersey	17	2.0%	30	3.2%	29	3.0%	42	4.0%	25	2.3%
New Mexico	1	0.1%	1	0.1%	1	0.1%		0.0%		0.0%
New York, Eastern	67	7.9%	90	9.7%	82	8.4%	78	7.4%	79	7.1%
New York, Northern	8	0.9%	4	0.4%	3	0.3%	8	0.8%	29	2.6%
New York, Southern	41	4.8%	33	3.6%	33	3.4%	35	3.3%	44	4.0%
New York, Western	7	0.8%	12	1.3%	7	0.7%	8	0.8%	4	0.4%
North Carolina, Eastern	4	0.5%	21	2.3%	12	1.2%	11	1.0%	1	0.1%
North Carolina, Middle	8	0.9%	3	0.3%	4	0.4%	6	0.6%	4	0.4%
North Carolina, Western	7	0.8%	8	0.9%	11	1.1%	27	2.5%	12	1.1%
North Dakota	2	0.2%	1	0.1%	2	0.2%		0.0%	1	0.1%
Ohio, Northern	13	1.5%	18	1.9%	12	1.2%	25	2.4%	6	0.5%
Ohio, Southern	6	0.7%	9	1.0%	10	1.0%	16	1.5%	15	1.4%
Oklahoma, Eastern		0.0%		0.0%	4	0.4%	2	0.2%	1	0.1%
Oklahoma, Northern	3	0.4%		0.0%	1	0.1%		0.0%	1	0.1%
Oklahoma, Western	3	0.4%	9	1.0%	5	0.5%	5	0.5%	4	0.4%
Oregon	9	1.1%	2	0.2%	5	0.5%	6	0.6%	4	0.4%
Pennsylvania, Eastern	11	1.3%	31	3.3%	26	2.7%	30	2.8%	16	1.4%
Pennsylvania, Middle	21	2.5%	3	0.3%	14	1.4%	16	1.5%	9	0.8%
Pennsylvania, Western	18	2.1%	5	0.5%	7	0.7%	8	0.8%	10	0.9%
Puerto Rico	41	4.8%	14	1.5%	12	1.2%	24	2.3%	43	3.9%
Rhode Island		0.0%	1	0.1%	2	0.2%	1	0.1%	1	0.1%
South Carolina	12	1.4%	15	1.6%	14	1.4%	15	1.4%	12	1.1%
South Dakota	2	0.2%	4	0.4%	4	0.4%	2	0.2%	6	0.5%
Tennessee, Eastern	10	1.2%	5	0.5%	7	0.7%	9	0.8%	6	0.5%
Tennessee, Middle	1	0.1%	4	0.4%	8	0.8%	5	0.5%	18	1.6%
Tennessee, Western	15	1.8%	5	0.5%	11	1.1%	2	0.2%	4	0.4%
Texas, Eastern	3	0.4%	6	0.6%	2	0.2%	1	0.1%	2	0.2%
Texas, Northern	9	1.1%	19	2.1%	23	2.4%	17	1.6%	17	1.5%
Texas, Southern	54	6.3%	18	1.9%	42	4.3%	54	5.1%	62	5.6%
Texas, Western	18	2.1%	34	3.7%	35	3.6%	31	2.9%	60	5.4%
Utah	1	0.1%	2	0.2%	1	0.1%	5	0.5%		0.0%
Vermont	1	0.1%	2	0.2%	1	0.1%	1	0.1%	2	0.2%

District	FY 1996 No. of Defendants	FY 1996 Percent of Total	FY 1997 No. of Defendants	FY 1997 Percent of Total	FY 1998 No. of Defendants	FY 1998 Percent of Total	FY 1999 No. of Defendants	FY 1999 Percent of Total	FY 2000 No. of Defendants	FY 2000 Percent of Total
Virgin Islands		0.0%		0.0%		0.0%	2	0.2%	2	0.2%
Virginia, Eastern	17	2.0%	28	3.0%	35	3.6%	24	2.3%	13	1.2%
Virginia, Western	3	0.4%	7	0.8%	8	0.8%	5	0.5%	20	1.8%
Washington, Eastern	1	0.1%		0.0%	3	0.3%	3	0.3%	1	0.1%
Washington, Western	6	0.7%	13	1.4%	8	0.8%	8	0.8%	13	1.2%
West Virginia, Northern		0.0%		0.0%	3	0.3%	1	0.1%	1	0.1%
West Virginia, Southern	3	0.4%	3	0.3%	16	1.6%	13	1.2%	17	1.5%
Wisconsin, Eastern	5	0.6%	6	0.6%	3	0.3%	4	0.4%	6	0.5%
Wisconsin, Western		0.0%	2	0.2%	1	0.1%		0.0%		0.0%
Wyoming		0.0%		0.0%	1	0.1%	2	0.2%	1	0.1%
Totals	**853**	**100.0%**	**929**	**100.0%**	**973**	**100.0%**	**1061**	**100.0%**	**1106**	**100.0%**

Money Laundering Defendants Sentenced by Prison Length



Length of Imprisonment (In Months)

	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000
Average	36	35	35	35	38
Maximum	327	324	262	365	990
Number of Defendants	851	925	958	1,056	1,106

Source: *U.S. Sentencing Commission*

Appendix 4:

TREASURY FORFEITURE FUND
Equitable Sharing To Foreign Countries
Fiscal Years 1994-2002 (As of 3/26/02)

Country	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	Totals
Aruba	$0	$36,450	$0	$32,550	$0	$0	$0	$0	$0	$69,000
Bahamas	$0	$342,000	$0	$0	$0	$0	$0	$0	$0	$342,000
Cayman Islands	$0	$0	$0	$0	$682,980	$0	$2,680,803	$14,324	$9,061	$3,387,168
Canada	$116,658	$67,260	$21,725	$130,525	$8,394	$42,119	$241,446	$640,778	$376,441	$1,645,346
Dominican Republic	$0	$0	$0	$0	$0	$0	$63,885	$0	$0	$63,885
Egypt	$0	$0	$0	$0	$0	$999,187	$0	$0	$0	$999,187
Guernsey	$0	$0	$0	$145,045	$0	$0	$0	$0	$0	$145,045
Honduras	$0	$0	$0	$0	$0	$139,720	$0	$0	$0	$139,720
Isle of Man	$0	$0	$0	$0	$0	$0	$0	$0	$601,604	$601,604
Jersey	$0	$0	$0	$1,049,991	$0	$0	$0	$0	$0	$1,049,991
Mexico	$0	$6,030,000	$0	$0	$0	$0	$0	$0	$0	$6,030,000
Netherlands	$0	$0	$0	$0	$0	$0	$1,717,213	$144,220	$0	$1,861,433
Nicaragua	$58,587	$0	$0	$0	$0	$0	$0	$0	$0	$58,587
Panama	$39,971	$0	$0	$0	$0	$0	$0	$0	$0	$39,971
Portugal	$0	$0	$0	$0	$0	$0	$85,840	$0	$0	$85,840
Qater	$0	$60,000	$0	$0	$0	$0	$0	$0	$0	$60,000
Switzerland	$0	$79,992	$335,408	$0	$37,669	$938,576	$903,934	$0	$205,641	$2,501,220
United Kingdom	$0	$670,049	$145,754	$17,784	$449,567	$739,225	$1,019,499	$279,443	$0	$3,321,321
TOTALS	**$215,216**	**$7,285,751**	**$502,887**	**$1,375,895**	**$1,178,610**	**$2,858,827**	**$6,712,620**	**$1,078,765**	**$1,192,747**	**$22,401,318**

March 26, 2002

Appendix 4 *(continued)*:

Department of Justice Transfers to Foriegn Countries
Summary Of International Asset Sharing

Name of Case or Investigation	Recipient Country	Amount of Transfer	Transfer Date
US v. Julio Nasser David, et al. Case No. 94-131-CR (SD Fla)	Switzerland	$89,016,022.00 $4,554,086.00 $245,464.18	18-Dec-98 23-Dec-99 23-Oct-00
Farina (D.Col.) U.S v. $1,814,807.93 Case No. 97-S-1928	United Kingdom Hong Kong S.A.R.	$181,466.89 $907,403.00	3-Jun-99 21-Jun-00
U.S. v. Midkiff DEA and D of Oregon Drug money laundering case	Switzerland	$226,447.88	24-Jul-00
U.S. v. Haddad DEA and SDTexas Drug trafficking	Canada	$37,809.97	2-Aug-00
U.S. v. Esquivel DEA/Admin Fft and SDFL CS Payment Drug trafficking	Ecuador	$14,850.00	22-Aug-00
Phan Case/ DEA Admin 21 U.S.C 881 ND GA	Thailand	$19,144.00	9-Nov-00
U.S. v. All Funds, Securities, etc., 18 U.S.C. § 981(i) Blair Down USPIS and W.D. Wa.	Barbados	$100,000.00	27-Dec-00
U.S. v. Barnette 18 U.S.C. § 981(a)(1)(A) FBI and USAO MD Fla	United Kingdom	$612,500.00	28-Dec-00
Greenberg / DEA Admin Seattle, WA and LA, CA 21 U.S.C 881	Canada (shared directly to RCMP)	$89,129.62 $12,500.00	5-Mar-01
U.S. v. Fuqua Mobile Home (Francine Corbeil-For. Bank Fraud) FBI and USAO SD Fla	Canada	$31,653.89	22-Mar-01

Name of Case or Investigation	Recipient Country	Amount of Transfer	Transfer Date
Luis Cano/DEA/SDFLA 21 U.S.C. 881	Dominican Republic	$1,139,399.77	2-Apr-01
US v. $393,892.66 (Op. Green Ice) DEA and SD Cal 881 (e)	Cayman Islands	$146,874.34	11-May-01
US v. Eric Howard Wells (N. Minn.) DEA Seizure Nos. 115499 & 186868)	South Africa	$11,044.57	22-May-01
US v. Frederick Taft USPIS and EDPA 981	Canada	$151,794.92	20-Jun-01
U.S. v. Jafar Rayhani (CV 95-8694-RMT and 96-1595-RMT)	Turkey	$264,846.42	7-Feb-02
U.S. v. Gammella (CR No.96-083T)	Canada	$200,377.58	8-Mar-02
US v. Ned K Schroeder(94-Cr-161)	Canada	$7,704.36	8-Mar-02
DEA Case No. 12-95-0089 (Henderson)	Canada	$14,334.00	8-Mar-02
Totals		**$171,467,511.80**	

Appendix 5:

USA PATRIOT Act Implementation Update

Several of the anti-money laundering provisions in Title III of the USA PATRIOT Act are in effect as of the date the *2002 Strategy* went to press, and Treasury has issued the necessary regulations and guidance to the affected industry sectors. These provisions address important aspects of our anti-money laundering regime, including: (1) requiring anti-money laundering compliance programs at a wide range of financial institutions; (2) preventing "shell banks" from gaining access to the U.S. financial system; (3) developing a SAR reporting system for brokers and dealers in securities; (4) having foreign correspondent banks identify their owners and appoint an agent in the U.S. to receive service of legal process; (5) providing FinCEN access to reports by non-financial trades and businesses concerning cash transactions in excess of $10,000; and (6) facilitating the exchange of information between law enforcement and the private sector, as well as between financial institutions, about potential money laundering and terrorist financing activity.

Anti-money laundering compliance programs: The PATRIOT Act requires all financial institutions[1] to have an anti-money laundering program in place by April 24, 2002. These anti-money laundering programs will help to ensure that money launderers cannot evade detection by moving their illicit activity from traditional avenues of money laundering to less traditional avenues. On April 24, 2002 Treasury issued interim final rules prescribing the minimum standards for these programs.[2] The regulations temporarily exempt certain financial institutions from the requirement to have a program in place as of April 24. The interagency team charged with developing these regulations considered whether the program requirement imposed is commensurate with the size, location, and activities of the financial institutions to which it applies.

In February and March 2002, the National Association of Securities Dealers (NASD) and the New York Stock Exchange (NYSE) adopted anti-money laundering programs for the entities they regulate to comply with section 352 of the PATRIOT Act.[3] The National Futures Association issued a similar requirement for its registrants in April 2002.[4] We will work, when appropriate, with other self-regulatory organizations (SROs), to develop and implement anti-money laundering program requirements for the institutions that they regulate.

Shell Banks: In 2000, Congress held several days of hearings on the money laundering vulnerability posed by correspondent banking activity. The Senate hearings highlighted the particular dangers posed by so-called "shell" banks that lack a physical address in any country, but that nonetheless conduct worldwide financial activity.

Section 313 of the PATRIOT Act prohibits U.S. financial institutions from providing correspondent banking accounts to foreign shell banks and requires those financial institutions to take reasonable steps to ensure that the correspondent accounts it provides to foreign banks are not used indirectly to provide banking services to shell banks. A foreign shell bank is a foreign bank without a physical presence in any country.[5] On December 20, 2001 Treasury issued a proposed rule to codify interim guidance that Treasury had issued in November 2001[6] outlining the steps financial institutions should take to ensure that their correspondent accounts are not used to move proceeds directly or indirectly through such foreign "shell banks." Treasury's proposed rule also applies these requirements to brokers and dealers in securities. Treasury's proposed rule should decrease the ability of money launderers to move money through U.S.-based financial institutions via the exploitation of a correspondent account. The section 313 regulations should curtail all relationships between U.S. financial institutions and shell banks that are not affiliated with a supervised non-shell bank, leading to greater regulatory scrutiny of all monies entering U.S. financial institutions from correspondent accounts.

SAR Broker Dealer Rule: For many years, banks argued that the Bank Secrecy Act (BSA) reporting requirements were not equitable. Banks were subject to the suspicious activity reporting requirements of the BSA, while other non-bank financial institutions, including brokers and dealers in securities, were not required to comply with the same requirements. Congress specifically addressed the issue of suspicious transaction reporting by broker-dealers in the PATRIOT Act. Section 356 required Treasury, after consultation with the Securities and Exchange Commission and the Board of Governors of the Federal Reserve System, to publish proposed regulations before January 1, 2002, requiring broker-dealers to report suspicious transactions under the relevant BSA provisions.[7] The final regulations were issued on July 1, 2002.

On December 20, 2001, FinCEN issued a proposed rule requiring securities brokers and dealers to file suspicious activity reports in connection with customer activity that indicates possible violations of law or regulation, including violations of the BSA. The proposed SAR broker-dealer rule closely mirrors the reporting regime currently in place for banks, and sets the SAR reporting level at $5,000.

Treasury's work on the SAR broker-dealer rule reflects the larger principle of preventing regulatory arbitrage that has guided Treasury's leadership of the interagency working groups proposing implementing regulations. Treasury and the federal financial regulators seek to regulate functionally equivalent conduct in the same way, in order to avoid creating regulatory incentives for consumers to shift from one type of financial institution to another so that the customer can avoid regulation attendant on that type of institution. Thus, the section also authorizes the Secretary, in consultation with the Commodities Futures Trading Commission, to prescribe regulations requiring futures commission merchants, commodity trading advisors, and commodity pool operators to file SARs. Deputy Secretary Dam indicated in Congressional testimony in January 2002 that Treasury is working to promulgate proposed regulations that would impose a SAR reporting obligations on futures commission merchants.

The PATRIOT Act also directs Treasury to prepare a report by October 2002 on recommendations for effective BSA regulations to apply to investment companies, such as hedge funds and private equity funds. The extension of the SAR reporting provisions of the BSA to additional types of financial institutions ensures that money launderers cannot evade detection by engaging in regulatory arbitrage, moving their illicit activity from one type of regulated entity to another type of regulated entity.

Appointment of agent for service of process and providing certain ownership information: Section 319(b) of the PATRIOT Act requires financial institutions that provide a U.S. correspondent account to a foreign bank to maintain records of the foreign bank's owners and to identify an agent in the United States designated to accept service of legal process for records regarding the correspondent account. Treasury's December 20, 2001 proposed rule also addressed this provision of the PATRIOT Act. Like the shell bank prohibition, Treasury has proposed to extend this requirement to brokers and dealers in securities.

The PATRIOT Act authorized the Secretary and the Attorney General to issue a summons or subpoena to any foreign bank that maintains a correspondent account in the United States and request records related to such correspondent account, including records maintained outside of the United States relating to the deposit of funds into the foreign bank. Failure to contest or comply with the subpoena could lead the Secretary or the Attorney General to order the U.S. bank to terminate its correspondent relationship with the subpoenaed entity.

As with the shell bank provision of the PATRIOT Act, the proposed regulation will curtail the illegitimate use of correspondent accounts. Law enforcement and regulatory authorities will have an enhanced ability to obtain information about monies passing through correspondent accounts that, previously, avoided such scrutiny. This increase in the transparency of correspondent account information should deter criminals from using this method of laundering their money through U.S. financial institutions.

FinCEN Access to Cash Reports: While certain non-financial trades and businesses have had an obligation for many years to file a report with the Internal Revenue Service when receiving over $10,000 in cash or cash equivalents, confidentiality provisions within the Internal Revenue Code often prevented law enforcement from obtaining access to those reports. Section 365 of the PATRIOT Act provides that non-financial trades and businesses must also file such reports with FinCEN. Thus, law enforcement will now have access to information that can indicate that money-laundering activity may be occurring within a particular trade or business.

In December 2001, Treasury drafted an interim rule to permit the filing of a single form to satisfy both requirements, to avoid duplicative filing requirements. This interim rule, which appeared four months ahead of the statutory deadline, gives FinCEN access to the reports.8

On April 26, 2002, Treasury also issued two reports to Congress that were required by the PATRIOT Act. One report discussed the role of the Internal Revenue Service in administering the BSA, and complies with section 357 of the PATRIOT Act. The other report, called for under section 361(b) of the PATRIOT Act, addressed methods for complying with the reporting requirements contained in the Report of Foreign Banks and Financial Accounts (FBARs).[9]

Cooperative efforts between the private and public sector to deter money laundering: The exchange of information relating to suspected terrorism and money laundering is a critical element of an effective anti-money laundering scheme. Treasury issued proposed regulations and an interim rule on March 4, 2002 to encourage information sharing between law enforcement, regulators, and financial institutions concerning known or suspected terrorists or money launderers, as called for by section 314 of the PATRIOT Act.[10]

The interim regulations permit financial institutions to share information with one another, after providing notice to Treasury, in order to report to law enforcement activities that may relate to money laundering or terrorism. The institutions are required to maintain the confidentiality of the information exchanged. The proposed regulations authorize FinCEN, acting on behalf of a federal law enforcement agency investigating money laundering or terrorist activity, to request that a financial institution search its records to determine whether that institution has engaged in transactions with specified individuals, entities, or organizations.

Remaining Work

Below, we summarize other key provisions of the PATRIOT Act concerning money laundering.

Special measures for areas of "primary money laundering concern"

Section 311 provides the Secretary of the Treasury with the express authority to protect the financial system from specific, identified risks posed by money laundering. This section empowers the Secretary to apply graduated, proportionate measures against a foreign jurisdiction, foreign financial institution, type of transaction, or account that the Secretary determines to be of "primary money laundering concern." The five special measures include such steps as requiring domestic financial institutions to keep records and report transactions, identify beneficial owners, obtain information about certain accounts, such as correspondent accounts, and, if necessary terminate accounts. The Treasury Department is chairing an interagency effort to determine an appropriate use of this new authority.

Section 311 will allow the U.S. to impose gradual, proportionate, and flexible responsive measures against money laundering activities. As law enforcement and regulatory officials develop specific evidence that money launderers are routing money through a particular jurisdiction or type of transaction, the Secretary can respond quickly to limit the amount of laundering activity and to protect U.S. financial institutions.

Special Due Diligence for Correspondent Accounts and Private Banking Accounts

The PATRIOT Act requires financial institutions that establish, maintain, administer, or manage a private banking account or a correspondent account for a non-U.S. person to apply additional due diligence procedures and controls to detect and report instances of money laundering through those accounts. As a result of section 312, U.S. financial institutions must also employ enhanced due diligence requirements for accounts held by foreign banks with offshore licenses or licenses from jurisdictions designated as non-cooperative with international anti-money laundering principles or procedures. These enhanced procedures will reduce the money laundering vulnerabilities of the private banking and correspondent banking sectors that have been highlighted in Congressional hearings and reports by the General Accounting Office (GAO).

Concentration Accounts at Financial Institutions:

Section 325 permits, but does not require, the Secretary to promulgate regulations to govern maintenance of concentration accounts. Concentration accounts are accounts financial institutions use to aggregate funds from different clients' accounts for various transactions. A 1998 GAO report concluded that Citibank's concentration accounts were used to help Raul Salinas avoid detection of monies that he allegedly laundered.[11] If an institution's funds are commingled, and not linked to individual clients, then these commingled funds present an opportunity to conceal laundered monies. Any regulations issued pursuant to section 325 would address the potential vulnerabilities identified in the GAO report, and would seek to prevent potential money launderers from hiding their monies within the large flow of funds that moves through a financial institution's general ledger account.

Customer Identification Requirements:

Treasury formed an interagency team to develop proposed regulations to establish minimum standards for the identification of customers of financial institutions during the opening of an account. Unlike other PATRIOT Act provisions, this section requires that Treasury issue regulations jointly with the Federal functional regulators. The PATRIOT Act gives the interagency working group until October 2002 to issue draft regulations. This section, 326, also requires the Secretary to report to Congress on ways to enable domestic financial institutions to verify the identity of foreign nationals who seek to open accounts. Regulations under section 326 will help law

enforcement to investigate and track down potential terrorists. The regulations are also intended to deter terrorists from opening accounts at traditional financial institutions, including banks and securities brokers, to finance their nefarious activities.

Informal banking systems/hawala:

As noted in Goal 2, Objective 2, Priority 2, we know that not every terrorist and criminal group moves its illicit money through traditional banking systems and financial institutions. Some groups move the moneys needed to finance their activities through informal banking networks. Section 359 of the PATRIOT Act brought entities engaged in the business of transferring money, even through informal means, under the reporting and record keeping requirements of the BSA. Section 359 also directed Treasury to report to the Congress by November 2002 on the need, if any, for additional legislation relating to informal banking systems so that money launderers and terrorist entities cannot move their funds freely through these less regulated channels.

The following Agencies, Bureaus, and Offices participated in the work necessary to issue regulations to implement provisions of the USA PATRIOT Act.

Commodity Futures Trading Commission
Department of Justice — Asset Forfeiture and Money Laundering Section
Department of the Treasury
Federal Deposit Insurance Corporation
Federal Reserve Board
Financial Crimes Enforcement Network
Internal Revenue Service
National Credit Union Administration
Office of the Comptroller of the Currency
Office of Thrift Supervision
United States Securities and Exchange Commission

Footnotes

1 "Financial institutions" are defined broadly for purposes of the Bank Secrecy Act, 31 U.S.C. 5312

2 67 Federal Register 21110 (April 29, 2002).

3 The NASD and NYSE regulations are reprinted in Appendix 6. The SEC approved the NASD and NYSE rules on April 22, 2002. Securities Exchange Act Release 45798, 67 Federal Register 20854 (April 26, 2002).

4 *See* National Futures Association Notice 1-02-09, issued April 23, 2002.

5 31 U.S.C. 5318(j)(1). "Physical presence" means a place of business that is maintained by a foreign bank and is located at a fixed address, other than solely a post office box or an electronic address, in a country in which the foreign bank is authorized to conduct banking activities, at which location the foreign bank: (1) employs one or more individuals on a full-time basis; (2) maintains operating records related to its banking activities; and (3) is subject to inspection by the banking authority that licensed the foreign bank to conduct banking activities. 31 U.S.C. 5318(j)(4)(B).

6 The Interim Guidance, published in the Federal Register on November 27, 2001 (66 Federal Register 59342), included definitions of key terms in sections 31 U.S.C. 5318(j) and (k) and a model certification that depository institutions could submit. Treasury issued the interim guidance after consultation with the Department of Justice, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, the staff of the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Commodity Futures Trading Commission, and the Securities and Exchange Commission.

7 31 U.S.C. 5318(g).

8 66 Federal Register 67680 (Dec. 31, 2001).

9 The reports are available on the Department of the Treasury web site at, www.treas.gov/press/releases/docs/357.pdf and www.treas.gov/press/releases/docs/fbar.pdf.

10 67 Federal Register 9874 (March 4, 2002).

11 *Private Banking: Raul Salinas, Citibank, and Alleged Money Laundering*, GAO/OSI-99-1 (Oct. 1998), at 3.

Appendix 6:

Regulations Issued to Implement Section 352 of the PATRIOT ACT

NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

Rule 3011 — Anti-Money Laundering Compliance Program

On or before April 24, 2002, each member shall develop and implement a written anti-money laundering program reasonably designed to achieve and monitor the member's compliance with the requirements of the Bank Secrecy Act (31 U.S.C. 5311, et se*q*.), and the implementing regulations promulgated thereunder by the Department of the Treasury. Each member organization's anti-money laundering program must be approved, in writing, by a member of senior management. The anti-money laundering programs required by this Rule shall, at a minimum,

(a) Establish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of transactions required under 31 U.S.C. 5318(g) and the implementing regulations thereunder;

(b) Establish and implement policies, procedures, and internal controls reasonably designed to achieve compliance with the Bank Secrecy Act and the implementing regulations thereunder;

(c) Provide for independent testing for compliance to be conducted by member personnel or by a qualified outside party;

(d) Designate an individual or individuals responsible for implementing and monitoring the day-to-day operations and internal controls of the program; and

(e) Provide ongoing training for appropriate personnel.

NEW YORK STOCK EXCHANGE RULE 445

Each member organization and each member not associated with a member organization shall develop and implement a written anti-money laundering program reasonably designed to achieve and monitor compliance with the requirements of the Bank Secrecy Act (31 U.S.C. 5311, et seq.), and the implementing regulations promulgated thereunder by the Department of the Treasury. Each member organization's anti-money laundering program must be approved, in writing, by a member of senior management.

The anti-money laundering programs required by this Rule shall, at a minimum:

(1) Establish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of transactions required under 31 U.S.C. 5318(g) and the implementing regulations thereunder;

(2) Establish and implement policies, procedures, and internal controls reasonably designed to achieve compliance with the Bank Secrecy Act and the implementing regulations thereunder;

(3) Provide for independent testing for compliance to be conducted by member or member organization personnel or by a qualified outside party;

(4) Designate, and identify to the Exchange (by name, title, mailing address, e-mail address, telephone number, and facsimile number) a person or persons responsible for implementing and monitoring the day-to-day operations and internal controls of the program and provide prompt notification to the Exchange regarding any change in such designation(s); and

(5) Provide ongoing training for appropriate persons.

Appendix 7:

2001- 2002 Money Laundering Case Highlights

Operation Wire Cutter: The U.S. Customs Service, in conjunction with the Drug Enforcement Administration (DEA) and Colombia's Departamento Administrativo de Seguridad arrested 37 individuals in January 2002 as a result of a 2 1/2 year undercover investigation of Colombian peso brokers and their money laundering organizations. These individuals are believed to have laundered money for several Colombian narcotics cartels, including the Alberto Orlandez Gamboa or Caracol cartel that operates on Colombia's North Coast.[1] The peso brokers contacted undercover Customs agents and directed them to pick-up currency in New York, Miami, Chicago, Los Angeles, and San Juan, Puerto Rico that had been generated from narcotics transactions. The brokers subsequently directed the undercover agents to wire these proceeds to specified accounts in U.S. financial institutions that were often in the name of Colombian companies or banks that had a correspondent account with a U.S. bank. Laundered monies were subsequently withdrawn from banks in Colombia in Colombian pesos. Investigators seized over $8 million in cash, 400 kilos of cocaine, 100 kilos of marijuana, 6.5 kilos of heroin, nine firearms, and six vehicles.

SAR leads to arrest of Peruvian Spymaster: In January 2001, Citibank Miami filed a Suspicious Activity Report (SAR) concerning the deposit of approximately $15 million from Victor Alberto Venero-Garrido. The FBI determined that Venero was the "bagman" for Vladimiro Lenin Montesinos-Torres, former Chief of the Peruvian National Intelligence Service (SIN). Montesinos was under investigation in Peru for fleeing with government funds, trafficking in narcotics, and violating human rights. Venero, a former Peruvian General, was also wanted by Peruvian authorities for these same crimes. The FBI obtained a Provisional Arrest Warrant from Peru and arrested Venero in Miami, charging him with money laundering and public corruption. Intelligence information revealed that Montesinos had maintained a global network of bank accounts and front companies to move and hide payments received from drug traffickers, defense contract kickbacks, embezzlement of public funds, and gun-running since the mid-1990s. Montesinos generated over $450 million in revenue from the illegal activity which was subsequently deposited into banks located in Peru, Switzerland, the Cayman Islands, Panama, and the U.S.

Following Venero's arrest, Montesinos attempted to extort U.S. bank officials to releae approximately $38 million seized in connection with the investigation. Montesinos acted through an associate identified as Jose Guevara, a former intelligence officer with SIN. Guevara was arrested in Miami and charged with violation of federal statutes related to using a telephone to attempt to extort $38 million from bank officials. Guevara cooperated with the FBI and provided the location of Montesinos in Venezuela. Montesinos was arrested by the Venezuelan military in Caracas, Venezuela. To date, $22.3 million has been seized in the U.S. for forfeiture related to this investigation.

Operation Oasis: In October 2001, Customs initiated a national anti-terrorism enforcement operation targeting the movement of monetary instruments to certain countries of concern. The focus included express consignment courier hubs and airline passengers carrying monetary instruments in excess of $10,000. Between October 2001 and February 2002, Customs made over 200 seizures preventing the movement of over $10 million.

Advanced Fee Fraud: The U.S. Secret Service seized over $4.3 million from a Miami bank account as part of a South Florida Organized Fraud Task Force case. The seized moneys were the laundered proceeds of a well organized, large scale, advance fee fraud scheme[2] operating in the south Florida area and targeting the Southeast U.S.

Policeman Launders Millions in Drug Money: A New York City policeman pled guilty on March 14, 2002 to laundering between $6 and $10 million obtained from the sale of drugs in the New York City metropolitan area. Colombian narcotics traffickers shipped sixty tons of cocaine to the New York City area over a two-year period. After the cocaine was sold, the defendants received instructions to pick up the drug money, and would meet the drug dealers at various locations on the streets of New York City where they received bags containing between $100,000 and $500,000 in cash. The defendants rented cars and drove the drug proceeds to Miami, Florida. Once in Miami, the defendants delivered the money to various Miami area businesses, which accepted the drug money as payment for

goods, such as video games, calculators, print cartridges, bicycle parts and tires, which they subsequently exported to Colombia. These type of transactions are consistent with the operation of the trade-based BMPE laundering system frequently employed by Colombian narcotics traffickers.[3]

Terrorist financing ring broken: On June 21, 2002 a federal jury in North Carolina convicted Mohamad Hammoud and his brother Chawki, Lebanese immigrants, for providing material support to the terrorist group Hezbollah through racketeering, conspiracy, and conspiracy to commit money laundering by funneling profits from a cigarette smuggling operation. In March 2002, several of the Hammoud's co-defendants pled guilty in North Carolina federal court to racketeering, conspiracy, and conspiracy to commit money laundering for funneling profits from their cigarette smuggling operation to purchase military equipment for the Hezbollah terrorists. The case began when the West Virginia State Police seized a significant quantity of contraband cigarettes. The Federal indictment alleged that millions of dollars worth of cigarettes were smuggled out of North Carolina to resell in States, including Michigan, where higher State taxes greatly increase the sales price.[4]

Operation Goldmine: Law enforcement[5] uncovered the activities of Speed Joyeros (Speed Jewelers), a Panamanian gold and jewelry business that laundered the narcotics proceeds of numerous documented Colombian drug traffickers, including Oscar Pinzon and Armando Mogollon. In the past six years, Speed Joyeros has declared aggregated gross purchases in excess of half a billion dollars.

To date, DEA's Panama Country Office and the Panamanian Judicial Technical Police have seized 1.6 tons of finished gold jewelry, 2.3 tons of finished silver jewelry, nine corporate bank accounts containing in excess of $1 million, two high-rise condos valued at $3.5 million, two Mercedes Benz automobiles, one BMW sedan, and two buses. In addition to these seizures, the Eastern District of New York in conjunction with the DEA Long Island Office seized $1 million from an account controlled by the store's owner.

A 2001 joint DEA/Colombian National Police investigation of money laundering brokers in Colombia using the money laundering services of Speed Joyeros resulted in the arrest of 20 defendants and the seizure of hundreds of thousands of dollars in assets. In April 2002, Speed Joyeros's owner and her two companies were found guilty of conspiring to commit money laundering. She was sentenced to 27 months imprisonment and agreed to forfeit all of the seized corporate assts.

Bank of New York Investigation: Based on a Suspicious Activity Report (SAR) filed by a Republic National Bank in August 1998, the FBI's Russian Organized Crime Task Force and the U.S. Attorneys Office in the Southern District of New York began an investigation of Peter Berlin, doing business as Benex International and Becs International, and his wife, Ludmila Edwards, a Bank of New York account executive. The SAR reported a series of suspicious transfers of large sums of money from a Russian bank correspondent account to accounts in the Bank of New York. Seizure warrants were executed against the Bank of New York accounts and several other Berlin entities, as well as the correspondent account for a Russian bank at the Bank of New York, and resulted in seizures totaling $21,631,714 from 11 different accounts. Berlin and his wife subsequently pled guilty to conspiracy, money laundering, and conducting an illegal money transmittal business, and agreed to criminal forfeitures totaling approximately $8.1 million which included bank accounts, several brokerage accounts, and a residence in London, England. A final order of criminal forfeiture will be obtained when Berlin and Edwards are sentenced.

Khalil Kharfan Organization: DEA (New York Division Group) and the U.S. Attorneys Office in the Southern District of New York concluded a long-term investigation targeting the money laundering and narcotics activities of the Khalil Kharfan Organization operating in Colombia, Puerto Rico, Florida, and the New York Tri-State area. To date, the investigation has revealed that this organization laundered in excess of $100 million in narcotics proceeds. The organization was extremely sophisticated and used several types of communication devices to expedite the transfer of funds worldwide. The Colombian cell, which had staff stationed domestically in Puerto Rico, Florida, New York, and New Jersey; and international businesses and banks in Panama, Israel, Switzerland, and Colombia, used "members" to open fictitious businesses allowing monies to be deposited and then transferred. Approximately $1 million has been seized.

Brian Russell Stearns: On February 9, 2001, Brian Russell Stearns, who purportedly ran a multimillion-dollar international finance business from his Lake Austin, Texas mansion, was convicted of defrauding investors from around the world of more than $50 million. After a two-week trial, jurors found Stearns guilty on all 80 counts of the indictment, including money laundering, mail fraud and other

violations. The jury also ruled that authorities could liquidate $35 million in proceeds from Stearns' money laundering operation and return it to the investors. Sterns was sentenced to 30 years in prison on July 12, 2001.

During the investigation, IRS-CI seized Stearn's $2.5 million mansion, a Lear Jet, a Gulfstream aircraft, and a $2 million helicopter. Also seized were luxury automobiles, a yacht, oil investments, a Florida home, $1.5 million in bank accounts and deposits, and hundreds of thousands of dollars of jewelry. The proceeds of these assets will be used as partial restitution for the victims.

Nashville Narcotics: A Nashville, Tennessee man was sentenced to 20 years in jail for his three-year role in a large-scale cocaine distribution and money laundering organization in the Nashville area. The individual pled guilty to conspiracy to commit money laundering and conspiracy to distribute cocaine. The defendant used several vehicles with sophisticated hidden compartments to transport the cocaine and the proceeds to pay for it back and forth between Chicago and Nashville. The Nashville Organized Crime and Drug Enforcement Task Force (OCDETF) investigated the case, and IRS-CI was the lead agency investigating the money laundering aspects of the narcotics trafficking organization.

Frederick C. Brandau, d/b/a Viatical Title &Trust, Inc: The FBI determined that during a two-year period, Frederick Brandau used his company, Financial Federated Title & Trust, Inc. (FINFED), to purchase viatical insurance policies on the secondary market. The policies were allegedly placed into trusts and then sold to investors across the United States. However, Brandau never purchased the policies and instead used over $100 million collected from 5,000 investors, to purchase 37 luxury vehicles, real estate, helicopters, and other assets. Brandau was indicted by the U.S. Attorneys Office in the Southern District of Florida, and charged with conspiracy to commit mail and wire fraud and money laundering. He was sentenced to 55 years in prison.

Car wash: An investigation of a Queens, N.Y. luxury used car dealership suspected of laundering illegal narcotics proceeds resulted in the seizure of bank accounts belonging to Seechand Singh, the owner of the Six Stars Auto Sales. Mr. Singh was subsequently arrested for money laundering violations. He pled guilty to structuring currency and agreed to the forfeiture of four luxury vehicles and $942,000.

Footnotes

[1] Indictments were brought in the Southern District of New York, Northern District of Illinois, Southern District of Florida, and District of Puerto Rico.

[2] Advance fee fraud involves the solicitation of funds, usually via fax or the Internet. The criminals claim that they have several million dollars available for wire transfer from Nigeria to the victim, and need to use the victim's bank account to transfer the funds. The victim is promised a percentage of the proceeds for the use of their account. The perpetrators prepare bogus bank statements and other official appearing documents, and request that the victim forward a processing fee of several thousand dollars to a bank account outside of the U.S., typically in England or Nigeria. Additional fees are requested to payoff corrupt bank or customs officials or for the alleged payment of taxes. Of course, the victim never receives the promised payoff. A web site, http://www.scamorama.com, contains the text of over 100 of these fraudulent efforts.

[3] The investigation was conducted by the El Dorado Task Force, a Treasury-led Task Force consisting of U.S. Customs Service and IRS-Criminal Investigation agents, New York City Police Department detectives, Queens County District Attorney's Office detectives, New York State Police, and other local law enforcement agencies, including the New York City Police Department Internal Affairs Bureau, and prosecuted by the U.S. Attorney's Office for the Eastern District of New York.

[4] The Bureau of Alcohol, Tobacco, and Firearms (ATF) and the Federal Bureau of Investigations (FBI) led the federal investigation. They were assisted by the Immigration and Naturalization Service (INS), and State and local law enforcement agencies.

[5] *Gold Mine* was a joint investigation between the Drug Enforcement Administration (DEA), Department of Justice's Asset Forfeiture and Money Laundering Section and Narcotic and Dangerous Drug Section, and the Panama Attorney General's Office. *Operation Gold Mine* was the first case of its kind, and sent a wake-up notice to businesses operating in Panama's Colon Free Trade Zone. These Free Trade Zone businesses are often a necessary ingredient in Black Market Peso Exchange money laundering transactions.

Appendix 8:

Statement of the Senior Officials Group of the Black Market Peso Exchange System Multilateral Working Group

We, Under Secretary Jimmy Gurulé (Enforcement) of the United States Department of the Treasury; Nilo J.J. Swaen, Minister of Finance of the Ministry of Finance of Aruba; Santiago Rojas Arroyo, Director General of the National Tax and Customs Directorate of Colombia; José Miguel Aleman, Minister of Foreign Relations of the Republic of Panama; Dr. Mildred Camero, President of the National Commission Against the Illicit use of Drugs of the Bolivarian Republic of Venezuela, the Senior Officials Group, met today to review the progress achieved by the Black Market Peso Exchange System Multilateral Working Group.

1. We reaffirm that money laundering, through which criminals seek to disguise the illicit nature of their proceeds by introducing them into the stream of legitimate commerce, facilitates the criminal activities described in the laws of each of our jurisdictions.

2. We acknowledge that money laundering taints commerce and our financial institutions, erodes public trust in their integrity, is global in reach, and can adversely affect trade flows and ultimately disturb financial stability.

3. We affirm that money laundering, including the Black Market Peso Exchange System, or money laundering that makes use of trade, like the crime and corruption upon which it is based, is an issue of national security.

4. We pledge to continue national and international cooperation in our efforts to combat money laundering because we have a vital interest in maintaining the integrity of commerce and of our financial system.

5. We affirm the importance of the collection and exchange of trade-related data to facilitate the growth of legitimate trade in the region and to enhance the collection of and reduce the burden of collecting government revenue.

6. We acknowledge also the importance of training the private sector about the risks and harmful effects of money laundering and other criminal activities.

7. We encourage the widest possible dissemination of the conclusions and recommendations of the Experts Working Group and their timely acceptance by governments in order to prevent the displacement of money laundering activities to jurisdictions that do not address trade-based money laundering as well as to prevent unfair trade competition.

8. We recognize that governments may need to consider amending national laws or issuing new regulations in order to achieve the objectives of these recommendations.

9. We have reviewed the laudable work of the Experts Working Group, and support the conclusions and recommendations that it reached in the attached Experts Working Group Report. We intend for this Experts Working Group to convene in July 2003 to review progress in implementing the recommendations set forth in the Experts Working Group Report and to report on results achieved in combating trade-based money laundering.

BLACK MARKET PESO EXCHANGE SYSTEM
MULTILATERAL EXPERTS WORKING GROUP REPORT

March 14, 2002

1. In researching trade-based money laundering* throughout the region, the Black Market Peso Exchange System Multilateral Working Group ("Multilateral Working Group") and its Experts Working Group ("Experts Working Group") took into account, and some of the participating government agencies assisted in developing, the conclusions and recommendations of the Free Trade Zone Typology conducted by the Caribbean Financial Action Task Force (CFATF).

2. The Experts Working Group convened on four occasions, meeting with subject matter experts from relevant agencies of the governments of Aruba, Colombia, Panama, Venezuela, and the United States, as well as Free Trade Zone administrators and merchants operating in Free Trade Zones, to:

- Examine and develop a better understanding of trade-based money laundering and its effects;
- Discuss ways to improve international cooperation;
- Examine documents concerning import/export transactions and related controls;
- Critically examine and evaluate the legislation in each jurisdiction that may affect the progress of the initiatives proposed by the Experts Working Group; and
- Gain insight into the general operations of certain Free Trade Zones within these jurisdictions.

Conclusions:

3. The Experts Working Group concluded that:

a. Trade-based money-laundering occurring in the region, which facilitates narcotics trafficking, terrorism, and other crimes, poses a serious threat to the financial systems and economic stability of the region;

b. More financial and personnel resources should be assigned to the development of a concerted and coordinated attack on trade-based money laundering;

c. Non-existent or incompatible trade data reporting systems make the effective tracking and monitoring of imports, exports, and transshipments difficult;

d. The absence of adequate registration and regulation of merchants engaged in international commerce, and the lack of screening procedures for those merchants operating from special customs and/or tax areas, such as Free Trade Zones, can contribute to the proliferation of trade-based money laundering; and

e. The scope and magnitude of trade-based money laundering could be reduced by the development and implementation of education and outreach programs.

Recommendations:

Taking into consideration the studies and topics addressed in earlier meetings, the Experts Working Group recommends that, where appropriate, Governments take the following steps, subject to the availability of funds and applicable laws and regulations:

IN THE SHORT TERM (within six months)

1. Conduct Public Outreach Programs for manufacturers, other persons engaged in international commerce, as well as Free Trade Zone Operators and Merchants designed to:

- Educate them on the methods used to conduct trade-based money laundering;
- Provide them on a continuing basis with information regarding trends and patterns of trade-based money laundering and related suspicious or unusual transactions;
- Engage them in a government-private enterprise coalition to combat trade-based money laundering;
- Encourage them to develop and implement their anti-money laundering programs and procedures effectively, including enhanced customer identification systems;
- Engage them in the development and implementation of a "Code of Ethics" for Free Trade Zones and related areas aimed at preventing money laundering and other illegal activities that would be supported by all governments whose agencies participate in the Multilateral Working Group;
- Educate them on legal requirements for the conduct of legitimate international commerce;
- Inform them through government publications in printed media as well as on the internet through web-sites explaining the risks of involvement in a money laundering operation and providing relevant laws, procedures, controls, and legal practices, as well as "best practice" guidelines for cross-border transactions. Such information should emphasize the requirements related to payment of applicable duties and taxes, including import and export licenses, where applicable, as well as outline all authorized payment procedures for each government whose agencies participate in the Multilateral Working Group; and
- Inform them, in particular, through these same publications and the appropriate web-sites, about legally prescribed payment procedures.

2. Adequately screen, register and regulate merchants engaged in international trade, including Free Trade Zone Operators, in order to ensure that they do not contribute to the proliferation of trade-based money laundering;

3. Require money changers and exchange offices to report to their supervisory agencies information on cash transactions, suspicious or unusual transactions, and suspicious or unusual international transfers;

4. Improve communication, coordination, and cooperation among the various law enforcement, regulatory, and supervisory agencies, to include customs, tax, and bank regulatory agencies;

5. Publicize the administrative and criminal penalties applicable to pertinent violations;

6. Submit at the next meetings of the FATF and its regional groups this Experts Working Group Report, with a view to publicizing the valuable efforts the Multilateral Working Group has made thus far and inquire as to the viability of building on these efforts in the recommendations of those bodies.

IN THE LONG TERM (within two years)

7. Improve the collection, quality, and international exchange of trade data for the purpose of developing a regional Numerically Integrated Profiling System (NIPS) to help promote legitimate regional trade by developing a more accurate picture of trade flows and focus law enforcement and regulatory resources to better identify and combat criminal activity;

8. Conduct economic, social, political, and/or legal studies of the problem of trade-based money laundering, focusing on issues such as the international exchange of information, the control of borders, the regulation of persons engaged in international commerce, and the regulation of free trade zones and other zones of international commerce and, based on the results of such studies, propose solutions to address major problems;

9. Develop and implement the money laundering prevention guidelines for the CFATF Member Governments, merchants, and Free Trade Zone authorities, as a general framework for effectively detecting, preventing, investigating, and prosecuting trade-based money laundering cases;

10. Consider bilateral or multilateral agreements or arrangements to fill existing gaps with regard to the exchange of evidence and information and facilitate the investigation and prosecution of those responsible for perpetrating the crime of money laundering;

11. Extend the crime of illegal enrichment, where it exists and where it might be necessary and useful, to cover acts by both public officials and private individuals, and provide for accomplice liability.

12. Establish the obligation to declare monetary instruments upon entering and exiting the jurisdiction and create penalties for failure to comply.

13. Provide adequate funds, training, personnel, and systems necessary for the effective detection, prevention, and prosecution of money laundering cases. Identify experts in each jurisdiction for the investigation and prosecution of trade-based money laundering cases and focus the training to be offered nationally and internationally accordingly;

14. Make efforts to allocate a certain amount of each government's national budget to money-laundering prevention projects and consider offering international anti-money laundering assistance to jurisdictions that require it;

15. Continue efforts to inform banking and non-banking financial institutions and merchants of activities, trends, and methods in money laundering and suspicious transactions, and, resources permitting, offer necessary training;

16. Consider conducting on-site assessments in order to follow up on the implementation of the recommendations of the Experts Working Group;

17. Establish, where necessary, trade data reporting systems to make possible the effective tracking and monitoring of imports, exports, and transshipments;

18. Encourage the establishment of a regional program for the exchange of information on shipping departures. This information system should operate on line and in real time and include information on the shipper, type of cargo, destination, and means of transport;

19. Encourage the development and implementation of an electronic customs filing and reporting system with universally compatible data fields that can be used to track the flow of goods being imported, exported, or transshipped from, to, or through each jurisdiction's customs territory and free trade zones;

20. License, regulate, and monitor entities and individuals acting as customs brokers, and persons operating bonded warehouses to promote compliance with applicable rules and regulations. Non-compliance should be sanctioned and, in appropriate cases, such sanctions should be put on public record and/or lead to a revocation of license;

21. Consider the establishment of a training facility in Ciudad del Saber, Republic of Panama, for the purpose of providing training and disseminating information to benefit governments that wish to join forces in the fight against money laundering;

22. Chart all free trade zones and special customs areas in their jurisdictions and make this information publicly available;

23. Evaluate their jurisdictions' anti-money laundering legislative frameworks and their effectiveness in combating trade-based money laundering;

24. Regulate for the purpose of preventing money laundering the activities of currency exchange dealers and their agents, and financial institutions, and provide severe penalties for those facilitating trade-based money laundering;

25. Develop and implement a system to identify, and make available to Free Trade Zones Authorities, the names of Free Trade Zones Merchants and Users whose operational permits have been terminated as a result of money laundering activity;

26. Identify money laundering techniques used by illegal money changers; and

27. Seek international cooperation to strengthen border security and checks to curb trade- based money laundering.

FOR THE MINISTRY OF FINANCE OF ARUBA
Mr. Nilo J.J. Swaen
Minister of Finance

FOR THE SPECIAL ADMINISTRATIVE UNIT NATIONAL TAX AND CUSTOMS DIRECTORATE OF THE REPUBLIC OF COLOMBIA
Mr. Santiago Rojas Arroyo, Director General, Special Administrative Unit National Tax and Customs Directorate
by Mr. Luis Alberto Moreno, Ambassador of Colombia to the United States of America

FOR THE MINISTRY OF FOREIGN RELATIONS OF THE REPUBLIC OF PANAMA
Mr. José Miguel Aleman
Minister of Foreign Relations
by Mr. Guillermo A. Ford
Ambassador of Panama to the United States of America

FOR THE NATIONAL COMMISSION AGAINST THE ILLICIT USE OF DRUGS OF THE BOLIVARIAN REPUBLIC OF VENEZUELA
Dr. Mildred Camero, President
The National Commission Against the Illicit Use of Drugs
by Dr. José Luis Pérez Castillo
Director – Anti-Money Laundering Unit

FOR THE DEPARTMENT OF THE TREASURY OF THE UNITED STATES OF AMERICA
Mr. Jimmy Gurulé
Under Secretary of the Treasury
(Enforcement)

Footnotes

* When used in this document, the term "trade-based money laundering" includes money laundering accomplished through trade and predicated on narcotics trafficking, terrorism, and other crimes.

Appendix 9:

The Forty Recommendations of the Financial Action Task Force on Money Laundering

A. GENERAL FRAMEWORK OF THE RECOMMENDATIONS

1. Each country should take immediate steps to ratify and to implement fully, the 1988 United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (the Vienna Convention).

2. Financial institution secrecy laws should be conceived so as not to inhibit implementation of these recommendations.

3. An effective money laundering enforcement program should include increased multilateral co-operation and mutual legal assistance in money laundering investigations and prosecutions and extradition in money laundering cases, where possible.

B. ROLE OF NATIONAL LEGAL SYSTEMS IN COMBATING MONEY LAUNDERING

Scope of the Criminal Offence of Money Laundering

4. Each country should take such measures as may be necessary, including legislative ones, to enable it to criminalize money laundering as set forth in the Vienna Convention. Each country should extend the offence of drug money laundering to one based on serious offences. Each country would determine which serious crimes would be designated as money laundering predicate offences.

5. As provided in the Vienna Convention, the offence of money laundering should apply at least to knowing money laundering activity, including the concept that knowledge may be inferred from objective factual circumstances.

6. Where possible, corporations themselves - not only their employees - should be subject to criminal liability.

Provisional Measures and Confiscation

7. Countries should adopt measures similar to those set forth in the Vienna Convention, as may be necessary, including legislative ones, to enable their competent authorities to confiscate property laundered, proceeds from, instrumentalities used in or intended for use in the commission of any money laundering offence, or property of corresponding value, without prejudicing the rights of bona fide third parties.

Such measures should include the authority to: 1) identify, trace and evaluate property which is subject to confiscation; 2) carry out provisional measures, such as freezing and seizing, to prevent any dealing, transfer or disposal of such property; and 3) take any appropriate investigative measures.

In addition to confiscation and criminal sanctions, countries also should consider monetary and civil penalties, and/or proceedings including civil proceedings, to void contracts entered into by parties, where parties knew or should have known that as a result of the contract, the State would be prejudiced in its ability to recover financial claims, e.g. through confiscation or collection of fines and penalties.

C. ROLE OF THE FINANCIAL SYSTEM IN COMBATING MONEY LAUNDERING

8. Recommendations 10 to 29 should apply not only to banks, but also to non-bank financial institutions. Even for those non-bank financial institutions which are not subject to a formal prudential supervisory regime in all countries, for example bureaux de

change, governments should ensure that these institutions are subject to the same anti-money laundering laws or regulations as all other financial institutions and that these laws or regulations are implemented effectively.

9. The appropriate national authorities should consider applying Recommendations 10 to 21 and 23 to the conduct of financial activities as a commercial undertaking by businesses or professions which are not financial institutions, where such conduct is allowed or not prohibited. Financial activities include, but are not limited to, those listed in the attached annex. It is left to each country to decide whether special situations should be defined where the application of anti-money laundering measures is not necessary, for example, when a financial activity is carried out on an occasional or limited basis.

Customer Identification and Record-keeping Rules

10. Financial institutions should not keep anonymous accounts or accounts in obviously fictitious names: they should be required (by law, by regulations, by agreements between supervisory authorities and financial institutions or by self-regulatory agreements among financial institutions) to identify, on the basis of an official or other reliable identifying document, and record the identity of their clients, either occasional or usual, when establishing business relations or conducting transactions (in particular opening of accounts or passbooks, entering into fiduciary transactions, renting of safe deposit boxes, performing large cash transactions).

In order to fulfill identification requirements concerning legal entities, financial institutions should, when necessary, take measures:

(i) to verify the legal existence and structure of the customer by obtaining either from a public register or from the customer or both, proof of incorporation, including information concerning the customer's name, legal form, address, directors and provisions regulating the power to bind the entity.

(ii) to verify that any person purporting to act on behalf of the customer is so authorised and identify that person.

11. Financial institutions should take reasonable measures to obtain information about the true identity of the persons on whose behalf an account is opened or a transaction conducted if there are any doubts as to whether these clients or customers are acting on their own behalf, for example, in the case of domiciliary companies (i.e. institutions, corporations, foundations, trusts, etc. that do not conduct any commercial or manufacturing business or any other form of commercial operation in the country where their registered office is located).

12. Financial institutions should maintain, for at least five years, all necessary records on transactions, both domestic or international, to enable them to comply swiftly with information requests from the competent authorities. Such records must be sufficient to permit reconstruction of individual transactions (including the amounts and types of currency involved if any) so as to provide, if necessary, evidence for prosecution of criminal behaviour.

Financial institutions should keep records on customer identification (e.g. copies or records of official identification documents like passports, identity cards, driving licenses or similar documents), account files and business correspondence for at least five years after the account is closed.

These documents should be available to domestic competent authorities in the context of relevant criminal prosecutions and investigations.

13. Countries should pay special attention to money laundering threats inherent in new or developing technologies that might favour anonymity, and take measures, if needed, to prevent their use in money laundering schemes.

Increased Diligence of Financial Institutions

14. Financial institutions should pay special attention to all complex, unusual large transactions, and all unusual patterns of transactions, which have no apparent economic or visible lawful purpose. The background and purpose of such transactions should, as far as possible, be examined, the findings established in writing, and be available to help supervisors, auditors and law enforcement agencies.

15. If financial institutions suspect that funds stem from a criminal activity, they should be required to report promptly their suspicions to the competent authorities.

16. Financial institutions, their directors, officers and employees should be protected by legal provisions from criminal or civil liability for breach of any restriction on disclosure of information imposed by contract or by any legislative, regulatory or administrative provision, if they report their suspicions in good faith to the competent authorities, even if they did not know precisely what the underlying criminal activity was, and regardless of whether illegal activity actually occurred.

17. Financial institutions, their directors, officers and employees, should not, or, where appropriate, should not be allowed to, warn their customers when information relating to them is being reported to the competent authorities.

18. Financial institutions reporting their suspicions should comply with instructions from the competent authorities.

19. Financial institutions should develop programs against money laundering. These programs should include, as a minimum:

(i) the development of internal policies, procedures and controls, including the designation of compliance officers at management level, and adequate screening procedures to ensure high standards when hiring employees;

(ii) an ongoing employee training programme;

(iii) an audit function to test the system.

Measures to Cope with the Problem of Countries with No or Insufficient Anti-Money Laundering Measures

20. Financial institutions should ensure that the principles mentioned above are also applied to branches and majority owned subsidiaries located abroad, especially in countries which do not or insufficiently apply these Recommendations, to the extent that local applicable laws and regulations permit. When local applicable laws and regulations prohibit this implementation, competent authorities in the country of the mother institution should be informed by the financial institutions that they cannot apply these Recommendations.

21. Financial institutions should give special attention to business relations and transactions with persons, including companies and financial institutions, from countries which do not or insufficiently apply these Recommendations. Whenever these transactions have no apparent economic or visible lawful purpose, their background and purpose should, as far as possible, be examined, the findings established in writing, and be available to help supervisors, auditors and law enforcement agencies.

Other Measures to Avoid Money Laundering

22. Countries should consider implementing feasible measures to detect or monitor the physical cross-border transportation of cash and bearer negotiable instruments, subject to strict safeguards to ensure proper use of information and without impeding in any way the freedom of capital movements.

23. Countries should consider the feasibility and utility of a system where banks and other financial institutions and intermediaries would report all domestic and international currency transactions above a fixed amount, to a national central agency with a

computerised data base, available to competent authorities for use in money laundering cases, subject to strict safeguards to ensure proper use of the information.

24. Countries should further encourage in general the development of modern and secure techniques of money management, including increased use of checks, payment cards, direct deposit of salary checks, and book entry recording of securities, as a means to encourage the replacement of cash transfers

25. Countries should take notice of the potential for abuse of shell corporations by money launderers and should consider whether additional measures are required to prevent unlawful use of such entities.

Implementation and Role of Regulatory and Other Administrative Authorities

26. The competent authorities supervising banks or other financial institutions or intermediaries, or other competent authorities, should ensure that the supervised institutions have adequate programs to guard against money laundering. These authorities should co-operate and lend expertise spontaneously or on request with other domestic judicial or law enforcement authorities in money laundering investigations and prosecutions.

27. Competent authorities should be designated to ensure an effective implementation of all these Recommendations, through administrative supervision and regulation, in other professions dealing with cash as defined by each country.

28. The competent authorities should establish guidelines which will assist financial institutions in detecting suspicious patterns of behaviour by their customers. It is understood that such guidelines must develop over time, and will never be exhaustive. It is further understood that such guidelines will primarily serve as an educational tool for financial institutions' personnel.

29. The competent authorities regulating or supervising financial institutions should take the necessary legal or regulatory measures to guard against control or acquisition of a significant participation in financial institutions by criminals or their confederates.

D. STRENGTHENING OF INTERNATIONAL CO-OPERATION

Administrative Co-operation

Exchange of general information

30. National administrations should consider recording, at least in the aggregate, international flows of cash in whatever currency, so that estimates can be made of cash flows and reflows from various sources abroad, when this is combined with central bank information. Such information should be made available to the International Monetary Fund and the Bank for International Settlements to facilitate international studies.

31. International competent authorities, perhaps Interpol and the World Customs Organisation, should be given responsibility for gathering and disseminating information to competent authorities about the latest developments in money laundering and money laundering techniques. Central banks and bank regulators could do the same on their network. National authorities in various spheres, in consultation with trade associations, could then disseminate this to financial institutions in individual countries.

Exchange of information relating to suspicious transactions

32. Each country should make efforts to improve a spontaneous or "upon request" international information exchange relating to suspicious transactions, persons and corporations involved in those transactions between competent authorities. Strict safeguards

should be established to ensure that this exchange of information is consistent with national and international provisions on privacy and data protection.

Other Forms of Co-operation

Basis and means for co-operation in confiscation, mutual assistance and extradition

33. Countries should try to ensure, on a bilateral or multilateral basis, that different knowledge standards in national definitions - i.e. different standards concerning the intentional element of the infraction - do not affect the ability or willingness of countries to provide each other with mutual legal assistance.

34. International co-operation should be supported by a network of bilateral and multilateral agreements and arrangements based on generally shared legal concepts with the aim of providing practical measures to affect the widest possible range of mutual assistance.

35. Countries should be encouraged to ratify and implement relevant international conventions on money laundering such as the 1990 Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime.

Focus of improved mutual assistance on money laundering issues

36. Co-operative investigations among countries' appropriate competent authorities should be encouraged. One valid and effective investigative technique in this respect is controlled delivery related to assets known or suspected to be the proceeds of crime. Countries are encouraged to support this technique, where possible.

37. There should be procedures for mutual assistance in criminal matters regarding the use of compulsory measures including the production of records by financial institutions and other persons, the search of persons and premises, seizure and obtaining of evidence for use in money laundering investigations and prosecutions and in related actions in foreign jurisdictions.

38. There should be authority to take expeditious action in response to requests by foreign countries to identify, freeze, seize and confiscate proceeds or other property of corresponding value to such proceeds, based on money laundering or the crimes underlying the laundering activity. There should also be arrangements for coordinating seizure and confiscation proceedings which may include the sharing of confiscated assets.

39. To avoid conflicts of jurisdiction, consideration should be given to devising and applying mechanisms for determining the best venue for prosecution of defendants in the interests of justice in cases that are subject to prosecution in more than one country. Similarly, there should be arrangements for coordinating seizure and confiscation proceedings which may include the sharing of confiscated assets.

40. Countries should have procedures in place to extradite, where possible, individuals charged with a money laundering offence or related offences. With respect to its national legal system, each country should recognise money laundering as an extraditable offence. Subject to their legal frameworks, countries may consider simplifying extradition by allowing direct transmission of

extradition requests between appropriate ministries, extraditing persons based only on warrants of arrests or judgements, extraditing their nationals, and/or introducing a simplified extradition of consenting persons who waive formal extradition proceedings.

Annex to Recommendation 9: List of Financial Activities undertaken by business or professions which are not financial institutions

1. Acceptance of deposits and other repayable funds from the public.

2. Lending[1].

3. Financial leasing.

4. Money transmission services.

5. Issuing and managing means of payment (e.g. credit and debit cards, cheques, traveller's cheques and bankers' drafts...)

6. Financial guarantees and commitments.

7. Trading for account of customers (spot, forward, swaps, futures, options...) in:
   (a) money market instruments (cheques, bills, CDs, etc.) ;
   (b) foreign exchange;
   (c) exchange, interest rate and index instruments;
   (d) transferable securities;
   (e) commodity futures trading.
8. Participation in securities issues and the provision of financial services related to such issues.

9. Individual and collective portfolio management.

10. Safekeeping and administration of cash or liquid securities on behalf of clients.

11. Life insurance and other investment related insurance.

12. Money changing.

Footnotes

1 Including inter alia

* consumer credit
* mortgage credit
* factoring, with or without recourse
* finance of commercial transactions (including forfaiting)

Appendix 10:

Progress made by Entities on the FATF Non-Cooperative Countries and Territories List

In June 2000, the FATF issued an initial list of 15 Non-Cooperative Countries and Territories (NCCTs). Between June 2001 and September 2001, FATF completed a second round of the NCCT process, adding eight countries to the NCCT list, and removing four countries from the initial list: The Bahamas, the Cayman Islands, Liechtenstein, and Panama. In June 2002, four additional countries – Hungary, Israel, Lebanon, and St. Kitts and Nevis – were removed from the NCCT list. The NCCT review process has stimulated efforts by many of the governments to improve their systems, which are detailed below. Countries that have been or are currently listed are presented in alphabetical order.

The Bahamas

The Bahamas enacted comprehensive legal changes effecting banking supervision, customer identification, information about ownership of International Business Corporations (IBCs) and the provision of international cooperation in investigations. *See*, 2000 Money Laundering (Proceeds of Crime) (Amendment) Act (June 27, 2000), 2000 Evidence (Proceedings in other Jurisdictions) Act, and the 2000 Evidence (Proceedings in other Jurisdictions) (Amendment) Act (Aug. 17, 2000); 2000 Central Bank of the Bahamas Act (Dec. 29, 2000); the 2000 Bank and Trust Companies Regulation Act (Dec. 29, 2000); the 2000 Financial Intelligence Unit Act (Dec. 29, 2000); the 2000 Financial and Corporate Service Providers Act (Dec. 29, 2000); the 2000 Criminal Justice (international co-operation) Act (Dec. 29, 2000); the 2000 International Business Companies Act (Dec. 29, 2000); the 2000 Dangerous Drug Act (Dec. 29, 2000); the 2000 Financial Transaction Reporting Act (Dec. 29, 2000); and the 2000 Proceeds of Crime Act (Dec. 29, 2000). In addition, the Bahamas have made progress in its implementation of its anti-money laundering regime by establishing a financial intelligence unit and an ambitious inspection program. The Bahamas are also in the process of eliminating bearer shares and imposing new requirements on IBCs. The Bahamas were removed from the NCCT list in June 2001.

Burma (Myanmar)

In June 2001, serious deficiencies were identified in Burma's anti-money laundering system. Burma is in the process of drafting anti-money laundering legislation; however, Burma lacks a basic set of anti-money laundering provisions. It has not yet criminalized money laundering for crimes other than drug trafficking, and has no anti-money laundering provisions in the Central Bank Regulations for financial institutions. Other serious deficiencies in Burma's anti-money laundering regime concern the absence of a legal requirement to maintain records and to report suspicious or unusual transactions. There are also significant obstacles to international cooperation by judicial authorities. Burma has begun to take steps to correct these deficiencies that FATF identified. On June 17, 2002, Myanmar enacted the Control of Money Laundering Law addressing the criminalization of money laundering, providing for record keeping, and establishing an FIU.

Cayman Islands

The Cayman Islands has created a comprehensive legal framework to combat money laundering. Regulations address customer identification and record keeping for a wide range of financial services, and laws have been amended to ensure that the financial supervisory authority has the power to monitor compliance with the regulations.

See, 2000 Building Societies (Amendment) (Regulation by Monetary Authority) Law; 2000 Cooperative Societies (Amendment) (Credit Unions) Law; 2000 Monetary Authority (Amendment) (Regulation of Non-Bank Financial Institutions) Law; 2000 Proceeds of Criminal Conduct (Amendment)(Financial Intelligence Unit) Law; Proceeds of Criminal Conduct Law (2000 Revision); 2001 Money Laundering (Amendment) (Client Identification) Regulations; Banks and Trust Companies (Amendment) (Prudent Management) Law (Apr. 2001); Insurance (Amendment) (Prudent Management) Law (Apr. 2001); Mutual Funds (Amendment) (Prudent Administration) Law (Apr. 2001); Companies Management (Amendment) Law (Apr. 2001). In addition, the Cayman Islands has made progress in implementing its anti-money laundering regime by significantly increasing the human and financial resources dedicated to financial supervision and

the financial intelligence unit and through an ambitious financial inspection program. The Cayman Islands was removed from the NCCT list in June 2001.

Cook Islands

On August 18, 2000, the Cook Islands Parliament enacted the Money Laundering Prevention Act 2000, which makes money laundering a criminal offense and allows the Cook Islands to cooperate internationally in money laundering investigations. The Act also addresses anti-money laundering measures in the financial sector (both domestic and offshore), including the requirement to verify and maintain records on customer identification and the reporting of suspicious transactions. The Act authorizes the establishment of a Money Laundering Authority, which functions as a financial intelligence unit. In April 2001, the Cook Islands also issued Guidance Notes on Money Laundering Prevention. The Cook Islands has yet to establish an FIU or commit the staff necessary to supervise its offshore sector.

Dominica

The Money Laundering (Prevention) Act of 2000, effective January 15, 2001, criminalizes the laundering of proceeds from all indictable offenses, requires suspicious transaction reporting by financial institutions, and overrides secrecy provisions in earlier legislation. Dominica has effected amendments to the Exempt Insurance Act and to the International Business Companies Act permitting access to information by the authorities. The offshore banking sector is now subject to supervision by the Eastern Caribbean Central Bank (ECCB), and an amendment to the Offshore Banking Act prohibits offshore banks from opening anonymous accounts. The Money Laundering (Prevention) Regulations, effective May 31, 2001, further establishes customer identification/verification requirements for financial institutions and regulated businesses. These regulations apply equally to both domestic and offshore institutions.

Egypt

In June 2001, FATF identified serious deficiencies in Egypt's anti-money laundering system. Among the deficiencies noted were: a failure to adequately criminalize money laundering to internationally accepted standards; a failure to establish effective and efficient suspicious reporting systems; a failure to establish an FIU; and a failure to establish rigorous identification requirements that would apply to all financial institutions. In June 2001, the Egyptian Central Bank issued anti-money laundering regulations. On May 22, 2002, Egypt addressed a number of these deficiencies by enacting a Law for Combating Money Laundering. The law criminalizes the laundering of proceeds from various crimes, including narcotics, terrorism, fraud, and organized crime. The law addresses customer identification, record keeping, and establishes the framework for an FIU within the Central Bank of Egypt.

Grenada

Grenada enacted the International Financial Services (Miscellaneous Amendments) Act 2002, which amended the Offshore Banking Act to permit regulator access to account records and created criminal penalties for non-compliance. The International Financial Services Authority Act was amended to permit Grenada's regulator to communicate relevant information to other Grenadan authorities. An amendment to the International Trusts Act authorizes the disclosure of information relating to international trusts, and an amendment to the International Companies Act creates a registration mechanism for bearer shares of certain companies. Additional amendments improved the qualification requirements for holders of offshore banking licenses.

Guatemala

Guatemala enacted Decree No. 67-2001, Law Against Money and Asset Laundering on November 27, 2001. This law places offshore entities, for the first time, under the same obligations as domestic financial institutions with regard to counter-money laundering requirements. The law further criminalizes the laundering of proceeds of any crime. The law also imposes increased customer identification and record-keeping requirements on Guatemalan financial institutions. In addition, the law also creates a Financial Intelligence Unit (FIU) within the Superintendence of Banks. Suspicious transaction reporting is now obligatory in Guatemala and "tipping off" is prohibited under the new money laundering law. Additionally, the Monetary Board issued counter money laundering regulations that took effect on May 1, 2001.

Hungary

On November 27, 2001, Hungary enacted the Act on Aggravation of the Provisions for Fighting against Terrorism and for the Prevention of Money Laundering and on the Establishment of Restricting Measures. This Act tightens customer identification by requiring the identification of the beneficial owner of a transaction and the renewal of identification during the course of a business relationship if doubts arise as to the beneficial owner. The new law abolishes anonymous passbooks by requiring registration, identifying both the depositors and the beneficiaries. Existing passbooks must be converted to registered form. The legislation also extends anti-money laundering controls to non-banking sectors including casinos, real estate agents, and tax consultants. Hungary was removed from the NCCT list in June 2002.

Indonesia

On December 13, 2001 Indonesia issued a Bank Regulation and in December 2001 Bank Indonesia issued a Circular Letter requiring banks to establish "know your customer" policies, compliance officers and employee training. On April 17, 2002, Indonesia enacted a Law of the Republic of Indonesia concerning Money Laundering Criminal Acts. The law expands customer identification requirements and creates the framework for an FIU. The law criminalizes the laundering of illicit proceeds, but limits the application of the law to criminal proceeds that exceed a high threshold. The law also mandates reporting of suspicious transactions. Institutions are allowed 14 days to make a report, but the law does not criminalize the unauthorized disclosure of such reports.

Israel

On August 2, 2000, the Israeli Knesset passed the Prohibition on Money Laundering Law, criminalizing the offense of money laundering and creating the legal framework for a mandatory suspicious transaction reporting system. The new law requires enhanced customer identification by financial institutions and provides the statutory basis for the creation of an Israeli Financial Intelligence Unit. The unit, which became operational in February 2002, is referred to as the Israel Money Laundering Prohibition Authority (IMPA). The Knesset also passed a series of comprehensive regulations, which mandate anti-money laundering controls for various segments of the financial industry. Governmental authorities are now in the process of fully implementing the new law and regulations. Israel was removed from the NCCT list in June 2002.

Lebanon

On April 20, 2001, the Lebanese Parliament passed Law 318 on Fighting Money Laundering, effectively criminalizing laundering of illicit proceeds in relation to narcotics trafficking, organized crime, acts of terrorism, arms trafficking, embezzlement or fraudulent appropriation of public or private funds, and counterfeiting money or public credit instruments. The law also requires enhanced customer identification by financial institutions and mandates the reporting of suspicious financial transactions to the newly created Special Investigations Commission (SIC), which serves as Lebanon's Financial Intelligence Unit. The SIC is empowered to lift banking secrecy in furtherance of investigative and judicial proceedings. Lebanon also issued Regulations on the Control of Financial and Banking Operations for Fighting Money Laundering, which mandates anti-money laundering controls for all Lebanese financial institutions. Lebanon was removed from the NCCT list in June 2002.

Liechtenstein

On September 15, 2000, Liechtenstein amended its Due Diligence Act and enacted a new law on Mutual Legal Assistance in Criminal Matters. It also enacted the Ordinance to Due Diligence Act, the Ordinance to establish a Financial Intelligence Unit, and revised the Criminal Code, Criminal Procedure Code, and the Narcotics Act 1993. Finally, Liechtenstein enacted an Executive Order setting out the roles and responsibilities of the FSA (Financial Supervisory Authority). These changes impact the obligations of regulated financial institutions to identify customers and the financial regulators' powers to obtain and exchange information about client accounts, regulations about know-your-customer procedures, the extension of money laundering offences, alterations to mutual legal assistance procedures, and the establishment of an FIU to exchange information with other jurisdictions. Liechtenstein has improved its international cooperation provisions, both in administrative and judicial matters, and the Liechtenstein FIU joined the Egmont Group. Liechtenstein

has also undertaken clear commitments to identify the owners of accounts whose owners were not previously identified. Liechtenstein was removed from the NCCT list in June 2001.

Marshall Islands

On October 31, 2000, the Marshall Islands passed the Banking (Amendment) Act of 2000 (P.L. 2000-20). This amendment to the 1987 Banking Act, criminalizes money laundering, requires customer identification for accounts, and makes the reporting of suspicious transactions mandatory. In addition, section 67 of the Act authorizes the establishment of a Financial Intelligence Unit (FIU). On May 27, 2002, the Marshall Islands enacted a set of regulations that provide standards for reporting and compliance.

Nauru

On August 28, 2001, Nauru passed the Anti-Money Laundering Act of 2001, and adopted additional amendments on December 6, 2001. This Act criminalizes money laundering, requires customer identification for accounts, and makes the reporting of suspicious transactions mandatory. In addition, Part III of the Act establishes the legal basis for a new financial institutions supervisory authority, creating the legal basis for an FIU. This Act is the first step towards developing Nauru's anti-money laundering regime. However, due to the current structure of Nauru's offshore finance sector, it is not possible for Nauru to enforce its anti-money laundering legislation with respect to its offshore banks since these banks are not required to have a physical presence in Nauru.

Nigeria

FATF identified a significant number of deficiencies in Nigeria's anti-money laundering regime. Among the issues identified by FATF include: the use of a discretionary licensing procedure to operate a financial institution; the absence of customer identification requirements for transactions up to a very high threshold (US$100,000); and the absence of an obligation to report suspicious transactions if a financial institution decides to carry out the transaction. The scope of Nigeria's current decree on money laundering is unclear, because the decree refers generally to financial institutions, and does not seem to apply to insurance companies or stock brokerage firms. Since June 2001, Nigeria has taken no actions to address the deficiencies in its anti-money laundering regime and has not adequately engaged with FATF. FATF recommended the application of additional countermeasures as of October 31, 2002 if Nigeria fails to enact adequate legal reforms.

Niue

On November 16, 2000, Niue enacted the Financial Transactions Reporting Act 2000. This Act addresses customer identification, the reporting of suspicious transactions and the establishment of a financial intelligence unit. On June 5, 2002, the government of Niue passed the International Banking Repeal Act 2002, which will eliminate Niue's offshore banks by October 2002. Although Niue will retain its IBCs, company registry information will be maintained in Niue to provide local access to current information. The current offshore regime is neither adequately supervised nor regulated and is therefore vulnerable to money laundering activity.

Panama

Panama revised its legal system to improve the process for reporting money-laundering activity and to enhance the ability of its financial intelligence unit (FIU) to exchange information internationally.

See, *e.g.*, laws Nos. 41 and 42 (Oct. 2, 2000); Executive Decrees Nos. 163 and 213 (Oct. 3, 2000); and Agreement No. 9-2000 (Oct. 23, 2000). Laws 41 and 42 address the scope of predicate offences for money laundering and contain various anti-money laundering measures. The Executive Orders address the process for reporting money laundering activity, the ability of the FIU to cooperate at the international level, and the dissemination of information relating to trusts. Agreement No. 9-2000 reinforces customer identification procedures and provides greater precision on due diligence for banks. Panama has also made progress in the implementation of its anti-money laundering regime by increasing human and financial resources dedicated to its Bank Superintendence and financial intelligence unit and has actively sought to enter into written agreements with FATF members and other countries to provide for international FIU cooperation. Panama was removed from the NCCT list in June 2001.

The Philippines

On September 29, 2001, the Philippines passed the Anti-Money Laundering Act of 2001 effectively criminalizing money laundering, introducing a mandatory suspicious transaction reporting system, requiring customer identification, addressing excessive bank secrecy, and creating the legal basis for the Anti-Money Laundering Council, which functions as a financial intelligence unit. The Philippines must still remedy a number of weaknesses in their anti-money laundering regime, particularly, by lowering the high threshold for reporting covered transactions, eliminating excessive banking secrecy, and applying provisions of the Act to deposits and investments made prior to its effective date.

Russia

In August 2001, the Russian Federation passed and the President signed a comprehensive counter-money laundering law providing guidelines for customer identification, the reporting of suspicious transactions and the establishment by executive order of a financial intelligence unit (FIU). On November 1, 2001, a presidential decree instituted a Committee for Financial Monitoring within the Ministry of Finance to bring the FIU into existence. The FIU began operations on February 1, 2002 and was admitted into the Egmont Group in June 2002. Additionally, the Russian Federation has revised its penal code to reflect clearly that money laundering is a criminal offense.

St. Kitts and Nevis

Effective November 29, 2000, St. Kitts and Nevis enacted the Proceeds of Crime Act, 2000, which criminalized the laundering of money from any serious offense and provided for punishments of incarceration as well as monetary fines. The Act bars any individual convicted of a crime from holding a management position in an offshore bank in Nevis, and the Nevis Offshore Banking Ordinance has been amended to require character examinations to ensure fitness and properness. The offshore banking sector in Nevis is now subject to supervision by the Eastern Caribbean Central Bank (ECCB). Customer identification/verification and suspicious transaction reporting by financial institutions and regulated businesses, both onshore and offshore, is now mandatory in St. Kitts and Nevis. Secrecy provisions relevant to the disclosure of information, formerly a concern in this jurisdiction, have been overridden by the Proceeds of Crime Act. The Financial Services Commission Act of 2000 authorises regulators to inspect any business transaction record kept by each regulated business. Furthermore, the Companies (Amendment) Act, 2001 and the Nevis Business Corporation (Amendment) Ordinance, 2001 creates a mechanism to register bearer shares and to identify any beneficial owners. St. Kitts and Nevis was removed from the NCCT list in June 2002.

St. Vincent and the Grenadines

St. Vincent and the Grenadines enacted the International Banks (Amendment) Act, 2000 and the Confidential Relationships Preservation (International Finance) (Amendment) Act 2000 on August 28, 2000. It also amended the International Banks Act on October 17, 2000. These Acts address the authorization and registration requirements for offshore banks, and access to confidential information. In addition, St. Vincent and the Grenadines enacted the Proceeds of Crime and Money Laundering (Prevention) Act in December 2001 and promulgated the Proceeds of Crime (Money Laundering) Regulations in January 2002. This Act and its related regulations establish mandatory customer identification/verification, suspicious transaction reporting, and record-keeping requirements for financial institutions and regulated businesses. The Financial Intelligence Unit Act, enacted in December 2001, provides for the establishment of a financial intelligence unit to receive suspicious transaction reports and to exchange information with other FIUs. Amendments to the International Banks Act expand the ability of the Offshore Finance Inspector to obtain information from licensees. All private sector representatives have been removed from the Board of Directors of the Offshore Finance Authority. However, the current regulations provide an overly broad exemption from the customer identification requirements.

Ukraine

In 2000, Ukraine revised its law on banks and banking activity to lend important anti-money laundering disciplines to the banking sector. Although holdover anonymous accounts still exist, presidential decrees have effectively precluded opening a new anonymous account or adding to an existing anonymous account. A new 2001 law on financial services and the regulation of markets for financial services holds promise for extending anti-money laundering measures to the non-bank financial services sector but will not take full effect for several years. Changes to Ukraine's criminal code that entered into force on September 1, 2001 extend the range of predicate offenses for money laundering to all serious crimes. Ukraine has also adopted a series of presidential decrees and guidance to its financial institutions, but these lack the force of law. Money laundering legislation was re-introduced on June 14, 2002. Ukraine remains on the NCCT list, and FATF will consider adopting additional countermeasures if comprehensive legislation is not enacted by October 2002.

Appendix 11:

FATF Eight Special Recommendations on Terrorist Financing

Recognizing the vital importance of taking action to combat the financing of terrorism, the FATF has agreed [to] these Recommendations, which, when combined with the FATF Forty Recommendations on money laundering, set out the basic framework to detect, prevent and suppress the financing of terrorism and terrorist acts.

I. Ratification and implementation of UN instruments

Each country should take immediate steps to ratify and to implement fully the 1999 United Nations International Convention for the Suppression of the Financing of Terrorism.

Countries should also immediately implement the United Nations resolutions relating to the preve˙ntion and suppression of the financing of terrorist acts, particularly United Nations Security Council Resolution 1373.

II. Criminalizing the financing of terrorism and associated money laundering

Each country should criminalize the financing of terrorism, terrorist acts and terrorist organizations. Countries should ensure that such offences are designated as money laundering predicate offences.

III. Freezing and confiscating terrorist assets

Each country should implement measures to freeze without delay funds or other assets of terrorists, those who finance terrorism and terrorist organizations in accordance with the United Nations resolutions relating to the prevention and suppression of the financing of terrorist acts.

Each country should also adopt and implement measures, including legislative ones, which would enable the competent authorities to seize and confiscate property that is the proceeds of, or used in, or intended or allocated for use in, the financing of terrorism, terrorist acts or terrorist organizations.

IV. Reporting suspicious transactions related to terrorism

If financial institutions, or other businesses or entities subject to anti-money laundering obligations, suspect or have reasonable grounds to suspect that funds are linked or related to, or are to be used for terrorism, terrorist acts or by terrorist organizations, they should be required to report promptly their suspicions to the competent authorities.

V. International co-operation

Each country should afford another country, on the basis of a treaty, arrangement or other mechanism for mutual legal assistance or information exchange, the greatest possible measure of assistance in connection with criminal, civil enforcement, and administrative investigations, inquiries and proceedings relating to the financing of terrorism, terrorist acts and terrorist organizations.

Countries should also take all possible measures to ensure that they do not provide safe havens for individuals charged with the financing of terrorism, terrorist acts or terrorist organizations, and should have procedures in place to extradite, where possible, such individuals.

VI. Alternative remittance

Each country should take measures to ensure that persons or legal entities, including agents, that provide a service for the transmission of money or value, including transmission through an informal money or value transfer system or network, should be licensed or registered and subject to all the FATF Recommendations that apply to banks and non-bank financial institutions. Each country should ensure that persons or legal entities that carry out this service illegally are subject to administrative, civil or criminal sanctions.

VII. Wire transfers

Countries should take measures to require financial institutions, including money remitters, to include accurate and meaningful originator information (name, address and account number) on funds transfers and related messages that are sent, and the information should remain with the transfer or related message through the payment chain.

Countries should take measures to ensure that financial institutions, including money remitters, conduct enhanced scrutiny of and monitor for suspicious activity funds transfers which do not contain complete originator information (name, address and account number).

VIII. Non-profit organizations

Countries should review the adequacy of laws and regulations that relate to entities that can be abused for the financing of terrorism. Non-profit organizations are particularly vulnerable, and countries should ensure that they cannot be misused:

i. by terrorist organizations posing as legitimate entities;

ii. to exploit legitimate entities as conduits for terrorist financing, including for the purpose of escaping asset freezing measures; and

iii. to conceal or obscure the clandestine diversion of funds intended for legitimate purposes to terrorist organizations.

Appendix 12:

Executive Order 13224 on Terrorist Financing

Executive Order 13224 of September 23, 2001 Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten To Commit, or Support Terrorism

By the authority vested in me as President by the Constitution and the laws of the United States of America, including the International Emergency Economic Powers Act (50 U.S.C. 1701 *et seq.*)(IEEPA), the National Emergencies Act (50 U.S.C. 1601 *et seq.*), section 5 of the United Nations Participation Act of 1945, as amended (22 U.S.C. 287c) (UNPA), and section 301 of title 3, United States Code, and in view of United Nations Security Council Resolution (UNSCR) 1214 of December 8, 1998, UNSCR 1267 of October 15, 1999, UNSCR 1333 of December 19, 2000, and the multilateral sanctions contained therein, and UNSCR 1363 of July 30, 2001, establishing a mechanism to monitor the implementation of UNSCR 1333,

I, GEORGE W. BUSH, President of the United States of America, find that grave acts of terrorism and threats of terrorism committed by foreign terrorists, including the terrorist attacks in New York, Pennsylvania, and the Pentagon committed on September 11, 2001, acts recognized and condemned in UNSCR 1368 of September 12, 2001, and UNSCR 1269 of October 19, 1999, and the continuing and immediate threat of further attacks on United States nationals or the United States constitute an unusual and extraordinary threat to the national security, foreign policy, and economy of the United States, and in furtherance of my proclamation of September 14, 2001, Declaration of National Emergency by Reason of Certain Terrorist Attacks, hereby declare a national emergency to deal with that threat. I also find that because of the pervasiveness and expansiveness of the financial foundation of foreign terrorists, financial sanctions may be appropriate for those foreign persons that support or otherwise associate with these foreign terrorists. I also find that a need exists for further consultation and cooperation with, and sharing of information by, United States and foreign financial institutions as an additional tool to enable the United States to combat the financing of terrorism.

I hereby order:

Section 1. Except to the extent required by section 203(b) of IEEPA (50 U.S.C. 1702(b)), or provided in regulations, orders, directives, or licenses that may be issued pursuant to this order, and notwithstanding any contract entered into or any license or permit granted prior to the effective date of this order, all property and interests in property of the following persons that are in the United States or that hereafter come within the United States, or that hereafter come within the possession or control of United States persons are blocked:

(a) foreign persons listed in the Annex to this order;

(b) foreign persons determined by the Secretary of State, in consultation with the Secretary of the Treasury and the Attorney General, to have committed, or to pose a significant risk of committing, acts of terrorism that threaten the security of U.S. nationals or the national security, foreign policy, or economy of the United States;

(c) persons determined by the Secretary of the Treasury, in consultation with the Secretary of State and the Attorney General, to be owned or controlled by, or to act for or on behalf of those persons listed in the Annex to this order or those persons determined to be subject to subsection 1(b), 1(c), or 1(d)(i) of this order;

(d) except as provided in section 5 of this order and after such consultation, if any, with foreign authorities as the Secretary of State, in consultation with the Secretary of the Treasury and the Attorney General, deems appropriate in the exercise of his discretion, persons determined by the Secretary of the Treasury, in consultation with the Secretary of State and the Attorney General;

(i) to assist in, sponsor, or provide financial, material, or technological support for, or financial or other services to or in support of, such acts of terrorism or those persons listed in the Annex to this order or determined to be subject to this order; or

(ii) to be otherwise associated with those persons listed in the Annex to this order or those persons determined to be subject to subsection 1(b), 1(c), or 1(d)(i) of this order.

Sec. 2. Except to the extent required by section 203(b) of IEEPA (50 U.S.C. 1702(b)), or provided in regulations, orders, directives, or licenses that may be issued pursuant to this order, and notwithstanding any contract entered into or any license or permit granted prior to the effective date:

(a) any transaction or dealing by United States persons or within the United States in property or interests in property blocked pursuant to this order is prohibited, including but not limited to the making or receiving of any contribution of funds, goods, or services to or for the benefit of those persons listed in the Annex to this order or determined to be subject to this order;

(b) any transaction by any United States person or within the United States that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in this order is prohibited; and

(c) any conspiracy formed to violate any of the prohibitions set forth in this order is prohibited.

Sec. 3. For purposes of this order:

(a) the term "person" means an individual or entity;

(b) the term "entity" means a partnership, association, corporation, or other organization, group, or subgroup;

(c) the term "United States person" means any United States citizen, permanent resident alien, entity organized under the laws of the United States (including foreign branches), or any person in the United States; and

(d) the term "terrorism" means an activity that—

(i) involves a violent act or an act dangerous to human life, property, or infrastructure; and

(ii) appears to be intended—

(A) to intimidate or coerce a civilian population;

(B) to influence the policy of a government by intimidation or coercion; or

(C) to affect the conduct of a government by mass destruction, assassination, kidnapping, or hostage-taking.

Sec. 4. I hereby determine that the making of donations of the type specified in section 203(b)(2) of IEEPA (50 U.S.C. 1702(b)(2)) by United States persons to persons determined to be subject to this order would seriously impair my ability to deal with the national emergency declared in this order, and would endanger Armed Forces of the United States that are in a situation where imminent involvement in hostilities is clearly indicated by the circumstances, and hereby prohibit such donations as provided by section 1 of this order. Furthermore, I hereby determine that the Trade Sanctions Reform and Export Enhancement Act of 2000 (title IX, Public Law 106– 387) shall not affect the imposition or the continuation of the imposition of any unilateral agricultural sanction or unilateral medical sanction on any person determined to be subject to this order because imminent involvement of the Armed Forces of the United States in hostilities is clearly indicated by the circumstances.

Sec. 5. With respect to those persons designated pursuant to subsection 1(d) of this order, the Secretary of the Treasury, in the exercise of his discretion and in consultation with the Secretary of State and the Attorney General, may take such other actions than the complete blocking of property or interests in property as the President is authorized to take under IEEPA and UNPA if the Secretary of the Treasury, in consultation with the Secretary of State and the Attorney General, deems such other actions to be consistent with the national interests of the United States, considering such factors as he deems appropriate.

Sec. 6. The Secretary of State, the Secretary of the Treasury, and other appropriate agencies shall make all relevant efforts to cooperate and coordinate with other countries, including through technical assistance, as well as bilateral and multilateral agreements and arrangements, to achieve the objectives of this order, including the prevention and suppression of acts of terrorism, the denial of financing and financial services to terrorists and terrorist organizations, and the sharing of intelligence about funding activities in support of terrorism.

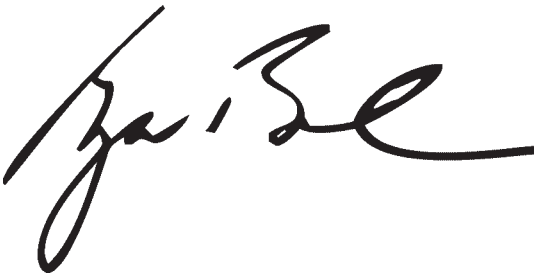
Sec. 7. The Secretary of the Treasury, in consultation with the Secretary of State and the Attorney General, is hereby authorized to take such actions, including the promulgation of rules and regulations, and to employ all powers granted to the President by IEEPA and UNPA as may be necessary to carry out the purposes of this order. The Secretary of the Treasury may redelegate any of these functions to other officers and agencies of the United States Government. All agencies of the United States Government are hereby directed to take all appropriate measures within their authority to carry out the provisions of this order.

Sec. 8. Nothing in this order is intended to affect the continued effectiveness of any rules, regulations, orders, licenses, or other forms of administrative action issued, taken, or continued in effect heretofore or hereafter under 31 C.F.R. chapter V, except as expressly terminated, modified, or suspended by or pursuant to this order.

Sec. 9. Nothing contained in this order is intended to create, nor does it create, any right, benefit, or privilege, substantive or procedural, enforceable at law by a party against the United States, its agencies, officers, employees or any other person.

Sec. 10. For those persons listed in the Annex to this order or determined to be subject to this order who might have a constitutional presence in the United States, I find that because of the ability to transfer funds or assets instantaneously, prior notice to such persons of measures to be taken pursuant to this order would render these measures ineffectual. I therefore determine that for these measures to be effective in addressing the national emergency declared in this order, there need be no prior notice of a listing or determination made pursuant to this order.

Sec. 11. (a) This order is effective at 12:01 a.m. eastern daylight time on September 24, 2001. (b) This order shall be transmitted to the Congress and published in the Federal Register.



THE WHITE HOUSE,
September 23, 2001.

Billing code 3195–01–P

Annex

Al Qaida/Islamic Army

Abu Sayyaf Group

Armed Islamic Group

Haraket ul-Mujahidin (HUM)

Al-Jihad (Egyptian Islamic Jihad)

Islamic Movement of Uzbekistan (IMU)

Asbet al-Ansar

Salafist Group for Call and Combat (GSPC)

Libyan Islamic Fighting Group

Al0Ithihaad al-Islamiya (AIAI)

Islamic Army of Aden

Usama bin Laden

Muhammad Atif (aka, Subhi Abu Sitta, Abu Hafs Al Masri)

Sayf al-Adl

Shaykh Sai'id (aka, Mustafa Muhammed Ahmad)

Abu Hafs the Maurianian (aka, Mahfouz Ould al-Walid, Khalid Al-Shangiti)

Ibn Al-Shaykh al-Libi

Abu Zubaydah (aka, Zayn al-Abidin Muhammed Husayn, Tariq)

Abd al-Hadi al-Iraqi (aka, Abu Abdallah)

Ayman al-Zawahiri

Thirwat Salah Shihata

Tariq Anwar al-Sayyid Ahmad (aka, Fathi, Amr al-Fatih)

Muhammed Salah (aka, Nasr Fahmi Nasr Hasanayn)

Makhtab Al-Khidamat/Al Kifah

Wafa Humanitarian Organization

Al Rashid Trust

Mamoun Darkazanli Import-Export Company