

# Withdrawal/Redaction Sheet

## Clinton Library

| DOCUMENT NO.<br>AND TYPE | SUBJECT/TITLE                                                    | DATE       | RESTRICTION |
|--------------------------|------------------------------------------------------------------|------------|-------------|
| 001. memo                | James J. Jukes to Legislative Liaison Officer [partial] (1 page) | 07/20/1997 | P3/b(3)     |
| 002. memo                | James J. Jukes to Legislative Liaison Officer [partial] (1 page) | 07/23/1997 | P3/b(3)     |
| 003. memo                | James J. Jukes to Legislative Liaison Officer [partial] (1 page) | 07/22/1997 | P3/b(3)     |
| 004. memo                | James J. Jukes to Legislative Liaison Officer [partial] (1 page) | 07/23/1997 | P3/b(3)     |
| 005. memo                | James J. Jukes to Legislative Liaison Officer [partial] (1 page) | 06/30/1997 | P3/b(3)     |

### COLLECTION:

Clinton Presidential Records  
Domestic Policy Council  
Jose Cerda  
OA/Box Number: 18931

### FOLDER TITLE:

Money Laundering

2016-0931-S

rc2298

### RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]  
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]  
P3 Release would violate a Federal statute [(a)(3) of the PRA]  
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]  
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]  
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).

RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

b(1) National security classified information [(b)(1) of the FOIA]  
b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]  
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b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]  
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

## COVER STORY

# New \$20 bill key weapon in war on counterfeiting

By J. Taylor Buckley  
and Tony Boylan  
USA TODAY

**A1**

Bolstered by evidence that its new, high-tech currency is winning the war on counterfeiting, the government rolls out the big gun next month: a new \$20 bill.

Though the tough-to-copy \$100 and the even newer \$50 appear to have done their jobs since the wholesale revamping of U.S. currency began in 1996, the introduction of the \$20 is key. It is the most widely circulated "big bill." It is coin of the realm in today's ATM world. It is printed by the U.S. Treasury in numbers second only to the \$1, and, not coincidentally, it is the most widely counterfeited bill.

It won't be available until the fall, but the \$20's unveiling on May 20 begins the ultimate showdown between the government's anti-forgery technology and a rising generation of gangster geeks armed with computer scanners and ink-jet printers — part of a burgeoning cottage industry that Treasury officials blame for half of all bogus money printed.

Indeed, experts say, just about anyone now with a yen to cheat and access to standard computer gear can print money at the office, at school, in the family room. You don't need a big press and skilled engravers to turn out a reasonable facsimile anymore.

"The casual counterfeiter is taking liberties with the new technology the world is enjoying," says Arnette Heintze, an agent of the U.S. Secret Service, the unit within the Treasury Department that oversees counterfeiting issues. "We've never had a generation more adept at the technology that's being introduced to the world."

Adds Beth Weaver, a spokeswoman for Treasury: "The issue with counterfeiting is all the advances in computer technology and ink-jet printing. You get a nice download, print on some nice

Please see COVER STORY next page ►

Continued from 1A

bond stock, and bingo!"

The dollar value of counterfeit money has trended downward in recent years — from \$108 million in 1995 to \$72 million in 1997; that represents less than 1/100 of 1% of the \$450 billion in genuine U.S. currency circulated worldwide.

But arrest figures suggest the number of people involved in making funny money is growing fast. In 1995, arrests totaled 1,856; in 1997, the number grew to 2,436.

In other words, the counterfeiting

## COVER STORY

industry, like many of the nation's legitimate industries, is undergoing a sea change at the end of the century. In its own way, counterfeiting is downsizing: small-time operators are taking over the business.

"Because of the computer technology," says Heintze, "you've got more and more people making small batches of money, and fewer of the big operations making large sums of counterfeit."

### New bills, new challenges

According to the Secret Service, the revamped \$100 and \$50 bills are making a difference: between Oct. 1, 1997, and Feb. 28, 1998, only 36% of the bogus \$100s passed were of the new design; just 15% of the \$50s were the new ones.

Officials expect the new \$20 — and the new \$10, coming in the summer of 1999 — to work just as well. But there are plenty of challenges.

The new \$20 will have the look of the new \$50s and \$100s: An oversize portrait in an offset oval frame. And like the \$100 and the \$50, the new \$20 will circulate with the version tucked in your wallet right now.

Therein lies the problem, both for consumers and criminals.

Anticipating the new \$20, says Heintze, is "a criminal element that will attempt to seize on this moment. And I promise you that someone will get away with it."

For the most part, a scam artist, or even an unwitting McDonald's customer, will succeed in passing a bogus bill not because it is a fine reproduction but because Americans don't pay attention to \$20s.

The \$20 is so common, in fact, surveys reveal that few people even remember that the tousel-haired presi-

dent on the face is Andrew Jackson.

"We probably miss most counterfeits," says Pat Biddix, president of the Melbourne, Fla., Greyhound Park dog track, which handles \$30 million in cash a year. "Someone could come up, lay down five \$20s and the one in the middle could be fake. ... We're probably not going to catch that."

But Treasury officials stress that people should pay attention — especially to the old \$20 once the new \$20 gets into circulation.

That's because the old bills will be good forever. And while the government shreds them as fast as it can put new ones out, so long as old ones are circulated they will be favored by counterfeiters. The new bills with their bold look and imbedded polymer strips are not only harder to replicate, but easier to authenticate.

### Technology an accomplice

Compounding the counterfeiting problem are laws that have not caught up with technology.

It is illegal, for instance, to possess plates from which money can be printed on a press. But it is perfectly legal, Treasury officials say, to have the image of a bill stored in your computer — or to swap that image around on the Internet — so long as you have some legitimate interest. That can be anything from currency art to numismatic cataloging.

In addition, the increasingly common small-time counterfeiters usually can evade stiff jail sentences that were designed, years ago, for people who printed millions on a press.

Today's pro instead prints in small batches from computer printers. That's why their goods are known as P-notes.

Of 435 counterfeiting operations busted by authorities in 1997, 321 of them were making P-notes. Another 87 used less sophisticated copiers.

In 1995, \$174,924 of all counterfeit currency passed in the United States was from an ink-jet printer. In 1997 it was up to \$6,121,292 — a 3,400% increase. For the first five months of fiscal year 1998 — a period that began in September and is used by the government for accounting — 43% of all counterfeit money seized was from ink-jet printers.

"You have sophisticated criminals who intentionally make small amounts of money (less than \$5,000) because the sentence below that level is almost nothing," says Rep. Michael Castle, R-Del., chairman of the

House Subcommittee on Domestic and International Monetary Policy.

Lawmakers are looking at stiffening penalties for small counterfeiters, as well as making possession of the bills' image on computer a crime.

### Attention to the details

The face lift for the new \$20 is more than cosmetic.

An old counterfeiter's trick is to bleach a \$1 bill and print \$100 on the blank paper. A skilled counterfeiter can probably still bleach the paper, says Dennis Lynch, head of the Secret Service's counterfeit unit. "But he can't move the polymer strip which resides in a different place on each denomination."

That thread will be to far left of President Jackson on the new \$20. On the \$50, it's to President Grant's right; on the \$100, to Ben Franklin's immediate left.

Another way to authenticate the new bills, says Lynch, is to use ultraviolet light. The thread in the \$20 will glow green. In the \$50 it will be yellow; in the \$100, red.

"If you understand the security features," says Lynch, "you won't be

easily fooled." He estimates that 98% of bogus notes passed today are not very deceptive but are accepted by people not paying attention.

With the new \$20's debut, Treasury will begin a public awareness campaign that will extend all the way down to elementary schools.

At Treasury's urging, for example, the National Retail Federation will include counterfeit-spotting on the agenda of its loss prevention conference in Kansas City next month.

Last year, the University of Florida's National Retail Security Survey found only 18 counterfeit currency incidents per \$100 million in sales among U.S. retailers. That compares to 47 cases of credit card fraud per \$100 million in sales and 1,466 instances of bad checks.

"Counterfeiting isn't a major issue," says Bruce Van Kleeck of the federation. Nevertheless, he says, it's a problem that comes "right out of retailers' bottom line."

Still, there's always someone willing to try to defeat the government. And as Heintze says, someone will succeed. But eventually, he warns, "we're going to get you. And we've seen plenty of cases where — boom — you get caught the first time."

## **OPERATION CASABLANCA TALKING POINTS**

- **Operation Casablanca, the 3-year Customs-led undercover investigation, is the largest drug money laundering case in U.S history. It is an example of this Administration's commitment to fighting the illegal drug trade in the United States.**
- **This operation has resulted in 166 arrests and the seizure of \$90 million of drug money to date. Customs expects up to 200 arrests and the seizure of \$157 million at the conclusion of the case. This sends a clear message to the narcotraffickers that we will shut down channels to move their illegal proceeds into the economy.**
- **We share with the government of Mexico, a common desire to attack the financial infrastructure of the drug cartels, which we were able to do in this investigation.**
- **The Mexican government has already arrested 5 individuals indicted under Operation Casablanca and has seized \$1.7 million in accounts. We are continuing to cooperate closely in combating narcotics trafficking and money laundering and have worked to help Mexico strengthen its legislative, regulatory and operational mechanisms for battling money laundering.**
- **President Clinton called President Zedillo last Thursday to discuss Mexican forest fires and U.S. help in dealing with them. They also discussed Operation Casablanca. According to Mike McCurry, "President Clinton expressed regret that better prior consultation had not been possible in this case."**
- **As has been said by both Secretary Rubin and Under Secretary Kelly, the undercover agents were working in this investigation at great risk up to and including the day of the announcement. It was for this reason that the investigation was closely held.**
- **It is important to note that Operation Casablanca was not an indictment of the Mexican banking system, but rather an attack on one of the avenues used by the drug cartels to launder their dirty money. Drug trafficking and money laundering are international crimes and are not specific to any one country. The United States has also conducted money laundering investigations of several American and other banks in recent years.**
- **The Mexican government has expressed concerns about some aspects of the investigation, and the Treasury and Justice departments are looking into those concerns.**

5/28/98

## **DAILY PRESS GUIDANCE ON OPERATION CASABLANCA**

June 4, 1998

- A delegation of law enforcement representatives from the Treasury and Justice departments was in Mexico yesterday to meet with representatives from the Mexican Finance Ministry and the Mexican Attorney General's Office to discuss Operation Casablanca. The technical team briefed representatives from the Hacienda and the PGR on certain details of the indictments in Operation Casablanca.
- The U.S. officials noted that Operation Casablanca was not an indictment of the Mexican banking system, but rather an attack on an avenue used by the drug cartels to launder their illicit proceeds. The U.S. officials also noted the important legislative, regulatory and operational mechanisms that Mexico has put in place to battle money laundering.
- Officials at the meeting agreed to additional meetings to discuss further the exchange of information concerning this operation and that technical teams from both countries would meet again in coming weeks.
- Operation Casablanca, the largest drug-money laundering case in U.S. history has resulted in 166 arrests and the seizure of over \$93 million in drug monies to date. Customs expects up to 200 arrests and the seizure of \$157 million at the investigation's conclusion.
- Last night, the PGR acknowledged that U.S. Customs Service agents had briefed the former Mexican Deputy Attorney General about details of Operation Casablanca in January 1996.

TO: DAVID MEDINA  
NICK GESS

RE: JOSE

2 pgs

WAS THIS BILL  
EVER TRANSMITTED?  
DOES THE NEW VERSION  
INCLUDE THE REVISED  
VELAZQUEZ BILL?  
IF NOT, SHOULD IT  
THESE 2 THINGS BE  
TOGETHER?

The Honorable Newt Gingrich  
Speaker  
United States House of Representatives  
Washington, D.C. 20515

Dear Mr. Speaker:

Enclosed herewith is a draft bill, the "Money Laundering Act of 1996," which contains legislative proposals to enhance federal law enforcement's ability to combat illegal money laundering.

Most of the provisions in the bill are designed to address the international laundering of criminal proceeds, either by criminals who commit crimes abroad and launder them in the United States, or by those who commit offenses in this country and then seek to conceal their ill-gotten gains abroad.

For example, the bill would expand the list of "specified unlawful activities" which constitute the predicate offenses for money laundering to include an array of foreign crimes, including crimes of violence, terrorism, fraud and corruption, thus making it possible to prosecute a person who commits such crimes in another country and attempts to launder the proceeds through our domestic institutions. Likewise, the bill would make it possible to restrain the assets in the United States of a person arrested abroad, and to restrain the domestic assets of a foreign bank that is engaged in money laundering in violation of U.S. law.

The bill would also codify the fugitive disentitlement doctrine to bar a fugitive from contesting the forfeiture of his property while remaining outside the reach of federal law enforcement. This tool could be used with great effectiveness against foreign criminals who launder their money in the United States but remain safely overseas, resisting extradition.

With regard to the assets of domestic criminals who seek to take advantage of their ability to move money abroad, screened by the secrecy laws of foreign jurisdictions, the bill would extend the money laundering statutes to reach transactions involving foreign banks and enhance federal prosecutors' access to foreign bank records and make them admissible in federal courts. It would also create certain evidentiary presumptions that would apply if money is moved from a drug producing country, through a bank secrecy jurisdiction, in the name of a shell corporation, to an account in the United States.

- 2 -

Finally the bill would strengthen our domestic money laundering laws in a number of ways, such as by making it clear that a transaction involves criminal proceeds even if such proceeds have been commingled with other funds, and by allowing prosecutors to file money laundering charges in the district where the underlying criminal offense is being prosecuted.

The Omnibus Budget Reconciliation Act (OBRA) requires that all revenue and direct spending legislation meet a pay-as-you-go requirement. That is, no bill should result in an increase in the deficit; and if it does, it will trigger a sequester if it is not fully offset. The Money Laundering Act would not increase direct spending and would not increase receipts, except to the extent that expansion of the money laundering statutes will result in increased deposits into the Assets Forfeiture Fund, as all property involved in money laundering is subject to forfeiture. Therefore, the bill meets the pay-as-you-go requirement of OBRA.

With respect to potential impacts on the criminal justice system, the bill does not impose any new penalties involving incarceration, nor does it create any new offenses for which incarceration may be imposed.

It would be appreciated if you would lay this draft bill before the House of Representatives. An identical proposal has been transmitted to the President of the Senate.

The Office of Management and Budget has advised that there is no objection to the presentation of this proposal to the Congress from the standpoint of the Administration's program.

Sincerely,

Andrew Fois  
Assistant Attorney General

## DEPARTMENT OF THE TREASURY

TREASURY



NEWS

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## OFFICE OF PUBLIC AFFAIRS

Room 2321 MT FAX (202) 622-1999

## FACSIMILE COVER SHEET

DATE: 6/24/97 NO. OF PAGES TO FOLLOW: 2  
TO: Jose Cordero  
FAX: 4156-7028  
FROM: Bob Weaver

COMMENTS:

CHARLES E. GRASSLEY, CHAIRMAN  
JOSEPH R. BIDEN, JR., CO-CHAIRMAN

ALFONSE D'AMATO, NEW YORK  
FRANK MURKOWSKI, ALASKA

BOB GRAHAM, FLORIDA

Wm. J. OLSON, STAFF DIR.

## United States Senate

CAUCUS ON INTERNATIONAL NARCOTICS CONTROL

WASHINGTON, DC 20510-9070

June 18, 1997

Dear Colleague:

Much has been done and said about the movement of illegal drugs into the United States or terrorists acts against our country. But the opposite side of these criminal enterprises-- converting the profits from drug sales and other illegal enterprises into cash and transferred out of the country and back into the hands of the criminal organizations --does not get as much publicity and is just as important. In order to protect our citizens, we must be sure that we are taking the necessary steps to prevent drug traffickers, organized crime and terrorist groups from receiving the profits of their illegal activities.

In an effort to strike another blow against drug traffickers and criminals who prey on our citizens, we plan on introducing companion legislation to HR 1756, the "Money Laundering and Financial Crimes Strategy Act of 1997." This legislation will require the development of a national strategy to combat money laundering and related financial crimes. This bill would hit the criminals where they feel it the most-- in their pocketbooks.

Money laundering involves disguising financial assets so they can be used without detection of the illegal activity that produced them. Through money laundering, the criminal transforms the monetary proceeds derived from the criminal activity into funds with an apparently legal source. Money laundering provides the financial resources for drug dealers, terrorists, arms dealers, and other criminals to operate and expand their criminal enterprises. Today, experts estimate that money laundering has grown into a \$500 billion problem worldwide.

We have attached a one-page summary of the bill. We hope that you will join us in sponsoring this important piece of legislation that will aid in our fight to disrupt the drug cartels and other criminal organizations. Please contact Gary Lang at the Caucus on International Narcotics Control at 224-9032 or Holidae Hayes at the Banking Committee at 224-1574.

Sincerely,



Charles E. Grassley  
Chairman, Caucus on  
International Narcotics Control



Alfonse M. D'Amato  
Chairman, Committee on  
Banking, Housing & Urban Affairs

CHARLES E. GRASSLEY, CHAIRMAN  
JOSEPH R. BIDEN, JR., CO-CHAIRMAN

ALFONSE D'AMATO, NEW YORK  
FRANK MURKOWSKI, ALASKA

BOB GRAHAM, FLORIDA

Wm. J. OLSON, STAFF DIR.

# United States Senate

CAUCUS ON INTERNATIONAL NARCOTICS CONTROL

WASHINGTON, DC 20510-9070

## Money Laundering and Financial Crimes Strategy Act of 1997 Summary

### *Creation of national strategy to combat money laundering and related financial crimes*

The President, acting through the Secretary of the Treasury, is directed to develop a national strategy to combat money laundering and related financial crimes.

### *Components of anti-money laundering strategy*

The strategy will include

- ▶ Goals for reducing money laundering and related financial crimes as well as coordinated regulatory efforts to prevent the exploitation of financial systems in the United States through money laundering.
- ▶ Operational initiatives to improve the detection of money laundering as well as private sector initiatives and intergovernmental action designed to combat financial crimes.
- ▶ Designation of certain areas as high-risk money laundering zones.

### *Consultation with federal, state and local prosecutors and law enforcement*

In developing the national strategy for fighting money laundering, the Secretary of the Treasury shall consult with the Attorney General, various federal law enforcement officials as well as individuals involved in financial institutions and financial market regulations.

### *Designation of high-risk money laundering and related crime zones*

The Secretary is authorized to designate certain geographic areas as high-risk money laundering and financial crime zones. Factors that the Secretary shall consider are

- ▶ Size of the population in a given area.
- ▶ The number of bank, stock, and wire transfers taking place in that area.
- ▶ Whether the region is a center of international finance.
- ▶ Whether the area has been the subject of active money laundering investigations or has been subject to a geographic targeting order.
- ▶ The extent to which state and local prosecutors and law enforcement officials have taken steps to combat financial crimes.

### *Assistance available to localities*

Any area designated a high-risk money laundering zone would be eligible for

- ▶ Increased federal law enforcement assistance.
- ▶ Increased access to information sharing.
- ▶ Eligibility for federal financial crimes grants.

Same document  
as that prepared by  
Vicki R. Z

MEMORANDUM FOR SECRETARY RUBIN

FROM: Raymond W. Kelly  
Under Secretary for Enforcement

SUBJECT: Money Laundering and Related Financial Crimes Strategy Bill

SUMMARY:

On or about June 3, 1997, Congresswoman Nydia Velazquez plans to introduce a bill which would require the Secretary of the Treasury to develop and submit to Congress a national strategy to combat money laundering and related financial crimes. Velazquez plans to hold a press conference either in New York or in Washington to announce the introduction of the bill.

BACKGROUND:

*First Velazquez Bill*

As you may recall, in the last Congress, Congresswoman Nydia Velazquez, who represents the district that is subject to the New York "Geographic Targeting Order," introduced a bill which called for the development and submission to Congress of a national financial crimes strategy. (A copy of that bill is attached hereto as Tab 1).

Among other things, the bill called for the Secretary to consult with the Attorney General and other relevant Federal, state and local officials to formulate goals for reducing financial crime. It also enabled the Secretary to designate certain geographic areas as "High Risk Financial Crimes Areas" (HIFCAs) subject to specific law enforcement initiatives. Further, the bill contemplated a funding mechanism whereby state and local law enforcement could apply for grants to implement such initiatives.

Treasury Enforcement generally supported the concept of a national financial crime strategy embodied in the bill. Several provisions of the proposed legislation were extremely problematic, however:

For example, the bill prescribed an extensive array of issues to be addressed in the actual strategy document to be submitted to Congress annually. Experience with other national strategies raised fears among many at Treasury that too much emphasis was being placed on developing the strategy and not enough on implementing it.

In addition, while the strategy stressed operational initiatives to detect and prosecute money laundering, it did not focus on initiatives to prevent financial sectors or institutions from being exploited for criminal purposes. Enforcement has long espoused

the view that the most effective approach to addressing financial crime is a holistic one -- combining preventative measures to address vulnerabilities in financial systems, with effective detection efforts.

Further, the bill would have permitted the Secretary of the Treasury to reprogram the resources of other agencies, such as the Department of Justice, to address a perceived financial crime threat. Enforcement considered this provision an intolerable infringement on the operational authority of Justice and the other affected agencies.

Given the above-mentioned features, Enforcement determined that it could not endorse the Velazquez bill as then written. Not surprisingly, the Department of Justice was even more vehement in its opposition. With no real support, the bill died.

### *Second Velazquez Bill*

Early this year, Congresswoman Velazquez contacted Treasury Enforcement and Legislative Affairs to express interest in reintroducing the bill. In an effort to avoid last year's outcome, Velazquez requested Enforcement's assistance in revising the proposed legislation to address our concerns.

After consultations with the relevant Enforcement bureaus, a series of recommendations to improve the bill were developed and forwarded to Velazquez' staff. (A copy of Enforcement's observations is attached hereto as Tab 2.) Essentially, we sought to modify the bill in two respects. First, we advocated shifting the emphasis away from the creation of a detailed strategy document, toward a more results-oriented approach where the law enforcement initiatives are the focus. We thus supported the introduction of permissive, as opposed to mandatory, requirements for the elements of the written document. Presumably, this will allow Treasury more flexibility to develop a streamlined strategy that focuses on implementation rather than rhetoric.

Second, we sought to avoid, to the extent practicable, infringing upon the jurisdiction of the Department of Justice or other agencies. Specifically, we recommended deleting the provisions of the bill that granted Treasury the discretion to reallocate Justice resources. We also suggested redefining the bill to address only money laundering and related financial crime as opposed to financial crimes generally -- the former being more squarely within Treasury's core jurisdiction.

Velazquez' staff has been very receptive to Enforcement's comments. The revised bill (a copy of which is attached as Tab 3) touches upon the jurisdiction of the Department of Justice as little as possible. The bill now amends Title 31, which directly encompasses the Secretary of the Treasury's authority. It also requires Treasury to submit a national strategy for combating money laundering and related financial crime. Further, the provisions permitting the Secretary to reallocate other agencies' resources has been deleted.

Although the legislation suggests topics to be included in a strategy, Treasury has the final say

on the contents of any strategy. We believe that this change would enable Treasury to expend fewer resources developing a written strategy and more on actual initiatives to combat money laundering.

#### *Department of Justice Reaction*

We have been in contact with the Department of Justice about the bill since Congresswoman Velazquez first sought our observations. Justice has been apprised of our original objections to, and our suggestions for improving, the draft legislation. A copy of our recommended changes was forwarded to Justice at the same time that it was forwarded to Velazquez' staff.

While Justice has been appreciative of our efforts to improve the bill (particularly our recommendation to delete the provision regarding reallocation of resources), we nevertheless anticipate that the agency will oppose the legislation. Justice maintains that the bill will only add an additional layer of bureaucracy, and that anti-money laundering efforts are already being coordinated. We have heard that representatives of the FBI have tried to dissuade banking committee staffers from supporting the bill.

#### *Treasury Enforcement Support*

Treasury Enforcement strongly supports the Velazquez bill as presently drafted. We believe the proposed legislation would bring enhanced Federal, state and local coordination to bear on the money laundering problem. As the success of the New York GTO demonstrated, coordination of this sort can have a dramatic impact on money laundering in a particular geographic area or segment of the financial sector. We also believe that the bill would provide the impetus to develop more creative approaches to attack money laundering, and the resources to implement them.

Congressmen Leach, Gonzalez and Schumer have expressed interest in the bill. So too has Senator D'Amato.

Congresswoman Velazquez is interested in introducing the bill on or about June 3, 1997. She plans to hold a press conference either in New York or in Washington to announce introduction of the bill. As you know, she would like you to attend, and to issue a statement of support.

cc: Assistant Secretary Robertson



## Congress of the United States

### House of Representatives

Washington, DC 20515-3212

## Money Laundering and Financial Crimes Strategy Act of 1997

### Summary

#### *Creation of national strategy to combat money laundering and related financial crimes*

The President, acting through the Secretary of the Treasury, is directed to develop a national strategy to combat money laundering and related financial crimes.

#### *Components of the anti- money laundering strategy*

The strategy will include:

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- Operational initiatives to improve the detection of money laundering as well as private sector initiatives and intergovernmental action designed to combat financial crimes.
- Designations of certain areas as high-risk money laundering zones.

#### *Consultation with federal, state and local prosecutors and law enforcement*

In developing the national strategy for fighting money laundering, the Secretary of the Treasury shall consult with the Attorney General, various federal, state and local prosecutors and law enforcement officials as well as individuals involved in financial institutions and financial market regulations.

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The Secretary is authorized to designate certain geographic areas as high-risk money laundering and financial crimes zones. Factors that the Secretary shall consider are:

- Size of the population in a given area.
- The number of bank, stock, and wire transfers taking place in that area.
- Whether the region is a center of international finance.
- Whether the area has been the subject of active money laundering investigations or has been subject to a geographic targeting order.
- The extent to which state and local prosecutors and law enforcement officials have taken steps to combat financial crimes.

#### *Assistance available to localities*

Any area designated a high-risk money laundering zone would be eligible for:

- Increased federal law enforcement assistance.
- Increased access to information sharing.
- Eligibility for federal financial crimes grants.

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Total Pages: 5

LRM ID: REJ191

EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
Washington, D.C. 20503-0001

Sunday, July 20, 1997

## LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer - See Distribution below

FROM: *James J. Jukes* (for) Assistant Director for Legislative Reference

OMB CONTACT: Ronald E. Jones

PHONE: (202)395-3386 FAX: (202)395-3109

SUBJECT: JUSTICE Transmittal Letter for Draft Bill on Money Laundering Act of 1997

DEADLINE: Tuesday, July 22, 1997

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President. Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

COMMENTS: The DOJ draft bill that this letter would accompany was circulated as LRM REJ 190, dated 7/18.

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**SUBJECT: JUSTICE Transmittal Letter for Draft Bill on Money Laundering**

☐ Concur  
☐ No Objection  
☐ No Comment  
☐ See proposed edits on pages \_\_\_\_\_  
☐ Other: \_\_\_\_\_

**FAX RETURN** of \_\_\_\_\_ pages, attached to this response sheet

## LAW ENFORCEMENT

# KNOW YOUR CUSTOMER —OR ELSE

A new push puts bankers on the front line against dirty money

**A**t Citicorp's annual meeting in Miami on Apr. 9, CEO John S. Reed revealed to shareholders that the bank could be "criminally indicted and convicted" for money laundering. The case stems from the bank's dealings with Raúl Salinas de Gortari, the brother of former Mexican President Carlos Salinas de Gortari.

As startling as the government's probe of Citi may seem, it is just a small piece of a little-publicized but immense initiative that has intensified over the past three years or so to combat money laundering. The effort includes the Federal Reserve, the Comptroller of the Currency, the Treasury Dept.'s **Financial Crimes Enforcement Network**, a 26-nation task force created in 1989 by the Group of

Seven industrial nations—and the White House. In an October, 1995, Presidential Decision Directive that got virtually no public attention, President Clinton authorized extraordinary actions against money laundering, including freezing funds in U.S. banks held by suspected Colombian drug dealers.

Much of the campaign focuses on bankers, many of whom traditionally have taken a see-no-evil posture, especially in accounts with many zeros. Now, regulators are working to transform bankers into active informers. A just-completed three-year cycle of prescriptive exams of 40 private banking operations by the New York Federal Reserve Bank showed that "the banks needed an education," reports a U.S. regulator. "We squeezed 'em good." Later this summer, the Fed is expected to issue the first mandatory "Know Your Customer" regulations to ensure that banks are as diligent in spotting questionable transactions as they are in checking borrower credit standings.

"The drug war is the heart of the concern," explains Comptroller of the Currency Eugene A. Ludwig, who on June 20 formed a task force to help produce uniform anti-money-laundering regulations for all U.S. banks. Drug

trafficking constitutes 8% of world trade, according to the latest U.N. statistics. An estimated annual \$300 billion to \$500 billion in dirty money—much of it from the drug trade—currently is being cycled through the U.S. financial system. "We've gotten used to \$20-, \$30-, \$40 million being parked in a bank account for a day and then returning to Mexico,"



## CLEANING UP THE LAUNDERERS

**WHITE HOUSE** Broad anti-laundering mandate, including a presidential directive to block funds in U.S. banks held by suspected Colombian drug dealers

**FEDERAL RESERVE** Forthcoming "Know Your Customer" rules guiding banks to spot questionable transactions

**TREASURY DEPT.** Task force to produce uniform anti-money-laundering rules for all U.S. banks by Comptroller of the Currency; new unified system of "Suspicious Activity Reports" on dubious client dealings run by Financial Crimes Enforcement Network

**JUSTICE DEPT.** Vigorous and wide-ranging pursuit of money-laundering violations

**GROUP OF SEVEN** Elaborate 40-point program to create anti-money-laundering standards and laws worldwide

DATA: BUSINESS WEEK

sighs an anti-money-laundering official.

The Know Your Customer rules are crucial in enabling bankers to spot suspicious client transactions, says Richard Small, a bulldog Fed supervisor instrumental in crafting the regulators' new anti-money-laundering procedures. "If banks know who their customers are," says Small, "they should know when the activity isn't normal." The eight-part regulations will require banks to know the ultimate owner of all accounts, make vigorous efforts to determine that the source of their deposits is legitimate, and analyze the account's purpose and transaction patterns so that abnormal activity can be red-flagged.

**SHOCKED.** While it's hard to prove that the anti-laundering campaign is succeeding, regulators feel bank executives are much more sensitized than they

were used to be. That shows up in compliance with a new 1996 system of so-called Suspicious Activity Reports bankers must file when they encounter questionable transactions. "People were shocked that as many as 40% of the first 65,000 SAR's were for money laundering," says Stanley Morris, director of the 7-year-old Financial Crimes Enforcement Network, which has used the reports to add to the 5,000 identified U.S. bank accounts controlled by Mexican and Colombian drug traffickers.

Tougher practices at U.S. banks may impede—but won't stop—money laundering. A growing volume of laundering—and laundering profits—are being diverted through 160,000 less scrutinized non-bank financial-services businesses in the U.S. The cleverest launderers are exploring cyberpayment scams.

Despite the crackdown and growing international cooperation, competitive pressures make cases like Salinas' likely to arise again. Admits a private banker, "One of my procedures is to ask who does the prospective client hang out with? Is he the brother of a president who is being acclaimed for all the great things he is doing? Well, the truth is, we're looking for people like that." That's not the attitude the anti-money-laundering officials want to hear.

By Steven Solomon in Washington

# Withdrawal/Redaction Marker

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| DOCUMENT NO.<br>AND TYPE | SUBJECT/TITLE                                                    | DATE       | RESTRICTION |
|--------------------------|------------------------------------------------------------------|------------|-------------|
| 002. memo                | James J. Jukes to Legislative Liaison Officer [partial] (1 page) | 07/23/1997 | P3/b(3)     |

### COLLECTION:

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### FOLDER TITLE:

Money Laundering

2016-0931-S  
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### RESTRICTION CODES

#### Presidential Records Act - [44 U.S.C. 2204(a)]

- P1 National Security Classified Information [(a)(1) of the PRA]
- P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
- P3 Release would violate a Federal statute [(a)(3) of the PRA]
- P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
- P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]
- P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

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RR. Document will be reviewed upon request.

#### Freedom of Information Act - [5 U.S.C. 552(b)]

- b(1) National security classified information [(b)(1) of the FOIA]
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Total Pages: 14

LRM ID: REJ202

EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
Washington, D.C. 20503-0001

Wednesday, July 23, 1997

## LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer - See Distribution below

FROM: James J. Jukes (for) Assistant Director for Legislative Reference  
OMB CONTACT: Ronald E. Jones  
PHONE: (202)395-3386 FAX: (202)395-3109

SUBJECT: TREASURY Testimony on International Money Laundering and Drug Proceeds (b)(3)

DEADLINE: 4:00 PM TODAY

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President. Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

COMMENTS: The attached testimony is for a 7/24 hearing. DOJ testimony for this hearing was circulated yesterday as LRM REJ 195

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## AGENCIES:

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**SUBJECT: TREASURY Testimony on International Money Laundering and**

If your response to this request for views is short (e.g., concur/no comment), we prefer that you respond by e-mail or by faxing us this response sheet. If the response is short and you prefer to call, please call the branch-wide line shown below (NOT the analyst's line) to leave a message with a legislative assistant.

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☐ Concur  
☐ No Objection  
☐ No Comment  
☐ See proposed edits on pages \_\_\_\_\_  
☐ Other: \_\_\_\_\_  
☐ FAX RETURN of \_\_\_\_\_ pages, attached to this response sheet

**DRAFT**

**REMARKS OF THE HONORABLE RAYMOND W. KELLY  
UNDER SECRETARY OF THE TREASURY (ENFORCEMENT)  
BEFORE THE HOUSE JUDICIARY COMMITTEE, SUBCOMMITTEE ON CRIME  
July 24, 1997**

Chairman McCollum, Mr. Schumer, members of the Committee, I appreciate your providing me with the opportunity to be here today to speak about a subject of central concern to Secretary Rubin, the US Treasury Department, the US Department of Justice and Congress -- the US Government's effort to combat drug money laundering.

As Under Secretary of Treasury for Enforcement, my office has oversight authority over the U.S. Secret Service, the Customs Service, the Bureau of Alcohol, Tobacco and Firearms, the Financial Crimes Enforcement Network or "FinCEN," and the Office of Foreign Assets Control, or "OFAC."

These entities, in turn, are responsible for significant elements of the U.S. Government's anti-money laundering effort. IRS-CI, Customs, the Secret Service and ATF are charged with investigating money laundering in cases where the underlying criminal act lies within their core jurisdiction. FinCEN is charged with administering the Bank Secrecy Act, which prescribes transaction reporting and record keeping requirements for financial institutions designed to insulate those institutions from money laundering, and to provide a paper trail for investigators. FinCEN also serves as the central point for collection and analysis of Bank Secrecy Act data, providing case support to law enforcement investigations. OFAC is responsible for implementing sanctions against nations determined to be a threat to the national security, economy or foreign policy of the United States, pursuant to the International Emergency

Economic Powers Act -- or IEEPA.

Money Laundering Generally

I will begin my remarks with a few comments about the challenges we are confronting. Then I will turn to the approach which the Treasury Department, in conjunction with the Departments of Justice, State, other agencies, and the financial services sector, is taking to address these challenges. Specifically, I will discuss Treasury's domestic efforts, and the initiatives we are pursuing in the international sphere.

As you all know, much of what we consider the crime problem affecting our nation and our neighborhoods -- particularly as it relates to narcotics trafficking and the myriad of associated crimes -- is the work of sophisticated, international criminal enterprises. Money laundering is the life support system of these enterprises. The ability to sanitize ill gotten gains permits drug trafficking and other criminal organizations to perpetuate, and live lavishly from, their illegal activity.

But while money laundering is the "life blood" of organized crime, it also is its "Achilles Heel." The steps which criminal groups must take to give their illegal profits the appearance of legitimacy provide us with an invaluable opportunity to attack the groups themselves. The better we are at tracking dirty money, the better our chances at reaching the leadership of the drug trafficking groups. For while the drug kingpins can separate themselves from street-level sales,

they cannot separate themselves from the profits those sales generate.

The money laundering problem we are facing today is increasingly international in character. The greater integration of the world economy, and the removal of barriers to the free movement of capital, have combined to create new commercial opportunities. Unfortunately, the same efficiency and convenience that the global economy affords to legitimate commerce, also make easier the job of disposing of criminal proceeds.

Now, more than ever, drug trafficking and other criminal groups can manipulate an expanding array of tools to shield their profits, without regard to international borders. A well organized and abundantly financed criminal world can exploit weaknesses in nations' legal and regulatory systems by shifting business to and through countries with less stringent anti-money laundering controls.

Let me give you an example which illustrates the scope and complexity of money laundering today: In Miami, Colombian drug traffickers exchange their U.S. drug dollars for Colombian pesos through a Colombian currency exchanger. The currency exchanger then buys cashier's checks at U.S. banks in amounts under \$10,000, avoiding currency reporting requirements. The currency exchanger then sells these dollar-denominated cashier's checks to Colombian businessmen. The Colombian businessmen use the checks to purchase goods and services in Panama, Europe and Asia. The drug trafficker has converted the drug proceeds -- dirty money -- into Colombian pesos -- clean money -- which can be spent as legitimate funds.

Treasury's Response: Regulatory and Investigative Efforts

So what do we do to address the money laundering threat? First, we develop a domestic counter-money laundering strategy that focuses on both prevention and enforcement. Second, we promote an aggressive international campaign to ensure that all nations are pursuing the money laundering problem with the same degree of vigilance.

Domestically, our goal is to combine effective prevention of money laundering with aggressive enforcement after the fact. Leveraging Treasury's unique regulatory authority in concert with its enforcement capabilities (and those of other agencies), we seek a comprehensive approach to the money laundering problem -- one that both insulates financial institutions from criminal proceeds, and enhances the prospects for identifying launderers and disrupting their schemes.

We are accomplishing this objective in several ways. To enhance our ability to prevent money laundering, for example, we are developing more intelligent, targeted regulations for banks and other financial institutions. In the last several years, FinCEN has been engaged in an effort to strip away unnecessary and burdensome regulations while actually increasing the utility of the information provided to law enforcement. We have reduced the amount of information required by eliminating duplicative or unnecessary fields on currency transaction reports -- thus reducing the time bankers devote to generating the reports and law enforcement's time to analyze them. And we are working to reduce CTR filings by one third - or about 3 million reports. This reduction will be accomplished by streamlining the process

by which banks exempt legitimate, cash-intensive business from filing reports.

In place of these costly requirements, we have introduced an invigorated system of suspicious transaction reporting. Our objective is to permit the financial sector to redirect its resources from mechanical compliance to more proactive detection methods. We seek to form an alliance with the financial services community, utilizing their expertise to identify potential criminal conduct within their midst. After all, the institutions are in the best position to understand their customers' businesses and to recognize and report suspicious activity.

We are also working to extend the Bank Secrecy Act's anti-money laundering controls to institutions which traditionally have not been covered, or which have not been covered in appropriate and effective ways. As a consequence, these institutions have proven to be at-risk for exploitation by money launderers. The evidence has demonstrated that as we have become more successful in preventing illicit funds from entering banks, the criminals have moved their money to other providers of financial services. To define the universe of these non-bank financial institutions, we have proposed rules requiring the registration of issuers and sellers of traveler's checks and money orders, money transmitters and other "money services" businesses. To provide better protection against money laundering, we have issued proposed rules requiring certain of these institutions to report suspicious activity, and imposing a special currency reporting rule on certain outbound currency transfers.

Let me emphasize that the overwhelming majority of the businesses affected by these new rules

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are engaged in legitimate and valuable commercial activity. Indeed, the industry has been generally supportive of our work. The rules are intended only to make life difficult for the money launderers and their accomplices, and to prevent the manipulation of honest businesses by criminal enterprises.

In addition to our regulatory efforts, which are geared toward preventing the placement of illicit proceeds in our nation's financial institutions, we are working through our investigative bureaus to enhance the detection of money laundering. Customs and IRS-CI in particular are aggressively pursuing investigations in which the disruption of a money laundering operation, and the arrest and prosecution of the launderers, is the primary objective. Last year, IRS-CI conducted 1,850 money laundering investigations, obtaining 1,265 indictments and 1,031 convictions. IRS-CI seized \$ 78 million in connection with money laundering cases. The Customs Service last year arrested 1,006 individuals on money laundering charges, resulting in 686 convictions. Only two days ago, Customs seized \$ 1.2 million and arrested three suspects in connection with a significant money laundering investigation.

The paradigm example of the holistic, combined prevention/enforcement approach to money laundering which Treasury is seeking to cultivate can be seen in the recent New York Geographic Targeting Orders, or GTOs. Through the work of a Treasury-led task force, Operation El Dorado, it became apparent that Colombian drug traffickers were using certain money remitters in the New York City area to launder drug cash. The evidence demonstrated that these remitters had funneled approximately \$800 million to Colombia last year.

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To address this problem, Customs, IRS-CI and the U.S. Attorney's offices for the Eastern and Southern Districts of New York and the district of New Jersey requested that Treasury resurrect a little-used statutory provision which grants the Secretary of the Treasury authority to require special reporting and record keeping by financial institutions in specific geographic areas where necessary to fulfill the purposes of the Bank Secrecy Act. The first New York GTO was adopted in August 1996. It required 12 New York area money remitters and their approximately 1600 agents to obtain and report identifying information on all cash remittances of \$750 or more to Colombia. A second GTO was signed in October 1996, extending the heightened reporting requirements to 10 additional remitters and their agents. The GTOs have been extended by Treasury five more times.

The New York GTOs have had a significant impact on the flow of drug proceeds through the targeted remitters. Several of the remitters targeted under the GTOs have stopped sending funds to Colombia altogether, while many others are sending significantly lower amounts. Six remitters have been indicted or pled guilty to structuring transactions to avoid the GTOs, including an indictment handed down two days ago. Several others are under investigation.

The GTOs also forced the traffickers to resort to other, more difficult tactics to move their profits back to Colombia, thereby improving our chances of seizing more money and effecting more arrests. In the first six months since the GTOs went into effect, Customs seized approximately \$50 million in currency at East Coast ports of entry -- a four hundred percent increase over a comparable period last year -- as traffickers had to move money in bulk.

The New York GTOs represent the model for intelligent money laundering control. Beyond using traditional law enforcement techniques to address discrete instances of criminal activity, the GTOs marshaled Treasury's regulatory authority to identify and correct a weakness that had penetrated a small but important part of the money transmitter industry. This preventative effort, in turn, triggered a wave of enforcement activity, as money launderers were forced to resort to riskier means of moving their funds once the vulnerabilities in the transmitter industry had been remedied. Finally, the evidence gleaned through the New York GTO experience prompted Treasury to propose a more permanent solution to the problems it sought to address. In May, FinCEN issued a proposed regulation applying the GTO's \$ 750 reporting requirement to all cash-purchased, overseas remittances by money transmitters nationwide.

The Treasury Department, in conjunction with the Department of Justice, has been exploring ways to replicate the New York GTO concept on a more widespread basis. We are not seeking to replicate the New York GTOs themselves, for these were discrete reporting requirements placed on certain wire remitters. Rather, we are looking for new ways to marshal Treasury's regulatory authority, at that of other agencies, to address proven vulnerabilities in financial systems, and institutions. These regulatory measures, in turn, would stimulate aggressive enforcement activity on the part of Treasury and Justice investigative agencies.

A bill recently introduced by Congresswoman Velazquez, and co-sponsored by Congressmen Leach and Gonzalez, would promote these kinds of initiatives. The bill, H.R. 1756, would require the Secretary of the Treasury, working with the Attorney General and other relevant parties, to devise a national money laundering strategy to be submitted regularly to Congress.

Notably, the bill would grant latitude in defining the content of the strategy, with a view toward developing discrete law enforcement initiatives targeting money laundering. Central to this effort is a section of the bill which authorizes designation of appropriate geographic areas, financial sectors or financial institutions as "High-Risk Money Laundering and Related Financial Crimes Areas." These areas would be subject to increased federal assistance, including cooperative efforts with state and local law enforcement agencies, to prevent and detect money laundering.

The Administration is in the process of developing a position on H.R. 1756, and Treasury has some technical concerns about the bill which hope to address. Still, the bill could provide the impetus and the resources to develop initiatives like the New York GTO. What makes H.R. 1756 unique is its capacity to support a systemic attack on money laundering -- combining regulatory and law enforcement efforts to prevent, as well as detect, money laundering in particular financial sectors, institutions, and geographic areas.

#### International Efforts

Through innovation in regulation and enforcement, then, we are working to make U.S. financial channels less user friendly to criminal enterprises. But this is just half the battle. As we have said, organized crime is increasingly a transnational phenomenon. No country's individual efforts -- whether in the legal, regulatory, or law enforcement arena -- will be sufficient given the relative ease with which money flows across borders. A truly effective attack on the

Colombian cartels, on the Russian mafia, and on the myriad groups operating in this country, requires that effective controls over the movement of their funds be implemented by all nations.

Important strides have been made in this area, particularly through multi-lateral initiatives. Chief among these has been the Financial Action Task Force, or "FATF." The FATF is an independent, international group formed in 1989 by the G-7 nations to cultivate the development of effective anti-money laundering controls and enhanced cooperation in investigations among its membership and around the globe. The FATF 40 Recommendations, issued originally in 1990 and updated in 1996, serve as a benchmark for governments addressing the legal, financial and regulatory aspects of money laundering. Further, the FATF has ensured that its members have taken action to comply with these measures, and has persuaded an increasing number of non-members to do so as well. The U.S. delegation to the FATF primarily consists of representatives from the Departments of Treasury, State and Justice.

In the eight years since its inception, the FATF has made significant progress. The organization's membership has expanded to include 26 nations and two regional organizations, representing the world's major financial centers. Virtually all of its members, including most notably traditional bank secrecy proponents such as Switzerland and Luxembourg, have undertaken important regulatory and legislative reforms to comply with the 40 FATF recommendations. Whereas prior to the establishment of the FATF, money laundering was a criminal offense only in the U.S. and a couple of other nations, now all FATF members have such laws in place.

In addition, while the FATF cannot directly be linked to any money laundering cases, the organization has been instrumental in bringing about legislation which in turn has made major transnational investigations possible. For example, Operation Dinero was a 1994 IRS/DEA investigation conducted jointly with authorities in Spain, Canada and Italy which targeted an international laundering ring connected to the Cali Cartel. Dinero culminated in the arrest of 116 suspects in the participating countries, as well as the seizure of more than \$90 million in cash and nine tons of cocaine. The Italian suspects arrested in connection with the investigation were arrested under an anti-money laundering law passed in the wake of, and to comply with, the FATF 40 Recommendations.

The FATF has forged an international consensus on the need for stronger counter-money laundering programs. Experience has instructed, however, that turning consensus into effective, practical measures requires specific steps appropriate to local and regional conditions, cultures and financial systems. Two regions of the world -- the Western Hemisphere and Asia -- already have begun to establish their own FATF analogues. The U.S. is actively supporting the development of these organizations.

A similar initiative designed to build upon the FATF's success in the Western Hemisphere is the Summit of the Americas. As a follow up to the 1994 Summit in Miami, Secretary Rubin convened a conference of Finance and Justice Ministers representing the 29 of the 34 democracies of the region in Buenos Aires in December 1995. The purpose of the Buenos Aires conference was to develop a coordinated, hemispheric strategy to combat money laundering.

# Withdrawal/Redaction Marker

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| DOCUMENT NO.<br>AND TYPE | SUBJECT/TITLE                                                    | DATE       | RESTRICTION |
|--------------------------|------------------------------------------------------------------|------------|-------------|
| 003. memo                | James J. Jukes to Legislative Liaison Officer [partial] (1 page) | 07/22/1997 | P3/b(3)     |

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Clinton Presidential Records  
Domestic Policy Council  
Jose Cerda  
OA/Box Number: 18931

### FOLDER TITLE:

Money Laundering

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### RESTRICTION CODES

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Total Pages: \_\_\_\_\_

LRM ID: REJ195

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EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
Washington, D.C. 20503-0001

Tuesday, July 22, 1997

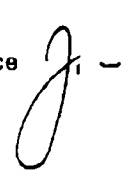
## LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer - See Distribution below

FROM: James J. Jukes (for) Assistant Director for Legislative Reference  
OMB CONTACT: Ronald E. Jones  
PHONE: (202)395-3386 FAX: (202)395-3109

SUBJECT: JUSTICE Testimony on International Money Laundering and Drug Proceeds

DEADLINE: Noon Wednesday, July 23, 1997



---

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President. Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

COMMENTS: The attached testimony is for a 7/24 hearing.

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~~114-STATE - Julia C. Norton - (202) 647-4463~~ (b)(3) [003]

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## EOP:

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**SUBJECT: JUSTICE Testimony on International Money Laundering and Drug**

\_\_\_\_\_ Concur

\_\_\_\_\_ No Objection

\_\_\_\_\_ No Comment

\_\_\_\_\_ See proposed edits on pages \_\_\_\_\_

\_\_\_\_\_ Other: \_\_\_\_\_

**FAX RETURN** of \_\_\_\_\_ pages, attached to this response sheet

DRAFT

Statement of Mary Lee Warren  
Deputy Assistant Attorney General  
Criminal Division, Department of Justice  
Crime Subcommittee of the House Committee of the Judiciary  
July 24, 1997

Thank you, Mr. Chairman and members of the Subcommittee, for the opportunity to address you on the very important topics of the nature and extent of domestic and international drug proceeds and other money laundering and the efforts law enforcement is taking to identify, target, and prosecute the perpetrators of these crimes and to seize and forfeit their assets and instrumentalities.

A. Targeting the Money

That illicit proceeds generated from criminal activity serve as the rationale of any "for profit" criminal activity is an often repeated truism. An equally accurate, though rarely stated fact is that, at least where organized criminal activity generates its profits in the form of cash, the volume of this illicit cash and the need of the enterprise to enter it into the legitimate financial system are vulnerabilities for that criminal enterprise, and could provide law enforcement with perhaps its best opportunity to target those illicit proceeds.

To put the drug trafficker's cash burden into clearest perspective, I am providing a chart that compares the weight of illicit drugs that must be sold to generate a specified sum of money (for example, \$1 million), with the weight of the currency that the criminal now must seek to return to his use. The numbers are startling.

For example, if a trafficking organization wishes to sell \$1 million worth of heroin on the streets of Chicago, it must produce, transport and distribute merely 22 pounds of heroin to do so. Having sold the drugs, however, the trafficking organization must contend with 256 pounds of street cash (this based on an average weight of \$5s, \$10s and \$20s). This cash weight is more than 10 times the weight of the drugs sold. If we look at cocaine instead of heroin, the weight of the product to be sold equals only 44 pounds, and again the weight of the currency is over 256 pounds, i.e., 6 times the weight of the drugs sold.

Even more dramatic are the figures where a major drug trafficking organization is selling billions of dollars worth of illicit drugs. For example, if a trafficking organization sells \$1 billion worth of cocaine on the streets of New York City, it must contend with more than 256,000 pounds of illicit currency. If we accept the conservative figure of about \$90 billion for all drugs sold in the United States, the amount of illicit currency produced weighs more than 23 million pounds! By anyone's measure, that is a prodigious amount of illicit proceeds with which the traffickers must deal each year.

An equally crucial matter to remember is that the international drug trafficker produces, processes and transports his illicit products in places with only a limited U.S. law enforcement presence until the moment his product arrives at the borders of the United States. Once the illicit drugs are sold in

the U.S., however, that trafficker or his domestic or international money launderer immediately faces a U.S. law enforcement anti-money laundering regime in the form of Bank Secrecy Act laws and regulations, including large value and suspicious reporting, federal, state and local anti-money laundering investigators, prosecutors and regulators, undercover operations, court-authorized electronic surveillance interceptions, and interagency attacks such as Geographical Targeting Orders.

Thus, our basic anti-money laundering objective must be and is currently to identify and prevent the initial placement of drug proceeds into our nation's financial system. It is at this stage that the launderers of drug money are most vulnerable to detection and prosecution, and their illicit proceeds are most vulnerable to identification, seizure and forfeiture.

#### B. Financial Sector Strategy of Attack

Our primary line of attack against domestic and international drug and other money launderers has been and continues to focus on this cash placement vulnerability and thereby to deny our financial system to money launderers. Placement into our system requires the use of an array of financial sectors, and we at the Department of Justice and the Department of the Treasury are committed to attacking illicit cash proceeds money laundering through a financial sector approach.

Our banks and other depository institutions are our first line of defense against the placement of illicit cash proceeds into our financial system, and for the past two decades we have been working with these institutions to deny launderers easy access directly into those institutions. While exceptions still occur, we have largely succeeded in barring launderers' direct access to our banks. As a result, illicit cash proceeds money launderers necessarily are looking more than ever before to other financial institutions, such as wire remitters, casas de cambio, vendors of money orders and traveler's checks, and check cashers to introduce drug proceeds indirectly into our banks.

We view these institutions as representing discrete financial sectors, and are working jointly with the Treasury Department, the Postal Inspection Service and federal regulators to identify laundering through these sectors, and to deny access to our financial system through these entry points. The most successful joint attack to date has been in the use of the Geographic Targeting Order ("GTO") in the New York City/New Jersey area.

1. The New York/New Jersey GTO

In 1992, the Congress gave law enforcement a wonderfully-flexible weapon in the war against money laundering. That weapon, codified at 31 U.S.C. § 5326, gives the Secretary of the Treasury, or his designee, authority to issue an order to financial institutions in a designated geographic area where "reasonable grounds exist" to find that additional record-keeping

or reporting is necessary to enforce the money-laundering laws. The order is effective for 60 days and can be renewed.

In other words, this law gives the government authority to identify and target an entire financial sector in an area where we believe money laundering is occurring. Since anonymity is essential for money launderers, the additional record-keeping and identification requirements and the lower threshold for reporting cash transactions that a GTO invokes make the targeted financial sector much less desirable and practicable for illicit proceeds placement in a particular geographic area.

This past year, a cooperative effort of the Department of Justice, through the Criminal Division, and the Department of Treasury has shown how effective a GTO can be. Almost exactly one year ago, in August 1996, at the combined requests of three United States Attorneys, the United States Customs Service, and the Internal Revenue Service, Under Secretary of the Treasury Raymond Kelly issued a GTO to twelve identified money remitters in the New York City/New Jersey area that did more than 10% of their business with Colombia. The order required these remitters and their more than 1600 agents to report, on a special form, all transactions in cash or monetary instruments of \$750 or more going directly or indirectly to Colombia. The order has since been extended and expanded to include a total of 22 licensed remitters. The GTO caught the money launderers completely by surprise and has had a powerful and beneficial impact.

The origins of this GTO go back more than three years, to a collective initiative of the United States Attorney's Office for the Eastern District of New York and the El Dorado Task Force, an anti-money-laundering project led by the Department of the Treasury and including representatives of the United States Customs Service, the Internal Revenue Service, the Secret Service, the New York City, Suffolk County and Nassau County Police Departments, the New York State troopers and the New York State Banking Department. They agreed to dedicate significant resources and personnel to the pursuit of lower-level targets in the money remitting industry in Jackson Heights, with the expectation that these lower-level targets would lead to more high-level targets and, possibly, if the evidence warranted, to the targeting of an entire financial sector.

This interagency effort involved hundreds, if not thousands, of hours of painstaking review and evaluation of money remitter records and activities. A database on that industry, as well as the population it served, was created and analyzed. The underlying data came from the execution of search warrants, from criminal charges against individual agents of licensed remitters, from responses to grand jury subpoenas, from analyses of undercover operations in the New York/New Jersey area and from financial records obtained directly from the remitter industry and the banks where they maintained their accounts. This prodigious effort -- which is continuing today -- provided the

justification necessary for the Department of Treasury to issue, and renew, the GTO.

An equally impressive example of interagency cooperation, which was essential to the success of the GTO, was the development of a comprehensive plan of action for supporting steps to be taken on the day the GTO went into effect, and each day thereafter. This plan involved the relevant United States Attorneys' Offices, the El Dorado Task Force, FinCEN, the U.S. Postal Inspection Service, state and local participants, as well as Justice and Treasury Headquarters.

While each of the above played an important role in the application, implementation and followup of this GTO, we cannot stress enough the importance of the IRS Civil Examination Branch in this joint endeavor. IRS Exam personnel spent thousands of hours reviewing financial data, and their analysis, as well as participation by IRS Criminal Investigations Division personnel, have been crucial to the success of this joint enterprise. The IRS efforts, I concede, resulted in very little if any direct financial tax return to the U.S. Treasury, but these efforts, I suggest, must instead be evaluated for the enormous assistance they provided to protecting the integrity of the U.S. financial system. In our view, and especially in financial sectors comprised of nonbank financial institutions such as, for example, money remitters, travellers checks and money order issuers and redeemers, casinos, money exchangers and check cashers, where IRS

is the only Federal regulator, IRS participation and assistance in enforcing these targeting strategies is essential.

We knew that the GTO would "displace" enormous quantities of drug currency into other financial sectors, and that money launderers would quickly seek to avoid the targeted remitters. Millions of dollars of drug proceeds normally returned to Colombia through money remitters in the New York area would be flushed back onto the streets of New York and New Jersey, and would travel, by cars, trucks, boats and airplanes, and every other conceivable and inconceivable method of container or transport, through and out of the United States. Thus, we had to allocate and apply resources and personnel, in advance, to ensure not only that the terms of the GTO were being followed and that the reporting was accurate, but that other possible pipelines for the illicit money were closed and all possible follow-up actions would be undertaken to track and seize the drug cash proceeds displaced by the GTO.

We collectively coordinated and directed the implementation of a plan in which federal, state and local law enforcement would be on the lookout for these funds, both in the affected area and in other regions where we knew drug proceeds from this area had moved previously. Law enforcement increased attention on money order sales surveillance; stepped up enforcement actions, particularly seizures, at airports and the border; enhanced street level enforcement and surveillance of all routes of known drug cash transportation out of the GTO area; and coordinated and

monitored all money laundering cash undercover activity in the GTO area.

Targeting the illicit proceeds being placed into a specific financial sector and the cooperative interagency enforcement effort has had remarkable results. As a result of the GTO, money remitted to Colombia has dropped significantly both in the GTO area and elsewhere. Most importantly, the remissions to Colombia from the targeted remitters that did the bulk of their business with Colombia has dropped between 70-80%. At the same time, the number of special GTO reports being filed has been statistically insignificant, which is to say, those forwarding illicit cash, simply stopped doing this kind of business.

Second, seizures of illicit cash increased across the board, dramatically in many cases, over the same period last year. The seizures are increasing not just in the GTO area, but in Miami, Boston, and a variety of other locations, as New York area drug dealers look for other outlets for their illegal proceeds. Clearly, we are not capturing all the formerly remitted drug proceeds displaced out of the GTO area, but planning for the GTO gave us the opportunity to anticipate movements of drug cash before those movements occurred, and together we acted accordingly, with excellent results.

Third, painstaking analysis of the reports filed under the GTO, as well as continuing analysis of the financial records of the money remitters, has led to a number of criminal

investigations and prosecutions in the Eastern District of New York:

- We secured the first ever guilty plea in a criminal case filed in connection with structuring to avoid a GTO. U.S. v. Lopez, 97 CR 75 (E.D.N.Y.). In that case, Stella Lopez, the owner and manager of two money remitting agencies, was charged with failing to file GTO-required reports. On June 6, 1997, Ms. Lopez was sentenced to a prison term of 21 months.

- In separate cases, arrests warrants have been issued for Jose Ortiz, Guillermo Ortiz and Ignacio Lobo, each of whom is the owner and operator of a money remitter agent, for laundering drug proceeds and failing to file reports required by the GTO. All three are fugitives.

- In other cases, Fredys Soto, William Espitia, Edwin Medina, Oswaldo Cuzco and German Puerta were indicted on charges of laundering drug proceeds and failing to file reports required by the GTO. Three of these individuals will be sentenced this month.

- Finally, the information obtained as a result of the GTO has served as the basis for a number of other pending investigations, including search warrants on 21 establishments, resulting in illicit currency and extensive document seizures.

We have also worked to support the GTO internationally. The GTO targeted funds were intended to be remitted to Colombia. We knew from our investigations which establishments were receiving the funds in Colombia. Accordingly, the Criminal Division sent a

listing of those Colombian establishments through our Embassy in Bogota to the Colombian Banking Superintendent and asked her to "undertake all necessary inquiries and take all appropriate actions against those establishments available under Colombian law," and to provide us with a report of those actions. We have learned that some efforts have begun as a result of the listing we submitted, and we will continue to monitor closely actions taken against remitters in Colombia.

We intend to continue to supplement that listing, and inform Colombia of additional remitters as we identify them. Similarly, Colombia has agreed to send us a listing of all Colombian remitters licensed to receive international remissions. We will ensure that that list is made available to all Districts where money remission to Colombia is a concern. Further, as a result of the use of the GTO, Colombia now has instituted a \$750 reporting mandate for international transmissions of money by its money remitters.

Thus, by any yardstick -- drug currency seized, laundering offenders identified and prosecuted, search warrants executed, enhanced reporting on suspect transmissions and, most importantly, reduction of money remissions to Colombia -- targeting the illicit cash being placed into this financial sector of the U.S. financial system has proven to be a tremendous success in helping us combat money laundering in the GTO area, and has confirmed that a collective attack on a financial sector can have outstanding results.

## 2. Proposed Regulations

Applying the methodology used in the New York/New Jersey GTO, law enforcement collectively is examining a host of non-bank financial institutions more closely than ever before. As Treasury representatives on this panel will describe in detail, on May 21, 1997, FINCEN published three notices in the Federal Register proposing: (1) to make specified money service businesses (traveller check vendors and redeemers, money order sellers and redeemers and money transmitters) subject to Suspicious Activity Reporting; (2) to require national registration with the Department of the Treasury by money service businesses (traveller check, money order and stored value sellers and redeemers, check cashers, currency dealers or exchangers and money transmitters); and (3) to require the large value cash reporting by money transmitters remitting in excess of \$750 in cash outside of the United States. We firmly support these proposals, and look forward to their earliest possible implementation.

## 3. Forging a Collective Approach

Use of the GTO mechanism and passage of the proposed regulations are but first steps. More must and will be done to target the immense volumes of illicit currency daily being placed into U.S. financial sectors, as well as being moved physically out of, and then, once in a financial system, transferred back into the United States. We believe that the most important lesson from the GTO is the value of consistent and close

interagency cooperation at all stages of financial sector targeting strategy. Prosecutors and investigators must work actively and in tandem to target the appropriate financial sector, to identify their targets, to obtain and analyze as many financial records as can be made available, and, if necessary, to take the time to start enforcement at the lowest level and work slowly up the ladder.

To help carry out this approach nationwide, on May 29-30, 1997, the Department of Justice's Criminal Division and the Department of the Treasury held the first in a planned series of nationwide meetings involving core drug proceeds money laundering districts -- where we anticipate a financial sector approach would produce the greatest results. This initial meeting brought together more than 160 principal investigators, regulators and prosecutors charged with money laundering enforcement in each of the 14 districts and at Headquarters.

The Conference presentations reviewed recent anti-money laundering developments including: the use of the New York City/New Jersey GTO; the use of FinCEN advisory notices to alert banks and other financial institutions to suspicious financial activities such as the use of foreign bank drafts; suspicious activities reporting by banks and nonbank financial institutions; wire transfer recordkeeping requirements for banks and other financial institutions; the proposed FinCEN regulations with respect to money service businesses; United States Postal Inspection Service, United States Customs Service and the Federal

regulators' recent anti-drug proceeds money laundering initiatives.

Other topics covered included: the role of federal bank regulators in the anti-money laundering process; an overview of recent anti-money laundering/asset forfeiture developments in Mexico, Panama, Colombia and the Caribbean. A district-by-district review of money laundering activity seen in each district and actions taken to combat these activities. The Conference attendees enthusiastically endorsed the proposition that a financial sector targeting strategy by high level law enforcement officials was needed, and that future meetings to "brainstorm" the use of such an attack must continue to occur.

#### 4. Targeting Outbound and Inbound Cash

A crucial point, however, must be remembered: if we are 100% successful in denying drug money launderers the ability to place their millions in illicit proceeds directly or indirectly into our financial system, the launderers will still bulk ship the currency out of the United States. Indeed, as our financial sector attacks have developed, we are seeing more and more bulk cash shipping every day through every conceivable method. Accordingly, the May 29-30 Conference, as well as a smaller (eight-district) followup meeting, focused on the need to target the bulk cash smuggling of currency out of the United States and, the later movement of the currency, largely by courier, back into the United States. With respect to the former, we are aware of the very limited Customs Service resources at the border to

inspect all outbound individuals, conveyances and their contents. One possibility being discussed by Treasury and Justice involves funding and studying technological aids that would permit the detection of large volumes of currency.

Inbound currency largely is repatriated by couriers who file Currency and Monetary Instruments Reports (CMIR). In this area, we will scrutinize these filings more closely, work with our foreign counterparts to verify the CMIR information as soon as possible, perhaps contemporaneously, and utilize all state and federal laws to prosecute couriers bringing in illicit drug proceeds, as well as seize and forfeit these proceeds. In this connection, we will encourage all States to adopt licensing requirements that, where not followed, permit law enforcement to take immediate action. This approach already has been employed successfully in Miami; unfortunately, other states have practiced less vigorous oversight.

This reality of the increasing use of bulk cash smuggling also reemphasizes the importance of our continuing to work closely, bilaterally and multilaterally with those countries and areas receiving this cash. We must ensure that those countries have the ability and will to identify, track and seize illicit drug proceeds entering their territory, and that we have bilateral mechanisms in place to permit us to sift out the licit from the illicit proceeds when they are repatriated as bulk cash shipments back to the United States.

Drawing upon all of the experience we have had as described above, the Department of Justice likewise intends to have advanced training for Assistant United States Attorneys to continue to educate them about the benefits of a financial sector/cash proceeds placement and movement approach to drug money laundering investigations and prosecutions. The experience of the New York/New Jersey GTO will demonstrate one successful application of such a targeting strategy, but each district will be encouraged to adopt and adapt its own approach.

C. White Collar Crime Money Laundering

Up to this point, I have discussed primarily the laundering of drug proceeds and other criminal activity generating large volumes of cash. However, drug money laundering, while probably accounting for the largest dollar volume of money laundering, represents only part of the problem. We must also look at the laundering of the proceeds of other kinds of criminal activity, such as white collar crime and organized crime. There are more than 100 federal and state offenses listed as "specified unlawful activities" under the federal money laundering statutes, and most of them are non-drug offenses.

The proceeds of many white collar offenses, including health care fraud, insurance fraud and bankruptcy fraud, are also being laundered by the perpetrators of these crimes as well as by professional money launderers. The laundering of these proceeds is not as obvious as is the laundering of drug proceeds because the proceeds of these white collar crimes are usually in the form

of checks or wire transfers, thereby skipping the placement problems presented by cash proceeds. White collar criminal activity, by its very nature, produces illegal proceeds which, more often than not, will go undetected by regulatory and enforcement efforts focusing on the placement phase in a money laundering transaction -- such efforts are designed to detect the placement of illegal proceeds in the form of cash into the legitimate banking system.

As a result, the laundering of these proceeds can be even more difficult to detect. The proceeds of white collar crime often look like legitimate payments, such as insurance premium payments or payments from government or private insurance programs. It is only after the illegal scheme is discovered that the flow of the illegal proceeds can be traced and identified. In this way, the laundering of white collar proceeds presents a different set of problems than does drug money laundering.

Statistics from the FBI and the Department's Asset Forfeiture and Money Laundering Section demonstrate the extent of white collar money laundering activity. According to FBI statistics, in 1995, 46% of convictions obtained under sections 1956 and 1957 involved white collar crime; in 1996, the figure was 47%. Similarly, the Department's figures, which track the number of indictments containing money laundering charges, also indicate that more than 45% of the indictments reviewed involve white collar crime cases.

A prime example of how the white collar criminal circumvents efforts at the placement stage involves the laundering of significant sums derived through premium diversion fraud in the insurance industry. Virtually every premium diversion case involves money laundering. A prime example of how white collar criminals launder illegal proceeds gained through insurance premium diversion frauds is the "Bramson" investigation.

Leonard and Norman Bramson had a history of providing fraudulent medical malpractice insurance to doctors, nurses and others involved in the medical profession. In excess of 100,000 medical professionals have held Bramson company policies. The Bramsons operated an off-shore bank and numerous off-shore insurance companies in the Caribbean to facilitate their scheme. Premiums in the form of checks and other negotiable instruments were collected from hospitals and individuals involved in the medical profession and subsequently diverted off-shore. As claims were submitted under the malpractice policies, the Bramsons delayed payment through civil legal actions until eventually they closed the insurance company which wrote the policy and then created a new company to continue their scheme.

The Bramsons conducted their business in multiple jurisdictions over a ten-year period. The investigation revealed a pattern of money laundering activities in which numerous off-shore reinsurance companies were formed in order to siphon off proceeds in the form of commissions and other legitimate-looking fees. Many of these fees were deposited into the Bramsons' off-

shore bank and repatriated to the United States through loans and other financial transactions. In all, this scheme utilized 53 companies and \$20 million was collected by the perpetrators over the ten years the scheme operated. To date, eight subjects have been convicted and \$6.5 million recovered. The Government is now in the process of seeking the extradition of another subject in this case, Mr. Martin Bramson, from Switzerland.

The Bramson case represents just one of a myriad of schemes used to systematically victimize our unwary citizens and plunder government programs such as Medicare and Medicaid. The Department uses the money laundering statutes and their attendant forfeiture provisions aggressively to prosecute those who perpetrate these schemes and to reclaim the proceeds of these illegal schemes. Further, the fact of the international nexus in the Bramson case is not unusual. According to figures compiled by the U.S. Sentencing Commission, more than 25 percent of the money laundering cases analyzed by the Commission in FY 1995 involved some international money laundering conduct.

Over the past three years, the Department has averaged approximately 2,000 money laundering prosecutions a year under sections 1956 and 1957. The Asset Forfeiture and Money Laundering Section conducts two money laundering conferences each year for federal prosecutors, and has recently initiated a series of training seminars on financial investigations for law enforcement agents. The Section also supports all of the law

enforcement agencies in their training efforts, both domestically and internationally.

I would note here that Congress has continually shown its support for our efforts in prosecuting money laundering by adding to the list of predicate crimes for the money laundering statutes. The addition of health care offenses and terrorism offenses as money laundering predicates will enhance the Department's efforts in these important areas. Your support in this regard is greatly appreciated by the Department. You may recall that last May the Department sent a report to this Committee concerning the "Charging and Plea Practices of Federal Prosecutors with Respect to the Offense of Money Laundering." In that report, we described how important the money laundering statutes are to federal law enforcement efforts, and we also outlined the steps the Department has taken to promote the uniform and consistent application of these statutes.

#### D. Legislation

To enhance federal law enforcement's ability to combat illegal money laundering, we are working with the Department of the Treasury to draft legislative proposals designed to attack the domestic and international laundering of criminal proceeds, either by criminals who commit crimes abroad and launder them in the United States, or by those who commit offenses in this country and seek to launder their ill-gotten gains here or abroad.

The Departments of Justice and Treasury look forward to develop and working with your staff to advance these anticipated proposals.

### **B. Conclusion**

In conclusion, we believe that we must utilize a financial sector strategy to attack the placement of drug proceeds into the United States financial system, as well as the transportation of these proceeds out of and then back into the United States. The successful use of the New York City/New Jersey CTO targeting mechanism in the New York/New Jersey area is but one outstanding example of applying this approach. It shows what can be done when, with careful and scrupulous interagency planning and cooperation. We can identify a segment of the financial community that is being corrupted by drug proceeds money launderers and target it in a comprehensive and well thought-out manner.

Have our interagency attacks on the financial side of the drug trade made a difference? I strongly believe so, and two important developments bear me out. As a result of the increased difficulty to move their proceeds out of the United States, the Colombian drug trafficking organizations more and more are distancing themselves from the money side of their operations, by contracting out the laundering of the drug proceeds to independent money brokers. This contracting out process is costing the drug traffickers billions of dollars. Estimates of the cost of repatriating drug cash proceeds from ten years ago

were in the 5-7% range. Laundering costs now are estimated to be in the 15-20% range. Thus, in the past ten years, we have increased the laundering costs, and thereby reduced the profit margins by threefold.

The Department of Justice, its prosecutors, investigators and support staff both at Headquarters and in the 94 United States Attorneys' Offices are extremely proud of the part we have been able to play in our joint anti-money laundering endeavors, and we congratulate the Department of Treasury for its use of the GTO, as well as the publication of the proposed regulations, the use of FINCEN "Advisories" and its working relationships with the financial community in the United States, and applaud as well the federal law enforcement agencies and offices, the federal regulators and State and local participants in our interagency anti-money laundering efforts. We have seen the results of "targeting the money," and are committed to this same interdepartmental/interagency approach in the future.

I very much appreciate your having given me the opportunity to present the Department's views on this crucial area of money laundering enforcement. I would be pleased to answer any questions from the Subcommittee at this time.

# CURRENCY-Weight/Value

| Value         | \$5's           | \$10's          | \$20's          | \$100's        |
|---------------|-----------------|-----------------|-----------------|----------------|
| \$100,000     | 44 lbs.         | 22 lbs.         | 11 lbs.         | 2.2 lbs.       |
| \$1 Million   | 440 lbs.        | 220 lbs.        | 110 lbs.        | 22 lbs.        |
| \$10 Million  | 4400 lbs.       | 2200 lbs.       | 1100 lbs.       | 220 lbs.       |
| \$100 Million | 44,000 lbs.     | 22,000 lbs.     | 11,000 lbs.     | 2,200 lbs.     |
| \$1 Billion   | 440,000 lbs.    | 220,000 lbs.    | 110,000 lbs.    | 22,000 lbs.    |
| \$100 Billion | 44,000,000 lbs. | 22,000,000 lbs. | 11,000,000 lbs. | 2,200,000 lbs. |

# DRUGS-Weight/Street Value

| Value         | Crack          | Cocaine        | Heroin         |
|---------------|----------------|----------------|----------------|
| \$100,000     | 2.2 lbs.       | 4.4 lbs.       | 2.2 lbs.       |
| \$1 Million   | 22 lbs.        | 44 lbs.        | 22 lbs.        |
| \$10 Million  | 220 lbs.       | 440 lbs.       | 220 lbs.       |
| \$100 Million | 2,200 lbs.     | 4400 lbs.      | 2,200 lbs.     |
| \$1 Billion   | 22,000 lbs.    | 44,000 lbs.    | 22,000 lbs.    |
| \$100 Billion | 2,200,000 lbs. | 4,400,000 lbs. | 2,200,000 lbs. |

Source: U.S. DOJ

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Total Pages: 14LRM ID: REJ202 A

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OFFICE OF MANAGEMENT AND BUDGET  
Washington, D.C. 20503-0001

Wednesday, July 23, 1997

## LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer - See Distribution below

FROM: James J. Jukes (for) Assistant Director for Legislative Reference

OMB CONTACT: Ronald E. Jones

PHONE: (202)395-3386 FAX: (202)395-3109

SUBJECT: TREASURY Testimony on International Money Laundering and Drug Proceeds

DEADLINE: 4:00 PM TODAY

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President. Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

COMMENTS: The attached testimony is for a 7/24 hearing. DOJ testimony for this hearing was circulated yesterday as LRM REJ 195

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Alice E. Shuffield

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[004]

NOTE

✓

The original LRM

was missing the last  
page.

⊗

Michael F. Crowley  
Kimberly A. Maluski  
Catherine A. Poynton  
Antonio E. Chavez  
Margaret E. Evans  
Andrew W. Kleine  
Kevin P. Cichetti  
Glenn R. Schlarman

**SUBJECT: TREASURY Testimony on International Money Laundering and**

☐ Concur  
☐ No Objection  
☐ No Comment  
☐ See proposed edits on pages \_\_\_\_\_  
☐ Other: \_\_\_\_\_

**FAX RETURN of \_\_\_\_\_ pages, attached to this response sheet**

11

enhance international cooperation in money laundering investigations; and create financial intelligence units that specialize in the collection and analysis of pertinent financial records in order to help track criminals' financial activities.

Although it is early, the Summit process has yielded promising results. Over one third of the Summit nations have passed legislation criminalizing money laundering, or have issued anti-money laundering regulations. Many others are considering doing so. Three have established financial intelligence units. Cooperation across national lines appears to be increasing, as evidenced by the arrest of major money launderers such as Mexico's Juan Garcia Abrego and Panama's Israel Murdoch, the product of joint investigations between U.S. law enforcement agencies and their counterparts in those countries.

While multilateral initiatives are a necessary component of Treasury's international anti-money laundering strategy, bilateral initiatives are equally important. Working with our partners at the Departments of State, Justice, and the Office of National Drug Control Policy, we focus a significant amount of time and attention on individual relationships. Our goal is to generate the necessary political will to bring about needed reforms in legislation and regulation. We also seek to provide the technical expertise and training to permit new laws and rules to be implemented effectively. Finally, we work to promote aggressive enforcement of these measures both domestically and across national lines.

A primary example of the benefits of such a dialogue is the situation in Mexico. With the

12

support and encouragement of the U.S. Government, Mexico adopted legislation criminalizing money laundering in 1996. Since then, we have been working closely with Mexican authorities to build upon the new legislation. In March of this year, the Government of Mexico undertook a significant step to insulate its financial institutions from money laundering by issuing regulations mandating currency transaction reporting, suspicious activity reporting, and customer identification by banks and financial institutions.

Treasury, in conjunction with our colleagues from Justice and State, has been working closely with the Mexican Finance Ministry to assist in the development of these new rules. This includes the design by FinCEN of a computerized database to make the best use of such reports. The first phase of the Mexican initiative -- the development of a suspicious transaction reporting system -- is under way. We look forward to continuing our work with Mexican authorities on the implementation of the suspicious transaction reporting and further implementing a currency transaction reporting system, due in the beginning of 1998.

The final component of Treasury's international strategy embraces situations where cooperative efforts are simply insufficient. Some times, all the diplomatic efforts in the world will not accomplish what certain well-targeted enforcement measures will. In October, 1995, President Clinton issued an executive order invoking his powers under the International Emergency Economic Powers Act to block assets and prohibit transactions with the people and businesses associated with the Colombian Cartel. The President's order granted OFAC, working in conjunction with the Departments of State and Justice, the authority to block the assets of the

traffickers and their front companies in the U.S. and to bar U.S. citizens and companies from doing business with them.

The initial list of the so-called "Specially Designated Narcotics Traffickers" subject to the President's directive included the four kingpins of the Cali Cartel and 94 companies doing business with them. OFAC has added over 300 persons and companies to the list. Additional names subject to the order were released earlier this year.

In pursuing this type of initiative, which is unprecedented under the IEEPA statutes, President Clinton has sent a clear message: if you participate in drug trafficking and other serious crimes, we're coming after you; if you help hide the assets of those committing such crimes, we're going to hit you just as hard.

### Moving Forward

Of course, we hope that there will be less need for tougher measures as we proceed in our fight against money laundering and financial crimes. Constant reassessment will help us in making the necessary policy determinations. It also will help us develop threat assessments in the face of constantly changing technologies that present economic opportunity not only to the mainstream, but to the criminal element.

The emergence of new payment technologies, such as smart cards and Internet banking, may

present new challenges to law enforcement authorities seeking to stem international financial crime. We must continue to monitor such developments, realizing their potential benefits for legitimate commerce. But we also must be in a position to adapt to the new systems as they mature.

Law enforcement authorities like to compare money laundering to a balloon. Just as putting pressure on one end of the balloon will force air to the other, so too will effective enforcement measures force money launderers to seek new paths of least resistance. As a consequence, we cannot rest on our recent successes. Working in a cooperative spirit with the Departments of Justice, State, and the Office of National Drug Control Policy, and with our counterparts overseas, we must be prepared to shape our response to meet an ever-evolving threat.

# Withdrawal/Redaction Marker

## Clinton Library

| DOCUMENT NO.<br>AND TYPE | SUBJECT/TITLE                                                    | DATE       | RESTRICTION |
|--------------------------|------------------------------------------------------------------|------------|-------------|
| 005. memo                | James J. Jukes to Legislative Liaison Officer [partial] (1 page) | 06/30/1997 | P3/b(3)     |

### COLLECTION:

Clinton Presidential Records  
Domestic Policy Council  
Jose Cerda  
OA/Box Number: 18931

### FOLDER TITLE:

Money Laundering

2016-0931-S  
rc2298

### RESTRICTION CODES

#### Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]  
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]  
P3 Release would violate a Federal statute [(a)(3) of the PRA]  
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]  
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]  
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).

RR. Document will be reviewed upon request.

#### Freedom of Information Act - [5 U.S.C. 552(b)]

b(1) National security classified information [(b)(1) of the FOIA]  
b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]  
b(3) Release would violate a Federal statute [(b)(3) of the FOIA]  
b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]  
b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]  
b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]  
b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]  
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

Total Pages: \_\_\_\_\_

LRM ID: REJ165

EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
Washington, D.C. 20503-0001

Monday, June 30, 1997

## LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer - See Distribution below

FROM: James J. Jukes (for) Assistant Director for Legislative Reference  
OMB CONTACT: Ingrid M. Schroeder  
PHONE: (202)395-3883 FAX: (202)395-3109

SUBJECT: OMB Request for Views on HR1756 Money Laundering and Financial Crimes Strategy Act of 1997

DEADLINE: Wednesday, July 2, 1997

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President. Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

## COMMENTS:

\* || Please advise by the deadline if there is any objection to a statement of Administration support for this bill. Thank you. || \*

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(b)(3)  
101-President's Council on Integrity & Efficiency - Jeffrey Rush Jr. - (202) 647-7844  
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Ellen J. Balis

Alexander T. Hunt

Edward M. Rea / P. Simon (esp. Sec. 3)

Ron Jones

**LRM ID:** REJ165      **SUBJECT:** OMB Request for Views on HR1756 Money Laundering and Financial Crimes Strategy Act of 1997.

**RESPONSE TO  
LEGISLATIVE REFERRAL  
MEMORANDUM**

If your response to this request for views is short (e.g., concur/no comment), we prefer that you respond by e-mail or by faxing us this response sheet. If the response is short and you prefer to call, please call the branch-wide line shown below (NOT the analyst's line) to leave a message with a legislative assistant.

**You may also respond by:**

(1) calling the analyst/attorney's direct line (you will be connected to voice mail if the analyst does not answer); or

(2) sending us a memo or letter

Please include the LRM number shown above, and the subject shown below.

**TO:** Ingrid M. Schroeder Phone: 395-3883 Fax: 395-3109  
Office of Management and Budget  
Branch-Wide Line (to reach legislative assistant): 395-3454

**FROM:** \_\_\_\_\_ (Date)  
 \_\_\_\_\_ (Name)  
 \_\_\_\_\_ (Agency)  
 \_\_\_\_\_ (Telephone)

The following is the reponse of our agency to your request for views on the above-captioned subject:

**Concur**

**No Objection**

**No Comment**

**See proposed edits on pages**

**Other:** \_\_\_\_\_

**FAX RETURN of**                  **pages, attached to this reponse sheet**

NYOLA M VELAZQUEZ  
13TH DISTRICT, NEW YORK

COMMITTEE ON BANKING AND  
FINANCIAL SERVICES

SUBCOMMITTEE ON HOUSING AND  
COMMUNITY DEVELOPMENT

SUBCOMMITTEE ON DOMESTIC AND  
INTERNATIONAL MONETARY POLICY

COMMITTEE ON SMALL BUSINESS  
SUBCOMMITTEE ON ENTERPRISE DEVELOPMENT  
AND INVESTMENT

CONGRESSIONAL HISPANIC CAUCUS

OFFICE



## Congress of the United States

### House of Representatives

Washington, DC 20515-3212

## Money Laundering and Financial Crimes Strategy Act of 1997

### Summary

1821 LONGWORTH BUILDING  
WASHINGTON, DC 20515  
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***Creation of national strategy to combat money laundering and related financial crimes***  
The President, acting through the Secretary of the Treasury, is directed to develop a national strategy to combat money laundering and related financial crimes.

#### ***Components of the anti-money laundering strategy***

The strategy will include:

- Goals for reducing money laundering and related financial crimes as well as coordinated regulatory efforts to prevent the exploitation of financial systems in the United States through money laundering.
- Operational initiatives to improve the detection of money laundering as well as private sector initiatives and intergovernmental action designed to combat financial crimes.
- Designations of certain areas as high-risk money laundering zones.

#### ***Consultation with federal, state and local prosecutors and law enforcement***

In developing the national strategy for fighting money laundering, the Secretary of the Treasury shall consult with the Attorney General, various federal, state and local prosecutors and law enforcement officials as well as individuals involved in financial institutions and financial market regulations.

#### ***Designation of high-risk money laundering and related crimes zones***

The Secretary is authorized to designate certain geographic areas as high-risk money laundering and financial crimes zones. Factors that the Secretary shall consider are:

- Size of the population in a given area.
- The number of bank, stock, and wire transfers taking place in that area.
- Whether the region is a center of international finance.
- Whether the area has been the subject of active money laundering investigations or has been subject to a geographic targeting order.
- The extent to which state and local prosecutors and law enforcement officials have taken steps to combat financial crimes.

#### ***Assistance available to localities***

Any area designated a high-risk money laundering zone would be eligible for:

- Increased federal law enforcement assistance.
- Increased access to information sharing.
- Eligibility for federal financial crimes grants.

I

105TH CONGRESS  
1ST SESSION

# H. R. 1756

To amend chapter 53 of title 31, United States Code, to require the development and implementation by the Secretary of the Treasury of a national money laundering and related financial crimes strategy to combat money laundering and related financial crimes, and for other purposes.

---

## IN THE HOUSE OF REPRESENTATIVES

JUNE 3, 1997

Ms. VELÁZQUEZ (for herself, Mr. LEACH, Mr. GONZALEZ, and Mr. BACHUS) introduced the following bill; which was referred to the Committee on Banking and Financial Services, and in addition to the Committee on the Judiciary, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

---

## A BILL

To amend chapter 53 of title 31, United States Code, to require the development and implementation by the Secretary of the Treasury of a national money laundering and related financial crimes strategy to combat money laundering and related financial crimes, and for other purposes.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*

1 **SECTION 1. SHORT TITLE.**

2       This Act may be cited as the "Money Laundering and  
3 Financial Crimes Strategy Act of 1997".

4 **SEC. 2. MONEY LAUNDERING AND RELATED FINANCIAL**  
5 **CRIMES.**

6       (a) IN GENERAL.—Chapter 53 of title 31, United  
7 States Code is amended by adding at the end the following  
8 new subchapter:

9       **"Subchapter III—Money Laundering and**  
10 **Related Financial Crimes**

11 **"SEC. 5341. DEFINITIONS.**

12       "For purposes of this subtitle, the following defini-  
13 tions shall apply:

14           "(1) DEPARTMENT OF THE TREASURY LAW EN-  
15 FORCEMENT ORGANIZATIONS.—The term 'Depart-  
16 ment of the Treasury law enforcement organizations'  
17 has the meaning given to such term in section  
18 9703(p)(1).

19           "(2) MONEY LAUNDERING AND RELATED FI-  
20 NANCIAL CRIME.—The term 'money laundering and  
21 related financial crime' means an offense under this  
22 subchapter, chapter II of title I of Public Law 91-  
23 508 (12 U.S.C. 1951, et seq.; commonly referred to  
24 as the 'Bank Secrecy Act'), or section 1956, 1957,  
25 or 1960 of title 18 or any related Federal, State, or  
26 local criminal offense.

1           “(3) SECRETARY.—The term ‘Secretary’ means  
2       the Secretary of the Treasury.

3       **“SEC. 5342. NATIONAL MONEY LAUNDERING AND RELATED**  
4           **FINANCIAL CRIMES STRATEGY.**

5           “(a) DEVELOPMENT AND SUBMISSION TO CON-  
6       GRESS.—

7           “(1) BIENNIAL STRATEGY.—Before the end of  
8       the 180-day period beginning on the date of the en-  
9       actment of this subtitle and before February 1 of  
10      every 2d subsequent year, the President, acting  
11      through the Secretary, shall develop a national strat-  
12      egy for combating money laundering and related fi-  
13      nancial crimes which shall be submitted to the Con-  
14      gress.

15          “(2) SEPARATE PRESENTATION OF CLASSIFIED  
16      MATERIAL.—Any part of the strategy that involves  
17      information which is properly classified under cri-  
18      teria established by Executive Order shall be submit-  
19      ted to the Congress separately.

20          “(b) DEVELOPMENT OF STRATEGY.—The national  
21      strategy for combating money laundering and related fi-  
22      nancial crimes shall address any area the President, acting  
23      through the Secretary, considers appropriate, including  
24      the following:

1           “(1) GOALS, OBJECTIVES, AND PRIORITIES.—

2           Comprehensive, research-based goals, objectives, and  
3           priorities for reducing money laundering and related  
4           financial crime in the United States.

5           “(2) PREVENTION.—Coordination of regulatory  
6           and other efforts to prevent the exploitation of fi-  
7           nancial systems in the United States for money  
8           laundering and related financial crimes, including a  
9           requirement that the Secretary shall—

10                 “(A) regularly review enforcement efforts  
11                 under this subchapter and other provisions of  
12                 law and, when appropriate, modify existing reg-  
13                 ulations or prescribe new regulations for pur-  
14                 poses of preventing such criminal activity; and

15                 “(B) coordinate prevention efforts and  
16                 other enforcement action with the Board of  
17                 Governors of the Federal Reserve System, the  
18                 Securities and Exchange Commission, the Fed-  
19                 eral Trade Commission, other Federal banking  
20                 agencies, and the National Credit Union Ad-  
21                 ministration Board.

22           “(3) DETECTION INITIATIVES.—A description  
23           of operational initiatives to improve detection of  
24           money laundering and related financial crimes.

1           “(4) ENHANCEMENT OF THE ROLE OF THE  
2 PRIVATE FINANCIAL SECTOR IN PREVENTION.—A  
3 description of the enhanced partnership between the  
4 private financial sector and law enforcement agen-  
5 cies with regard to the prevention and detection of  
6 money laundering and related financial crimes, in-  
7 cluding providing incentives to strengthen internal  
8 controls and to adopt on an industrywide basis more  
9 effective policies.

10           “(5) INTERGOVERNMENTAL COOPERATION.—A  
11 description of—

12                 “(A) cooperative efforts between the Fed-  
13 eral Government and State and local officials,  
14 including State and local prosecutors and other  
15 law enforcement officials; and

16                 “(B) cooperative efforts among the several  
17 States and between State and local officials, in-  
18 cluding State and local prosecutors and other  
19 law enforcement officials,  
20 for financial crimes control which could be utilized  
21 or should be encouraged.

22           “(6) PROJECT AND BUDGET PRIORITIES.—A 3-  
23 year projection for program and budget priorities  
24 and achievable projects for reductions in financial  
25 crimes.

1           “(7) ASSESSMENT OF FUNDING.—A complete  
2           assessment of how the proposed budget is intended  
3           to implement the strategy and whether the funding  
4           levels contained in the proposed budget are sufficient  
5           to implement the strategy.

6           “(8) DESIGNATED AREAS.—A description of  
7           geographical areas designated as ‘high-risk money  
8           laundering and related financial crime areas’ in ac-  
9           cordance with, but not limited to, section 5343.

10           “(9) PERSONS CONSULTED.—Persons or officers  
11           consulted by the Secretary pursuant to subsection  
12           (d).

13           “(10) DATA REGARDING TRENDS IN MONEY  
14           LAUNDERING AND RELATED FINANCIAL CRIMES.—  
15           The need for additional information necessary for  
16           the purpose of developing and analyzing data in  
17           order to ascertain financial crime trends.

18           “(11) IMPROVED COMMUNICATIONS SYSTEMS.—  
19           A plan for enhancing the compatibility of automated  
20           information and facilitating access of the Federal  
21           Government and State and local governments to  
22           timely, accurate, and complete information.

23           “(c) EFFECTIVENESS REPORT.—At the time each bi-  
24           ennial national strategy for combating financial crimes is  
25           transmitted by the President to the Congress (other than

1 the 1st transmission of any such strategy) pursuant to  
2 subsection (a), the Secretary shall submit a report con-  
3 taining an evaluation of the effectiveness of policies to  
4 combat money laundering and related financial crimes.

5       “(d) CONSULTATIONS.—In developing the national  
6 strategy for combating money laundering and related fi-  
7 nancial crimes, the Secretary shall consult with—

8               “(1) Department of the Treasury law enforce-  
9 ment organizations involved in the detection, preven-  
10 tion, and suppression of money laundering and relat-  
11 ed financial crimes;

12               “(2) the Attorney General;

13               “(3) the Board of Governors of the Federal Re-  
14 serve System and other Federal banking agencies  
15 and the National Credit Union Administration  
16 Board;

17               “(4) State and local officials, including State  
18 and local prosecutors;

19               “(5) the Securities and Exchange Commission;

20               “(6) the Commodities and Futures Trading  
21 Commission;

22               “(7) to the extent appropriate, State and local  
23 officials responsible for financial institution and fi-  
24 nancial market regulation;

1           “(8) any other State or local government au-  
2           thority, to the extent appropriate;

3           “(9) any other Federal Government authority  
4           or instrumentality, to the extent appropriate; and

5           “(10) representatives of the private financial  
6           services sector, to the extent appropriate.

7   **“SEC. 5343. HIGH-RISK MONEY LAUNDERING AND RELATED**

8                   **FINANCIAL CRIME AREAS.**

9           “(a) FINDINGS AND PURPOSE.—

10           “(1) FINDINGS.—The Congress finds the fol-  
11           lowing:

12                   “(A) Money laundering and related finan-  
13                   cial crimes frequently appear to be concentrated  
14                   in particular geographic areas, financial sys-  
15                   tems, industry sectors, or financial institutions.

16                   “(B) While the Secretary has the respon-  
17                   sibility to act with regard to Federal offenses  
18                   which are being committed in a particular local-  
19                   ity or are directed at a single institution, be-  
20                   cause modern financial systems and institutions  
21                   are interconnected to a degree which was not  
22                   possible until recently, money laundering and  
23                   other related financial crimes are likely to have  
24                   local, State, national, and international effects  
25                   wherever they are committed.

1           “(2) PURPOSE AND OBJECTIVE.—It is the pur-  
2       pose of this section to provide a mechanism for des-  
3       ignating any area where money laundering or a re-  
4       lated financial crime appears to be occurring at a  
5       higher than average rate such that—

6           “(A) a comprehensive approach to the  
7       problem of such crime in such area can be de-  
8       veloped, in cooperation with State and local law  
9       enforcement agencies, which utilizes the author-  
10      ity of the Secretary to prevent such activity; or

11           “(B) such area can be targeted for law en-  
12      forcement action.

13           “(b) ELEMENT OF NATIONAL STRATEGY.—The des-  
14      ignation of certain areas as areas in which money launder-  
15      ing and related financial crimes are extensive or present  
16      a substantial risk shall be an element of the national strat-  
17      egy developed pursuant to section 5342(b).

18           “(c) DESIGNATION OF AREAS.—

19           “(1) DESIGNATION BY SECRETARY.—The Sec-  
20      retary, after taking into consideration the factors  
21      specified in subsection (d), shall designate any geo-  
22      graphical area, industry, sector, or institution in the  
23      United States in which money laundering and relat-  
24      ed financial crimes are extensive or present a sub-

1       stantial risk as a 'high-risk money laundering and  
2       related financial crimes area'.

3               “(2) CASE-BY-CASE DETERMINATION.—In addi-  
4       tion to the factors specified in subsection (d), any  
5       designation of any area under paragraph (1) shall be  
6       made on the basis of a determination by the Sec-  
7       retary that the particular area, industry, sector, or  
8       institution is being victimized by, or is particularly  
9       vulnerable to, money laundering and related finan-  
10      cial crimes.

11              “(3) SPECIFIC INITIATIVES.—Any head of a de-  
12      partment, bureau, or law enforcement agency, in-  
13      cluding any State or local prosecutor, involved in the  
14      detection, prevention, and suppression of money  
15      laundering and related financial crimes and any  
16      State or local official or prosecutor may submit—

17              “(A) a written request for the designation  
18              of any area as a high-risk money laundering  
19              and related financial crimes area; or

20              “(B) a written request for funding under  
21              section 5345 for a specific prevention or en-  
22              forcement initiative, or to determine the extent  
23              of financial criminal activity, in an area.

24              “(d) FACTORS.—In considering the designation of  
25      any area as a high-risk money laundering and related fi-

1 nancial crimes area, the Secretary shall, to the extent ap-  
2 propriate, take into account the following factors:

3       “(1) The population of the area and the demo-  
4 graphics of the population.

5       “(2) The number of bank and nonbank finan-  
6 cial institution transactions which originate in such  
7 area or involve institutions located in such area.

8       “(3) The number of stock or commodities  
9 transactions which originate in such area or involve  
10 institutions located in such area.

11       “(4) Whether the area is a key transportation  
12 hub with any international ports or airports or an  
13 extensive highway system.

14       “(5) Whether the area is an international cen-  
15 ter for banking or commerce.

16       “(6) The extent to which financial crimes and  
17 financial crime-related activities in such area are  
18 having a harmful impact in other areas of the coun-  
19 try.

20       “(7) The number or nature of requests for in-  
21 formation or analytical assistance which—

22               “(A) are made to the analytical component  
23 of the Department of the Treasury; and

24               “(B) originate from law enforcement or  
25 regulatory authorities located in such area or

## 12

1           involve institutions or businesses located in such  
2           area or residents of such area.

3           “(8) Whether the area is or has been the sub-  
4       ject of active money laundering investigations.

5           “(9) The volume or nature of suspicious activity  
6       reports originating in the area.

7           “(10) The volume or nature of currency trans-  
8       action reports or reports of cross-border movements  
9       of currency or monetary instruments originating in  
10      the area.

11          “(11) Whether, and how often, the area has  
12      been the subject of a geographical targeting order  
13      under section 5326 before being considered for such  
14      designation.

15          “(12) Observed changes in trends and patterns  
16      of money laundering activity.

17          “(13) Unusual patterns, anomalies, growth, or  
18      other changes in the volume or nature of core eco-  
19      nomic statistics or indicators.

20          “(14) Statistics or indicators of unusual or un-  
21      explained volumes of cash transactions.

22          “(15) Unusual patterns, anomalies, or changes  
23      in the volume or nature of transactions conducted  
24      through financial institutions operating within or  
25      outside the United States.

1           “(16) The extent to which State and local gov-  
2           ernments and State and local law enforcement agen-  
3           cies have committed resources to respond to the fi-  
4           nancial crime problem in the area and the degree to  
5           which the commitment of such resources reflects a  
6           determination by such government and agencies to  
7           address the problem aggressively.

8           “(17) The extent to which a significant increase  
9           in the allocation of Federal resources to combat fi-  
10          nancial crimes in such area is necessary to provide  
11          an adequate State and local response to financial  
12          crimes and financial crime-related activities in such  
13          area.

14   **“SEC. 5344. DESIGNATION OF LEAD AGENCY.**

15          “(a) IN GENERAL.—The Secretary shall coordinate  
16          and develop a national strategy for combating money laun-  
17          dering and financial crimes.

18          “(b) FEDERAL RESPONSES AUTHORIZED.—With re-  
19          spect to any area designated under section 5343 as a high-  
20          risk money laundering and related financial crimes area,  
21          the Secretary may take the following initiatives:

22                 “(1) Recommend increases in Federal assist-  
23                 ance which the Secretary determines is necessary to  
24                 combat financial crimes in such areas.

1           “(2) Establish joint cooperative efforts, and co-  
2       ordinate enforcement activities, among Federal law  
3       enforcement organizations involved in the detection,  
4       prevention, and suppression of money laundering  
5       and related financial crimes and State and local law  
6       enforcement agencies with respect to financial  
7       crimes in such area.

8       **“SEC. 5345. GRANTS FOR FIGHTING MONEY LAUNDERING**  
9               **AND RELATED FINANCIAL CRIMES.**

10       **“(a) PROGRAM AUTHORIZED.—**

11           “(1) IN GENERAL.—After the end of the 1-year  
12       period beginning on the date the 1st national strat-  
13       egy for combating money laundering and related fi-  
14       nancial crimes is submitted to the Congress in ac-  
15       cordance with section 5342, and subject to sub-  
16       section (b), the Secretary may review, select, and  
17       award grants for State or local law enforcement  
18       agencies and prosecutors to provide funding nec-  
19       essary to investigate and prosecute money launder-  
20       ing and related financial crimes in high-risk money  
21       laundering and related financial crime areas.

22           “(2) SPECIAL PREFERENCE.—Special pref-  
23       erence shall be given to applications submitted to the  
24       Secretary which demonstrate collaborative efforts of  
25       2 or more State and local law enforcement agencies

1 or prosecutors who have a history of Federal, State,  
2 and local cooperative law enforcement and prosecu-  
3 torial efforts in responding to such criminal activity.  
4 "(b) AUTHORIZATION.—There are authorized to be  
5 appropriated such sums as may be necessary for fiscal  
6 years beginning after fiscal year 1998 to carry out this  
7 section."

8 (b) CLERICAL AMENDMENT.—The table of sub-  
9 chapters for chapter 53 of title 31, United States Code,  
10 is amended by adding at the end the following items relat-  
11 ing to the subchapter added by subsection (a) of this sec-  
12 tion:

"SUBCHAPTER III—MONEY LAUNDERING AND RELATED FINANCIAL CRIMES

"Sec. 5341. Definitions.

"Sec. 5342. National money laundering and related financial crimes strat-  
egy.

"Sec. 5343. High-intensity and high-risk money laundering and related fi-  
nancial crime areas.

"Sec. 5344. Designation of lead agency.

"Sec. 5345. Grants for fighting money laundering and related financial  
crimes."

13 **SEC. 3. BUDGETS FOR LAW ENFORCEMENT ACTIVITIES RE-**  
14 **LATING TO MONEY LAUNDERING AND RELAT-**  
15 **ED FINANCIAL CRIMES.**

16 Section 1105 of title 31, United States Code, is  
17 amended by adding at the end the following new sub-  
18 section:

19 "(h) The Director of the Office of Management and  
20 Budget shall establish the funding for law enforcement ac-

1 activities with respect to money laundering and related fi-  
2 nancial crimes for each applicable department or agency  
3 as a separate object class in each budget annually submit-  
4 ted to the Congress under this section.”.

5 (b) REPORT AND RECOMMENDATIONS.—Before the  
6 end of the 5-year period beginning on the date the 1st  
7 national strategy for combating money laundering and re-  
8 lated financial crimes is submitted to the Congress pursu-  
9 ant to section 5342(a)(1) of title 31, United States Code,  
10 the Secretary of the Treasury shall submit a report to the  
11 Committee on Banking and Financial Services of the  
12 House of Representatives and the Committee on Banking,  
13 Housing, and Urban Affairs of the Senate on the effective-  
14 ness of and the need for the designation of areas, under  
15 section 5343 of title 31, United States Code (as added  
16 by section 2(a) of this Act), as high-risk money laundering  
17 and related financial crime areas, together with such rec-  
18 ommendations for legislation as the Secretary may deter-  
19 mine to be appropriate to carry out the purposes of such  
20 section.

○

## Anti-Money-Laundering Plan Hit

*Financial Service Firms Call Treasury's Proposed Rules Too Strict*

By Jill Dutt  
Washington Post Staff Writer

NEW YORK, July 28—Treasury officials are treading gingerly as they push forward on a set of rule proposals that would, for the first time, subject about 158,000 non-bank financial service providers to federal oversight.

In an effort to crack down on illegal money laundering, the Treasury Department proposed in May that sellers of money orders and traveler's checks, as well as money transmitters and check-cashing and currency exchange firms, be required to register with the government. The firms, which often serve immigrants who have no bank accounts, also would be required to keep tabs on any suspicious customer activity, including asking for photo identification and filing reports to Treasury on all cash transactions of more than \$750.

Although money service providers say they support the goal of reducing illegal money transfers, several questioned at a meeting here whether the proposals were too stringent. "I haven't seen where the \$750 limit has been justified," said David T. Wittman, vice president for compliance at Western Union. Wittman added that the costs of training and supervising thousands of agents in the effort to have them fill out

the required forms would be "significant."

Western Union handled 81 percent of the money wired overseas last year, according to a study released today that was prepared by Coopers & Lybrand LLP for the Treasury Department. The \$10.8 billion money-transmitting business is the most profitable and fastest-growing of the various financial services targeted by the proposals. In total, the firms that would be subject to Treasury's new rules handled about \$200 billion in transactions last year, according to the study.

"We support this industry and we want it to flourish," Raymond W. Kelly, Treasury's undersecretary for enforcement, said during a break in today's hearing, one of four the department is holding to field industry comments. Treasury also extended by 40 days, until Sept. 30, the deadline for written comments on the rules.

Kelly denied charges that the rules would hurt immigrants disproportionately, noting that the average overseas money transfer is just \$300—well below the proposed reporting limit. Although several industry officials complained the \$750 limit is too low, Kelly said "at this junction, the \$750 threshold seems reasonable."

Treasury officials suggested the \$750 level because it worked well in a joint

federal, state and local enforcement operation in New York City that eventually targeted 22 money transmitters suspected of wiring drug money to Colombia. The operation, launched last August, required the transmitters to ask for identification and to report any suspicious activity and all cash transactions of more than \$750.

That operation initially targeted a dozen money transmitters; of those 12, three have stopped sending funds to Colombia, Treasury said. Three people have been arrested and others are under investigation for trying to structure transactions to avoid the \$750 limit. Meanwhile, Treasury has seized about \$50 million in illegal cash elsewhere on the Eastern Seaboard in the past year, about four times as much as in previous periods, citing the New York City operation for forcing money launderers to resort to more risky bulk currency smuggling to move their funds.

Although the new rules might seem overly strict for some remote communities, Stanley E. Morris, director of Treasury's financial crimes enforcement network, said the rules should be applied evenly throughout the United States to prevent launderers from simply moving their operations to another city or state to escape the added oversight.

File w/GTOS

39

File:  
CRIME -  
MONEY LAUNDERING  
(GTOS)

# Post-KGB Cloak & Dagger: Hot Lines and Ties to FBI

■ Spy case that opened yesterday highlights a rejigged Russian agency.

By Peter Ford

Staff writer of The Christian Science Monitor

MOSCOW

**W**HAT exactly young Platon Obukhov was thinking when he allegedly passed Russian state secrets to British intelligence agents is unclear.

His parents say the junior diplomat was mad, playing out imaginary scenes from the lurid thrillers he liked to write in his spare time. The Federal Security Service (FSB) — part of the former KGB — says he was a bona-fide spy.

Either way, the Obukhov espionage case, which came to court in Moscow on Monday, offers fresh evidence that Russia's once-feared intelligence network is recovering from the traumatic breakup of the Soviet Union — and is back in the business of catching spies.

"There have been a lot of changes and not much money, but the FSB does try, and it is managing to keep up," says Mikhail Lyubimov, a former KGB general. "There seems to be a certain stabilization."

Nor is there any shortage of spies to catch, according to Col. Mikhail Kirillin, an FSB official. "In the last two years, we have uncovered 39 Russian citizens spying for foreign services and more than 400 foreigners who are agents," he says. "Our impression is that there are more of them now than during the cold war."

In the cloak-and-dagger league, Mr. Obukhov does not seem to have been a major player. As a lowly second secretary on the North American desk at the Russian Foreign Ministry, his main claims to fame were his prominent father — a former deputy foreign minister — and a string of steamy novels with titles such as "Vampire Woman" and "In the Spider's Embrace."

But the FSB says its agents detected 14 British Embassy employees contacting

Obukhov at one time or another, and his arrest in April 1996 sparked the biggest East-West spy scandal since the end of the cold war. Moscow expelled four British diplomats, and London kicked out four Russians in a tit-for-tat exchange reminiscent of the old days.

Indeed, much is reminiscent of the old days in the espionage business, it seems. The Americans, the British, the Israelis, and the Chinese are still masters of the spy ring in Russia, says Colonel Kirillin, "and their main priorities are the same as ever: the state of our defense readiness, the state of our economy, and political developments."

But their emphasis has changed a little, he acknowledges. In a rapidly changing post-Soviet Russia, he says, "it is natural that Western leaders should ask their services to answer questions that used not to exist, like whose finger is on the nuclear button in Moscow, and how reliable it is."

Western officials say their spies also keep a lookout for possible leaks of nuclear-weapons material from Russia, as well as supplementing reports from bona-fide diplomats about Kremlin intrigues and regional politics.

One alarming development, Kirillin says, is the emergence of spies working for former Soviet allies, such as Poland and the Baltic nations. "They used to study with us and they know the ways we operate, so it is very difficult to catch them," he explains. "We would hate to see third parties using operatives from those countries to spy against us."

Life is harder than it used to be for your average Russian counterspy. When the KGB was broken up into five different agencies, it became a lot less efficient — many senior officials left the service for higher-paying jobs in the private sector, "and we had to get used to the completely new experience of working in an open society, where our citizens were free to meet foreigners and to travel abroad," says Kirillin.

They also had to get used to working with the enemy. The FSB has had an office at the FBI for several years, and cooperation between the two is increasingly common.

**T**HE economic free fall that has lowered living standards almost across the board in Russia has also complicated the counterintelligence operative's work.

In the old days, recalls Kirillin, most Soviet citizens who were recruited to spy against their country were blackmailed into doing so. Nowadays, he says, "the motivation has changed. They do it simply for money, and for ridiculously small amounts." Scien-

tists, officials, and others who have seen their lifestyles plummet since the fall of communism "are happy with a couple of thousand dollars. In more than 300 cases we have come across, the people did not intend to be used as agents" says Kirillin. "They wanted a one-off deal, to hand over a document and get their money."

With such offenders, the FSB, which still occupies the KGB's notorious granite palace in Lubyanka Square, is almost indulgent. Last month, FSB chief Gen. Nikolai Kovalyov made a public offer of lenience to any Russian spying for a foreign power who called a special hot line to become a double agent. More than 200 people have called the number so far, "and about 80 of them are of serious professional interest to us," according to Kirillin.

For the ones who don't 'fess up, the five spy trials that the FSB has successfully prosecuted this year offer a warning. But nobody in the Lubyanka thinks they will have a permanent effect. "I am quite sure that foreign services will go on working in our country just the same as we will go on working in their countries," says Kirillin, grinning. "I can't see any chance that it will stop in the foreseeable future."

Ronald E. Jones  
09/11/97 03:39:23 PM

Record Type: Record

To: See the distribution list at the bottom of this message

cc:

Subject: DOJ Draft Money Laundering Bill

We expect to clear the DOJ draft bill on Friday (9/12) unless I hear otherwise by before 2:00 PM tomorrow. The draft bill was circulated on July 18th as LRM REJ 190.

The majority (15 of 18) of bill's provisions have been previously cleared in either the Asset Forfeiture Act of 1997 or the International Crime Control Act of 1996. The three new provisions would: (1) give the Government the authority to charge money laundering as a continuing activity, rather than having to charge each instance as a separate count; (2) clarify current law concerning monetary transactions that involve criminally derived funds commingled with other funds; and (3) clarify where the venue lies for a money laundering prosecution..

Thanks,

Ron Jones  
395-3386

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