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DEPARTMENT OF THE TREASURY

Financial Crimes Enforcement Network

Notice of Finding That Halawi Exchange Co. is a Financial Institution of Primary Money Laundering Concern

AGENCY: Financial Crimes Enforcement Network, Treasury (“FinCEN”).

ACTION: Notice of finding.

SUMMARY: This document provides notice that the Director of FinCEN found on April 22, 2013, that Halawi Exchange Co. (“Halawi Exchange”) is a financial institution operating outside the United States that is of primary money laundering concern.

DATES: The finding referred to in this notice was effective as of April 22, 2013.

FOR FURTHER INFORMATION CONTACT: FinCEN, (800) 949-2732.

SUPPLEMENTARY INFORMATION:

I. Statutory Provisions

On October 26, 2001, the President signed into law the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the “USA PATRIOT Act”), Public Law 107-56. Title III of the USA PATRIOT Act amends the anti-money laundering provisions of the Bank Secrecy Act (“BSA”), codified at 12 U.S.C. 1829b, 12 U.S.C. 1951-1959, and 31 U.S.C. 5311-5314, 5316-5332, to promote the prevention, detection, and prosecution of international money laundering and the financing of terrorism. Regulations implementing the BSA appear at 31 CFR Chapter X. The authority of the Secretary of the Treasury (the “Secretary”) to administer the BSA and its implementing regulations has been delegated to the Director of FinCEN.

Section 311 of the USA PATRIOT Act (“Section 311”), codified at 31 U.S.C. 5318A, grants the Secretary the authority, upon finding that reasonable grounds exist for concluding that a foreign jurisdiction, financial institution, class of transaction, or type of account is of “primary money laundering concern,” to require domestic financial institutions and financial agencies to take certain “special measures” to address the primary money laundering concern.

II. The Extent to Which Halawi Exchange Is Used for Legitimate Business Purposes in Lebanon

A. Halawi Exchange

Halawi Exchange offers a variety of financial services, primarily currency exchange and transmission of funds. Halawi Exchange, along with other related entities, is organized under a holding company known as Halawi Holding SAL, which also owns several other related companies in Lebanon. The Halawi companies are based in Beirut, Lebanon, share key corporate leadership, maintain offices at the same addresses, share common phone numbers and common email addresses, and frequently reference their close connection to one another. They are also regularly displayed together on corporate signage and on public materials, one of which shows them collectively under a banner which reads “Collaboration Under One Thumb.”

Available information suggests that Halawi Exchange, in addition to the activities of concern discussed below, engages in other, unremarkable transactions of a type, volume, and variety typical of Lebanese exchange houses or brokerages. If these services were offered to U.S. customers and if they took place wholly or substantially in the United States, the Halawi Exchange would be treated as a financial institution under the BSA, defined at 31 C.F.R. 1010.100(t)(3). Specifically, Halawi Exchange offer services

that would be defined as money transmission, activities defined at 31 C.F.R.

1010.100(ff), in addition to other services it may offer.

Halawi Exchange identifies itself as “a family business under the Halawi group.” In 2012, Halawi Exchange expanded to cover five branches in Lebanon and a sister company in London under the name “Halawi Exchange Co. LTD.” It lists its partners as Mahmoud Halawi and Ali Halawi who, according to Halawi Exchange, maintain “daily involvement in management and operations of the company.” Halawi Exchange also advertises that it operates in the Sudan, United Arab Emirates, Saudi Arabia, Qatar, Kuwait, Bahrain, Jordan, the United Kingdom, and Australia.

Mahmoud Halawi is the sole or majority owner and senior management officer at Halawi Exchange, Halawi Holding SAL, and Halawi Investment Trust SAL. He is also President of the Money Changers Association in Lebanon. His son, Fouad Halawi, is a Director at Halawi Holding SAL and has served as a manager at Halawi Exchange.

B. Lebanon

Lebanon is a financial hub for banking activities in the Middle East and eastern Mediterranean and has a sophisticated banking sector.¹ There are 72 banks operating in Lebanon,² and all major banks have correspondent relationships with U.S. financial institutions. The five largest commercial banks account for an estimated 61% of total banking assets for the country, which are estimated at \$95 billion.³ The government retains no direct ownership of any commercial banks and maintains an indirect ownership

¹ “2012 International Narcotics Control Strategy Report (‘INCSR’),” Bureau of International Narcotics and Law Enforcement Affairs, The Department of State, March 7, 2012 www.state.gov/g/inl/rls/nrcrpt/2010/vol2/137212.htm.

² “Complete List of Operating Banks in Lebanon,” Banque du Liban (www.bdl.gov.lb). www.bdl.gov.lb/bfs/CB/index.htm as of 1/30/2013

³ Estimated from values in the “2012 Investment Climate Statement- Lebanon,” Bureau of Economic and Business Affairs, June 2012 Report. www.state.gov/e/eb/rls/othr/ics/2012/191182.htm

stake in one bank.⁴ Despite slowed economic growth following domestic political instability and regional turmoil in 2011, Lebanon's banking sector continues to rely on significant capital inflows from the Lebanese diaspora community,⁵ which has been a large contributor to banking sector liquidity and capitalization, estimated by the World Bank at \$7.6 billion—18% of GDP—in 2011.⁶ Banks' exposure to the heavily-indebted sovereign, with total government debt projected at 132% of GDP in 2012, remains a significant risk to stability and growth of the financial sector.⁷

Money exchange businesses became a major feature of Lebanon's financial sector during the Lebanese civil war and have played a key role in providing services such as international funds transfers, currency conversion, and payments and deposits for domestic and expatriate Lebanese clientele since 1990. In 2001, Lebanon's Central Bank, Banque du Liban ("BdL"), published a set of circulars expanding regulations for exchange houses operating in the country.⁸ Since the enactment of the 2001 law, 732 money exchange businesses have registered with BdL, and currently there are 374 active licensed businesses.⁹ Each of these active licensed businesses must process payments through business accounts established in Lebanese banks.¹⁰

⁴ "2012 Index of Economic Freedom," The Heritage Foundation.

<http://www.heritage.org/index/country/lebanon>

⁵ "2012 Investment Climate Statement- Lebanon," Bureau of Economic and Business Affairs, The Department of State, June 2012 Report. www.state.gov/e/eb/rls/othr/ics/2012/191182.htm

⁶ The latest available World Bank data estimated in November 2012 that remittances were \$7.6bn for 2012. "Remittances Data: Inflows," Migration and Remittances, The World Bank, November 2012.

<http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPECTS/0,,contentMDK:21121930~menuPK:3145470~pagePK:64165401~piPK:64165026~theSitePK:476883,00.html>

⁷ "IMF Executive Board Concludes 2011 Article IV Consultation with Lebanon Public Information Notice (PIN) No. 12/11," International Monetary Fund, February 8, 2012

<http://www.imf.org/external/np/sec/pn/2012/pn1211.htm>

⁸ BdL, Law 347 Regulating the Money Changer Profession in Lebanon, August 6, 2001

⁹ BdL, List of Exchange Institutions, May 2012, http://www.bdl.gov.lb/bfs/MS/Money_Dealers_arabic.pdf

¹⁰ BdL, Intermediate BdL Circular 264, dated May 21, 2011, pages 3-4, http://www.bdl.gov.lb/circ/intpdf/int264_en.pdf

Lebanon also faces money laundering and terrorist financing vulnerabilities¹¹ due to weaknesses in its Anti-Money Laundering/Combating the Financing of Terrorism (“AML/CFT”) regime, porous borders, ineffective and inconsistent regulation, and a challenging and complex domestic and regional political and security environment, among other factors. Of concern is the possibility that a portion of the substantial flow of remittances could be associated with trade-based money laundering and other illicit finance activities. For example, Lebanon imposes currency reporting requirements on banks and money exchange businesses that undertake cross-border cash and precious metal activity,¹² but has no corresponding cross-border declaration requirement for the public at Lebanese points of entry, resulting in a significant cash-smuggling vulnerability.

These vulnerabilities have been recently exploited to support trade-based money laundering. FinCEN identified Lebanese Canadian Bank (“LCB”) as an institution of primary money laundering concern in February 2011 (the “LCB 311 Action”),¹³ which was preceded by the Office of Foreign Assets Control’s (“OFAC’s”) designation of Lebanese Ayman Joumaa as a Specially Designated Narcotics Trafficker (“SDNT”), as well as of three Lebanon-based money exchange businesses used by Ayman Joumaa and his organization to launder illicit proceeds, Elissa Exchange Company, Hassan Ayash Exchange, and New Line Exchange Trust Co., under the Foreign Narcotics Kingpin Act Designation in January 2011.¹⁴ In the LCB 311 Action, FinCEN determined that LCB

¹¹ 2012 INCSR

¹² Special Investigation Commission, Intermediate BdL Circular 263, dated May 21, 2011, <http://www.sic.gov.lb/circular263.shtml>

¹³ FinCEN, *Finding That the Lebanese Canadian Bank SAL Is a Financial Institution of Primary Money Laundering Concern*, 76 F.R. 9403, dated February 17, 2011, <http://www.gpo.gov/fdsys/pkg/FR-2011-02-17/pdf/2011-3346.pdf>

¹⁴ Press Release, “Treasury Targets Major Lebanese-Based Drug Trafficking and Money Laundering Network,” 1/26/11, <http://www.treasury.gov/press-center/press-releases/Pages/tg1035.aspx>; Additions to

was facilitating the money laundering activities of the Joumaa drug trafficking and money laundering network. This network moved illegal drugs from South America to Europe and the Middle East via West Africa and laundered hundreds of millions of dollars monthly through accounts held at LCB, as well as through trade-based money laundering involving consumer goods throughout the world, including through used car dealerships in the United States. Further, the LCB 311 Action exposed the terrorist organization Hizballah's links to LCB and that Hizballah derived financial support from criminal activities of Joumaa's network.

Following these Treasury actions, two U.S. Attorney's Offices took actions against Ayman Joumaa, Elissa Exchange, and Hassan Ayash Exchange. In December 2011, a grand jury in the Eastern District of Virginia returned an indictment against Ayman Joumaa for conspiracy to distribute narcotics and conspiracy to commit money laundering related to drug trafficking by Mexican and Colombian drug cartels.¹⁵ In August 2012, the U.S. Attorney's Office for the Southern District of New York ("SDNY") seized \$150 million as part of a civil money laundering and forfeiture action against Hizballah-linked LCB, Elissa Exchange, and Hassan Ayash Exchange based on money laundering schemes involving Ayman Joumaa, the exchange houses, and U.S. car dealers.¹⁶ The "SDNY Complaint" listed, by name, 30 U.S. car dealers and a U.S. shipping company that facilitated the scheme.

OFAC's SDN list, dated January 26, 2011, <http://www.treasury.gov/resource-center/sanctions/OFAC-Enforcement/Pages/20110126.aspx>

¹⁵ The United States Attorney's Office for the Eastern District of Virginia Press Release, "U.S. Charges Alleged Lebanese Drug Kingpin With Laundering Drug Proceeds For Mexican And Colombian Drug Cartels" December 13, 2011, <http://www.justice.gov/usao/vae/news/2011/12/20111213joumaanr.html>

¹⁶ The United States Attorney's Office for the Southern District of New York press release and civil complaint

BdL re-evaluated AML/CFT regulations regarding money exchange businesses following the Treasury actions. In May and August 2011, BdL revised Lebanon's AML/CFT regulations regarding supervised banks and other non-bank financial institutions by publishing seven decisions¹⁷ modifying Law 347 (dated August 6, 2001). BdL required all of these active licensed money exchangers to maintain business accounts at a formal financial institution, such as a registered Lebanese bank subject to BdL supervision, and prohibited exchangers from operating accounts at Lebanese banks on behalf of their clients.¹⁸

Despite some improvements to its financial sector supervision, Lebanon still has not acceded to the UN Convention for the Suppression of the Financing of Terrorism. And Hizballah, an organization which the United States designated as a Foreign Terrorist Organization in October 1997 and a Specially Designated Global Terrorist under Executive Order 13224 in October 2001,¹⁹ is a recognized political party with an active role in the Lebanese government. Though it has adopted laws domestically criminalizing any funds resulting from the financing, or contribution to the financing, of terrorism,²⁰ the active participatory role of a designated terrorist group in the Lebanese government and civil society calls into question the broader efficacy of Lebanon's AML/CFT regime.

III. The Extent to Which Halawi Exchange and Its Subsidiaries Have Been Used to Facilitate or Promote Money Laundering in or Through Lebanon.

¹⁷ In May 2011 Intermediate Decisions 10725, 10726 and 10728 and in August 2011 Intermediate Decisions 10787, 10789, 10791, and 10792 were published regarding AML/CFT regulations of exchange businesses.

¹⁸ BdL, Intermediate BdL Circular 264, dated May 21, 2011, pages 3-4, http://www.bdl.gov.lb/circ/intpdf/int264_en.pdf

¹⁹ Hizballah is a Lebanon-based terrorist group. Until September 11, 2001, Hizballah was responsible for more American deaths than any other terrorist organization.

²⁰ For additional information about Lebanon's legal framework and special mechanisms for anti-money laundering and terrorist financing measures, see The Middle East and North Africa Financial Task Force (MENAFATF) *Mutual Evaluation Report, Lebanese Republic*, November 10, 2009 (www.menafatf.org).

According to information available to the U.S. Government, Halawi Exchange, its subsidiaries, and their respective management, ownership, and key employees are engaged in illicit financial activity. A pattern of regular, round-number, large-denomination international wire transfers consistent with money laundering are processed through Halawi Exchange. Many of these transactions appear to be structured because they are separated into multiple smaller transactions for no apparent reason. Halawi Exchange facilitates transactions as part of a large-scale trade-based money laundering scheme that involves the purchase of used cars in the United States for export to West Africa. Additionally, Halawi Exchange, and its management, ownership, and key employees are complicit in providing money laundering services for an international narcotics trafficking and money laundering network that is affiliated with Hizballah.

A. Past and Current Association with Used Car Trade-Based Money Laundering Scheme

Halawi Exchange facilitates transactions for a network of individuals and companies which launder money through the purchase and sale of used cars in the United States for export to West Africa. In support of this network, management, ownership, and key employees of Halawi Exchange coordinate transactions—processed within and outside of Halawi Exchange—on behalf of Benin-based money launderers and their associates. A significant portion of the funds are intended for U.S.-based car dealerships for the purchase of cars which are then shipped to Benin.

As of late 2012, Halawi Exchange was primarily used by Benin-based Lebanese car lot owners to wire transfer money to their U.S. suppliers. The proceeds of car sales were hand-transported in the form of bulk cash U.S. dollars from Cotonou, Benin to Beirut, Lebanon via air travel and deposited directly into one of the Halawi Exchange

offices, which allowed bulk cash deposits to be made without requiring documentation of where the money originated. Halawi Exchange, through its network of established international exchange houses, initiated wire transfers to the United States without using the Lebanese banking system in order to avoid scrutiny associated with Treasury's designations of Hassan Ayash Exchange, Elissa Exchange, and its LCB 311 Action. The money was wire transferred indirectly to the United States through countries that included China, Singapore, and the UAE, which were perceived to receive less scrutiny by the U.S. Government.

Participants in this network have coordinated the movement of millions of dollars per month, a significant portion of which has moved through Halawi Exchange. For example, in early 2012, Halawi Exchange, its management, its ownership, or key employees were involved in arranging multiple wire transfers totaling over \$4 million on behalf of this network. Additionally, as of mid-2012, central figures in this scheme planned to move \$224 million worth of vehicle shipping contracts through this network via a Halawi-owned Benin-based car lot, which receives vehicle shipments from the United States. Mahmoud Halawi was heavily involved in the establishment of this car lot, which is run by Ahmed Tofeily, a Benin-based money launderer, and continues to be involved in its operations. This car lot was established six months after the SDNY Complaint. Additionally, Tofeily—a Halawi agent/employee—owns and operates a car lot in Benin named Auto Deal (AKA Ste Auto Deal, Societe Auto Deal) which purchases cars in Canada and exports them through the United States. Tofeily worked closely with Halawi Exchange and wired all of his money through it. This car lot—identified as

maintaining no brick and mortar structures—has wired hundreds of thousands of dollars throughout 2012 from Benin to U.S.-based car dealerships.

From 2008 to 2011, Halawi Exchange, its management, and employees sent numerous international wire transfers to U.S.-based used car companies consistent with the practice of laundering money through the purchase of cars in the United States for export to West Africa. Ali Halawi—a partner at Halawi Exchange—is listed by name on many of these transfers. A large number of these transfers were sent through accounts at LCB, which has been identified by Treasury as a financial institution of primary money laundering concern under Section 311 for its role in facilitating the money laundering activities of Ayman Joumaa’s international narcotics trafficking and money laundering network. Some of the U.S.-based car dealerships that received funds transfers from Halawi Exchange were later identified in the SDNY Complaint as participants in the Joumaa network’s money laundering activities.

Joumaa’s network moved illegal drugs from South America to Europe and the Middle East via West Africa and laundered hundreds of millions of dollars monthly through accounts held at LCB, as well as through trade-based money laundering involving consumer goods throughout the world, including through used car dealerships in the United States. This criminal scheme involved bulk cash smuggling operations and use of several Lebanese exchange houses that utilized accounts at LCB branches, as discussed in the LCB 311 Action.

Halawi Exchange has also worked with other Lebanese exchange houses, including Rmeiti Exchange, to facilitate money laundering activities. For example, Halawi Exchange, Rmeiti Exchange, and other exchange houses sent over \$9 million in

dozens of round-number, large-denomination international wire transfers from unknown sources to the same U.S. car shipping business from 2007 through 2010.

B. Past and Current Connection to Designated Narcotics Kingpins and Their Associates

SDNTs Ibrahim Chebli and Abbas Hussein Harb regularly coordinated and executed financial transactions—including bulk cash transfers—that were processed through the Halawi Exchange. Harb and Chebli were designated by Treasury in June 2012 pursuant to the Kingpin Act for collaboration with Joumaa in the movement of millions of dollars of narcotics-related proceeds. Harb’s Columbia- and Venezuela-based organization has laundered money for the Joumaa network through the Lebanese financial sector. Additionally, Chebli used his position as the manager of the Abbassieh branch of Fenicia Bank in Lebanon to facilitate the movement of money for Joumaa and Harb.²¹

C. Past and Current Connection to Another International Narcotics Trafficking and Money Laundering Network with Ties to Hizballah

Management and key employees at Lebanon-based Halawi Exchange and members of the Halawi family coordinate, execute, receive, or are otherwise involved in millions of dollars worth of transactions for members of another international narcotics trafficking and money laundering network. For example, high-level management at Lebanon-based Halawi Exchange and members of the Halawi family were involved in the movement of over \$4 million in late 2012 for this international narcotics trafficking and money laundering network. Additionally, Fouad Halawi, acting in his capacity as a senior official at Halawi Holding, was responsible for the receipt and transfer of funds for

²¹ Exhibit 25 - Press Release, “Treasury Targets Major Money Laundering Network Linked to Drug Trafficker Ayman Joumaa and a Key Hizballah Supporter in South America,” 6/27/11, <http://www.treasury.gov/press-center/press-releases/Pages/tg1624.aspx>

this narcotics trafficking and money laundering network and provided accounting services for its senior leadership. To avoid detection, the involved parties scheduled structured payments by splitting larger sums into smaller, more frequent transactions which they often moved through numerous high-risk jurisdictions.

This additional international narcotics trafficking and money laundering network has been involved in extensive international narcotics trafficking operations. For example, it is known to have trafficked heroin from Lebanon to the United States and hundred-kilogram quantities of cocaine from South America to Nigeria for distribution in Europe and Lebanon. It is also known to have trafficked cocaine out of Lebanon in multi-ton quantities. The head of this network has operated an extensive money laundering organization, including a series of offshore corporate shell companies and underlying bank accounts, established by intermediaries, to receive and send money transfers throughout the world. It has arranged the laundering of profits from large-scale narcotics trafficking operations. Transfers coordinated by this network have impacted the United States, Canada, Europe, the Middle East, Asia, Australia, and South America. This international narcotics trafficking and money laundering network is affiliated with Hizballah.

Additionally, Halawi Exchange is known to have laundered profits from drug trafficking and cocaine-related money laundering for a Hizballah leader and narcotics trafficker. Halawi Exchange has also been routinely used by other Hizballah associates as a means to transfer illicit funds.

IV. The Extent to Which This Action Is Sufficient to Guard Against International Money Laundering and Other Financial Crimes.

FinCEN's April 22, 2013, notice of finding that Halawi Exchange is an institution of primary money laundering concern, along with the Special Measures simultaneously proposed pursuant to the Finding, will guard against the international money laundering and other financial crimes described above directly by restricting the ability of Halawi Exchange to access the U.S. financial system to process transactions, and indirectly by public notification to the international financial community of the risks posed by dealing with Halawi Exchange.

Dated: April 20, 2013

Jennifer Shasky Calvery
Director
Financial Crimes Enforcement Network

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