

GAO

Report to the Ranking Minority Member,  
Committee on Banking and Financial  
Services, House of Representatives

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May 1996

# MONEY LAUNDERING

## A Framework for Understanding U.S. Efforts Overseas



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G A O  
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1921 - 1996





United States  
General Accounting Office  
Washington, D.C. 20548

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General Government Division

B-261874

May 24, 1996

The Honorable Henry B. Gonzalez  
Ranking Minority Member  
Committee on Banking and Financial Services  
House of Representatives

Dear Mr. Gonzalez:

Money laundering is the act of converting money gained from illegal activity, such as drug smuggling, into money that appears legitimate and in which the source cannot be traced to the illegal activity. It is a global problem that needs to be fought collectively by the international community. The United States is focusing increased attention on the foreign aspects of its efforts to combat money laundering, particularly as U.S. efforts make it more difficult for individuals to launder money domestically. In connection with other work we were performing abroad, you asked us to provide information on U.S. efforts to combat overseas money laundering.

As agreed with you, this report provides a framework for understanding U.S. overseas efforts to combat international money laundering rather than an assessment of overall U.S. anti-money-laundering activities. Specifically, this report describes (1) U.S. and selected European countries'<sup>1</sup> approaches to combating money laundering through regulation of financial institutions,<sup>2</sup> (2) U.S. bank regulators' oversight of money-laundering controls at overseas branches of U.S. banks, (3) U.S. law enforcement agencies' efforts to coordinate their overseas anti-money-laundering activities among themselves and with law enforcement agencies in these European countries, and (4) U.S. participation in international arrangements to combat money laundering abroad. Our work, which focused on these four issues, was not intended to cover the entire range of U.S. anti-money-laundering efforts worldwide, nor was it intended to cover all of the responsibilities the various agencies have in combating money laundering.

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<sup>1</sup>Throughout this report we use the term "European countries" to refer to the seven West and Central European countries that we visited in gathering information for this report: England, France, Germany, Hungary, Italy, Poland, and Switzerland.

<sup>2</sup>Treasury regulations implementing the statute commonly referred to as the Bank Secrecy Act (BSA) of 1970, (P.L. 91-508, Oct. 26, 1970) define the term "financial institution" to include banks, federally regulated security brokers, currency exchange houses, funds transmitters, check-cashing businesses, and persons subject to supervision by state or federal bank supervisory authorities.

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## Results in Brief

Until recently, the U.S.' anti-money-laundering efforts under the Bank Secrecy Act (BSA) relied heavily on regulations requiring financial institutions to routinely report large currency transactions, primarily through filing currency transaction reports (CTR) with the Internal Revenue Service (IRS).<sup>3</sup> According to a senior Treasury official, this reliance will continue, but to a lesser extent. The United States has also relied on financial institutions to report financial transactions involving known or suspected money laundering to regulatory and law enforcement authorities. It is expected that this practice, under BSA, will be relied on more heavily, according to the senior Treasury official. Further, financial institutions have adopted so-called "know your customer" policies over the past few years to improve identification of financial transactions of known or suspected money laundering. The European countries we visited have tended to model their anti-money-laundering measures after a 1991 European Union (EU)<sup>4</sup> Directive<sup>5</sup> that contains controls similar to those that U.S. financial institutions follow. Although these countries require recording large currency transactions, they do not require routinely reporting such transactions. European countries rely on suspicious transaction reports and "know your customer" policies, which are somewhat more comprehensive than comparable U.S. policies, according to European bank and regulatory officials.

U.S. financial institutions have bank branches located throughout the world, and U.S. regulators take different approaches to assessing these branches' anti-money-laundering controls. In some countries, including England, Germany, and Italy, U.S. regulators have been able to conduct on-site examinations of U.S. branches' anti-money-laundering controls. These examinations tend to be less extensive than those of banks in the United States, according to Office of the Comptroller of the Currency (OCC) and Federal Reserve Board (FRB) officials. In other countries, such as Switzerland and France, U.S. regulators have been unable to conduct on-site examinations of U.S. branches because of bank, privacy, and data protection laws in such countries. For these countries, U.S. regulators use

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<sup>3</sup>The BSA, as amended, requires that certain large currency transactions be reported to IRS as prescribed by the Secretary of the Treasury. In addition to the CTR, other reports prescribed include the Currency Transaction Report by Casino, the Report of International Transportation of Currency or Monetary Instruments, and the Report of Foreign Bank and Financial Accounts. IRS also requires persons engaged in trade or business (other than financial institutions required to report under BSA) to file the Report of Cash Payments Over \$10,000 Received in a Trade or Business.

<sup>4</sup>EU countries comprise 15 member nations: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom (U.K.).

<sup>5</sup>Council Directive of 10 June 1991 on Prevention of the Use of the Financial System for the Purpose of Money Laundering (91/308/EEC).

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other means besides on-site examinations for assessing branches' anti-money-laundering controls. For example, U.S. regulators rely on agreements with their foreign counterparts that provide for exchanges of information on examinations of each others' foreign-based branches.

Numerous U.S. law enforcement agencies, including the Drug Enforcement Administration (DEA), the Federal Bureau of Investigation (FBI), IRS, the U.S. Customs Service, and the U.S. Secret Service have responsibilities for investigating domestic and international crimes involving money laundering. Some European law enforcement officials acknowledged the important role these U.S. law enforcement agencies play. However, according to British and Swiss law enforcement officials, too many U.S. agencies are involved in money-laundering inquiries. In some cases, this makes it difficult to determine which U.S. agency they should coordinate with. These European officials indicated that designating a single U.S. office to serve as a liaison on these money-laundering cases would improve coordination. Recent memorandums of understanding (MOU) among U.S. agencies have attempted to deal with such coordination problems, which have been the subject of our past reports<sup>6</sup> and congressional hearings.<sup>7</sup>

The United States works with other countries through multilateral and bilateral treaties and arrangements to establish global anti-money-laundering policies, enhance cooperation, and facilitate the exchange of information on money-laundering investigations. The U.S.' multilateral efforts to establish global anti-money-laundering policies occur mainly through the Financial Action Task Force (FATF),<sup>8</sup> established in 1989. FATF has attempted to combat global money laundering by providing the impetus for member and nonmember countries to adopt money-laundering legislation and controls. The United States has also participated in more recent multilateral efforts to combat money laundering, including those with other countries in the Western Hemisphere and other parts of the world. In addition, the United States

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<sup>6</sup>See *Money Laundering: The U.S. Government Is Responding to the Problem* (GAO/NSIAD-91-130, May 16, 1991). Various GAO reports discuss the lack of coordination among law enforcement agencies in areas such as drug trafficking and the apprehension of fugitives.

<sup>7</sup>See *Federal Government's Response to Money Laundering: Hearings Before the Committee on Banking, Finance, and Urban Affairs, House of Representatives, 103d Cong., 1st sess., (1993).*

<sup>8</sup>FATF consists of the following members: Australia, Austria, Belgium, Canada, Denmark, the European Commission (representing the EU), Finland, France, Germany, Greece, the Gulf Cooperation Council, Hong Kong, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, Turkey, the U.K., and the United States.

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has entered into bilateral legal, financial, and customs-oriented agreements with countries to encourage information exchanges on criminal matters, including money laundering. (See app. I for a list of countries that have signed agreements with the United States.)

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## Background

Federal law enforcement officials estimate that between \$100 billion and \$300 billion in U.S. currency is “laundered” each year. The U.S. approach to money-laundering prevention and detection includes criminal enforcement<sup>9</sup> and civil regulatory efforts. Numerous U.S. agencies play a role in combating money laundering. Law enforcement agencies within the Departments of Justice and the Treasury have the greatest involvement in domestic and international criminal investigations involving money laundering. FRB and OCC have the primary responsibility for examining and supervising the overseas branches of U.S. banks to ascertain the adequacy of the branches’ anti-money-laundering controls. The Financial Crimes Enforcement Network (FinCEN), a Treasury agency, provides governmentwide intelligence and analysis that federal, state, local, and foreign law enforcement agencies can use to aid in the detection, investigation, and prosecution of domestic and international money laundering and other financial crimes.

In addition, other U.S. agencies have a role in combating money laundering, including the Department of State. Specifically, the Department of State works with U.S. and multilateral organizations in developing global anti-money-laundering policies. The Department of State also is involved in coordinating U.S. anti-money-laundering activities overseas, including training. Further, the Department of State provides an annual assessment of narcotics and money-laundering problems worldwide.<sup>10</sup> Among other things, this assessment describes money-laundering activities in many countries and rates money-laundering risks for these countries. (See app. II for the Department of State’s prioritization of money-laundering activities in specific countries, for 1995.)

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<sup>9</sup>The Money Laundering Control Act of 1986 (P.L. 99-570, Oct. 27, 1986) made money laundering a crime by adding sections 1956 and 1957 to title 18 of the U.S. Code. Section 1956, among other things, defines money laundering to include financial transactions involving the proceeds of an unlawful activity or the transportation, including international transportation, of funds obtained from these activities. Section 1957, among other things, prohibits knowingly engaging in monetary transactions involving property valued in excess of \$10,000 from specified unlawful activities. The act also allows for seizure and forfeiture of property derived from specified unlawful activity.

<sup>10</sup>See International Narcotics Control Strategy Report, U.S. Department of State, Bureau for International Narcotics and Law Enforcement Affairs (Washington, D.C.: Department of State, Apr. 1995).

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## Scope and Methodology

To understand U.S. approaches to combating money laundering through regulation of financial institutions and U.S. bank regulators' oversight of money-laundering controls at overseas branches of U.S. banks, we interviewed FRB and OCC officials and examiners, including the OCC's London branch examiners. We also interviewed officials from FinCEN, 3 large U.S. banks that have branches or subsidiaries in most of the European countries we visited, and 11 U.S. overseas financial institution branches that U.S. embassy officials recommended to us. These branches were located in seven selected West and Central European countries—England, France, Germany, Hungary, Italy, Poland, and Switzerland.<sup>11</sup> These countries were recommended to us by the Department of State and the Secret Service as countries that could provide us with information on overseas money laundering and on the overseas counterfeiting of U.S. currency. The latter was the subject of a concurrent review we conducted when visiting these countries.<sup>12</sup> We reviewed our past reports, FRB and OCC examination manuals covering anti-money-laundering examination procedures, and various papers presented at the American Bankers Association's October 1994 Money-Laundering Enforcement Seminar in Washington, D.C. We also reviewed testimony by Treasury and FRB officials and looked at recent anti-money-laundering legislation and regulations.

To understand the approach taken by the European countries we visited toward combating money laundering through financial institutions, we conducted interviews with officials of 12 regulatory and supervisory agencies from the 7 European countries. We also conducted interviews with officials from 24 European and U.S. financial institutions located in these countries. We obtained documentation from each country we visited on policies to combat money laundering through financial institutions. In addition, we interviewed FATF's Secretary and reviewed FATF's six annual reports from 1990 through 1995, which contained information on the U.S.' and the five West European countries'—England, France, Germany, Italy, and Switzerland—anti-money-laundering policies. We reviewed a report developed by the EU Banking Federation's Fraud Working Group on the status of member countries' implementation of the EU's Directive on money laundering and a study entitled Money-Laundering and Financial

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<sup>11</sup>Unless otherwise stated, when we refer to European countries we will be referring to the countries in West and Central Europe that we visited.

<sup>12</sup>See Counterfeit U.S. Currency Abroad: Issues and U.S. Deterrence Efforts (GAO/GGD-96-11, Feb. 26, 1996).

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Institutions: National and International Law.<sup>13</sup> The study described and compared U.S. and EU approaches to combating money laundering through financial institutions.

To understand how U.S. law enforcement agencies coordinated their overseas criminal investigations involving money laundering among themselves and with host countries' law enforcement agencies, we interviewed U.S. law enforcement officials from the Customs Service, the Secret Service, IRS, DEA, and FBI. We interviewed headquarters officials as well as field staff in U.S. embassies in England, France, Italy, and Switzerland. We also interviewed officials from the International Criminal Police Organization (Interpol) and law enforcement officials from six of the seven European countries we visited to obtain their views on coordinating money-laundering investigations with U.S. law enforcement agencies. We reviewed two U.S. MOUs that described which U.S. law enforcement agencies had jurisdiction over crimes associated with money laundering. We reviewed the Department of State's 1995 narcotics report and FinCEN's 1992 report entitled An Assessment of Narcotics Related Money-Laundering to obtain descriptions of international money-laundering cases.

To obtain information on U.S. participation in international arrangements such as FATF, we interviewed Treasury, Justice, Department of State, OCC, and FRB officials as well as government officials in the European countries we visited. We reviewed FATF's annual reports and interviewed FATF's Secretary to obtain information on the task force's current status. The Department of State's 1995 narcotics report provided us with information on the bilateral agreements on information sharing that the United States has entered into with other countries.

Information on foreign law in this report does not reflect our independent legal analysis but is based on interviews and secondary sources.

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<sup>13</sup>One of the authors of the study, Professor Dr. Mark Pieth of the Institut für Rechtswissenschaft, Universität Basle, Basle, Switzerland, told us that he expected the study to be published sometime in 1996.



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We obtained comments on a draft of this report from the Departments of the Treasury, Justice, and State; the Office of the Comptroller of the Currency, and the Federal Reserve Board. These comments are discussed on page 19 and reprinted in appendixes VI, VII, VIII, IX, and X, respectively.

We conducted our work between June 1994 and May 1995 and updated our information as of February 1996 in accordance with generally accepted government auditing standards.

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## U.S. and European Approaches to Combating Money Laundering Through Financial Institutions

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### U.S. Approaches

Until the past few years, the U.S.' anti-money-laundering efforts under BSA have tended to rely heavily on regulations requiring financial institutions to routinely report currency transactions that exceed \$10,000, primarily through filing CTRs with IRS. The United States has also relied on financial institutions to report to regulatory and law enforcement authorities, those customers who are engaged in known or suspected financial crimes or suspected of circumventing CTR requirements.<sup>14</sup> Over the past few years, U.S. bank regulators have required that financial institutions adopt anti-money-laundering programs that, at a minimum, include (1) internal policies, procedures, and controls; (2) the designation of a compliance officer; (3) ongoing training of employees; and (4) an independent audit to test the adequacy of these programs.

Financial institutions have also adopted so-called "know your customer" policies to help them identify customers engaged in known or suspected financial crimes. Under these policies, which are currently voluntary, but which the Treasury plans to make mandatory in 1996, financial institutions are to verify the business of a new account holder and report any activity

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<sup>14</sup>On February 5, 1996, the Treasury and banking regulators finalized rules to require that banks and other depository institutions file a single report, known as the suspicious activity report (SAR), to FinCEN for suspicious transactions at or above \$5,000.

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that appears to be inconsistent with that account holder's type of business. Banking association officials view "know your customer" policies, which they said the majority of banks have already voluntarily adopted, as among the most effective means of combating money laundering.

According to a senior Treasury official, the U.S.' anti-money-laundering efforts under BSA are expected to rely more on suspicious transaction reporting.<sup>15</sup> U.S. anti-money-laundering efforts are expected to continue relying on CTRs, but to a lesser extent. This change in emphasis from routine reporting of currency transactions above a given threshold to reporting of suspicious transactions is a key component of a flexible and cost-efficient compliance program required to combat money laundering through financial institutions, according to the Treasury. In a related matter, the Treasury said it is working on meeting a statutory goal seeking a 30-percent reduction in the number of CTRs filed by financial institutions.<sup>16</sup> Congress took this action in part because of concerns about (1) the burdens imposed on the banking industry of routinely filing millions of CTRs annually, (2) the costs incurred by the Treasury of processing these CTRs, and (3) the ability of law enforcement to use information from the Treasury's cluttered CTR database.<sup>17</sup> The BSA Advisory

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<sup>15</sup>For a recent GAO report on suspicious transaction reporting, see Money Laundering: Needed Improvements for Reporting Suspicious Transactions Are Planned (GAO/GGD-95-156, May 30, 1995).

<sup>16</sup>The 1994 Money Laundering Suppression Act (P.L. 103-325, Sept. 23, 1994) provides that the Secretary of Treasury shall seek to reduce, within a reasonable period of time, the number of reports required to be filed by at least 30 percent.

<sup>17</sup>See Money Laundering: The Volume of Currency Transaction Reports Filed Can and Should Be Reduced (GAO/T-GGD-94-113, Mar. 15, 1994) for an analysis of the use of millions of CTRs filed annually.

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Group,<sup>18</sup> which consists of officials from the Treasury and bank regulators and representatives from financial institutions, is identifying and increasing the categories of businesses that will not have to file routine CTRs, as a means to reach the 30-percent reduction goal, according to Treasury officials.

U.S. regulatory and banking association officials told us that the ongoing shift toward greater reliance on suspicious transaction reports necessitates several key changes. They said it will require more training for financial institutions on identifying suspicious transactions. This activity entails a greater degree of judgment on the part of bank employees than recording and forwarding CTRs. In addition, it necessitates greater feedback from regulators and law enforcement agencies on how individual institutions can determine what types of transactions are suspicious. The BSA Advisory Group, among other things, is working with the Treasury to provide greater guidance to financial institutions on identifying suspicious transactions, according to Treasury officials.

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## West European Approaches

The anti-money-laundering approaches of four of the five West European countries we visited—England, France, Germany, and Italy—are modeled after a 1991 EU Directive on money laundering, which lists anti-money-laundering controls that members are required to incorporate in their domestic laws.<sup>19</sup> Controls outlined in the directive were patterned after anti-money-laundering recommendations adopted by FATF (see pp. 15-16) and include some of the controls U.S. regulators rely on in this country. These European countries require recording large currency transactions; however, with the exception of Italy, they do not require routinely reporting such transactions that the United States has relied on under BSA. Instead, they have chosen to emphasize the use of suspicious transaction reports and “know your customer” policies, according to European regulators.

Financial institutions in two of the five West European countries we visited are required to forward suspicious transaction reports to a single designated agency, a feature that the Treasury recently incorporated into U.S. suspicious transaction reporting requirements. England and France

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<sup>18</sup>The 1992 Annunzio-Wylie Anti-Money Laundering Act (P.L. 102-550, Oct. 28, 1992) required the Treasury to establish a BSA advisory group to inform the private sector on ways in which BSA and suspicious transaction information is being used and to advise the Treasury on how to modify reporting requirements to enhance the ability of law enforcement to use the information.

<sup>19</sup>Switzerland, which is not an EU country, agreed to honor the EU Directive, according to the Department of State.

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have each designated a single government agency at the national level responsible for receiving and acting on suspicious transaction reports. Financial institutions in the other three countries are to forward such reports to various national and local government agencies.<sup>20</sup>

“Know your customer” policies in the West European countries we visited are somewhat more comprehensive than comparable U.S. policies that are voluntary for U.S. banks, according to European bank and regulatory officials. As in the United States, “know your customer” policies in these European countries involve institutions verifying the identity and banking practices of account holders so that unusual transactions can be identified. However, “know your customer” policies in the European countries we visited go one step further than U.S. policies in that they require institutions to identify not only the customer opening the account, but also any other person or entity that may benefit from the account.

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## Central European Approaches—Hungary and Poland

Hungary and Poland have adopted anti-money-laundering measures following the EU Directive but have faced constraints in implementing and enforcing these laws. Bank regulatory and law enforcement officials in those countries told us that they lacked the resources and training to adequately combat financial crimes, including money laundering. These officials told us that they looked to the United States and the EU to continue providing training and financial support to help their countries’ bankers and law enforcement agencies implement new anti-money-laundering controls.

Officials from both countries said that their banks’ pursuit of new deposits has tended to cause them to neglect adequate background checks of depositors. In Hungary, we were told that financial institutions, overwhelmed with new banking activity, were unable to interview and research depositors as thoroughly as western banks do. Polish government officials said that banks in that country were reluctant to inform law enforcement agencies about suspected money launderers because of their uncertainty about how to resolve apparent conflicts between Poland’s bank secrecy laws and recently adopted anti-money-laundering statutes. Widespread confusion about the new

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<sup>20</sup>While Swiss officials said that financial institutions in Switzerland are not mandated to report suspicious transactions, they are liable to prosecution if they carry out a transaction that they suspect involves money laundering. Switzerland drafted a law in 1994 that would mandate reporting of suspicious transactions. However, the Swiss Federal Banking Commission and the Swiss Banking Association have not agreed on the necessity of mandating such reports, according to the U.S. Department of State.

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reporting requirements has resulted in few banks reporting suspicious transactions, according to the officials.

FinCEN and Interpol have recently initiated Project Eastwash, in an attempt to assess money laundering in 20 to 30 countries throughout East and Central Europe and the former Soviet Union. According to FinCEN officials, as of late 1995 on-site visits had been made to five countries to assess the law enforcement, regulatory, legislative, and financial industry environment in each nation. Information from these visits is to be used for policy guidance and resource planning for both the countries assessed and U.S. and international anti-money-laundering organizations, according to these officials.

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## U.S. Approaches to Combating Money Laundering Through Overseas Branches of U.S. Banks

U.S. banks had over 380 overseas branches located in 68 countries as of August 1995. These branches, which are direct extensions of U.S. banks, are bound by the host countries' anti-money-laundering laws rather than U.S. anti-money-laundering laws, according to OCC and FRB officials. Moreover, bank, privacy, and data protection laws in some of these countries serve to prevent U.S. regulators from conducting on-site examinations of U.S. bank branches located within their borders. Of the seven European countries we visited, U.S. regulators were allowed to enter England, Germany, and Italy to examine U.S. bank branches. They were not allowed to enter Switzerland and France to examine branches of U.S. banks because of these countries' strict bank secrecy and data protection laws. According to OCC officials, U.S. regulators have not tried to examine branches in Poland and Hungary and were unsure if they would be able to if the need arose.

OCC and FRB officials said that in host countries that allow U.S. regulators to conduct on-site examinations of the anti-money-laundering controls of U.S. banks, such examinations are of a much narrower scope than those of banks located in the United States. This is partially due to constraints posed by host country bank, privacy, and data protection laws. The OCC officials told us that in a typical examination of an overseas bank branch's anti-money-laundering controls, regulators mainly interview branch officials to determine if the bank has written anti-money-laundering policies and procedures, including "know your customer" policies. The officials said that U.S. regulators also interview branch officials to determine whether the bank has adopted internal controls to prevent money laundering. In contrast, in the United States, anti-money-laundering examinations—known as "BSA examinations"—call for regulators to

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interview bank officials, review the bank's anti-money-laundering policies and procedures, test these policies and procedures, and examine transactions to check for violations of BSA.<sup>21</sup>

OCC and FRB officials also said that the expense of sending examiners overseas limits the amount of time examiners can spend reviewing the anti-money-laundering controls of U.S. banks. While overseas, regulators focus most of their time examining the safety and soundness<sup>22</sup> of the branch, according to these regulatory officials. OCC overseas examination procedures, for example, call for the anti-money-laundering portion of the examination to be brief and for it to avoid placing an undue burden on the scope of the overall examination. OCC and FRB officials also indicated that another factor limiting the scope of money-laundering examinations of U.S. overseas branches is the small volume of currency transactions at these branches compared with branches in the United States. According to these regulatory officials, some overseas branches serve as wholesale providers of banking services to corporations and conduct very few cash transactions.

FRB officials told us that they have recently developed money-laundering examination procedures to be used by its examiners to address the uniqueness of overseas branches' operations and to fit within the short time frames of these examinations. These procedures were tested in November 1995 and are to be implemented into the FRB's examination procedures soon, according to FRB officials.

In countries with laws that serve to prohibit U.S. regulators from entering to examine U.S. branches, U.S. regulators must rely on other means besides on-site examinations for obtaining information on U.S. overseas branches' anti-money-laundering controls, according to FRB and OCC officials. For example, under current policies, U.S. regulators rely on exchanging information with various foreign banking regulators on their respective examinations of one another's existing foreign-based branches. In other cases, FRB can deny a bank's application to open a branch in a country with strict bank secrecy laws if it does not receive assurance from the bank that its branch will have sufficient anti-money-laundering controls in place.

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<sup>21</sup>The 1994 Money Laundering Suppression Act requires that banking regulators review and enhance, among other things, the examination procedures to improve identification of money-laundering schemes involving financial institutions. A subtask group of the Federal Financial Institutions Examination Council is working with the Treasury, FinCEN, and law enforcement agencies on these new examination procedures.

<sup>22</sup>A safety and soundness examination attempts to measure the financial stability of an institution.

## U.S. Law Enforcement Agencies' Overseas Anti-Money-Laundering Efforts

The United States has various law enforcement agency personnel located abroad to (1) serve as overseas liaisons for U.S. law enforcement agencies' international criminal investigations; and (2) share information with and, in some cases, assist their foreign law enforcement counterparts in criminal investigations, including money laundering. Personnel who work for U.S. law enforcement agencies abroad, and IRS, which has some enforcement duties, have a range of responsibilities on investigating crimes involving money laundering, as shown in table 1.

**Table 1: Selected U.S. Agencies' Responsibilities in Investigations of Crimes Involving Money Laundering**

Agency	Overseas role in international criminal investigations
The Treasury	
IRS	IRS' Criminal Investigation Division is responsible for documenting and obtaining witness testimony in money-laundering cases. They are also responsible for assisting overseas law enforcement agencies in their financial investigations and money-laundering cases. <sup>a</sup>
The Customs Service	The Customs Service is responsible for gathering information and assisting on cases such as the illegal exporting and importing of monetary instruments and smuggling of goods into the United States.
The Secret Service	The Secret Service is responsible for gathering information and assisting on cases such as the counterfeiting of securities of the United States and postal money orders as well as the perpetration of fraud in connection with access devices, such as credit cards.
Justice Department	
DEA	DEA is responsible for gathering information and assisting on investigations into the proceeds generated from drug trafficking.
FBI	FBI is responsible for gathering information and assisting on a wide variety of investigations from crimes that generate illicit income, such as embezzlement, and fraud.

<sup>a</sup>IRS has developed an "international strategy," in which it anticipates the placement of Criminal Investigation special agents in three foreign posts: Bogota, Colombia; Mexico City, Mexico; and Frankfurt, Germany.

Source: U.S. Department of the Treasury and U.S. Department of Justice.

## Some European Officials Are Concerned About Coordination With U.S. Law Enforcement

European law enforcement officials we spoke with acknowledged the important role that U.S. law enforcement agencies play in investigating overseas money-laundering cases. French officials noted that U.S. law enforcement agencies are very active in fighting money laundering and understand that international cooperation is essential. Other European

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officials acknowledged the value of U.S. law enforcement agencies in providing training on identifying money-laundering schemes. However, some British and Swiss law enforcement officials we spoke with said that too many U.S. agencies are involved in money-laundering inquiries. They said this overlap makes it difficult, in some cases, to determine which U.S. agency they should coordinate with.

These British and Swiss officials indicated that designating a single U.S. office to serve as a liaison on these money-laundering cases would improve coordination. The British law enforcement officials described a recent case in which they had difficulty coordinating their efforts with U.S. law enforcement agencies because they did not know which U.S. agency had responsibility for the case. The British officials indicated that DEA, the Customs Service, and FBI all had independent operations, and all claimed lead responsibility for the case. Our discussions with European law enforcement officials, although providing some instances of coordination problems, did not afford sufficient data to determine whether this is a serious or widespread problem. Furthermore, at the time of our visit, the United States was just beginning to implement efforts to improve coordination of overseas drug money-laundering investigations as discussed in the following section.

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## U.S. Officials' Views on Law Enforcement Coordination

U.S. law enforcement officials we spoke with acknowledged that the number of agencies with jurisdiction over money-laundering investigations could cause confusion among their overseas counterparts about which U.S. agency they should coordinate with. While these officials indicated that U.S. interagency coordination has been both a domestic and international concern for some time, they did describe recent steps to improve coordination.

Specifically in regard to improving overseas money-laundering coordination, they pointed to the signing of an MOU adopted by a number of U.S. agencies in July 1994. The MOU describes procedures for allocating jurisdiction over international drug money-laundering investigations. Law enforcement officials were optimistic that the MOU, which was signed by representatives of the Secretary of the Treasury, the Attorney General, and the Postmaster General, would improve overseas anti-money-laundering coordination. Although law enforcement officials are optimistic about improvements in coordination, we have not assessed how well U.S. international investigations involving money laundering are being coordinated.



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While approving of efforts to improve coordination, these officials did not support designating a single point of contact on overseas money-laundering investigations to improve interagency coordination. Customs Service officials indicated that designating such a contact would pose a threat to their ability to maintain relationships they had built over time with their overseas law enforcement counterparts. They also said it would jeopardize their ability to make full use of the years of expertise they had gained in investigating money-laundering cases.

In addition to law enforcement agencies' coordination efforts, the Department of State also has responsibility for coordinating U.S. law enforcement activities in host countries. In a host country, the Department of State's Chief of Mission is statutorily responsible for directing, coordinating, and supervising U.S. government personnel, except certain military personnel, according to Department of State officials. For example, in Italy, the Chief of Mission was beginning an initiative to improve U.S. law enforcement coordination in that country, in the face of downsizing of U.S. government personnel abroad.

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## International Arrangements to Combat Overseas Money Laundering

The United States works with other countries through multilateral and bilateral treaties and arrangements to establish global anti-money-laundering policies, enhance cooperation, and facilitate the exchange of information on money-laundering investigations.

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## Multilateral Efforts to Establish Global Anti-Money-Laundering Policies

FATF is the major forum for the U.S.' and other countries' multilateral efforts to promote the adoption of and to harmonize global anti-money-laundering controls. Since its inception at the 1989 Group of Seven (G-7)<sup>23</sup> Economic Summit in Paris, FATF has worked to persuade member and nonmember countries to institute effective anti-money-laundering measures and controls. In furtherance of its mission, FATF in 1990 released a set of 40 recommendations on money-laundering measures. These recommendations describe measures that countries should adopt to control money laundering through financial institutions and improve international cooperation in money-laundering investigations. (See app. III for a summary of the 40 recommendations.) FATF has also developed a peer review process, known as "mutual evaluations," to monitor members' adherence to these recommendations.

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<sup>23</sup>The G-7 industrialized countries consist of Canada, France, Germany, Italy, Japan, the U.K., and the United States.

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## FATF Achievements and Suggested Changes in Emphasis

During 1995, FATF completed its first round of mutual evaluations of its members' progress on implementing the 40 recommendations. FATF found that most member countries have made satisfactory progress in carrying out the recommendations, especially in the area of establishing money-laundering controls at financial institutions. FATF has also continued to identify global money-laundering trends and techniques, including conducting surveys of Russia's organized crime and Central and East European countries' anti-money-laundering efforts. FATF has also expanded its outreach efforts by cooperating with other international organizations, such as the International Monetary Fund, Interpol, the Customs Cooperation Council, and the Commonwealth Secretariat, and by its outreach efforts to nonmember countries in Asia, the Caribbean, South America, Eastern Europe, Russia, and other parts of the world.

While noting FATF's achievements, officials from two member nations we visited provided their suggestions on where they believe FATF should direct its emphasis. An Italian official we spoke with told us that FATF needs to facilitate information sharing among members' law enforcement agencies. A Swiss official told us FATF needs to direct more emphasis towards helping members develop and adopt practical techniques and tools to prevent and detect sophisticated money-laundering schemes. For example, he believed that FATF should alert members to the need for banks to concentrate more attention on analyzing cumulative bank transactions to gain a better picture of a client's transaction patterns. He also believed that FATF needs to provide members with information on suspicious wire transfers and "shell" corporations formed solely to launder money. (See app. IV for a description of U.S. and international efforts to prevent money laundering through wire transfers.) On November 28-29, 1995, FATF members met in Paris to discuss current and emerging money-laundering schemes. Officials from Interpol and the United Nations Drug Control Program were also present. While most of the meeting focused on money-laundering schemes in FATF member countries, some attention was given to schemes in nonmember countries, with special attention given to countries in the former Soviet Union and in Central and East Europe.

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## U.S.' Role in FATF

The Treasury's Under Secretary for Enforcement assumed the FATF presidency in July 1995. The Under Secretary's strategic plan for his 1-year term was to build upon three ongoing FATF initiatives and to realize sufficient progress so that FATF could complete these initiatives by 1999—the year in which the task force is scheduled to cease its operations.

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One initiative involved the continuous monitoring of new anti-money-laundering laws and regulations FATF member countries have implemented in response to the 40 recommendations. Such monitoring efforts include self-assessments that have been ongoing since 1990, cross-country reviews that began in 1994, and the previously discussed mutual evaluations that all member nations had undergone by the end of 1994. Another initiative involved completing work on revising the 40 recommendations, creating an ongoing dialogue between FATF and international banks, and furthering FATF efforts to identify money-laundering methods. For example, FATF continues to monitor members' progress in countering money launderers' use of wire transfers and has recently begun to address electronic banking and its implications for money laundering. The third initiative involved the expansion of FATF's relations with nonmember nations that began in 1991, by continuing to coordinate with regional and international organizations.

According to the FATF Secretary, U.S. leadership of the task force is expected to build upon FATF relations with nonmember nations made possible through the coordinated efforts of U.S. embassies located around the world. In addition, FATF is expected to benefit from close coordination with FinCEN. According to the FATF Secretary, this closer coordination should provide FATF with improved money-laundering intelligence that will allow it to develop a better overview of global money-laundering problems.

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## More Recent Multilateral Initiatives

A more recent multilateral effort involves the United States and other countries in the Western Hemisphere. In December 1994, the 34 leaders of the Western Hemisphere met at the Summit of the Americas in Miami, Florida. At the summit, the leaders signed a Declaration of Principles that included a commitment to fight drug trafficking and money laundering. The summit documents also detailed a plan of action to which the leaders affirmed their commitment. One action item called for a working-level conference on money laundering, to be followed by a ministerial conference, to study and agree on a coordinated hemispheric response to combat money laundering.

The ministerial conference, held in December 1995, at Buenos Aires, Argentina, represented the beginning of a series of actions each country committed to undertake in the legal, regulatory, and law enforcement areas. U.S. Department of Justice officials told us that the conference created an awareness that money laundering is not only a law enforcement

issue, but it is also a financial and economic issue, requiring a coordinated interagency approach.

As part of another multilateral effort, FinCEN is working with other countries to develop and implement Financial Information Units (FIU) modeled, in large part, on FinCEN operations. FinCEN has also met with officials from other countries' FIUs to discuss issues common to FIUs worldwide. The most recent meeting was held in Paris in November 1995, during which issue-specific working groups were created to address common concerns, such as the use of technology and the consideration of legal matters in exchanging intelligence information.

## International Money-Laundering Agreements

Before the more recent multilateral efforts and the formation of FATF in 1989, the United States was signatory to two multilateral agreements that remain key to the U.S.' and other nations' multilateral efforts. One, the 1988 Basle Committee on Banking Regulations and Supervisory Practices'<sup>24</sup> Statement of Principles on Money Laundering, recommended that financial institutions ensure full customer identification, compliance with anti-money-laundering laws, and cooperation with law enforcement agencies on money-laundering cases. The second agreement, the 1988 United Nations (U.N.) Vienna Convention, stipulated that all signatories should criminalize drug money laundering and that countries should cooperate and work to prevent bank secrecy laws from interfering with criminal investigations. Five of the seven European countries we visited—England, France, Germany, Italy, and Poland—have adopted the U.N. Vienna Convention. Switzerland, which has not ratified the convention, has substantially met the goals of the convention, according to the Department of State. At the time we completed our fieldwork, Hungary had not ratified the convention, although it had passed legislation in 1995 that harmonized its existing laws with those of the convention, according to the Department of State.

## Bilateral Agreements to Improve Cooperation in International Money-Laundering Cases

Bilateral agreements for combating international money laundering that the United States has entered into include mutual legal assistance treaties (MLAT), financial information exchange agreements, and customs mutual assistance agreements. In recent years, according to U.S. Treasury officials, the United States has relied on these agreements with individual countries (1) to improve cooperation in international investigations,

<sup>24</sup>The committee includes representatives of the central banks and supervisory authorities of Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Sweden, Switzerland, the U.K., and the United States.

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prosecutions, and forfeiture actions involving money laundering and (2) to facilitate information exchanges on criminal investigations, including money-laundering investigations. However, the Department of State's 1995 annual report on global narcotics crime, which discusses current U.S. concerns about international anti-money-laundering efforts, concluded that many countries still refuse to share information with other governments about financial transactions that could facilitate global money-laundering investigations. (See app. V for a summary of the Department of State's 1995 list of concerns about international anti-money-laundering efforts.)

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## Agency Comments and Our Evaluation

We were provided written comments on a draft of this report by the Department of the Treasury, which incorporated comments from the Customs Service, FinCEN, and IRS; the Department of Justice, which incorporated comments from the Criminal Division, FBI, and DEA; the Department of State; OCC; and FRB. (See apps. VI, VII, VIII, IX, and X.) The Departments of the Treasury and Justice said they generally agreed with the information presented in this report. However, they, along with the Department of State, indicated that our description of U.S. efforts to detect and prevent domestic and international money laundering was incomplete. Their comments also included technical changes and/or factual updates that we have incorporated where appropriate.

In general, they said that we did not sufficiently describe U.S. efforts to combat money laundering and the roles of their respective agencies and in some cases did not sufficiently elaborate on U.S. domestic efforts. Our report was not intended to cover the broad range of U.S. anti-money-laundering activities worldwide, nor was it intended to comment on all the responsibilities that the various agencies had in combating money laundering. Rather, our objective, as stated at the beginning of this report, was to provide a framework for understanding U.S. overseas activities based largely on the discussions held in seven countries we visited. Nonetheless, the agencies provided additional information, which we incorporated in our report where appropriate.

The Department of State also commented that we did not fully discuss its role in the fight against global money laundering. It also stated that we did not address the role of the U.S. chiefs of mission, especially with respect to coordinating U.S. government personnel in foreign countries. We have revised the report to recognize the Department of State's role in helping establish U.S. policy on money laundering and its role as a participant in

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international organizations such as FATF and the United Nations. We have included a discussion of the chiefs of missions' overseas role in coordinating U.S. government personnel, including U.S. law enforcement agencies. We also discussed the Department of State's role in coordinating international law enforcement training. However, we have not assessed the effectiveness of this role.

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We are sending copies of this report to interested congressional committees, to the Secretaries of the Departments of the Treasury and State, the Attorney General, the Comptroller of the Currency, and the Chairman of the Federal Reserve Board. We will also make copies available to others on request.

Major contributors to this report are listed in appendix XI. Please call me on (202) 512-8984 if you or your staff have any questions about this report.

Sincerely yours,

A handwritten signature in black ink that reads "JayEtta Z. Hecker". The signature is written in a cursive style with a large, sweeping initial "J" and a long horizontal line extending to the right.

JayEtta Z. Hecker, Associate Director  
International Relations and Trade Issues

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**Abbreviations**

BSA	Bank Secrecy Act
CHIPS	Clearing House Interbank Payments System
CTR	currency transaction report
DEA	Drug Enforcement Administration
EU	European Union
FATF	Financial Action Task Force
FBI	Federal Bureau of Investigation
FinCEN	Financial Crimes Enforcement Network
FIEA	Financial Information Exchange Agreement
FIU	Financial Information Unit
FRB	Federal Reserve Board
G-7	Group of Seven
Interpol	International Criminal Police Organization
IRS	Internal Revenue Service
MLAT	mutual legal assistance treaty
MOU	memorandum of understanding
OCC	Office of the Comptroller of the Currency
OTA	Office of Technology Assessment
SAR	suspicious activity report
SWIFT	Society for Worldwide Interbank Financial Telecommunication
U.K.	United Kingdom
U.N.	United Nations

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# Countries That Have Signed Bilateral Agreements With the United States to Share Information on Criminal, Currency, and Customs Matters

The United States has entered into various bilateral treaties and agreements with other countries to facilitate its efforts in combating international money-laundering activities.

- The Department of Justice, in cooperation with the Department of State, has negotiated mutual legal assistance treaties (MLAT) to aid cooperation in criminal matters, including money laundering. The United States has signed MLATS with 23 countries; however, it has only implemented these agreements with 14 of them.
- The Department of the Treasury, with the cooperation of the Departments of State and Justice, has negotiated Financial Information Exchange Agreements (FIEA) with other countries. These are agreements to share currency transaction information to help investigate possible illicit activities, such as money laundering. The Treasury has signed FIEAs with seven Central and South American countries, including Mexico, but is awaiting ratification of these agreements in two of the countries.
- The Customs Service has negotiated mutual assistance agreements to coordinate joint investigations with overseas law enforcement agencies. Currently, the U.S. Customs Service has 24 of these agreements in force with other countries and has signed, but not put into force, agreements with two other countries. The countries that have signed bilateral treaties and agreements with the United States are presented in table I.1.

**Table I.1: Bilateral Agreements Brought Into Force on Criminal, Currency, or Customs Matters**

Country	MLAT	FIEA	Customs agreements
Argentina	Y	N	Y
Australia	N	N	Y
Austria	Y <sup>a</sup>	N	Y
The Bahamas	Y	N	N
Belarus	N	N	Y
Belgium	Y <sup>a</sup>	N	Y
Canada	Y	N	Y
Colombia	Y <sup>a</sup>	Y	N
Cyprus	N	N	Y
Czech Republic	N	N	Y
Denmark	N	N	Y <sup>b</sup>
Ecuador	N	Y	N
Finland	N	N	Y
France	N	N	Y
Germany	N	N	Y
Greece	N	N	Y

(continued)

**Appendix I  
Countries That Have Signed Bilateral  
Agreements With the United States to Share  
Information on Criminal, Currency, and  
Customs Matters**

<b>Country</b>	<b>MLAT</b>	<b>FIEA</b>	<b>Customs agreements</b>
Honduras	N	N	Y <sup>b</sup>
Hungary	Y <sup>a</sup>	N	Y
Italy	Y	N	Y
Jamaica	Y	N	N
South Korea	Y <sup>a</sup>	N	Y
Mexico	Y	Y	Y
Morocco	Y	N	N
The Netherlands	Y	N	N
Nigeria	Y <sup>a</sup>	N	N
Norway	N	N	Y
Panama	Y <sup>a</sup>	Y <sup>c</sup>	N
Paraguay	N	Y <sup>d</sup>	N
Peru	N	Y	N
The Philippines	Y <sup>a</sup>	N	N
Poland	N	N	Y
Russia	N	N	Y
Slovakia	N	N	Y
Spain	Y	N	Y
Sweden	N	N	Y
Switzerland	Y	N	N
Thailand	Y	N	N
Turkey	Y	N	N
The United Kingdom (U.K.)	Y <sup>a</sup>	N	Y
The U.K. Caribbean territories <sup>e</sup>	Y	N	N
Uruguay	Y	N	N
Venezuela	N	Y	N
Yugoslavia	N	N	Y

(Table notes on next page)

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**Appendix I  
Countries That Have Signed Bilateral  
Agreements With the United States to Share  
Information on Criminal, Currency, and  
Customs Matters**

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Legend

Y = An agreement has been signed and brought into force unless otherwise noted.  
N = No agreement has been signed.

<sup>a</sup>These agreements have been signed with these countries but have not been brought into force.

<sup>b</sup>The U.S. Customs Service has negotiated agreements with these countries, but the agreements have not been brought into force.

<sup>c</sup>This agreement, along with the MLAT, is awaiting ratification by the U.S. Senate.

<sup>d</sup>This agreement is awaiting approval by the Paraguayan Senate.

<sup>e</sup>The U.K. Caribbean territories are the Cayman Islands, Anguilla, British Virgin Islands, the Turks and Caicos Islands, and Montserrat.

Source: U.S. Department of State.

# Major Money-Laundering Countries in 1995

The State Department is required by law<sup>25</sup> to identify major money-laundering countries and provide certain specific information for each such country. The Department of State works with other agencies from the Departments of the Treasury and Justice to put this information together. Countries are categorized into six levels of risk (high, medium-high, medium, low-medium, low, and no priority) on the basis of the degree to which they are at risk of experiencing money-laundering activities, as shown in table II.1.

**Table II.1: The Department of State's Prioritization of Money-Laundering Activities in Specific Countries, for 1995**

Priority	Location
High <sup>a</sup>	Aruba, Canada, Cayman Islands, Colombia, Germany, Hong Kong, Italy, Mexico, the Netherlands, Nigeria, Panama, Singapore, Switzerland, Thailand, the U.K., the United States, and Venezuela
Medium-high <sup>a</sup>	Argentina, Brazil, Costa Rica, Ecuador, India, Japan, Liechtenstein, Luxembourg, the Netherlands Antilles, Pakistan, Paraguay, Russia, Spain, Turkey, Uruguay, and the United Arab Emirates
Medium <sup>b</sup>	Antigua, Australia, Austria, the Bahamas, Bahrain, Belgium, Belize, Bolivia, Bulgaria, Burma, the Channel Islands, Chile, China, Cyprus, France, Gibraltar, Greece, Guatemala, Hungary, Israel, South Korea, Kuwait, Lebanon, Macau, Madeira/Azores, Malaysia, Montserrat, Morocco, Peru, the Philippines, Poland, St. Vincent, and Taiwan
Low-medium <sup>c</sup>	Côte d'Ivoire, Cuba, Denmark, the Dominican Republic, Egypt, Nepal, Portugal, Sri Lanka, Trinidad, and Vanuatu

(continued)

<sup>25</sup>The International Narcotics Control Act of 1992 (P.L. 102-583, Nov. 2, 1992).

**Appendix II**  
**Major Money-Laundering Countries in 1995**

Priority	Location
Low <sup>c</sup>	Afghanistan, Andorra, Anguilla, Barbados, Bermuda, the British Virgin Islands, Cambodia, the Czech Republic, Estonia, French West Indies, Finland, Ghana, Haiti, Honduras, Indonesia, Iran, Iraq, Ireland, Jamaica, Kenya, Laos, Latvia, Lithuania, Malta, Monaco, New Zealand, Norway, Puerto Rico, Romania, Sierra Leone, South Africa, St. Kitts, St. Lucia, Suriname, Sweden, Syria, Ukraine, Vietnam, and Zambia
No priority <sup>d</sup>	Albania, Algeria, Angola, Azerbaijan, Bangladesh, Benin, Botswana, Burkina Faso, Burundi, the Central African Republic, Cameroon, Cape Verde, Chad, Comoros, Congo, the Cook Islands, Croatia, Djibouti, Dominica, El Salvador, Equatorial Guinea, Eritrea, Ethiopia, Fiji, Gabon, Gambia, Grenada, Guinea, Guinea-Bissau, Guyana, Iceland, Jordan, Kiribati, Kyrgystan, Lesotho, Liberia, Libya, Madagascar, Malawi, the Maldives, Mali, the Marshall Islands, Mauritania, Mauritius, Micronesia, Moldova, Mozambique, the Northern Marianas, North Korea, Namibia, Nauru, Nicaragua, Niger, Oman, Papua New Guinea, Qatar, Rwanda, Saudi Arabia, Senegal, the Seychelles, Slovakia, the Solomon Islands, Somalia, Sudan, Swaziland, Tajikistan, Tanzania, Togo, Tunisia, Turkmenistan, the Turks and Caicos, Tuvalu, Uganda, the U.S. Virgin Islands, Western Sahara, Western Samoa, Yemen, Zaire, and Zimbabwe

<sup>a</sup>Locations in which action is needed to stem and prevent money laundering in order to make headway into the international money-laundering problem.

<sup>b</sup>Locations in which a significant volume of money laundering is occurring, but action to stem and prevent money laundering is not needed as much as it is needed for high-priority countries.

<sup>c</sup>Locations in which a moderate amount of money laundering occurs, but the situation is not expected to worsen.

<sup>d</sup>Locations in which the Department of State is unaware of any money laundering or where the problem is considered too insignificant to be a factor in the international drug money-laundering market.

Source: U.S. Department of State.



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# Synopsis of the 40 Financial Action Task Force Recommendations

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The Financial Action Task Force (FATF) recommended that each member country take these actions:

1. implement the 1988 Vienna Convention, which includes criminalizing drug money laundering and cooperating with other countries on money-laundering investigations;
2. prevent financial institution secrecy laws from inhibiting the recommendations;
3. increase multilateral cooperation in money-laundering investigations;
4. make money laundering a crime;
5. extend money-laundering offenses beyond narcotic trafficking into other crimes, such as bank and insurance fraud, arms trafficking, and other serious crimes;
6. apply anti-money-laundering measures to individuals who knew or should have known that the money they received came from a criminal activity;
7. subject corporations, not only their employees, to criminal liability if they are found guilty of money laundering;
8. enable authorities to confiscate the proceeds or property obtained from criminal activity;
9. apply recommendations to nonbank financial institutions, such as exchange houses, money transmitters, brokerage houses, and check-cashing services;
10. take steps to ensure that the recommendations are implemented to cover not only banks, but also nonbank financial institutions; and
11. consider developing a list of nonbank financial institutions dealing with cash so that members can make them subject to these recommendations.

FATF recommended that financial institutions take the following actions:

12. eliminate anonymous accounts and identify and record the identity of clients;

13. identify the true beneficiary of an account;
  14. for at least 5 years, maintain records that can be used in money-laundering investigations of domestic and international transactions;
  15. pay special attention to complex, unusual, and large transactions and unusual patterns of transactions that have no apparent economic or visible, lawful purpose;
  16. permit or require financial institutions to report suspicious transactions. Protect the institutions from criminal and civil liability for disclosing information on their clients when they suspect the client is engaging in a criminal activity;
  17. do not permit financial institutions to warn customers about transaction reporting;
  18. comply with instructions from competent authorities on steps to take when reporting suspicious transactions;
  19. when no requirement to report suspicious transactions exists, deny assistance to customers possibly executing suspicious transactions, and close their accounts;
  20. develop programs against money laundering; and
  21. pay special attention to business from countries that have not adopted or have insufficiently adopted the 40 recommendations;
- FATF recommended that individual countries take the following actions:
22. apply FATF recommendations to financial institutions' branches and subsidiaries located abroad;
  23. study the feasibility of detecting large international movements of cash at borders;
  24. consider the feasibility of reporting to a national agency all domestic and international transactions above a fixed amount; and

25. encourage countries to develop modern and secure money-management methods, such as checks or direct deposits, to possibly isolate money launderers, who tend to use cash.

FATF recommended that regulatory and administrative authorities take the following actions:

26. ensure that supervised institutions have adequate money laundering programs;

27. designate authorities in other professions dealing with cash to also be held accountable to the recommendations;

28. establish guidelines to assist financial institutions in detecting suspicious transactions that could relate to money laundering; and

29. guard against control of financial institutions by criminals or their confederates.

FATF recommended that national administrations, including law enforcement agencies, financial institutions, and financial institution regulators and supervisors, take the following actions:

30. consider recording in the aggregate international flows of cash and

31. designate international authorities to gather and disseminate information on money-laundering developments.

FATF recommended that countries take the following actions:

32. cooperate to exchange information on suspicious transactions, persons, and corporations;

33. ensure, on a bilateral or multilateral basis, that variances in standards do not affect mutual legal assistance;

34. support international cooperation with a network of agreements based on generally shared legal concepts to effect mutual assistance;

35. encourage international conventions in such areas as the confiscation of proceeds from criminal activity;

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**Appendix III**  
**Synopsis of the 40 Financial Action Task**  
**Force Recommendations**

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36. encourage cooperation between countries' law enforcement and bank regulatory agencies in money-laundering investigations;

37. establish procedures for mutual assistance in money-laundering investigations and prosecutions;

38. ensure means to respond expeditiously to foreign requests to identify, seize, freeze, and confiscate proceeds or other property of money-laundering activities;

39. consider mechanisms to facilitate prosecution of defendants charged with money laundering in more than one jurisdiction; and

40. establish procedures to extradite individuals charged with money laundering.

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# Some U.S. and International Initiatives to Detect Money Laundering Through Wire Transfers

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Various U.S. agencies, such as the Office of Technology Assessment<sup>26</sup> (OTA), the Federal Reserve Board (FRB), and the Financial Crimes Enforcement Network (FinCEN), and international organizations such as FATF, are working on or have developed initiatives to prevent money laundering through wire transfers. These initiatives have been developed as money launderers have continued to exploit wire transfers to move their illicit funds.

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## Money Launderers' Use of Wire Transfers

According to FinCEN, money launderers have found that wire transfers are an integral means by which to move their funds around the world because wire transfers are a quick, easy, efficient, and reliable method of transferring funds. Wire transfers take on various forms. In their simplest form, wire transfers can involve individuals calling, faxing, or sending a wire message to a friend instructing payment to another party. More complex wire transfers involve using remittance corporations (money transmitters), such as Western Union, to wire money to another party.

The most complex and largest wire transfer systems, in terms of U.S. dollars moved, are the Clearing House Interbank Payments System (CHIPS),<sup>27</sup> the Society for Worldwide Interbank Financial Telecommunication (SWIFT),<sup>28</sup> and Fedwire.<sup>29</sup> These are the systems for which regulators in the United States and other countries, and FATF, are developing initiatives to detect and analyze money laundering.

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## The OTA Wire Transfer Initiative

At the request of the Permanent Subcommittee on Investigations, the Senate Committee on Governmental Affairs, OTA studied<sup>30</sup> the feasibility of developing a computer model to monitor wire transfers as they take place—referred to as a “real time” model—for money laundering.

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<sup>26</sup>This office was abolished by Congress and closed on September 30, 1995.

<sup>27</sup>CHIPS is the main U.S. wire transfer system for processing international U.S. dollar transfers. CHIPS is operated by the New York Clearing House Association and serves 132 foreign and domestic banks representing 33 countries.

<sup>28</sup>SWIFT is the principal international service for wire transfer message traffic that initiates funds transfers. Besides banks, SWIFT provides services to (1) securities brokers and dealers, (2) clearing institutions, and (3) recognized securities exchanges. SWIFT is a cooperative society located in Belgium; it has more than 2,600 member institutions in 65 countries.

<sup>29</sup>Fedwire is the primary U.S. domestic wire transfer system. This system handles both the message initiating the transfer and the actual movement of funds. Fedwire is operated by the Federal Reserve System and connects Federal Reserve banks with thousands of domestic banks.

<sup>30</sup>See *Information Technologies for the Control of Money Laundering*, U.S. Congress, Office of Technology Assessment (Washington, D.C.: U.S. Government Printing Office, Sept. 1995).

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However, according to OTA officials, various factors made it infeasible to develop such a “real time” model.

- The sheer volume of wire transfers makes it difficult to monitor accounts. For example, in 1994, the daily dollar volume through Fedwire and CHIPS was \$800 billion and \$1 trillion, respectively.
- The information contained on wire transfer records is insufficient for law enforcement agencies to build a case. Regulators from the United States, other countries, and FATF are currently working on initiatives to improve the type of information contained on wire transfer records.
- Government agencies do not have sufficient knowledge of how money launderers use wire transfers.
- Bankers, regulators, and law enforcement agents find it extremely difficult to distinguish legitimate wire transfers from illegitimate transfers. Money launderers continue to develop ingenious schemes to use wire transfers to make their funds appear legitimate.<sup>31</sup> OTA officials indicated that law enforcement agents would need to supplement wire transfer information with other information on an account to determine whether the wire transfer transaction could be illegitimate.

According to OTA, while the “real time” computer model was infeasible, a modified model could be implemented. This model would require FinCEN to extract wire transfer records from financial institutions and combine this information with a FinCEN database. This model would not be in real time, but it would use additional information from FinCEN that could help law enforcement agents distinguish legitimate from illegitimate wire transfers. The major problem with implementing this modified model, according to OTA, is that Congress might have to change legislation to allow greater access to wire transfer records.

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## **FRB Wire Transfer Initiative**

FRB has developed the capability to electronically scan the most recent 180 days of wire transfers over Fedwire for customers identified by law enforcement as potentially engaging in money laundering. According to FRB officials, due to the computing resources required and the daily volume over Fedwire, they cannot retrieve the information from Fedwire on a “real-time” basis, but rather must conduct searches after the close of the regular business day. Another step FRB must take is to ensure that requests from law enforcement agencies to scan Fedwire do not violate a customer’s right to financial privacy. Access by law enforcement to

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<sup>31</sup>See *An Assessment of Narcotics Related Money-Laundering (Redacted Version)* FinCEN Reference Series (Vienna, VA: July 1992).

information from Fedwire is controlled by title II of the Electronic Communications Privacy Act (P.L. 99-508, Oct. 21, 1986). According to an FRB official, FRB has rarely used this scanning capability because of the difficulty in obtaining a search warrant to scan Fedwire for customer transactions.

FRB is also undertaking an initiative to increase the amount of information contained in Fedwire's record format. According to FRB officials, the initiative will include, among other things, additional information on the originator and beneficiary of the wire transfer. This new format is to be implemented by the end of 1997 and may be useful to law enforcement agencies in money-laundering investigations, according to FRB officials.

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## **FinCEN Wire Transfer Initiatives**

FinCEN is involved in a variety of wire transfer initiatives, including making presentations to U.S. banking regulators, financial institutions, law enforcement agencies, state agencies, and others on the fundamentals of wire transfers<sup>32</sup> and schemes that money launderers use to move their funds through the wire transfer systems. For example, FinCEN has developed a report on the use of remittance corporations for money laundering.<sup>33</sup> FinCEN also assists other U.S. agencies that are working on wire transfer initiatives. In addition, FinCEN played a large role in obtaining feedback from financial institutions to arrive at the final version of the new wire transfer regulations. These new regulations, which the Treasury jointly published with the bank regulatory agencies, go into effect on May 28, 1996, and will require financial institutions to maintain records for 5 years on certain wire transfers of \$3,000 or more.

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## **Multilateral Wire Transfer Initiatives Through SWIFT and CHIPS**

FATF and some of its member countries have requested that CHIPS and SWIFT ask their member financial institutions to record sufficient information on wire transfers to identify the originator of these transfers. These activities are part of an ongoing FATF effort to control money laundering through wire transfers. According to FinCEN officials, SWIFT users have sometimes identified the originator as "our good customer" instead of providing the name of the originator. FATF and others have encouraged SWIFT users to be as specific as possible on identifying who originated the wire transfer. U.S. and British regulators have also worked with CHIPS to identify money-laundering schemes and improve information contained in the wire

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<sup>32</sup>See Key Electronic Funds Transfer Systems: Fedwire, CHIPS, SWIFT, FinCEN Reference Series (Arlington, VA: Sept. 1992).

<sup>33</sup>See Remittance Corporations, FinCEN Reference Series (Vienna, VA: Jan. 1994).

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**Appendix IV  
Some U.S. and International Initiatives to  
Detect Money Laundering Through Wire  
Transfers**

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transfer record. The Bank of England encouraged CHIPS to create a new data-entry point in the wire transfer record that would identify the depositor in the transaction.



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# The Department of State Concerns Regarding Financial Crimes and Money Laundering, in 1995

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The Department of State's International Narcotics Control and Strategy Report of March 1995 included a list of international money-laundering concerns for 1995 and beyond. A summary of some of these concerns follows:

- Over 100 governments have ratified the 1988 Vienna Convention. However, these countries do not enforce the Vienna Convention's anti-money-laundering provisions in the same manner, thus contributing to the continued high level of global financial crime.
- Too many governments place limitations on money-laundering countermeasures, particularly the requirement that the offense of money laundering must be predicated upon conviction for a drug-trafficking offense.
- Too many governments still refuse to share information about financial transactions with other governments to facilitate international money-laundering investigations.
- Governments and multilateral organizations need to improve communication on money-laundering schemes.
- Criminals have developed techniques beyond wire transfers to hide the source of their funds. Some techniques involve using a seemingly endless variety of licit and illicit financial instruments, including letters of credit, bonds and other securities, prime bank notes, and guarantees.
- Governments have developed few anti-money-laundering controls on wire transfers. This problem is compounded by the fact that these transfers are coming increasingly from banks in countries with inadequate money-laundering controls.
- Direct access banking (favored customers are given the bank's software and allowed to process transactions directly through their accounts) and pass-through banking<sup>34</sup> limit the bank's ability to monitor account activity.
- Countries with financial systems that need capital may place less emphasis on prudent banking practices and safeguards. These countries may also be vulnerable to overt and covert takeovers of financial institutions by criminal groups.
- Nonbank financial systems (exchange houses, brokerage houses, check-cashing services, etc.) are still unevenly regulated in most parts of the world. These institutions in the United States will be subject to federal regulation when new U.S. regulations are issued.
- An increasing number of countries outlaw money laundering and allow the forfeiture of assets, but many remain obliged to inform account holders

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<sup>34</sup>Pass-through, or payable through, accounts are those checking accounts that a U.S. bank opens up for a foreign bank. The foreign bank solicits customers who reside outside of the United States and, for a fee, offers a means by which these customers can conduct banking transactions in the United States.

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**Appendix V**  
**The Department of State Concerns**  
**Regarding Financial Crimes and Money**  
**Laundering, in 1995**

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that the government is investigating them and may take action against their accounts—giving criminals time to move assets and leave town.

- There is an urgent need to impose corporate as well as individual sanctions against financial institutions that repeatedly fail to take prudent measures to prevent their institutions from being used to launder money.
- Financial institutions' branches, subsidiaries, and other foreign operations continue to figure prominently in money-laundering and financial crimes. Bank management needs to ensure that the governments and regulatory agencies in all countries/territories they serve are enforcing the same high standards as their charter governments.
- Countries that cooperate on money-laundering investigations and prosecutions need to share forfeited proceeds so as to equitably reflect their respective contributions.

# Comments From the Department of the Treasury

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

MAR 25 1996

Ms. JayEtta Z. Hecker  
Director, International Trade, Finance,  
and Competitive Issues  
U.S. General Accounting Office  
Washington, DC 20548

Dear Ms. Hecker:

This responds to your January 16, 1996, letter requesting the Department's review and comments on the draft report entitled Money Laundering: U.S. Domestic and International Prevention and Detection Efforts. Our respective staffs have identified and resolved most issues and we generally agree with the report as presented.

Due to their importance I am, however, taking this opportunity to highlight several items we already have raised with your staff. We hope the essence of these concerns will be included in the final version of the report: Money Laundering: U.S. Domestic and International Prevention and Detection Efforts.

- The U.S. approach to money laundering prevention and detection is two-pronged: civil regulation and criminal enforcement. Civil regulation requires currency transaction reporting by financial institutions of cash transactions exceeding \$10,000; and they require the reporting of the importation and export of a currency or monetary instrument exceeding \$10,000 into or out of the United States. The Bank Secrecy Act requires financial institutions to maintain records of certain transactions so they can be made available to law enforcement and regulatory agencies. Suspicious transaction and criminal referral reporting also provide valuable information that is useful for regulatory, tax administration, and law enforcement purposes. Over the years, U.S. regulatory and law enforcement agencies have relied increasingly on information revealed in these reports, and as a consequence a number of law enforcement financial intelligence data bases have been developed.

It is also important to note that federal statutes making currency reporting requirements, and money laundering activities, criminal offenses have been in existence since the 1970s.

See comment 1.

**Appendix VI  
Comments From the Department of the  
Treasury**

See comment 2.

- Frequently, money laundering investigations are complex and international in scope, especially when they are intertwined with underlying criminal activities. To some extent, every federal, state and local law enforcement agency is involved with money laundering investigations, either primarily or as a supplement to an investigation of another violation.

See comment 2.

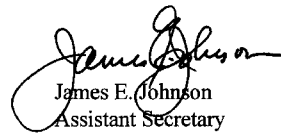
Our money laundering laws authorize a number of federal agencies to conduct financial crimes' investigations. For example, DEA, Customs, IRS, FBI, and the Secret Service have significant involvement domestically and internationally. These federal agencies have established executive agreements to ensure both their domestic and international activities are coordinated. As a result, as noted in your draft report, there is no evidence of widespread problems associated with a lack of coordination among U.S. law enforcement agencies overseas.

See comment 3.

- As noted in your report, the Financial Action Task Force (FATF) is the major forum for the U.S. and other countries' multilateral efforts to promote the adoption and harmonization of global anti-money laundering controls. We also think it is important to note that FATF's outreach efforts to coordinate with other international organizations include Interpol, the World Customs Organization, and the Commonwealth Secretariat in addition to the IMF and nonmember countries in Asia, the Caribbean, South America, Eastern Europe, and other parts of the world.

If you have any questions, or if I can be of further assistance, please let me know.

Sincerely,

  
James E. Johnson  
Assistant Secretary  
(Enforcement)

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The following are GAO's comments on the Department of the Treasury's letter dated March 25, 1996.

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## GAO's Comments

1. The Department of the Treasury indicated that money laundering prevention and detection involves a two-pronged approach consisting of civil regulation and criminal enforcement. We have revised this report to include the Treasury's description of the U.S. approach.
2. The Department of the Treasury noted that federal statutes mandating currency reporting requirements and criminalizing money laundering have been in existence since the 1970s. Our report noted that the 1970 Bank Secrecy Act mandated, among other things, the currency transaction report (CTR), however, we have revised this report to include a description of other reports beyond the CTR. We have also revised this report to include a description of the 1986 Money Laundering Control Act, which made the act of money laundering a crime.
3. The Department of the Treasury indicated that money-laundering investigations are complex and international in scope, requiring the cooperation and coordination of federal, state, and local law enforcement agencies. We note in this report that numerous law enforcement agencies are involved in criminal investigations involving money laundering. We focus on federal agencies in this report because they are the primary agencies involved in overseas money-laundering cases. The Department of the Treasury also pointed out that federal agencies have established executive agreements to ensure that domestic and international money-laundering investigations are coordinated. We acknowledge these agreements; however, we also discuss concerns expressed to us about U.S. law enforcement coordination on criminal investigations involving money laundering.
4. The Department of the Treasury indicated that our list of FATF outreach efforts was incomplete. We have revised this report to include FATF's additional outreach efforts.

# Comments From the Department of Justice

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



U. S. Department of Justice  
*Criminal Division*

Office of the Assistant Attorney General

Washington, D.C. 20530

February 20, 1996

Ms. JayEtta Z. Hecker  
Director  
International Trade, Finance,  
and Competitiveness Issues  
General Government Division  
U.S. General Accounting Office  
441 G Street, N.W.  
Washington, D.C. 20548

Dear Ms. Hecker:

In response to your January 16, 1996, request, the Department is providing comments on the General Accounting Office (GAO) draft report entitled Money Laundering: U.S. Domestic and International Prevention and Detection Efforts. The Department generally agrees with the information reported, but notes that the description of U.S. efforts to detect and prevent domestic and international money laundering is incomplete. The report fails to identify or discuss several major aspects of the U.S. strategy to combat both domestic and international money laundering. Our comments discuss some of the domestic and international anti-money laundering efforts not addressed in the report and note the few instances where we believe the report may place undue emphasis on certain elements of the U.S. strategy.

Domestically, the U.S. strategy to combat money laundering depends upon a combination of factors including the aggressive investigation and prosecution of money laundering offenses, a concentrated effort to prevent the use of financial institutions for laundering, and an aggressive effort to locate, seize, freeze and forfeit, both civilly and criminally, the proceeds of money laundering. The key elements of U.S. anti-money laundering laws are the Bank Secrecy Act (BSA) and its attendant regulations and the Money Laundering Control Act of 1986 and its subsequent amendments.

As discussed in the report, a basic requirement of the BSA is the reporting of large cash transactions. The financial

Appendix VII  
Comments From the Department of Justice

institutions covered by the BSA must report to the Internal Revenue Service (IRS) all transactions in currency over \$10,000 by, through, or to the institution, on its own behalf or its customers, whether account holders or occasional customers. The structuring of transactions to avoid the reporting requirement is an offense, and institutions may be subject to liability if their employees assist in the structuring of a transaction.

See comment 1.

There are also two more wide-ranging cash reporting requirements. Under the authority of the BSA, the transportation of more than \$10,000 in cash or monetary instruments into or out of the United States must be reported to the U.S. Customs Service. This requirement applies to all natural and legal persons. Secondly, all trades and businesses not subject to the BSA currency reporting regime are required to report to the IRS receipts of currency over \$10,000 whether in one or a series of transactions. Finally, under the BSA, there is a requirement that individuals or entities holding accounts in foreign jurisdictions with an aggregate value greater than \$10,000 must file an annual report with IRS.

See comment 2.

While the reports required by the BSA are important tools in helping to identify potential money laundering schemes, law enforcement investigation of substantive criminal activities associated with money laundering and law enforcement intelligence sharing identify the majority of money laundering offenses. We believe it is these efforts that will continue to be most productive in detecting money laundering offenses.

See comment 1.

We also believe it important to stress that the BSA requirements go well beyond cash transaction reporting. All financial institutions are required to identify, on the basis of reliable identification documents, all persons making cash transactions over \$10,000 and the beneficial owner of the funds. As discussed in the report, the Department of the Treasury intends to issue "know your customer" regulations which will require financial institutions to identify their account holders through the use of specified identification documents. Additionally, under regulations issued by federal financial institution regulatory agencies, all depository institutions are required to have BSA compliance programs, including internal controls, appointment of a compliance officer and an audit and training program.

See comment 3.

In addition to providing regulations for financial institutions, the BSA now requires nonbank financial institutions (NBFI) to report suspicious financial transactions and to institute anti-money laundering programs. Additionally, all NBFIs will eventually have to register with Treasury. Sanctions for violations of the BSA include civil and/or criminal penalties depending on the nature of the violation.

The Money Laundering Control Act of 1986 provides that anyone conducting or attempting to conduct a financial transaction involving funds which represent the proceeds of specified unlawful activity, knowing that the funds involved the proceeds of some form of unlawful activity, shall be guilty of a criminal offense. There are significant penalties for offenses under this Act.

The GAO discussion of international efforts to combat money laundering is likewise incomplete. While we would agree that the Financial Action Task Force (FATF) is the preeminent international body which specializes in and concentrates upon the fight against money laundering, it is only one of many international bodies through which the United States works to develop an international strategy to combat all forms of money laundering. Other international initiatives include the following:

- Organization of American States (OAS): In the past, the United States was actively involved with the OAS in an initiative to develop and implement model money laundering and asset forfeiture legislation which could be used as a blueprint for OAS member countries to adopt. During 1991-92, a 13-nation group of experts, including a delegation from the United States, drafted the "Model Regulations Concerning Laundering Offences Connected to Illicit Drug Trafficking and Related Offences." These regulations consist of 19 articles which provide the statutory basis for a comprehensive anti-money laundering enforcement program in a format which is designed to fit into an international cooperative framework. These model statutes were adopted by Inter-American Drug Abuse Control Commission on March 10, 1992. On May 22 1992, at its annual General Assembly meeting in Nassau, the OAS unanimously approved the model legislation and recommended that it be enacted by the 34 OAS member nations.
- Annual Asian Money Laundering Symposium: The Symposiums are jointly organized by the FATF and the Commonwealth Secretariat, supported by the United Nations Drug Control Program and the United States, and attended by 34 international organizations and jurisdictions, which include almost all the Asian countries. The Symposium participants agreed that there is a serious money laundering threat in Asia which must be combated by the implementation of money laundering counter-measures. In support of the region's initiative against money laundering, the Symposium took several important steps including the creation of an Asian Money Laundering Secretariat to collect and distribute information on money laundering and anti-money laundering measures. Additionally, U.S. law enforcement agencies

See comment 4.



participated in the first Asian money laundering typologies meeting which was held in Hong Kong in July 1995.

Summit of the Americas: On December 9-11, 1994, the 34 democratically elected leaders of the Western Hemisphere met at the Summit of the Americas in Miami, Florida. At the Summit, the leaders signed a Declaration of Principles which included a commitment to fight drug trafficking and money laundering. The Summit documents also included a detailed Plan of Action to which the leaders affirmed their commitment. The hemisphere took a major step forward in the fight against international money laundering on December 1-2, 1995, when a hemispheric Ministerial Conference on Money Laundering took place in Buenos Aires, Argentina. The conference was chaired by Treasury Secretary Rubin and was attended by representatives of 29 of the 34 countries of the hemisphere.

Action Item Six of the Summit Plan of Action ("Combating the Problem of Illegal Drugs and Related Crimes") called for a working-level conference on money laundering, to be followed by a Ministerial Conference, to study and agree on a coordinated hemispheric response to combat money laundering. The Buenos Aires Ministerial was the culmination of that call to action. It also represented a beginning as the participating nations made a commitment to implement the plan of action outlined in the Ministerial Communique which was adopted and issued at the Conference.

The Ministerial Communique sets forth a series of actions each country commits to undertake in the legal, regulatory and law enforcement areas to establish an effective anti-money laundering program and, thereby, to combat money laundering on a hemispheric basis. The Ministerial Conference demonstrated the commitment by governments in the hemisphere to take all necessary measures to attack money laundering. In addition to focusing attention on this significant issue, the conference also succeeded in creating an awareness that money laundering is a problem that goes beyond drug trafficking and involves other kinds of transnational crimes, and that money laundering is not only a law enforcement issue but also a financial and economic issue, requiring a coordinated interagency approach.

In general, we believe that, in order effectively to address the problem in our hemisphere and the rest of the world, the efforts of the United States must increasingly be multi-dimensional. An effective strategy must include law enforcement and financial regulators, diplomatic and intelligence initiatives, as well as cooperation and participation with the private financial sector. The United States has sought to develop a strategy which includes disruption, intelligence

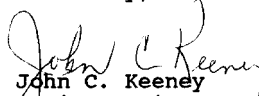
Appendix VII  
Comments From the Department of Justice

collection, prosecution, seizure and forfeiture of assets, and regulatory and diplomatic initiatives.

Our efforts in this area have led to more effective coordination among the law enforcement community and with other countries. There is still much work to be done. We must increase our interagency efforts, focus on proactive targeting and the sharing of intelligence, law enforcement and regulatory information. This strategy will not eradicate either domestic or international money laundering. It will, however, create an increasingly hostile and inhospitable environment for the money launderer and afford new elements of protection to political and economic systems.

Other minor comments by the Department have been provided to the GAO evaluation team under separate cover. We understand that the GAO team will review those comments and include them in the report as appropriate. We appreciate the opportunity to review the report in draft.

Sincerely,



John C. Keeney

Acting Assistant Attorney General

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The following are GAO's comments on the Department of Justice's letter dated February 20, 1996.

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## GAO's Comments

1. The Department of Justice stated that there are other cash reporting requirements under the Bank Secrecy Act (BSA) in addition to the currency transaction report (CTR). It also stated that BSA requirements go well beyond cash transaction reporting to include requirements that financial institutions maintain BSA compliance programs. We have revised the text to include a description of these other cash reporting requirements and of BSA compliance programs that regulators require financial institutions to maintain.
2. The Department of Justice pointed out that law enforcement investigation of crimes associated with money laundering and law enforcement intelligence sharing identify the majority of the money-laundering offenses and are among the most productive ways to detect money-laundering offenses. This report points out that law enforcement investigations of crimes associated with money laundering and intelligence sharing are among the methods used to combat money laundering. However, the scope of our work did not include a review of the effectiveness of various tools and methods U.S. law enforcement agencies use to detect domestic and international money laundering.
3. The Department of Justice stated that BSA now requires nonbank financial institutions to report suspicious financial transactions and to institute anti-money-laundering programs. Under the Annunzio-Wylie Anti-Money-Laundering Act of 1992, the Secretary of the Treasury was authorized to require financial institutions to report suspicious transactions and adopt anti-money-laundering programs. We have not assessed the extent to which nonbank financial institutions have adopted anti-money-laundering programs. However, it is important to note that while recent regulations require banks and other depository institutions to report suspicious transactions, similar regulations for nonbank financial institutions have not been finalized.
4. The Department of Justice agreed with our assessment that FATF is the preeminent international body specializing in the fight against money laundering. However, Justice pointed out that the United States is involved in several other international initiatives to combat money laundering. These initiatives include the Organization of American States, the Annual Asian Money-Laundering Symposium, and the Summit of the Americas. We

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**Appendix VII**  
**Comments From the Department of Justice**

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have revised the draft to include descriptions of some international initiatives beyond FATF, including a description of the Summit of the Americas.

# Comments From the Department of State

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



**United States Department of State**

**Chief Financial Officer**

**Washington, D.C. 20520-7427**

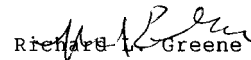
MAR 11 1996

Dear Mr. Hinton:

We appreciate the opportunity to provide Department of State comments on your draft report, "MONEY LAUNDERING: U.S. Domestic and International Prevention and Detection Efforts," GAO Job Code 280131.

If you have any questions concerning this response, please call Ms. Stephanie Deaner, INL/RM, at (202) 776-8767.

Sincerely,

  
Richard L. Greene

Enclosure:  
As stated.

cc:  
GAO - Ms. Hecker  
STATE/INL/RM - Ms. Deaner

Mr. Henry L. Hinton, Jr.,  
Assistant Comptroller General,  
National Security and International Affairs,  
U.S. General Accounting Office.

**Appendix VIII**  
**Comments From the Department of State**

GAO Draft Report: "MONEY LAUNDERING: U.S. Domestic and  
International Prevention and Detection Efforts,"  
GAO Job Code 280131

Summary

See comment 1.

Money laundering is a complex global problem. The challenges for U.S. policymakers, regulators and law enforcement officials often vary from one country to another. The GAO draft report focuses on seven Western European countries, but the U.S. faces major money laundering challenges in Latin America, the Caribbean, Asia, Africa and elsewhere. The situation in these regions is much different. For this reason, the report cannot provide the full framework for U.S. anti-money laundering efforts. Rather it is an important snapshot of relationships and approaches the U.S. has developed in the particular countries GAO examined.

The report does not fully discuss the State Department's role or responsibilities in the fight against global money laundering. It also does not address the important role U.S. chiefs of mission must play in this area.

See comments 2 and 7.

Finally, there are a number of factual errors and inadequacies in summation contained in the draft which, if uncorrected, will result in a seriously flawed report. Most significantly, in those sections in which the draft language suggests a problem, the report fails to substantiate an instance in which the alleged shortcoming has interfered with or prevented the enforcement of US laws. For example, the draft suggests that US regulators are routinely denied opportunities to examine US bank branches overseas for their compliance with US anti-money laundering laws. In fact, US regulators don't conduct those kinds of examinations even in countries where they do have access, and, equally important, US regulators have a series of well-honored agreements for the exchange of audit information.

Comments by Page & Section

Now on p. 1.

Page 1 GAO should draw upon the several standard definitions of money laundering which capture the essence of current practices in the movement and conversion of illicit proceeds. For example: Money laundering is a chapeaux term which covers a wide variety of transactions through which illicit proceeds, from a variety of serious crimes, are transported, converted and invested.

Now on p. 1.  
See comment 1.

Page 1 The report, in noting the global nature of the money laundering problem, should acknowledge that U.S. international efforts to combat money laundering extend well beyond the particular countries focused on in the GAO's review. This is important for two reasons: 1) the problems we face in countries such as Russia, Colombia, Thailand or Nigeria are considerably different than those in Western Europe, and 2) a number of

**Appendix VIII**  
**Comments From the Department of State**

important initiatives (e.g., the President's money laundering initiative, the Summit of the Americas, the use of the IEEPA against the Cali Cartel, etc.) are not addressed in this report largely because of its geographic focus. (A more full discussion of the various U.S. international efforts can be found in the recently published 1996 INCSR.)

Now on p. 2.  
See comment 3.

Page 2 The report uses the term "regulators" as though the Federal Reserve Board and the Office of the Comptroller of the Currency, which are regulators, have lead agency responsibilities for money laundering. As regulators, they are primarily concerned with prudential supervision of the nation's banking system. Money laundering countermeasures are only part of their responsibilities. It is unclear whether the report intends to suggest that regulatory measures are the exclusive or primary U.S. effort to control money laundering. If so, this would ignore or diminish the substantial role law enforcement plays in this effort. While law enforcement has also relied on CTRs to perform its duties, the report should not imply that CTRs are the exclusive tool. Undercover operations, stings, informants, wiretaps, search warrants, border control, financial investigations, and other investigative tools have played a substantial role in money laundering enforcement at home and abroad.

Now on p. 2.  
See comment 4.

Page 3 Both law enforcement agencies and regulators have begun to rely more on know your customer policies and the reporting of suspicious transactions. The language of the document should be revised to reflect this difference.

Now on pp. 2-3.  
See comment 5.

Page 3 The concluding sentence could be read to suggest that EU countries followed the US lead in crafting their Directive, which is not true. The Commission adapted its Directive from the FATF Recommendations, differing with the latter in one key instance: the mandatory reporting of suspicious or unusual transactions.

Now on p. 3.  
See comment 6.

Page 4 The cross-over discussion from Page 3 implies that European countries require currency transaction reports but rely more on suspicious transaction reporting, etc. The report gives this erroneous impression of European CTR reporting in several instances. Actually, only two countries require CTR reporting: the US and Australia. However, the great majority of financial center countries do require the recording (not reporting) of significant financial transactions -- and make provision in law requiring that such records be made available on demand to investigators.

Now on p. 3.  
See comment 7.

Page 4 The report could be read to suggest that cooperation with Switzerland is particularly troublesome. In fact, the Swiss cooperate more closely with the US on money laundering investigations than almost any other government. The lead-in to this discussion should be that US regulators, in their examination of the overseas branches of US banks, concentrate on safety and soundness factors, and not on compliance with US anti-money laundering laws. The second statement should be

**Appendix VIII**  
**Comments From the Department of State**

that, in a number of countries, including Switzerland, US regulators do not examine the banks themselves, even for these factors, but rely instead on agreements providing for exchanges of information on audits conducted by their respective regulators. The draft report does not document any instances where FRB or OCC was denied results of a foreign central bank's examination or audit of a US bank branch, nor does it suggest why this information exchange mechanism is inadequate.

Now on p. 4.  
See comment 8.

Page 7 The use of the introductory "[d]espite FATF's achievements..." appears to be unduly negative. The two FATF members, and others, believe that FATF has done an extraordinary job of external relations, and should now undertake new and more sophisticated services, including providing information on money laundering trends and practices -- which FATF has been doing since 1992 and is now doing on a more intensive basis.

Now on p. 4.  
See comment 9.

Page 7 The report could be read here (and again on Page 28) to suggest that FATF's external relations program was begun during Under Secretary Noble's presidency. The FATF external relations program, which consists of seminars, clinics, symposia and high-level visits and consultations with non-members, was begun in 1991, and through 1995 had achieved success in apprising officials of more than 60 non-member governments from every part of the world about FATF policies and recommendations, and in giving guidance on their adoption by these governments. During U/S Noble's presidency, FATF has attempted to build upon these previous efforts and has done so quite successfully.

Now on p. 5.

Page 9 Here and elsewhere in the draft, the Department of State's role in US anti-money laundering efforts is not fully addressed. State plays a leading role in the formulation of US policy on money laundering, which the Secretary of State has identified as a high foreign policy priority. State is a principal in highest-level meetings of US officials deciding policy issues, as well as in the UN, FATF and other fora. State plays a vital role in negotiating international agreements and handling extradition and mutual legal assistance matters. The INCSR is considered as the most authoritative report of its kind in the world and is the standard reference used not only by US agencies, FATF, the World Bank, the United Nations and other international organizations but also by commercial banks in deciding whether to honor transactions involving various nations. The INCSR conveys a great deal more information than a tabulation of international agreements, as indicated on Page 12 of the draft report.



**Appendix VIII**  
**Comments From the Department of State**

The draft report should also note the Secretary of State's statutory responsibility for coordinating the activities of USG personnel overseas, except certain military personnel. It should also specifically refer to the U.S. chief of mission's statutory responsibilities for the direction, coordination and supervision of all USG personnel in country, except certain military personnel. This is especially important to the extent that GAO is identifying a lack of coordination among the various U.S. law enforcement agencies as a serious problem in some countries. The country team, under the direction of the COM, is potentially the most effective mechanism to address any such problem in a particular country. Our missions overseas are truly the forward bases for international law enforcement activities and other vital national interests. This important role should not be overlooked.

Finally, the report should recognize State's leadership role in the area of international law enforcement training. To address the threat of global money laundering effectively, we must work to develop fully effective partners abroad. This is one of the principal goals of State's training programs. Given the number of U.S. agencies involved in our anti-money laundering efforts, State leadership and coordination of training programs is crucial so as to avoid unnecessary overlap and duplication, and to ensure that our training programs are integrated with our broader foreign policy interests.

Now on p. 8.  
See comment 3.

Page 13 The problems with the term "regulators" which troubled us in the summary reappear in the section beginning Page 13 and continue thereafter.

Now on p. 10.  
See comments 5 and 10.

Page 15 As was stated previously, the EU policy directive is adapted from FATF policy. There is also a potentially misleading impression that European countries actually require CTRs when they in fact do not. The draft should examine the difference between mandatory record-keeping and mandatory reporting more fully. Throughout the report, the draft does not explain the underlying reasons for the US having one kind of system and the rest of the world another. The explanation on Page 16 notes the differences, but does not address them in any way.

Now on p. 10.  
See comment 11.

Page 15 The footnote is potentially misleading. Switzerland, like other members of EFTA, agreed to honor the EU policy directive. However, while draft legislation to mandate the reporting of suspicious transactions was announced in 1994, the fact is that the Swiss Federal Banking Commission and the Swiss Banking Association remain of different opinions as to the necessity of mandating the reports.

Now on p. 12.

Page 18 We have previously addressed the problem of characterizing examinations of overseas branches.

**Appendix VIII**  
**Comments From the Department of State**

Now on p. 12.  
See comment 7.

Page 20 The draft does not identify a situation in which US regulators have been denied the information generated by a foreign government's examination of a US bank branch, or, where any investigation has been hampered by such a denial. Since denials of access have been offset by agreements assuring of the exchanges of such information, the point of this section is not clear.

Now on p. 13.  
See comment 12.

Page 20 The seventh line of the second paragraph may be incorrect. It is State's understanding that US regulators can and do exchange information, including information requested for law enforcement purposes.

Now on p. 19.

Page 21 The draft completely overlooks the role of State, as we have described above.

Now on p. 18.  
See comment 9.

Page 27 The section should be rewritten to reflect a more accurate depiction of FATF's achievements as they occurred. The FATF President is committed to continuing the monitoring of new laws, etc. in member countries, a continuing responsibility begun in 1990, with the first self-assessments. Cross-country assessments were begun in 1994. The external relations program was begun in 1991. The FATF initiative on wire transfers was begun in 1993. Under Mr. Noble, FATF has begun a promising new dialogue with international banks; it has brought together all of the financial intelligence units in the world to agree on common procedures while simultaneously urging their creation by all countries; FATF has coalesced an Asian resolve through the third in the series of seminars begun in 1993 to work together as a regional unit; FATF is bringing to a conclusion its work on revising the 40 FATF recommendations for which it has won universal acclaim; and FATF has begun some pioneering analysis of the phenomenon of electronic banking.

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The following are GAO's comments on the Department of State's letter dated March 11, 1996.

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## GAO's Comments

1. The Department of State pointed out that our focus on money-laundering issues in the seven European countries we visited is not representative of money-laundering issues in different parts of the world, such as the Caribbean, Asia, and Africa. We recognize that the money-laundering issues in the European countries we visited may be different from those in other parts of the world. As we note in this report, our scope was limited to these seven countries in order to also conduct our concurrent work on counterfeit currency. On the basis of our discussions with banking regulators and Treasury and Justice officials, certain issues we discuss are relevant to other parts of the world. For example, the issues related to U.S. banking regulators' oversight of U.S. overseas branches' anti-money-laundering controls would also be applicable to other countries besides the seven European countries we visited. Likewise, our discussion on FATF efforts expands beyond those of the European countries we visited. Nevertheless, we revised the report to include more recent U.S. international initiatives that focus on different parts of the world, such as the Summit of the Americas.

2. The Department of State commented that in certain sections of this report, we suggest problems in U.S. efforts to combat money laundering overseas and that we do not substantiate instances where these problems have prevented the enforcement of U.S. laws. As an example, they pointed out that we suggest that U.S. regulators are routinely denied opportunities to examine U.S. overseas branches for compliance with U.S. anti-money-laundering laws, but that we do not substantiate instances where these problems have interfered with or prevented the enforcement of U.S. laws. We did not intend to suggest that regulators are routinely denied opportunities to examine overseas branches, and we have revised the text to ensure that there is no such inference. Also, we have revised the text to more clearly state that in some countries, U.S. regulators are prevented from conducting on-site examinations of U.S. bank branches. The Department of State further noted that even in countries in which U.S. regulators conduct on-site examinations of U.S. banks, they do not examine these banks to determine if they comply with U.S. anti-money-laundering laws. We agree with the Department of State and have revised this report to clarify this point. We also noted that in countries in which U.S. regulators can conduct on-site examinations of

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U.S. banks' anti-money-laundering controls, these examinations are not as thorough as those in the United States.

3. The Department of State commented that our discussion on U.S. approaches to combat money laundering through financial institutions appears to imply that the Federal Reserve Board (FRB) and the Office of the Comptroller of the Currency (OCC) have lead agency responsibility for money laundering. We did not intend to imply that these two regulators are solely responsible or have lead responsibility for all U.S. anti-money-laundering efforts. We have revised our discussion on U.S. approaches to combating money-laundering through financial institutions to more clearly specify that under the Bank Secrecy Act of 1970, as amended, the regulators require that financial institutions maintain and file certain records as well as develop money-laundering compliance programs, including "know your customer" policies. As we note in this report, U.S. law enforcement agencies play a key role in investigating crimes involving money laundering. However, we did not review the effectiveness of various tools and methods they use to detect domestic and international money laundering such as undercover operations, "stings," informants, and wiretaps.

4. The Department of State pointed out that both law enforcement agencies and regulators have begun to rely more on "know your customer" policies and the reporting of suspicious transactions. We have revised the text to acknowledge that both law enforcement agencies and regulators, under BSA, are expected to rely more on the reporting of suspicious transactions.

5. The Department of State commented that our description of the European Union (EU) Directive could be read to suggest that the EU countries followed the U.S.' lead in drafting the directive. We have revised our discussion to specify that the EU Directive was patterned after anti-money-laundering recommendations adopted by FATF.

6. The Department of State indicated that the draft gave the erroneous impression of European CTR reporting in several instances. The Department of State further commented that only two countries (the United States and Australia) require routine reporting of currency transactions. We revised the text to clarify that West European countries we visited require recording large currency transactions and that Italy also requires routine reporting of currency transactions.

7. The Department of State commented that our discussion on U.S. regulators' oversight of overseas branches of U.S. banks can be read to suggest that cooperation with Switzerland is a problem. We have revised the text to more explicitly state that U.S. regulators cannot conduct on-site examinations of U.S. banks in countries with strict bank secrecy laws such as Switzerland. We discuss several other measures, such as exchanges of bank examinations among regulators, that U.S. regulators can use to assess U.S. branches' anti-money-laundering controls in countries such as Switzerland. However, we did not assess the effectiveness of such measures.

8. The Department of State commented that we may be unduly negative about FATF because we mention two members who expressed concerns about the direction of FATF. We did not intend to be unduly negative of FATF and have revised the text. To add balance, we revised the text to add information on more recent FATF initiatives that focus on the identification and dissemination of current and emerging money-laundering schemes.

9. The Department of State noted that our discussion on the U.S. presidency of FATF could suggest that the United States initiated (1) FATF's monitoring of members' new laws, (2) FATF's efforts to identify new money-laundering schemes, and (3) FATF's external relations. We have revised the text to better reflect the role that the United States has played during its tenure as president, which is to build upon those efforts that FATF initiated over the past few years.

10. The Department of State pointed out that we do not explain the underlying reason why the United States has one approach to combat money laundering through financial institutions while other countries have a different approach. We focused our efforts on becoming familiar with and describing the U.S. and European approaches rather than focusing on determining the underlying reasons why the United States and Europe adopted their respective approaches.

11. The Department of State noted that our footnote on Switzerland's role in adopting the EU Directive was potentially misleading. We have revised the footnote to more accurately describe Switzerland's role.

12. The Department of State indicated that our statement that U.S. regulators cannot exchange information requested for law enforcement purposes may be incorrect. We have revised this report to focus only on the procedures for the exchange of supervisory and examination

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information between U.S. regulators and foreign counterparts, as described in occ document PPM-5500-1, dated May 25, 1993. We did not review policies and procedures U.S. banking regulators and their foreign counterparts follow for the exchange of information for law enforcement purposes.

# Comments From the Office of the Comptroller of the Currency



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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

February 20, 1996

Ms. JayEtta Z. Hecker  
Director, International Trade, Finance and Competitiveness Issues  
General Government Division  
United States General Accounting Office  
Washington, D.C. 20548

Dear Ms. Hecker:

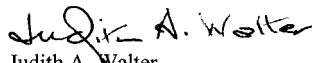
We have reviewed your draft audit report titled Money Laundering: U.S. Domestic and International Prevention and Detection Efforts. The report was prepared in response to a Congressional request. The report describes:

- U.S. and selected European countries' approaches to combating money laundering through regulation of financial institutions,
- U.S. bank regulators' oversight of money-laundering controls at overseas branches of U.S. banks,
- U.S. law enforcement agencies' efforts to coordinate their overseas anti-money-laundering activities with host countries' law enforcement agencies, and
- U.S. participation in international arrangements to combat money laundering abroad.

We believe that the draft report accurately describes U.S. efforts to combat international money laundering. We provided clarifying comments and editorial suggestions to your evaluators informally.

Thank you for the opportunity to review and comment on the draft report.

Sincerely,

  
Judith A. Walter  
Senior Deputy Comptroller for Administration

# Comments From the Federal Reserve Board

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



BOARD OF GOVERNORS  
OF THE  
**FEDERAL RESERVE SYSTEM**  
WASHINGTON, D. C. 20551

THEODORE E. ALLISON  
ASSISTANT TO THE BOARD  
FOR FEDERAL RESERVE  
SYSTEM AFFAIRS

January 31, 1996

Ms. JayEtta Z. Hecker  
Director, International Trade, Finance,  
and Competitiveness Issues  
United States General Accounting Office  
441 G Street, N.W.  
Washington, D.C. 20548

Dear Ms. Hecker:

Thank you for giving the Board the opportunity to comment on the General Accounting Office (GAO) Report of January 16, 1966, on Money Laundering: U.S. Domestic and International Prevention and Detection Efforts. We appreciate the information contained in the report, and take this opportunity to inform you of the Board's continuing efforts to assure that U.S. banks operating in foreign countries have sufficient anti-money-laundering controls in place.

See comment 1.

In November 1995, Federal Reserve examiners satisfactorily field tested newly developed internal control examination procedures relative to money-laundering activities in foreign operations of U.S. banks. The scope of these procedures facilitates a more focused examination that is customized to meet the uniqueness of individual bank operations and to fit into the short time frames in which overseas examinations are conducted. The new procedures parallel those employed by the Federal Reserve in the examination of U.S. and foreign banking operations in the United States with the exception of Bank Secrecy Act reporting requirements which do not apply to U.S. banks' foreign operations.

We believe that these new procedures will allow System examiners to more uniformly assess the anti-money-laundering prevention and detection efforts of U.S. banks' foreign operations. The Board will soon include these procedures in the existing System Bank Secrecy Act Examination Manual.

Now on pp. 36-37.

We would also like to point out some misperceptions and erroneous information contained in Appendix IV, page 56-57, regarding "The FRB's Wire Transfer Initiative." Contrary to the language in this section, the Federal Reserve has not developed any computer model to track and detect suspected money laundering



Appendix X  
Comments From the Federal Reserve Board

activity over Fedwire. As OTA stated, such a model would be infeasible. The Federal Reserve, however, has developed the capability to electronically scan the most recent 180 days of Fedwire transfer activity and retrieve transfers sent to or received by parties or accounts identified by the requesting law enforcement agency (after 180 days, Fedwire messages are stored on microfiche and searches must be done manually). Due to the computing resources required and the volume of daily Fedwire activity, the Federal Reserve is not able to retrieve this information on a "real-time" basis, but rather must conduct searches after the close of the regular business day. Access by law enforcement officials to such information is controlled by Title II of the Electronic Communications Privacy Act of 1986.

See comment 2.

The statement in the draft report that the Federal Reserve was forced to stop the scanning program is erroneous. The Federal Reserve continues to use the scanning program to fulfill requests from law enforcement agencies provided such requests comply with the Electronic Communications Privacy Act of 1986.

See comment 1.

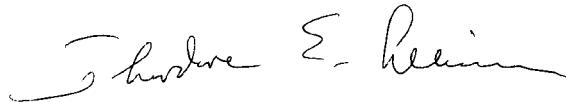
In addition to the scanning initiative, the Board jointly published with the Treasury in January 1995 recordkeeping requirements for domestic and international funds transfers. At the same time, the Treasury published a companion rule, known as the travel rule, that requires certain information to be included with the transmittal orders. Both rules become effective on April 1, 1996.

See comment 1.

The Federal Reserve is also undertaking a major automation initiative to expand the Fedwire funds transfer format. Among other things, the expanded format will permit depository institutions to include certain additional originator and beneficiary information in the funds transfer message. This additional information may be useful to law enforcement agencies in money laundering investigations. The new format will be implemented fully by year-end 1997.

Again, thank you for the opportunity to comment on the draft report.

Sincerely yours,



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The following are GAO's comments on the Federal Reserve Board's letter dated January 31, 1996.

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## GAO's Comments

1. FRB provided us with information on several of its more recent anti-money-laundering initiatives that were not covered in our draft. These initiatives include new examination procedures for overseas branches of U.S. banks, new wire transfer regulations, and new efforts to expand the information contained in Fedwire records. We have revised this report to include a description of these efforts.
2. FRB said that our statement, in the draft of this report, that it was forced to stop the scanning initiative of Fedwire is erroneous. In a subsequent discussion, an FRB official clarified FRB's position on this matter. He told us that for all practical purposes the scanning program is not used because of the difficulty in obtaining a search warrant required to get individual records from Fedwire. We have revised this report to reflect the clarified FRB position on the use of the scanning initiative.

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