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INTRODUCTION

Allow me to thank John Byrne of the American Bankers Association and Gordon Greenberg of the American Bar Association for hosting this money laundering enforcement seminar. Combating money laundering not only takes the profits out of illegal activities, but it also helps ensure the security of our financial institutions. It is in all our interests to advance these goals.

For this reason, in 1990, the Office of National Drug Control Policy formed the first ever industry-government working group to fight money laundering. This alliance assures coordination between the investigator on the street, who knows the drug-trafficking and money laundering trends, and representatives within financial institutions, who are responsible for filing currency transaction reports or suspicious activity reports. This public-private partnership continues to serve all our interests well.

THE REAL COSTS OF ILLEGAL DRUG USE

The illicit "profits" that drive America's drug problem impose tremendous costs on our society:

- Drug-related illness, death, and crime cost the nation approximately \$67 billion, and drug-induced deaths number approximately sixteen thousand a year.
- In 1995, a majority of criminal arrestees tested positive for drug use, and almost two million violent crimes were drug-related.
- We now have 1.6 million of our citizens behind bars. In 1995, almost 60 percent of federal prisoners were drug offenders as were 22 percent of inmates in state prisons. It costs the American taxpayer \$100,000 for every prisoner sentenced to a five year jail term.
- Drug users in the workplace account for a 66 percent higher absentee rate, 90 percent more disciplinary actions, and 85 percent greater health benefit utilization.
- About five percent of pregnant women use illegal drugs, putting their unborn children at risk.

We, the law-abiding American public, pay the very real and substantial price of illegal drugs. These costs, taken together with the tremendous amount of wealth squandered by those

who abuse drugs, represent a huge economic and human potential wasted. Think about the gains that could be made -- in productivity, infra-structure, and even the arts -- if we re-invested this lost potential back into legitimate societal enterprises.

All segments of our society share the burdens of drug abuse and drug-related crime. We also all share the problem of abuse. Many Americans believe that drugs are someone else's problem: users belong to a segment of society different from their own; their lives are not affected by drugs; and, their neighborhoods are untouched by the devastating consequences of drug abuse.

The time has long since passed to correct these fallacies. Drug users work alongside us. They go to school with our children. They live behind the white picket fence next door. All too often, they even eat at our dinner table.

Seven out of ten drug users are employed. The overwhelming majority of the nation's twelve million drug users are white. Sadly, approximately 45 percent of us know someone who has suffered from a substance-abuse problem, and all of us face the corrosive effects of drug abuse on our society. The consequences of drug abuse permeate America. No side of the tracks is immune.

CORRUPTION: THE INSIDIOUS COST OF MONEY LAUNDERING

Beyond the tremendous price drugs impose on our society, money laundering itself imposes the insidious cost of corruption on our markets and political systems. Promoters of the drug trade learned long ago that where political will is weak, criminals can establish a *modus vivendi* with important economic and political interests in society. Major international criminal organizations owe their power and sophistication to these alliances with political and economic interests in key drug-producing and transit countries. When traffickers are genuinely threatened, they mobilize support through political institutions to delay or weaken important legislation. These criminals render policies ineffective and prevent or evade counter-drug law-enforcement activities. They are able to penetrate the highest levels of society where they undermine democratic institutions, ignore established law, and threaten civic order with impunity. Finally, corruption deters legitimate investments in these nations' banking industries and prevents them from becoming more competitive and credible in international capital markets.

THE 1997 NATIONAL DRUG CONTROL STRATEGY: RESPONDING TO THE CHALLENGE

We may not be immune to the threat of illegal drugs, but we are far from powerless against it. We can, and are, making a difference. As a nation, we have made enormous progress in the last ten years in our efforts to reduce drug use and its consequences. Overall drug use has declined. In 1995, six percent of our household population age twelve and over

was using drugs, down from 14.1 percent in 1979. Also, cocaine use has plunged. By 1995, there were only 1.5 million current cocaine users, a decline of 74 percent from 5.7 million current users a decade earlier. While America's drug problem remains serious, we have proven that drug use and its consequences can be driven down. Much, however, remains to be done.

The *National Drug Control Strategy* serves as our roadmap for further decreasing illegal drug use in America. Developed in consultation with public and private organizations, the strategy has five basic goals:

- 1) educate and enable America's youth to reject illegal drugs as well as alcohol and tobacco;
- 2) increase the safety of America's citizens by substantially reducing drug-related crime and violence;
- 3) reduce health and social costs to the public of illegal drug use;
- 4) shield America's air, land, and sea frontiers from the drug threat; and,
- 5) break foreign and domestic sources of supply.

Efforts to halt money laundering play a significant role in our efforts under both goal number two, and goal number five.

TAKING THE PROFIT OUT OF DRUG TRAFFICKING

Simply put, drug traffickers and their henchmen don't work for free. Take the profit out of drug trafficking and you drain the lifeblood of this deadly endeavor. Most figures estimate the amount of money being laundered globally at \$300 billion U.S. dollars. From smuggling currency at the border to electronic wire transfers, all nations are vulnerable. These monies pay the salaries of the men and women who make up the cartels -- from the kingpin to the chemist, from the mule to the hit man. They buy the ingredients and precursor chemicals that make up the methamphetamine, heroin and crack sold on our streets. Whether carried across the border in a canvas satchel or transmitted by an Internet transaction on a phone line, there is no such thing as "clean" or victimless drug money.

However, cash is by definition a fungible. Once drug monies enter the international financial markets it becomes increasingly difficult to cull them from legitimate funds. Your assistance to law enforcement identifying tainted funds before they can wash themselves into legitimate funds and transactions is vital to fighting drug traffickers. Knowing your customers, filing routine currency transaction reports, and reporting suspicious activity at the initial "placement" stage -- when the "fingerprints" and taint are still clear -- is critical.

THE ROLE OF LAW ENFORCEMENT

Let me congratulate the leadership of Secretary Bob Rubin and Under Secretary of the Treasury Ray Kelly, Assistant Secretary Jim Johnson, and Stan Morris, Director of the Financial Crimes Enforcement Network ("FinCEN") for the wonderful work they are doing to assist both the private sector, and government. They support both law enforcement (DEA, Customs, and the IRS), and the traditional bank regulators -- the Federal Reserve and the Office of the Comptroller of the Currency (OCC). Both the technical sophistication and the global nature of the criminal organizations involved in money laundering present a challenge requiring international cooperation and continual education about modernization in banking. This is why FinCEN and the work of the Financial Action Task Force ("FATF") is so important. The following is a snapshot of our efforts to combat money laundering.

International efforts

Money will flow to whatever market is willing and available. Taking the cash power away from the cartels and traffickers, requires us to close all markets to tainted funds. To this end, the United States is helping to build a multilateral cooperative effort that will disrupt flows of illicit capital through the financial system, track illicit flows to their criminal sources, and seize ill-gained assets while prosecuting the owners.

Treasury Secretary Bob Rubin has provided exceptional leadership by bringing the international community together at conferences such as the Summit Ministerial Meeting on Money Laundering in Buenos Aires in December 1995. An interagency working group, chaired by the Treasury Department, also established in 1995, is assisting foreign governments to improve investigative and regulatory efforts against money laundering. Representatives from ONDCP and the Departments of Treasury and Justice routinely visit a number of countries with money laundering problems, including Colombia, Mexico, and Panama.

The Departments of State, Justice and Treasury are working with foreign governments to criminalize money laundering and pass reasonable anti-money laundering regulations that balance interests of both government and the private sector. An institutional framework, with laws on the books, is required before we can expect foreign governments to actually investigate and prosecute suspected money launderers. We have seen several countries (Mexico, Panama) recently enact significant reporting requirements and criminal legislation.

Institutional reform often requires a two-pronged approach: the creation of a regulatory and legislative system followed by thorough training of individuals vested with the responsibility in executing the laws. We should commend the work of our Justice, State and Treasury Departments in the technical training of foreign governments, which often lack significant resources to train prosecutors and judges how to investigate, prosecute and adjudicate sophisticated money laundering cases.

Leadership throughout the Department of State and other departments and agencies with international financial interests has been tireless in supporting diplomacy as an important tool of international drug control. My visit to the United Nations in June of 1996 included an address before the Economic and Social Council of the United Nations on the global challenges we face concerning the illicit production, sale, demand, and distribution of narcotics and its corrupting effects on our monetary systems.

The International Economic Emergency Powers Act

To demonstrate the United States' resolve to halt to the flow of drug monies internationally, in October 1995, under the authority of the International Emergency Economic Powers Act (IEEPA), President Clinton signed an Executive Order imposing economic sanctions against Colombian drug cartels and those doing business with them. There are currently 426 companies and individuals who are denied access to the U.S. financial system and the benefits of trade with America under the provisions of IEEPA.

The Colombian private sector has courageously worked with us to defend the integrity of their financial institutions against these powerful international criminal organizations. Colombia's banks have refused to do business with IEEPA targets, closing their accounts. The Colombian private sector also helped pressure the Government of Colombia into setting up bank regulations against money laundering. Pressure by private Colombian citizens on their Congress resulted in passage of an asset - forfeiture law in December 1996.

Financial Action Task Force

Another effective international instrument against money laundering has been the Financial Action Task Force (FATF). The FATF was convened at the direction of the 1989 G-7 Economic Summit in Paris. FATF evaluates measures that have been taken to prevent the use of financial institutions by money launderers, and it makes recommendations on how to improve international cooperation against money laundering. This task force has proven to be a powerful force for multilateral cooperation.

My recent visits as part of President Clinton's delegation to Venezuela, Brazil, and Argentina highlighted the need to train and support foreign financial intelligence centers to improve information sharing with the Treasury Department's Financial Crimes Enforcement Network (FinCEN). In addition, we need to train investigators and prosecutors in money laundering and asset forfeiture, which will continue to be on the agenda of the Departments of Justice and Treasury. ONDCP will continue to work in the interagency community and with our allies to build cooperative efforts to attack the financial foundation of international criminal organizations.

Domestic Initiatives

More than fifty federal departments and agencies are involved in implementing counter-drug programs. In addition, state and local governments, public interest groups, and private corporations make major contributions to the national effort. The structures of government that bring together these diverse groups, interests, and agencies will vary. Anti-money laundering initiatives require close collaboration among a number of federal agencies, state and local law-enforcement and regulatory agencies, and the private sector.

The United States has been most successful when we have been able to streamline operations and develop cooperative initiatives. Law-enforcement efforts are most effective when backed by: anti-money laundering regulations, support from the financial sector (e.g., banks, brokerage houses, and other financial institutions), and international cooperation stemming from multilateral protocols criminalizing the movement and laundering of drug proceeds.

High Intensity Drug Trafficking Areas

One of the better examples of effective federal, state, and local cooperation against drug trafficking and money laundering is the High Intensity Drug Trafficking Areas (HIDTAs) program. The HIDTA program provides a strategic approach to joint drug interdiction, investigation, intelligence, and prosecution. Some task forces include all of these elements; all task forces include non-federal members. In fact, ONDCP insists that State and local members of each HIDTA receive at least half of the resources allocated to that HIDTA. There are now seventeen HIDTAs operating in the United States, Puerto Rico, and the Virgin Islands. Included in these HIDTAs are several anti-money laundering task forces.

The Miami HIDTA has several money-laundering task forces. One of them is IMPACT, the South Florida Interagency Metropolitan Police Anti-Crime Task Force of the Miami HIDTA. Formed in 1994, IMPACT now has about fifty full-time investigators from thirteen local, state, and federal law enforcement agencies in South Florida dedicated to dismantling narcotics and money-laundering operations.

In FY 1996, this South Florida task force dismantled eighteen and disrupted sixty-six money laundering organizations and seized \$9.3 million in currency and \$95,000 in drug-related assets. Investigations reached to Chicago, Houston, Los Angeles and New York as well as the South Florida region. FinCEN credits IMPACT with helping identify nearly two thousand money-laundering accounts. IMPACT and FinCEN are now working together to identify and dismantle the businesses and bank accounts of drug money launderers on a national scale.

Over two years ago, participating agencies in the Houston HIDTA targeted wire transmitting businesses and the entire money-laundering industry. The plan included working with Texas regulatory agencies and legislators to pass strict licensing, record keeping, identification, and bonding requirements for industry. The regulations were strengthened with the mandated inclusion of an annual audit of each business by Texas state examiners. Due solely to HIDTA's aggressive criminal prosecution and state regulation, the amount of money being transferred to Colombia from Houston wire transmitting businesses has been reduced from \$450 million in 1990 to about \$10 million today.

Geographic Targeting Order (GTO): El Dorado Task Force

As criminal enterprises become more sophisticated in exploiting the technology of the global marketplace, we must develop more sophisticated law-enforcement techniques with which to counter these criminal organizations. The New York Geographic Targeting Order (GTO) and the El Dorado Task Force of the New York HIDTA are good examples of our collective effort to identify, track, and seize profits from the drug trade.

The New York GTO selected twelve specific money-remitter services and required them to report all wire transfers to New York that were over \$750.00. The New York GTO was highly effective in reducing the flow of narcotics proceeds to Colombia through New York City money transmitters. New York State Banking Department figures indicate that the targeted transmitters had been sending approximately \$1.2 billion annually to South America; about two thirds of this amount, or \$800 million was being laundered out of New York (by using wire transfers) to Colombian drug traffickers. The volume of targeted money transmitters' business with Colombia dropped approximately 30 percent after the GTO went into effect. U.S. Customs Service (USCS) officials believe that most of this money has been physically removed from the New York metropolitan area, resulting in a dramatic increase in U.S. Customs interdiction and seizure activity at the borders -- over \$36 million since the GTO went into effect, a figure approximately four times higher than in prior years. This experiment in New York has now been expanded nationwide and requires all money remitters to report suspicious activity. This is the kind of swift and innovative action that will help turn the tide in fighting the nation's drug cancer.

The El Dorado Task Force also exemplifies the Administration's commitment to coordinated anti-money laundering efforts. Begun in 1992, this joint federal, state and local initiative includes some 197 agents, police officers, and support personnel from twenty-six agencies, including U.S. Customs, IRS, the U.S. Secret Service, the NYPD, and New York State Banking Department. El Dorado targets financial services that facilitate money laundering and has resources dedicated to non-bank financial institutions, banks, brokerage houses, private banking, and the bulk transportation and smuggling of cash. Since 1992, the El Dorado Task Force has seized in excess of \$170 million in currency, made 750 arrests, and seized more than two tons of cocaine and 120 pounds of heroin. In fiscal year 1997, the Office of National Drug Control Policy invested \$1.8 million in the El Dorado Task Force.

FinCEN's Project Gateway

FinCEN has developed a data base known as Gateway, which is accessible to state and local authorities. Gateway receives 4,600 queries each month and distributes information to local investigators who are trying to link together evidence to prosecute financial crimes.

THE ROLE OF THE RESPONSIBLE FINANCIAL COMMUNITY

Preventing the spread of money laundering and prosecuting launderers are two necessary steps that can weaken the financial underpinnings and profit motives that fuel drug trafficking. Reasonable regulation and examination of suspicious accounts, focusing on "at risk" areas of the banking industry, will deter drug traffickers away from financial markets and cause them to use less sophisticated, more easily detectable means to gather their profits. Partnerships as the Bank Secrecy Act Advisory Board (BSAAB) provide the necessary forum for law enforcement and bankers to come together to discuss reasonable, practical regulation of the financial services industry.

Examples of suspicious activity

Suspicious activity reporting must be investigated on a case-by-case basis, however, certain telltale signs of suspicious activity are warning signs that further examination is necessary. These warning signs include:

- 1) Multiple bank accounts opened by more than one foreign national on the same day;
- 2) Multiple bank accounts opened by more than one individual using the same address;
- 3) Multiple bank accounts opened by the same individual using variations of the individual's hyphenated surname;
- 4) An account opened using a foreign address or an address marked "in care of";
- 5) An account opened with an invalid Social Security Number;
- 6) An account opened without a residential phone number being provided, or in which a cellular phone or pager number is given as the reference telephone number on the account opening forms;
- 7) The use of a foreign address to open an account, which is subsequently changed to a U.S. address soon after the account is opened; and,
- 8) Cash deposits in amounts that far exceed what could normally be expected from a person with the type of job description found on the signature card.

Where these warning signs are found, the responsible member of the financial community, and those who counsel these institutions, have a moral obligation to investigate further.

Building More Secure and Stable Financial Institutions and Markets

In addition to assisting our nation's efforts against drugs, measures to deter illicit proceeds from being filtered through legitimate enterprises encourage legitimate businesses to invest and perform their transactions free from concerns about the safety and soundness of financial institutions. Preventing and reporting suspected money laundering is a policy that is good for the security and economic prosperity of financial institutions and the economies that are intrinsically linked to them. Compliance with anti-money laundering regulations does more than protect banks from being fined or from having their charters revoked. This approach is healthy for the credibility of financial institutions competing in a world market. Shielding our financial institutions from money laundering also protects against the danger dirty money poses to the stability of our economic, financial, and political institutions, such as currency devaluation and corruption.

What the Banking Community is Doing

Recognizing our shared interests in defeating the flow of tainted funds, the banking industry has made significant strides in recent years to fight money laundering. Commitment to this effort by the American Bankers Association has been unwavering. Members of American Bankers Association have trained more than 500,00 bankers concerning money laundering deterrence since 1985.

Among some of the recent internal actions many institutions have taken are the following:

- the creation of an effective, written policy statement for all employees;
- establishment of a "Know Your Customer" policies (customer identity);
- automated review and computer reporting of account openings and non-account holder activity;
- annual training seminars on CTR, SAR compliance and monthly reports updating staff on recent money-laundering investigations/trends;
- and, internal and external audits and quarterly compliance reviews by random officers within each bank, and by external, hired consultants with results directly forwarded to senior management.

These largely voluntary initiatives form a template for responsible financial monitoring and enforcement on the part of members of the financial community. The wider adoption of these initiatives, both here in the United States, and abroad, will make it dramatically more difficult for drug traffickers and other criminals to rely upon legal institutions to launder their ill gotten gains. In so doing, these initiatives will also strengthen the security and stability of our financial institutions and markets, as well as building a framework for enhanced international market activity.

GUIDING PRINCIPLES FOR THE ROAD AHEAD

Money laundering can be significantly reduced through financial and monetary controls, adoption of international standards, and collaborative investigations. Treasury Secretary Bob Rubin, Attorney General Janet Reno, Secretary of State Madeleine Albright, National Security Advisor Sandy Berger, DEA Administrator Tom Constantine, and FBI Director Louis Freeh have provided vision and leadership in our efforts to attack the financial underpinnings of drug trafficking organizations worldwide.

Anti-money laundering programs provide an excellent example of where law enforcement and the private sector can come together in powerful, cooperative efforts. The following is a list of guiding principles we must continue to pursue:

- 1) Strengthen international compliance with multilateral agreements;
- 2) Help nations threatened by money laundering develop legal, regulatory, and law enforcement institutions capable of dealing with the threat; and,
- 3) Enhance and integrate our own law-enforcement operations to counter the ever increasing sophistication of drug traffickers in using digital telephony, high-tech communications, and encryption devices.

CONCLUSION

Working together, the responsible financial community and the United States government can deal a significant blow to the pocket books of international criminal organizations. Taking money out of their hands means less drugs on our streets, fewer children addicted, and less crime in our neighborhoods. Strengthening the divides between legitimate funds and transactions and drug proceeds also will ensure the long-term security and stability of financial institutions and markets. It is in all our interests to see these efforts through, not only to the fullest extent of the law, but to the fullest extent of our abilities. Thank you.