SENATE CAUCUS ON INTERNATIONAL NARCOTICS CONTROL

HEARING ON "MONEY LAUNDERING AND BULK CASH SMUGGLING ACROSS THE SOUTHWEST BORDER" – MARCH 9, 2011

QUESTIONS FOR THE RECORD FROM

SENATOR DIANNE FEINSTEIN

Question for Jamal El-Hindi (Financial Crimes Enforcement Network)

In your written testimony, you explain that as Mexico tightens its laws and limits its acceptance of U.S. dollar transactions, money flows could be diverted from Mexico to other countries in the region.

Question:

- How are we preparing ourselves for the diversion of drug traffickers' proceeds from Mexican financial institutions to other countries in the region?

FinCEN is analyzing data related to bank note flows between the U.S. and Central America to detect any possible increase in U.S. dollars being diverted to Central America. FinCEN is utilizing BSA data and Federal Reserve Bank of New York data to conduct this analysis. FinCEN has incorporated its analytical findings into a law enforcement sensitive advisory that was issued on March 31, 2011. In addition to Central America, FinCEN has begun to research and compare to historical figures bank note flows between the U.S. and a number of Caribbean countries in order to identify the diversion of drug traffickers' proceeds into that region.

Question:

- What are we doing to stay ahead of the drug traffickers' emerging tactics?

As Mexico has worked to tighten its laws and regulations, we have enhanced our close working relationship with our Mexican counterparts to help mitigate money laundering vulnerabilities on both sides of the border.

More specifically, FinCEN continues to work with the Mexican National Banking and Securities Commission (CNBV) in order to identify abnormal money flows leaving Mexico. In addition to our collaboration with the CNBV, the Mexican financial intelligence unit (FIU Mexico) is one of FinCEN's closest partners. FinCEN's liaison in Mexico is collaborating with FIU Mexico on a variety of tactical cases and the FIU Mexico continues to share information with FinCEN on U.S. dollar activity in the Mexican financial system. In addition, FinCEN continues to strengthen the U.S. financial system from abuse by drug traffickers and other criminals by developing BSA regulations related to foreign-located money services businesses, reporting of cross-border funds transfers, more comprehensive BSA requirements for providers and sellers of prepaid access, and reporting of the international transport of prepaid access. Lastly, FinCEN will continue to issue advisories to the financial industry and to law enforcement of emerging trends in money laundering as warranted. In 2010, FinCEN and the National Drug Intelligence Center issued a public and law enforcement advisory on Trade Based Money Laundering (TBML). The same year, FinCEN issued advisories and studies on the recent Mexican regulations imposing restrictions on Mexican financial institutions for U.S. dollar cash transactions, and suspicious transactions related to Mexico in the U.S. MSB sector." FinCEN and the Mexican FIU also collaborated on a study of the physical flow of U.S. dollar cash in the Mexican financial system.

Mexican drug trafficking organizations can easily use foreign-based Internet financial service businesses to launder money electronically. In a recent article, money laundering expert Doug Farah wrote that this means, "There is no need for any of the activity in the cyber world to pass through the United States."

Question:

- What are we doing to address money laundering through foreign-based Internet financial service businesses? Are we enlisting help from our international partners on this front?

FinCEN continues to work with the other 119 members of the Egmont Group of Financial Intelligence Units (FIU) on a variety of issues in order to combat money laundering. Additionally, FinCEN's notice of proposed rulemaking (NPRM) published May 2009 on Money Services Business (MSB) redefinition, which will soon be finalized, specifically addresses MSBs that do not have a physical presence in the United States but seek to provide services within the United States. The specific goal behind this proposed regulatory change was to address concerns regarding entities such as foreign-based internet financial service businesses that could pose money laundering risks.

We have read reports of money increasingly being placed into Russian laundering structures outside of Mexico that can be delivered in Mexico again as clean cash via Russian-owned casinos, hotels and other cash intensive businesses.

Question:

- What is FinCEN doing to combat these Russian laundering structures?

The Russian FIU is part of the Egmont Group. FinCEN and the Russian FIU have exchanged information for several years and continue to examine new illicit patterns. In April 2011 two FinCEN analysts will travel to Russia to continue joint work with our Russian counterpart FIU on matters related to narcotics trafficking. This trip builds upon the Russian FIU's visit to

FinCEN in 2010. Furthermore, FinCEN's proposed redefinition of MSBs, as discussed in the response to the previous question, would extend the registration requirement to foreign-based entities, such as those domiciled in Russia, that do significant business in the United States.

Ecuador, El Salvador and Panama all have dollarized economies. This makes them attractive locations for Mexican drug trafficking organizations since bank transactions in dollars draw little additional scrutiny.

<u>Question:</u>

- As we attempt to starve Mexican drug traffickers of cash, to what extent are we working with our partners in Ecuador, El Salvador and Panama to ensure that their banks are not used to transit 'dirty money?'

FinCEN is taking a regional approach to identify new corridors that Drug Trafficking Organizations (DTOs) may be using in response to Mexico's measures restricting US dollar cash transactions. As Mexican regulations make it more difficult for DTOs to place their drug proceeds in Mexico's financial system, FinCEN analysts are predicting that the cash will be diffused to other sub-regions south of Mexico, to include Central America and South America, especially to Guatemala, El Salvador, Costa Rica, and Panama.

FinCEN held a series of meetings with Latin American counterparts to discuss the Mexico spillover effect to Latin America and to encourage more information sharing on the subject, including a trilateral meeting with our Mexican and Guatemalan counterparts in September 2010; a multilateral meeting with our Mexican, Costa Rican, Panamanian, Colombian, and Peruvian counterparts in Colombia, in October 2010; and a bilateral meeting with our Panamanian counterpart on March 21 and 22, 2011 The topics of discussion range from strategic analysis methods, to cash flows between the United States and specific countries in the region, to specific targets that have been associated with bulk cash being smuggled from the United States to Mexico and other countries in the region, then being placed and layered in third countries, and then being repatriated back to the United States.