

FINANCIAL CRIMES



ENFORCEMENT NETWORK

SAR Stats

Technical Bulletin

July 2014



Financial Crimes Enforcement Network

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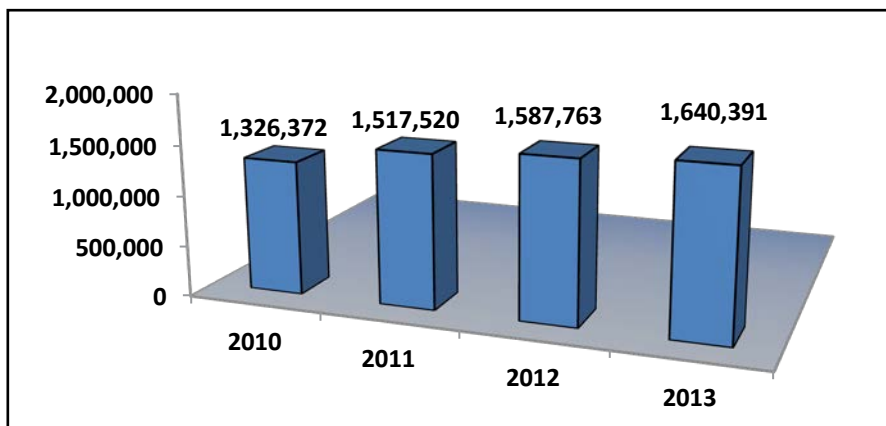
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Please click on the hyperlinks above for SAR data arranged by filing industry type and ranking. PowerPoint slides containing state geographical displays (traditionally referred to as “heat maps”), Value Summary Reports containing geographic summaries at the county and Metropolitan Statistical Area (MSA) level, as well as a yearly breakdown of suspicious activities for all states and territories are accessible through highlighted hyperlinks in Exhibit 2 (Filings by States & Territories) of each industry type section.

ATTENTION: As viewers may have different operating systems, in order to access and view graphical data in its entirety, you must open the PowerPoint in SLIDE SHOW mode.

Welcome to the first issue of *SAR Stats*, the successor publication to *The SAR Activity Review: By the Numbers*. This issue examines only data contained in the **1,369,529** unique FinCEN SARs (Form 111) with filing dates between March 1, 2012 and December 31, 2013, inclusive.¹ The adoption of the new unified SAR form and the implementation of e-Filing enable the financial industry to report suspicious activity more swiftly and with more specificity. The changes also mean the data presented in this issue are a new baseline for financial sector reporting on suspicious activity. Direct comparisons with reporting numbers in prior years (year on year numbers) will not be presented in this inaugural issue of *SAR Stats*. The overall 1,369,529 SARs analyzed for this report are organized and presented by industry. Illustrated below is the total volume of filings since CY2010.

SAR Filings



BSA data - particularly SARs - continue to play an integral role in law enforcement investigations and financial regulatory compliance at both the federal and state levels. In the first six months of 2014 alone, over 350 unique agencies representing a broad cross section of federal, state, and local law enforcement, regulators, self-regulated organizations, and state attorney offices operating nationwide accessed Bank Secrecy Act (BSA) data via FinCEN's portal. Thousands of agents, analysts, and investigative personnel from each of these entities have conducted in excess of 1 million queries against the database during that period. In addition, approximately 94 Suspicious Activity Report (SAR) review teams across the country bring together investigators and prosecutors from different agencies to regularly review reports related to their geographic area of responsibility. In the second quarter of 2014 alone, these teams reviewed a total of over 180,000 SARs.

1. Use of the new format for FinCEN SARs (Form 111) was **voluntary** during the period March 1, 2012 through March 31, 2013 and **mandatory** commencing April 1, 2013. The FinCEN Suspicious Activity Report (the FinCEN Form 111, or SAR), has replaced the individual legacy SAR types TD F 90-22.47 (Depository Institutions), FinCEN Form 109 (Money Services Business), FinCEN Form 102 (Casinos & Card Clubs), and FinCEN Form 101 (Securities & Futures Industries).

Why and How did the SAR Form change?

FinCEN historically provided industry-specific reports tailored to address individual industry requirements. Over time, this practice evolved into the development of multiple industry-specific forms. FinCEN's first suspicious activity report (SAR-DI) was designed for use by depository institutions. Subsequently, FinCEN promulgated SARs specifically designed for the casino, money services businesses, and securities and futures industries.² This approach initially made sense given the differences in these sectors. As the sectors grew, and data volumes increased, it became apparent that a more streamlined approach would be far more efficient. For example, each of the industry-specific forms required FinCEN to maintain separate Office of Management and Budget (OMB) Control Numbers under the Paperwork Reduction Act (PRA), and any change to a SAR required a formal notice to the public requesting comment under the PRA. The move to a single-form environment facilitates the implementation of a more powerful data model and tools that bring the scale needed to analyze larger volumes of data more effectively, including identifying new and emerging patterns, and comparing trends across industries. In addition, the new format also is responsive to the growing confluence of services offered among the various industries.

Creation of the new SAR form was undertaken with significant stakeholder consultation. The focus was on eliminating redundancies in the separate legacy forms while preserving the ability to capture more specific violation types and minimize the changes needed to regulate additional or future industry sectors. The new SAR form was published in the Federal Register along with a request for public comment. FinCEN received 19 responses in response to the public notice. The majority of the suggested refinements were adopted and the new SAR was released for use in March 2012 with a nine-month implementation period. Concurrent with this activity, FinCEN was engaged in the development and fielding of a new system-of-record (SOR) database as well as rolling out e-Filing. The new SAR was specifically designed to operate as an electronic-only report within the new SOR.

With the advent of a single SAR form, FinCEN has been able to implement version control, preannounce planned updates, reduce the frequency of form changes, and consolidate five information collections into one with a single OMB update cycle. The unified SAR's success led FinCEN to apply the same concept to the currency transaction report (CTR), which resulted in a single CTR that replaced three prior reports (CTR, CTRC, and CTR-N).

2. FinCEN published regulations finalizing the anti-money laundering (AML) and SAR reporting requirements for the insurance industry and provided that group with a proposed SAR-IC. The SAR-IC was formally published in the Federal Register for review and comment, but due to technical issues, it was not formally released to the insurance industry for use. Instead, insurance companies were instructed to file the SAR-SF when reporting suspicious activities.

What's New in This Issue

👉 **Enhanced Data:** By standardizing sections and options available to the various filer types, the new Form 111 increases accuracy of data collection and analysis. Form 111 contains five parts: Part I (Subject Information); Part II (Suspicious Activity Information); Part III (Information about Financial Institution Where Activity Occurred); Part IV (Filing Institution Contact Information); and Part V (Narrative).

Part II (Suspicious Activity Information) contains approximately forty new activity options within ten new categories. These categories of suspicious activity offer a variety of choices which capture broader activities more clearly. For example, legacy SARs contained general summary characterization options indicated as *BSA/Structuring/Money Laundering, Money Laundering, Structuring, or Money Laundering/Structuring* but provided no specifics as to the nature of the underlying violation. The Structuring category in Part II provides filers with multiple suspicious transaction options commonly associated with structuring.

In the event that a category applies but none of the seventy overall options apply, filers can now briefly describe the type of suspicious activity in an associated text field (“(z) Other”) provided for each new category. Legacy forms contained just one common “zOther” option and only two of these forms had an associated text field.

In addition to categories capturing activities with more granularity, a category specific to suspicious insurance transactions has also been created, indicating activities previously only captured within the narrative section within the legacy Securities & Futures Industries SAR.

The new Form 111 can only be filed electronically. Filing accuracy is also increased as common errors are recognized (and corrected through communication with the filer) at the front end of the process.

👉 **Trending Now in “The Other” Section:** *SAR Stats* will show the most prevalent explanatory entries in the “Other” field of each suspicious activity category (by industry). Please refer to this edition’s Trending Now section ([Trending Now](#)) to see what suspicious activities are trending within your industry’s filings.

👉 **SAR Narrative Spotlight:** Although *SAR Stats* is designed to provide a statistical overview for the public and industry of suspicious activity developments, Narrative Spotlights will focus on perceived key emerging activity trends derived from analysis of SAR narratives. In this issue, our Narrative Spotlight section ([SAR Narrative Spotlight](#)) examines the emerging trend of Bitcoin related activities within SAR narrative data.

👉 **Sector Highlight:** Industry experts provide insights and observations on the aggregated SAR data in a particular sector. In this issue, we highlight ([Sector Highlight](#)) Securities & Futures filings related to transactions with no apparent economic, business, or lawful purpose, Other Suspicious Activities and Other Securities/Futures Options.

🔗 **Data Insider:** This section discusses the structure, framework, and methodology behind the data. Refer to the Data Insider section ([Data Insider](#)) for an explanation of how suspicious activities are calculated and geographic locations of data are established.

Statistical Analyses by Sector and Geography

Please click on the hyperlinks below for SAR data **arranged by filing industry type** and ranking. PowerPoint slides containing state geographical displays (traditionally referred to as “heat maps”), Value Summary Reports containing geographic summaries at the county and Metropolitan Statistical Area (MSA) level as well as a yearly breakdown of suspicious activities for all states and territories are accessible through highlighted hyperlinks in Exhibit 2 (Filings by States & Territories) of each industry type section.

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[Depository Institutions]

[SAR Stats – Issue 1 – Depository Institutions](#)

Filings by Year & Month
Filings by States & Territories
States & Territories Ranked in Descending Order
Suspicious Activities Ranked in Descending Order
Filings by Suspicious Activity
Primary Federal Regulator
Relationship to Financial Institution
Product Type(s)
Instrument Type(s) / Payment Mechanism(s) Involved
Value Summary Report – Filings by County
Value Summary Report – Filings by Metropolitan Statistical Area
Value Summary Report – Suspicious Activities by Year by States & Territories

[Money Services Businesses]

[SAR Stats – Issue 1 – Money Services Businesses](#)

Filings by Year & Month
Filings by States & Territories
States & Territories Ranked in Descending Order
Suspicious Activities Ranked in Descending Order
Filings by Suspicious Activity
Relationship to Financial Institution

Product Type(s)
Instrument Type(s) / Payment Mechanism(s) Involved
Value Summary Report – Filings by County
Value Summary Report – Filings by Metropolitan Statistical Area
Value Summary Report – Suspicious Activities by Year by States & Territories

[Securities & Futures Firms]

SAR Stats - Issue 1 - Securities & Futures Firms

Filings by Year & Month
Filings by States & Territories
States & Territories Ranked in Descending Order
Suspicious Activities Ranked in Descending Order
Filings by Suspicious Activity
Relationship to Financial Institution
Product Type(s)
Instrument Type(s) / Payment Mechanism(s) Involved
Type of Securities & Futures Institution
Value Summary Report – Filings by County
Value Summary Report – Filings by Metropolitan Statistical Area
Value Summary Report – Suspicious Activities by Year by States & Territories

[Insurance Companies]

SAR Stats – Issue 1 – Insurance Companies

Filings by Year & Month
Filings by States & Territories
States & Territories Ranked in Descending Order
Suspicious Activities Ranked in Descending Order
Filings by Suspicious Activity
Relationship to Financial Institution
Product Type(s)
Instrument Type(s) / Payment Mechanism(s) Involved
Value Summary Report – Filings by County
Value Summary Report – Filings by Metropolitan Statistical Area
Value Summary Report – Suspicious Activities by Year by States & Territories

[Casinos and Card Clubs]

SAR Stats – Issue 1 – Casinos and Card Clubs

Filings by Year & Month
Filings by States & Territories
States & Territories Ranked in Descending Order
Suspicious Activities Ranked in Descending Order
Filings by Suspicious Activity
Relationship to Financial Institution
Type of Gaming Institution
Instrument Type(s) / Payment Mechanism(s) Involved
Value Summary Report – Filings by County
Value Summary Report – Filings by Metropolitan Statistical Area
Value Summary Report – Suspicious Activities by Year by States & Territories

[Other Types of Financial Institutions]³

SAR Stats – Issue 1 – Other Types of Financial Institutions

Filings by Year & Month
Filings by States & Territories
States & Territories Ranked in Descending Order
Suspicious Activities Ranked in Descending Order
Filings by Suspicious Activity
Relationship to Financial Institution
Product Type(s)
Instrument Type(s) / Payment Mechanism(s) Involved
Primary Federal Regulator
Value Summary Report – Filings by County
Value Summary Report – Filings by Metropolitan Statistical Area
Value Summary Report – Suspicious Activities by Year by States & Territories

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FinCEN’s mission is to safeguard the financial system from illicit use and combat money laundering and promote national security through the collection, analysis, and dissemination of financial intelligence and strategic use of financial authorities.

FinCEN encourages readers to respond with reactions to and comments regarding this report. Please provide FinCEN with any feedback regarding the contents of this report by contacting FRC@FinCEN.gov. Please mention “SAR Stats CY2013” in your email.

3. In addition to data from industries required to file SARs, the above section also captures data submitted from institutions that are not required to file, and others that are required to file, but for which there is not yet an option on the e-Filing drop-down menu.

Trending Now

Trending Now assesses the (z)Other free text entries to monitor the emergence of discernable new illicit schemes. Accurate descriptive entries on the (z)Other field, which contains 50 characters, can lead to the identification of major new types of suspicious activity and the creation of new violation fields in the SAR form. Violation fields are crucial in assisting law enforcement and other users of SAR data to more rapidly identify filings useful to their investigations or other inquiries.

To maximize the value of the (z)Other field content, however, it is important for filers to complete the field accurately. Some best practices for completion of the (z)Other field are included at the end of the Trending Now section and we encourage filers to review them.

The following tables present the most frequently reported themes appearing in the (z)Other fields of each category within Part II (Suspicious Activity Information) of SARs submitted during the period 1 March 2012 through 31 December 2013.

While it is important to note that this issue of *SAR Stats* is the first to contain data derived from the new form(s), making a clean comparison with prior years' data impossible, from an overview perspective key trends as compared to prior years can be assessed for two of the four legacy forms which contained a general (z)Other field with an associated text field: the SAR-DI (TD F 90-22.47) and MSB-SAR (FinCEN Form 109).

Key entries, as compared to prior years, continue to indicate several trends as some of the most prevalent for these two industries: SSN Fraud, Tax Fraud, Prepaid Access/Card Fraud, and Unusual Cash Activity for depository institutions⁴; and Higher Risk Jurisdictions, Unusual Activity (Unspecified), Merchant Fraud, Illegal Sales, Counterfeit (Unspecified), and Excessive Activity for MSBs.

Conversely, new emerging patterns are seen as well, particularly: Romance and Person In Need⁵ Scams in the Money Services Businesses industry and entries of Adverse Media/Negative News⁶ from depository institutions. The emergence of these themes is indicative of the rise in cyber security threats to the financial sector as these schemes are often propagated through cyber intrusions.

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4. The following prevalent trends seen in prior years are now options within suspicious activity categories: ACH Fraud, Account Takeover, and Elder Financial Exploitation.
 5. Unspecified
 6. When SARs address "adverse media," or related phrases such as "negative news, negative information, derogatory information," narratives typically detail negative customer information in the public domain that filers have discovered in initial or ongoing customer due diligence efforts, which include searches of media and court documents.

Methodology Notes

Listed themes represent an aggregation of text entered. Terms that were interchangeable (e.g., Prepaid Card Fraud or Prepaid Access Fraud) were consolidated to one theme. The terms *scam* and *scheme* are used interchangeably.

Activities that were strung together in an entry (e.g., Income/Employment/Occupancy Misrepresentation) were individually counted.

Variations of the same topic, though entered differently, were classified as the same theme. For example, the multiple instances involving some kind of tax violation (e.g., tax evasion, tax refund scheme, tax preparer, tax filing fraud, income tax, and so forth), were consolidated into an overall category of Tax Fraud.

While certain trends may be more prevalent than others, all themes listed represent a noticeable degree of activity within reported suspicious transactions.

Depository Institutions	
Suspicious Activity Category	What's Trending (in order of prevalence)
FRAUD	<ul style="list-style-type: none"> - Auto Loan - Tax Fraud - Prepaid Access/Card - SSN Fraud - Counterfeit Check - Deposit Fraud - Kiting (Unspecified) - Check Kiting - Credit Card Kiting
IDENTIFICATION DOCUMENTATION	<ul style="list-style-type: none"> - Social Security Number Fraud - Income (Unspecified) - Insufficient Documentation Provided
MONEY LAUNDERING	<ul style="list-style-type: none"> - BSA/Structuring/Money Laundering (Unspecified) - Suspicion Concerning Use of Funds - Excessive Cash Activity - Suspicious/Rapid Movement of Funds - Unusual Cash Activity - Tax Fraud

MORTGAGE FRAUD	<ul style="list-style-type: none"> - Origination Fraud (Unspecified) - Application Misrepresentation - Loan Origination Fraud - Short Sale Fraud/Collusion - Questionable TIN Provided at Loan Origination - Undisclosed Mortgage Debt/Liabilities - Mortgage Loan Fraud (Unspecified)
OTHER SUSPICIOUS ACTIVITIES	<ul style="list-style-type: none"> - Tax Fraud - Income Discrepancy - BSA (Unspecified) - Fraud Ring - Identity Fraud - Check Kiting - Excessive Cash Payments - Rapid Utilization/Movement of Funds - Kiting (Unspecified)
STRUCTURING	<ul style="list-style-type: none"> - BSA/Structuring/Money Laundering (Unspecified) - Excessive Cash Payments - Single Transaction Below CTR Threshold

Casinos and Card Clubs

Suspicious Activity Category	What's Trending (in order of prevalence)
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CASINOS	<ul style="list-style-type: none"> - Chip Walking - Rated Play Does Not Support Amount of Chips Redeemed - See Narrative - Structuring (Unspecified)
MONEY LAUNDERING	<ul style="list-style-type: none"> - Cash Out Without Play - Funds Derived From Illegal Activity
OTHER SUSPICIOUS ACTIVITIES	<ul style="list-style-type: none"> - CTR Avoidance - Jackpot Switch
STRUCTURING	<ul style="list-style-type: none"> - Chip Walking - Cashed Out Just Below Reporting Requirement - No Record of Chip Cash Out - See Narrative - Use of An Agent

Money Services Businesses	
Suspicious Activity Category	What's Trending (in order of prevalence)
FRAUD	<ul style="list-style-type: none"> - Romance Scam⁷ - Person In Need Scam (Unspecified) - Excessive (Unspecified) - Possible Scam (Unspecified) - Merchant Fraud (Unspecified) - Fraud (Unspecified) - Excessive Activity - Internet Purchase Scam - Flipping/Excessive Flipping - Prepaid Access - Account Takeover - Unknown Scam - Counterfeit Sales
IDENTIFICATION DOCUMENTATION	<ul style="list-style-type: none"> - Multiple Addresses
MONEY LAUNDERING	<ul style="list-style-type: none"> - See Narrative - Cash On/Cash Off Activity - Suspicious Money Movement - Frequent Sends - Flipping/Excessive Flipping - Excessive (Unspecified)
OTHER SUSPICIOUS ACTIVITIES	<ul style="list-style-type: none"> - Higher Risk Jurisdiction - Unusual Activity (Unspecified) - Higher Frequency/Higher Volume - Counterfeit (Unspecified) - SWB/SWB Higher Risk Jurisdiction - Illegal Sales - Merchant Fraud (Unspecified) - Other (Unspecified) - Counterfeit Sales - Suspicious Money Movement - Excessive (Unspecified)

7. Includes: Love Scam, Relationship Scam, Online Dating Scam, Sweetheart Scam, Mail-Order-Bride Scam, and Person in Need Scam (as applicable).

STRUCTURING	<ul style="list-style-type: none"> - Multiple Transactions - ID Policy Evasion - Unusual Activity (Unspecified) - Unusual Wire Activity - Prepaid Access - Unusual (Unspecified)
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Securities & Futures Firms	
Suspicious Activity Category	What's Trending (in order of prevalence)

FRAUD	<ul style="list-style-type: none"> - Securities Fraud (Unspecified) - New Account - Fraudulent E-Mail
MONEY LAUNDERING	- See Narrative
MORTGAGE	<ul style="list-style-type: none"> - Income Fraud - Employment Fraud - Occupancy Fraud
OTHER SUSPICIOUS ACTIVITIES	- Adverse Media/Negative News
SECURITIES/FUTURES/OPTIONS	<ul style="list-style-type: none"> - Penny Stocks - Unregistered Resale of Securities/Securities Distribution - Securities Fraud (Unspecified) - Prearranged Trade(s)

Insurance Companies	
Suspicious Activity Category	What's Trending (in order of prevalence)

INSURANCE	<ul style="list-style-type: none"> - Rebating - Proceeds Received from Unknown Third Party⁸ - Source of Funds may Not Have Been Properly Declared
MONEY LAUNDERING	<ul style="list-style-type: none"> - Loan Within Six Months of Policy Issue⁹ - Multiple Cash Equivalents Received

8. Activity should have been entered in Insurance Suspicious Activity Category field 36(c): Proceeds sent to or received from unrelated third party.

MORTGAGE FRAUD	<ul style="list-style-type: none"> - Inflated Value - Inflated Income
STRUCTURING	<ul style="list-style-type: none"> - Bought Same/Different Days – Same/Different Locations - Submitted Together (Unspecified) - Bought Different Days – Submitted Together (Unspecified) - Money Orders Bought Different Days – Submitted Together

Other Types of Financial Institutions	
Suspicious Activity Category	What's Trending (in order of prevalence)

FRAUD	<ul style="list-style-type: none"> - Tax Fraud - Compromised E-Mail - Debt Elimination - Mortgage Loan/Mortgage Fraud (Unspecified) - Prepaid Card - Mortgage (Unspecified)
IDENTIFICATION DOCUMENTATION	<ul style="list-style-type: none"> - SSN Not Issued by SSA - Multiple Social Security Numbers
MONEY LAUNDERING	<ul style="list-style-type: none"> - Overpaying Account - Money Laundering (Unspecified) - Down Payment Out of Pattern¹⁰
MORTGAGE FRAUD	<ul style="list-style-type: none"> - Misrepresentation of Income - Misrepresentation of Occupancy - Debt Elimination
OTHER SUSPICIOUS ACTIVITIES	<ul style="list-style-type: none"> - Compromised E-Mail - Tax Fraud - False Statement - Check Kiting - Big Amount (Unspecified)
SECURITIES/FUTURES/OPTIONS	<ul style="list-style-type: none"> - Marking the Close - Unregistered Stock Broker/Investment Advisor - Unauthorized Trades

9. Includes Max, Net, Gross, or Multiple Loan(s).

10. Includes: Large Down Payment.

STRUCTURING	<ul style="list-style-type: none"> – Structuring (Unspecified) – Split Transaction(s)
TERRORIST FINANCING	<ul style="list-style-type: none"> – N/A¹¹ – Terrorist Financing (Unspecified)

Best Practices for Completing the (z)Other Field

SAR Electronic Filing Instructions for Items 29-38 (Types of Suspicious Activity) state: *Use the suspicious activity category Items 29 through 38 to record the type(s) of suspicious activity being reported. Check all boxes that apply to the suspicious activity. If a category applies but none of the options apply, check the category's box "zOther" and briefly describe the type of suspicious activity in the associated text field. If necessary, explain the type of suspicious activity in more detail in Part V (the narrative).*

The following observations illustrate free-text entries which failed to meet this guidance, resulting in less useful data:

1. Many (thousands) of entries lacked critical specifics by omitting the type of product or instrument used in the suspicious activity. For example, there were thousands of entries containing only the single term *Kiting*. This one-word subject needed vital specific descriptors that would have made it useful (e.g., *Check Kiting*). Specific descriptors will reveal activity trends more clearly and are more useful to law enforcement tracking the extent of the products/instruments frequently associated with the activity, in this case, checks and credit cards.
2. Undefined entries that do nothing to describe the suspicious activity, including Excessive or Excessive Activity, Unusual or Unusual Activity, and Suspicious or Suspicious Activity, should not be used.
3. Use of broad all-inclusive themes also should not be used as they do nothing to further put the entry into perspective: e.g., BSA/Structuring/Money Laundering or, simply, BSA, Structuring, or Money Laundering.
4. Prohibited words and phrases¹²: *None, Not Applicable*¹³, *Other, Same, Same as Above, See Above, See Narrative*¹⁴, *Unknown*¹⁵ and *XX*, should not be used. Such entries are of no value.
5. Entries using dollar amounts, dates, or series of numbers are of no value.
6. Free text entries should not be in quotes. Quotation marks comprise a difficulty in synthesizing entries. The (z)Other boxes should not be checked when the associated text field is left blank.

Other Types of Errors

7. Filers should avoid using the (z)Other field when an option already exists for that violation. For example, filers entered Elder Financial Exploitation¹⁶ in the zOther field within the Fraud category instead of checking box 35(d) (Elder Financial Exploitation) within the Other Suspicious Activities category.
8. Text should not merely repeat the category without providing any specifics: Category: Terrorist Financing, (z)Other text entry: Terrorist Financing or Category: Fraud, zOther text entry: Fraud. The text entry in (z)Other is intended to provide more information to streamline searching.

The intention of adding more structured field violation types, as well as the (z)Other fields, was to improve the accuracy and precision of the reporting; however, if filers do not exercise care in completing the form, incorrect entries could potentially have the opposite impact.

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11. Includes: No, None, No SAR, and No Suspicious Activity.
 12. Except as contained in Part V.
 13. Includes: N/A.
 14. Includes: See Part V (and in many cases: See Part VI).
 15. Includes: Unknown Scam.
 16. To include: Elder Abuse.

SAR Narrative Spotlight

The rapid adoption and price fluctuation of Bitcoin has put convertible virtual currencies in the spotlight over the past year. The same attributes of virtual currencies that attract lawful users, such as the capacity for anonymity as well as their speed and global reach, attract criminal actors engaged in illicit financing. FinCEN is observing a rise in the number of SARs flagging virtual currencies as a component of suspicious activity. Like all emerging payment methods, understanding virtual currencies is key to insightful SAR preparation and filing, and for that reason we explore virtual currencies, and Bitcoin in particular, in this Industry Snapshot.

What is Bitcoin? Bitcoin is a type of virtual currency (VC) also known as crypto-currency or math-based currency. VC is referred to as decentralized because it allows users to conduct transactions peer-to-peer without a central administrator. Transactions and new currency issuance is also conducted without a central administrator or trusted third party. Instead, an open-source software protocol links users into a network that: (1) secures the network from attack; (2) broadcasts transactions; (3) verifies/settles transactions; (4) issues new currency; and (5) publishes new transactions to a shared, distributed ledger of all transactions called the blockchain. The rate of coin creation, the total Bitcoin to be created (21 million), and other variables (network difficulty adjustment, etc.), are also built into the software protocol. Other crypto-currencies may differ on the basis of these and other variables.

Why is SAR data crucial in assessing transactions involving Bitcoin or other virtual currencies? Various financial institutions (FIs) including, but not limited to, Virtual Currency Exchangers, other Money Transmitters, other types of Money Services Businesses, and Depository Institutions may all be involved in the chain of transactions making up the lifecycle of a user's purchase, use and sale of Bitcoin for currency of legal tender. This may include depository institutions that house the accounts of virtual currency users, administrators, and exchangers; additionally, depending on the transaction, correspondent banks may also be involved. Each institution has a unique vantage point from which to observe these transactions and identify suspicious activity. FinCEN encourages the use of information sharing under 314(b) in this context.

Different financial institutions are more likely to see different elements of the same suspicious activity due to their participation in and perspective on the transaction chain. For example, while Depository Institutions do not interact directly with the Bitcoin economy (e.g., accept deposits in Bitcoin, conduct transactions in Bitcoin, etc.), they may see cash, ACH, or Wire/Funds Transfer deposits and withdrawals associated with:

Users: Information on users of crypto-currency (even when their participation in the transaction is not considered suspicious) is very useful for the analysis of the narrative, and may be supplemented with the ACH or wire data related to transactions conducted to or from known virtual currency exchangers. Some of these users may be engaged in illicit marketplace activity that is indicated in other corroborating data.

Speculators: Depository institutions may also see user or entity activity that is associated with speculative activity. For example, following a rapid rise in the relative value of a crypto-currency to the dollar, an institution may see high value deposits originating from foreign or domestic virtual currency exchangers. Speculation in a volatile asset is not a criminal activity. However, speculation can share a transaction footprint with other activities that might be suspicious, (such as activity associated with High Yield Investment Programs (HYIP), or outright criminal, such as Ponzi Schemes involving Bitcoin. Brokers or dealers in securities or commodities may also observe these activities because speculators may simultaneously be arbitraging in multiple investment instruments and strategies (day traders, forex speculators, option investors, etc.).

Dealers: Depository institutions may also observe variable cash deposits into bank branches in many different states followed by either an ACH or wire to known virtual currency exchangers. These may denote individuals or entities acting as virtual currency dealers that may be acting as unregistered MSBs.

Correspondent Banks: Correspondent Banks have a unique vantage point in that they are able to see aggregate fund transfers to and from foreign-based virtual currency exchangers: Information in this data may be related to exchanger account ownership and high-value transactions from other businesses, dealers, individuals, and both domestic and foreign entities.

Money Transmitters/ /Other MSBs/ Funding Intermediaries also have a unique vantage point on transactions associated with dealers and their customers (domestic and international). Dealers may accept a wide variety of payment mechanisms in exchange for virtual currency (to include other virtual currencies). These payment mechanisms, acting through different funding intermediaries in a dealer to customer transaction, may be able to identify customers and the dealers of crypto-currency in and outside the United States.

Hacker/Identity Fraud/Account Takeover: In some typologies, virtual currencies and other alternative payment mechanisms are utilized as part of schemes to layer funds or obfuscate financial trails associated with stolen funds from account takeovers. MSBs may be uniquely placed to see the funds originating from a compromised bank account destined for a virtual currency exchanger, other MSB, to other compromised accounts (at MSBs or other FIs) or for the purchase of virtual currency.

Virtual Currency Exchangers: Virtual Currency Exchangers (and other VC entities) may have a unique view of the activities of their users and counterparties as they enter and exit the virtual currency economy and conduct transactions within that economy. For example, exchangers may know when users send Bitcoin to other users who are customers of that same exchange or may be able to compare Bitcoin addresses associated with illicit activity against the activity of addresses they have issued to their customers.

Altogether, SARs filed by the various filing entities may provide valuable information related to accounts, ownership, and other identifying information, and Bitcoin addresses associated with suspicious activity.

Sector Highlight

Exploring the “Other” Suspicious Activity Reported by Securities/Futures SAR Filers

A critical aspect of the redesign of the SAR form focused on clarifying the large percentage of ambiguous entries for the Securities/Futures industry in the “Other” suspicious activity section of the legacy SAR-SF form. The redesign quadrupled the number of specific fields for suspicious activities, and added 50-character text fields to allow further explanation of what “Other” activity truly meant to filers. Securities/futures industry filings through the end of CY 2013 indicate that the redesign is helping reduce this ambiguity:

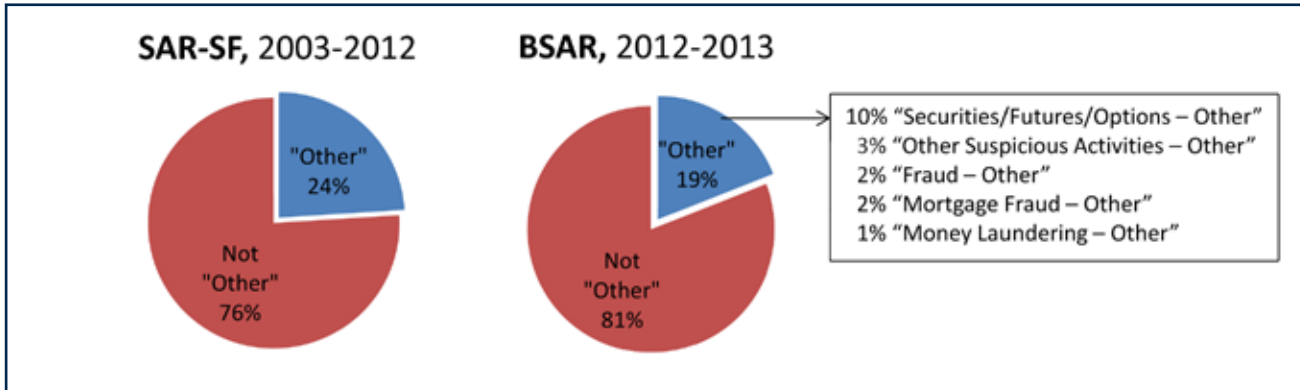
- “Other” filings decreased by 5% for the current filing period over the average of all prior filings on the legacy SAR-SF form (see Figure 1).
- 10 discrete breakdown options in the “Other” category help provide additional data and more rapid processing of forms by law enforcement, regulators, and other SAR users.
- The short text fields for each of the sub-categories allow additional trending activity to be discerned.
- For the filing period, FinCEN’s text analytics revealed filers used over 1,600 unique phrases to characterize activity types in the short text sections of the zOther fields.
- Unregistered offerings¹⁷ and adverse media¹⁸ are two key trends we are seeing in the “Other” category.

Reviewing what’s trending in the text of the “Other” section is revealing more types of suspicious activity and helping FinCEN understand what additional guidance needs to be provided to filers to maximize the benefits of the new SAR form. Please see the findings below for the details in the data.

17. To protect the investing public, the Securities and Exchange Commission (SEC) and Commodities Futures Trading Commission (CFTC) have long-standing registration requirements for securities offerings, firms, and many industry professionals. Failure to register securities offerings, firms, or persons (without falling into an exempted category) is a violation of securities laws and a red flag for fraudulent or illicit activity.

18. When SARs address “adverse media,” or related phrases such as “negative news, negative information, derogatory information,” narratives typically detail negative customer information in the public domain that filers have discovered in initial or ongoing customer due diligence efforts, which include searches of media and court documents.

Figure 1 – More Color on “Other” Suspicious Activity Captured in the FinCEN SAR than legacy SAR-SF

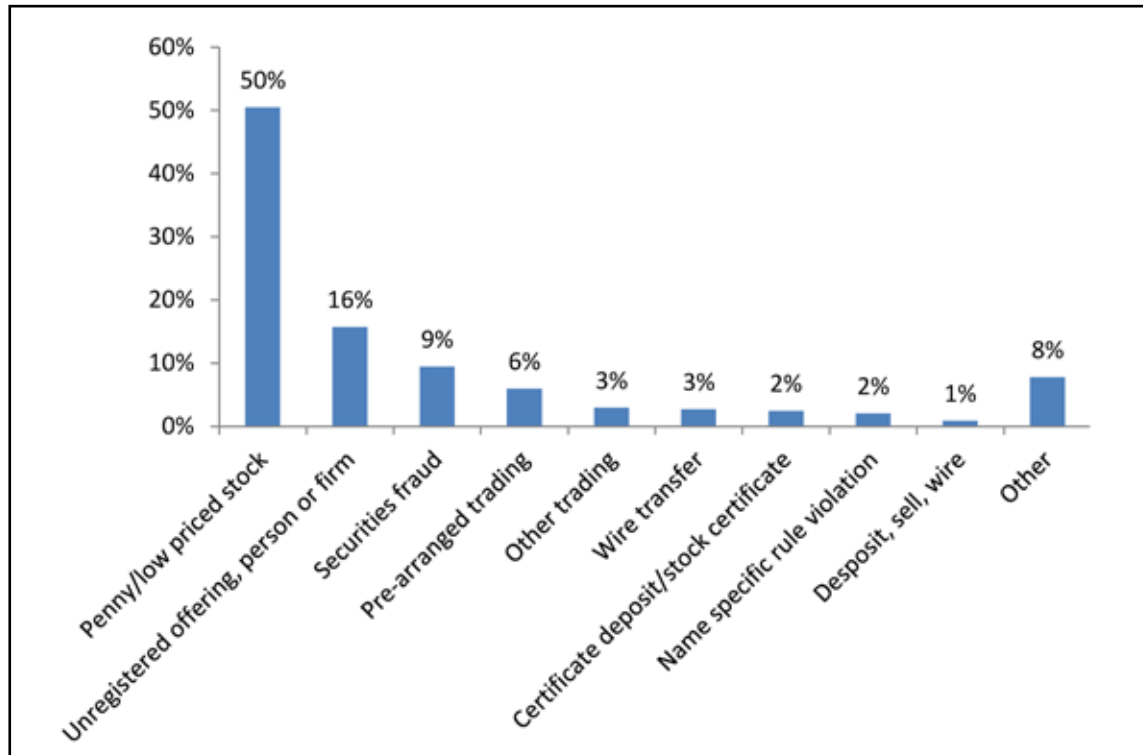


What’s Trending in “Other” Suspicious Activity

To clarify what filers are reporting as “Other” activity, FinCEN also added ten 50-character “free text” fields to the suspicious activity section of the BSAR form. This allows filers to describe in their own words the “Other” suspicious activities they are reporting. FinCEN will periodically add check boxes to the BSAR electronic form for activities that are trending in these text fields. This will make suspicious activity reporting easier for filers and enable SAR database users to find relevant reports more easily by enabling searching on a structured field.

Through the end of CY 2013, FinCEN’s analytics showed that securities/futures filers used over 1,600 unique phrases to describe “other” activity in the free text fields. For this issue of *SAR Stats*, FinCEN analyzed the phrases in the two largest “other” activity sub-categories for the Securities/Futures industry --“Securities/Futures/Options – Other” and “Other Suspicious Activities – Other.”

Figure 2 – What’s Trending in Text Descriptions of “Securities/Futures/Options – Other” Suspicious Activity



Sixteen percent of filings describe unregistered securities offerings, persons, or firms¹⁹ as the suspicious activity. Registration of investment offerings, firms, and professionals who deal with the public has been a long-standing regulatory requirement, so failure to register is a civil violation as well as a red flag for fraud. A total of 9% of filings describe trading issues, including 6% that specifically call out “pre-arranged trading,” which was an activity box on the SAR-SF. Another 3% address a variety of trading problems, such as aggressive, unauthorized, excessive, or “suspicious” trading. Two percent of the filings cite SEC or FINRA rule violations. Some are very specific, such as “Rule 105, Regulation M.” Finally, 1% of filings detail a pattern of “deposit, sell, wire.”

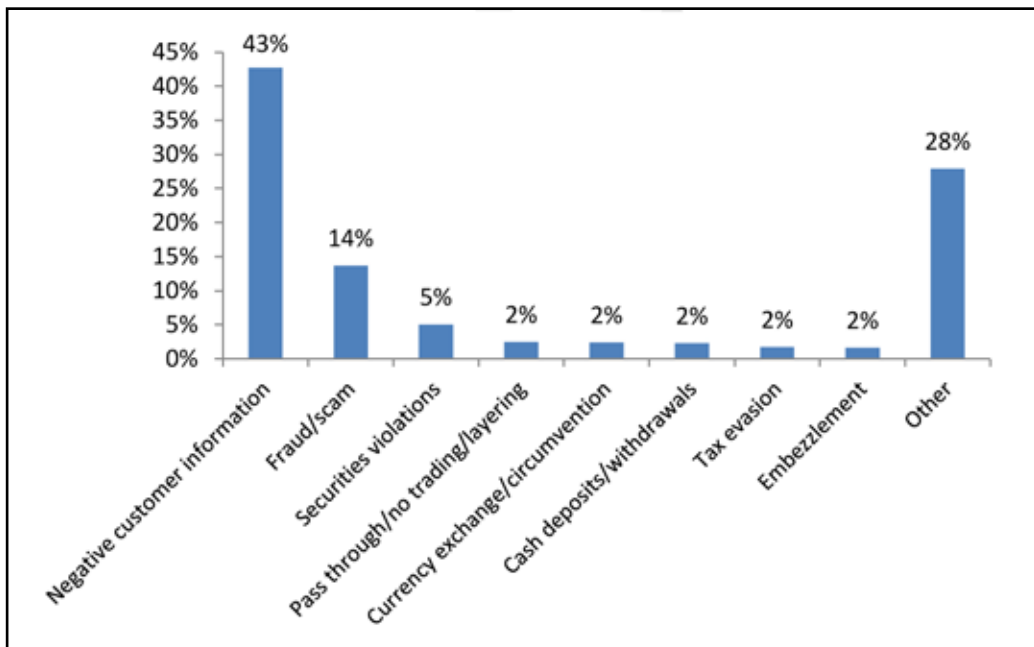
As Figure 2 depicts, a striking 50% of the entries in the Securities/Futures/Options – “Other” category are related to penny stocks. This is an example of a situation where filers could use additional guidance to maximize the form’s utility. Along with several other trending phrases (microcap or low priced stocks, wire transfers, and stock certificates), the term “penny stocks” simply denotes the instruments or payment mechanisms used without specifying what is suspicious about the activity itself. Since not all penny stock trades, wire transfers, or stock certificate deposits are suspicious, and product types and account funding mechanisms are also collected in fields 39 and 40, providing this information in the

19. Supra footnote 1

suspicious activity fields is redundant. However, information about *why* the penny stock, wire transfer, or stock certificate transaction is suspicious would be useful, and FinCEN encourages filers to consider ways to characterize such activity more effectively.

The 9% of filings where filers describe “Securities/Futures/Options – Other” activity as “securities fraud” are also unfortunately less helpful because the phrasing is too generic. Several more discrete types of securities fraud (insider trading, market manipulation, misappropriation, and unauthorized pooling) are already addressed in the check boxes on the BSAR form. When a different type of securities fraud is being reported in the free text field, more specificity would be helpful, rather than less. For example, “stock promotion,” or “pump and dump,” or “boiler room,” are more descriptive than simply, “securities fraud.”

Figure 3 – Securities/Futures Filer Descriptions of “Other Suspicious Activities – Other” Suspicious Activity



Among the reports where filers indicated the suspicious activity as “Other Suspicious Activities – Other,” FinCEN found one phrase trending strongly. A very material 43% of those filings reference negative customer information, most commonly phrased (in 37% of filings) as “adverse media.” Adverse or negative media typically refers to bad news about customers (investigations, civil suits, criminal charges, business problems, personal scandals) which has been reported in the media and which filers discover during their initial or ongoing customer due diligence processes. Other phrases used by filers relating to negative customer information address SEC complaints, FINRA actions, DOJ indictments, FinCEN requests, 314 requests, an OFAC hit, and various charges or suspected links to crime or terrorism. Fourteen percent of filings describe a wide variety of frauds or scams. These include fraudulent emails, documents, wire requests, account deposits and withdrawals,

debit cards, checks, accounts, phone calls, and business proposals. Scams relate to advance fees, romances, lotteries, sweepstakes, and other scams. Beyond this, filers indicate a truly mixed bag of suspicious activity, including some securities violations, pass-through activity (funds flowing through accounts without trading), currency exchanges and country-specific circumventions, cash transactions, tax evasion, and embezzlement/theft.

Another Look - Ambiguous Activities Broken Down by Product Type and Payment Mechanism

Law enforcement, policy makers, and other SAR consumers often ask for information about how suspicious activities in the securities/futures sector relate to different types of investment products. But before the rollout of FinCEN's advanced analytic tools, this information was more difficult to obtain. To provide some information about three materially sized but potentially ambiguous suspicious activity categories, for this issue of *SAR Stats* FinCEN is providing additional breakdowns of some activities tabulated by product type and payment mechanism used. The activities include three relatively ambiguous categories: "Securities/Futures/Options – Other;" "Other suspicious activities – Other;" and "Transaction with no apparent economic, business, or lawful purpose." Key points from these breakdowns include:

- Investment products associated with "Securities/Futures/Options – Other" are almost entirely stocks (72%), or microcap stocks (29%). For regulators or law enforcement personnel searching for reports about novel suspicious activities with stocks, including penny or microcap issues, this breakdown identifies relevant filings.
- Investment products associated with "Other suspicious activities – Other" are most likely (29%) to be "other financial products" not specifically listed on the SAR form. Regulators or law enforcement agents looking for SARs about emerging types of suspicious activity with emerging financial products might find these filings of interest.
- There are relatively few investment products associated with "Transaction with no apparent economic, business, or lawful purpose." Instead, filers are primarily reporting about suspicious funds transfers (93%) or personal/business checks (29%). For regulators or law enforcement investigating potential money laundering through securities/futures accounts, these SARs flagging transactions without purpose, and identifying payment methods without investment products, could warrant further review.
- In general, based on the percentages and highlights in the tables below, investment product types appear to be most relevant to the "Securities/Futures/Options – Other" SARs and payment mechanisms more relevant to the "Other suspicious activities – Other" and "Transaction with no apparent economic, business, or lawful purpose" SARs.

Please see the two tables below for data details. To help decipher the tables, note that they break down the filings by each of three activity types listed in the column headings, “Securities/Futures/Options – Other,” “Other suspicious activities – Other,” and “Transaction with no apparent economic, business, or lawful purpose.” Each row in Table 1 represents an investment product type, and in Table 2 each row represents a payment type or account funding mechanism. The figures in each column represent the percentage of filings within each activity category where the filers indicated use of the product type or mechanism in that row. The highest percentages (above 50%) are highlighted in yellow. Percentages between 20% and 49% are bright orange, between 10% and 19% in a lighter orange, and between 5% and 9% the lightest orange. In some columns, percentages total well over 100%, because more than one product type or payment mechanism may be indicated in many SARs. In other columns, percentages may total well below 100%, because product types or payment mechanisms may not be relevant to the content of those SARs.

Table 1 - Suspicious Activities and Investment Product Types – Stocks are Indicated with “Securities/Futures/Options – Other” Activity

Product Type	Securities/ Futures/ Options - Other	Other suspicious activities - Other	Transaction with no apparent economic, business, or lawful purpose
Stocks	72%	9%	21%
Penny stocks/Microcap securities	29%	6%	13%
Bonds/Notes	2%	2%	3%
Options on securities	1%	1%	1%
Other Financial product	1%	29%	4%
Mutual fund	1%	9%	10%
Debit card	0%	5%	5%
Futures/Options on futures	0%	0%	0%
Security futures products	0%	0%	0%
Commercial mortgage	0%	0%	0%
Forex transactions	0%	1%	3%
Credit card	0%	1%	1%
Insurance/Annuity products	0%	2%	2%
Hedge fund	0%	0%	0%
Home equity line of credit	0%	0%	0%
Residential mortgage	0%	0%	0%

Table 2 – Suspicious Activities and Payment Mechanisms – Wires and Checks Predominant in Transaction Without Purpose SARs

Payment Mechanism	Securities/ Futures/ Options - Other	Other suspicious activities - Other	Transaction with no apparent economic, business, or lawful purpose
Funds transfer	9%	59%	93%
Personal/Business check	1%	11%	29%
Bank/Cashier's check	0%	2%	17%
U.S. Currency	3%	2%	13%
Money orders	0%	0%	13%
Other Financial instrument or payment mechanism	1%	6%	6%
Foreign currency	0%	1%	0%
Government payment	0%	0%	0%

Data Insider

How Counts of Suspicious Activities are Computed

Filers have the ability to select multiple suspicious activities on the reports they submit and many SARs often reflect more than one type of activity.

All options checked in fixed-fields 29(a) through 38(z), within Part II (Suspicious Activity Information) of FinCEN Form 111, are individually counted and then aggregated for that type of suspicious activity.

For example, an institution electronically files two SARs, one citing Check Fraud (31c) as the suspicious activity and the other listing Check Fraud (31c) and Identity Theft (35g). These would be tabulated as two (2) instances of Check Fraud and one (1) instance of Identity Theft (not one instance of Check Fraud and one instance of Check Fraud & Identity Theft).

Moreover, as multiple activities may be reported by a filer, the total number of overall suspicious activities is greater than the total number of filings received.

How Geographic Locations of Data are Established

The geographic distributions of data (as contained in the section titled *Filings by States & Territories*) generally reflect where the transaction activity occurred.

FinCEN initially pulls data as entered in fixed-field 68 (State of branch or office where activity occurred) within Part III (Information about Financial Institution Where Activity Occurred) of FinCEN Form 111. If no entry was made in fixed-field 68, then the item entered in fixed-field 59 (Financial Institution's Permanent State Address) is counted accordingly.

Absence of an entry in fixed-field 68 may reflect a financial transaction as having occurred at the firm's headquarters or permanent address rather than a branch or office location.

In instances where both fields 59 and 68 are left empty or contain entries that do not apply, a designation of Unknown/Blank is given.

In some cases, SARs may indicate multiple locations where the activity took place, thus the numbers entered in the Filings by States & Territories section would be greater than the total number of forms received.

