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Good morning. It is a pleasure to be joining all of you today for this important event. It is an honor for me to be here today with my friends and colleagues from agencies that the Financial Crimes Enforcement Network (FinCEN) has developed such strong partnerships with over the years. In particular, Mexico's financial intelligence unit, the Unidad de Inteligencia Financiera (UIF), and the National Banking and Securities Commission, the Comisión Nacional Bancaria y de Valores (CNBV). I would also like to thank Mr. Juan Carlos Jiménez, Director General of the Association of Mexican Banks, one of the premier bank associations, for inviting me to be a part of this important conference.

The fact that all of you are here today clearly illustrates that Mexico and the United States share more than just a border. We share the common goal of safeguarding our financial systems from abuse, and we are stronger because we work together.

Nearly every country around the world has anti-money laundering (AML) and countering the financing of terrorism (CFT) laws in place at this point. These laws are meant to protect the integrity of the financial system by leveraging the assistance of financial institutions to make it more transparent and resilient to crime and security threats, and to provide information useful to law enforcement and others to combat such threats.

The Financial Crimes Enforcement Network, known as FinCEN, is a part of the U.S. Department of the Treasury. With approximately 350 employees, we are relatively small considering our broad responsibilities. Our 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 carries out this mission by receiving and maintaining certain financial transactions data; analyzing and disseminating this data for law enforcement and regulatory purposes; and building global cooperation with counterpart organizations in other countries. As the Financial Intelligence Unit (FIU) of the United States, we work very closely with the UIF, which serves as Mexico's FIU. FinCEN is also the lead regulator in the AML area, but not a prudential regulator. In our regulatory capacity, we are incredibly fortunate to have a strong partnership with the CNBV here in Mexico.

I would like to spend my time this morning discussing how FinCEN and Mexico are working together on multiple fronts, and employing our multiple authorities, to disrupt the finances of transnational organized crime, including those organizations engaged in drug trafficking, human trafficking and smuggling. Our two countries are strongly aligned and have much in common. And we both can learn much from each other. What happens here in Mexico, impacts the United States. And decisions we make in the United States affect your financial institutions here in Mexico as well. This is why an ongoing dialogue and open communication are so important to ensure authorities in both of our countries understand what financial institutions on both sides of the border are experiencing.

Mexico's recent policy change with respect to U.S. currency restrictions is an example of why our collaboration is so important. We very much appreciate Mexico's outreach to the United States to discuss the new regulations and we will be working closely with our counterparts in the CNBV and the UIF to monitor the impact on financial institutions on both sides of the border to ensure criminals do not take advantage of Mexico's changes to the currency rules.

### ***Funnel Accounts***

One area that we will be closely monitoring is how these new regulations impact the use of funnel accounts. A funnel account is an individual or business account in one geographic area that receives multiple cash deposits, often in amounts below the cash reporting threshold, and from which the funds are withdrawn in a different geographic area with little time elapsing between the deposits and withdrawals. Funnel accounts, along with trade-based money laundering (TBML), are a money laundering concern for both of our governments.

After currency restrictions were first put into place here in Mexico in 2010, limiting deposits of U.S. cash in Mexican banks, we began seeing an increase in funnel account activity as a technique used by those seeking to move their illicit proceeds. Our review of Suspicious Activity Reports (SARs) filed by U.S. financial institutions, as well as information from law enforcement, shows Mexico-based criminal organizations continue to employ funnel accounts to move illicit proceeds. It is also clear that funnel accounts are being used to finance the purchase of goods as part of trade-based money laundering (TBML) activity.

Criminal organizations use wires and checks issued from funnel accounts to move illicit narcotics proceeds to the accounts of businesses offering trade goods and services as part of TBML.

FinCEN issued an Advisory on May 28, 2014 to provide "red flags" to U.S. financial institutions to alert them to the increased use of funnel accounts, and to help them identify and report activity possibly tied to criminal organizations. These red flags are available on our website and include scenarios to be alert to, such as this one:

- An account opened in one state (typically along the Southwest border) receiving multiple cash deposits of less than \$10,000 by unidentified persons at branches outside of the geographic region where the account is domiciled. For instance, an

account in Los Angeles may receive apparently unrelated deposits from unidentified individuals in New York.

The Advisory lists other red flags as well. Of course, some red flags of funnel accounts and TBML may reflect legitimate financial activities. That said, it should cause financial institutions to look into the account activity and evaluate these TBML indicators in combination with other red flags and the expected transaction activity for the customer implicated to make an informed determination of suspiciousness.

Illicit actors may utilize one or more different methodologies, including funnel accounts, TBML, or movement through other jurisdictions to repatriate illicit proceeds. Additionally, FinCEN's Advisory notes that financial institutions should consider and manage the risk associated with receiving deposits from non-customers or unidentified parties.

### ***Increasing transparency along our border***

Even more recently, to support law enforcement's efforts to fight human smuggling and human trafficking, FinCEN issued an Advisory on September 11, 2014, to assist financial institutions in identifying and reporting suspicious financial transactions connected to these crimes. Financial institutions, large and small, can play a critical role in identifying and reporting transactions related to these unlawful activities based on their observations when interacting with customers and their monitoring processes. FinCEN's recent Advisory identifies a number of "red flags" for U.S. financial institutions to consider when determining whether transactions may be associated with human smuggling or human trafficking.

Just yesterday, FinCEN announced a Geographic Targeting Order (GTO) requiring enhanced AML recordkeeping and reporting for several classes of businesses in the Los Angeles Fashion District. A GTO is a tool available in the United States that can be used by FinCEN when it is determined that additional recordkeeping and reporting is necessary to carry out the purposes of, or prevent attempts to evade, AML reporting requirements.

FinCEN's GTO further supports a recent, high-profile law enforcement operation in Los Angeles in which 1,000 federal, state, and local law enforcement officials conducted a takedown at locations across the Fashion District. On September 10, the U.S. Attorney's Office for the Central District of California announced that law enforcement authorities executed dozens of search and arrest warrants on businesses suspected of using "Black Market Peso Exchange" (BMPE) schemes to launder narcotics proceeds for drug trafficking organizations. During the operation, agents seized more than \$90 million in currency. The cash was found in various residences and businesses, stored in file boxes, duffel bags, backpacks, and even the trunk of a Bentley.

FinCEN analyzed thousands of reports of large cash transactions that were filed by U.S. financial institutions on Los Angeles-based textile businesses as a part of this investigation. Our analysis helped paint a more complete picture of the financial activity for law enforcement.

One case unsealed on September 10 alleges that a prominent drug trafficking organization used a Fashion District business to accept and launder ransom payments to secure the release of a U.S. citizen who was kidnapped by that organization, held hostage, and tortured at a ranch in Mexico. Two other indictments also involve alleged money laundering by other Fashion District stores using the BMPE scheme.

In a BMPE scheme, a peso broker works with an individual engaged in illegal activity, such as a drug trafficker, who has currency in the United States that he needs to bring to a foreign country, such as Mexico, and convert into pesos. The peso broker finds business owners in the foreign country who buy goods from vendors in the United States and who need dollars to pay for those goods. The peso broker arranges for the illegally obtained dollars to be delivered to the U.S.-based vendors, such as the stores in the Fashion District, and these illegally obtained dollars are used to pay for the goods purchased by the foreign customers. Once the goods are shipped to the foreign country and sold by the foreign-based business owner in exchange for pesos, the pesos are turned over to the peso broker, who then pays the drug trafficker in the local currency of the foreign country, thus completing the laundering of the illegally obtained dollars.

This BMPE scheme – which is a form of Trade-Based Money Laundering – is often used by Mexico-based drug trafficking organizations to collect money from their drug sales in the United States without having to take the risk of smuggling bulk amounts of U.S. currency across the Mexican border and without having to convert and wire the U.S. currency through established financial institutions, which not only carries transaction fees, but is also a threat their illegal activity will be detected. This is not to say that the pesos never enter the formal financial system in Mexico. Actually the situation is quite to the contrary because the drug trafficking customer of the peso broker would like to have his money in the financial systems so that it can be more readily moved and enjoyed. This often leads to additional schemes to layer and disguise the origin and destination of the funds through financial institutions here in Mexico.

The GTO announced yesterday by FinCEN will further the ongoing investigative efforts of the U.S. Attorney's Office for the Central District of California and southern California law enforcement agencies. In the United States, the currency reporting threshold for businesses is normally \$10,000. FinCEN's GTO lowers this threshold, requiring covered businesses that receive currency in excess of \$3,000 in a single transaction (or two or more related transactions within 24 hours) to report the transactions to FinCEN. The information reported under the GTO will provide U.S. law enforcement with an enhanced ability to identify persons and businesses engaged in the illicit movement of U.S. currency to Mexico and Colombia on behalf of prominent drug trafficking organizations and to trace illicit proceeds.

In addition to this most recent effort, FinCEN has also been working for the past several months to address ongoing concerns about the lack of transparency in the movement of cash across the U.S./Mexico border by armored car services and other transporters of currency.

Just last week, FinCEN issued a ruling on how certain aspects of their evolving business models fall within the scope of our requirements for money transmitters, including the accompanying reporting and recordkeeping requirements, among others.

Additionally, in early August, FinCEN announced two measures to promote greater financial transparency along the border. Authorities have long suspected that some cross border carriers abuse both the spirit and letter of a limited CMIR filing exemption to avoid submitting reporting to FinCEN about the cross border movement of cash. Whether intentional or not, misusing the exemption requirements degrades transparency and has assisted transnational criminal organizations to launder their illicit proceeds.

The first measure FinCEN took was to issue guidance clarifying the circumstances under which transporters of currency, including armored car services, can take advantage of the narrow exemption to the CMIR filing requirements. FinCEN's regulations state that a CMIR must be used to report the physical transportation of currency or other monetary instruments in an aggregate amount exceeding \$10,000 at one time when they are moved across the border into or out of the United States.

Transporters of currency enjoy a narrow exemption from the requirement to file a CMIR, under certain limited circumstances, when delivering their currency shipments to U.S. depository institutions or securities broker/dealers. However, this exemption has routinely been misapplied, resulting in under-reporting of CMIRs. FinCEN's guidance clarifies the responsibilities of a common carrier of currency with respect to CMIR completion and filing.

The second measure we took back in August, again to promote greater transparency, was to issue a GTO requiring enhanced AML reporting at two ports of entry along the U.S./Mexico border. The GTO requires transporters of currency, including armored car services, to file CMIRs upon crossing the land border between Mexico and the United States (regardless of the existing exemption for certain overland shipments of currency) and identify the originator of the currency and the name and phone number of the currency recipient. Information gathered pursuant to the GTO will provide U.S. law enforcement unprecedented ability to identify precisely who is moving money into and out of the United States. FinCEN has worked in close coordination with law enforcement on this GTO, including Homeland Security Investigations (HSI) and U.S. Customs and Border Protection (CBP).

Taken together, these measures will significantly increase the transparency into the movement of currency across the U.S./Mexico border. It will also allow us to work cooperatively with the UIF to compare information and identify criminal activity.

### ***Partnership***

FinCEN and other parts of the U.S. Department of the Treasury collaborate closely with our Mexican counterparts on various fronts, from strategic level sharing on trends in money flows to rapid exchange of detailed information on priority cases. Last year, FinCEN worked closely with the UIF to identify an illicit finance network. The results of this research linked 40 companies responsible for laundering over \$600 million using fake receipts and identity theft. Research also identified diversion of precursor chemicals used in large scale methamphetamine processing. FinCEN presented this information to the UIF and the U.S. Department of Justice.

The UIF facilitated a criminal investigation, pursued by federal prosecutors in Mexico, resulting in the arrest of the head of the illegal network and seizure of over \$6 million USD. While the case is still under investigation in the United States, in July, Mexico and the United States were awarded the Best Egmont Case Award (BECA) by the Egmont Group of Financial Intelligence Units, an international organization with 146 members. The case is being used by the member countries as a model of a collaborative, FIU-law enforcement bilateral approach to money laundering investigations.

And just about a year ago, on October 24, 2013, a supervisory memorandum of understanding (MOU) for AML purposes was signed by FinCEN and the CNBV to advance the shared goal of disrupting illicit financial networks linked to transnational criminal organizations (TCOs), which threaten the national security and financial systems of both the United States and Mexico. This MOU has strengthened the abilities of both the CNBV and FinCEN to combat and disrupt illicit networks by facilitating the exchange of supervisory information in support of our AML missions. We are very pleased to see how information we are able to provide to CNBV is having a real impact on their work, and we are equally impressed with CNBV's commitment to protect the global financial system. We look forward to furthering our already strong partnership in this area.

We have also worked closely with our Mexican counterparts to study the cross-border movement of funds following Mexico's implementation of restrictions on USD cash transactions at Mexican financial institutions in 2010. Given the recently announced change in these rules and our new MOU with CNBV, FinCEN will be able to better collaborate with the UIF and Mexican supervisory authorities as we assess the impact of the new currency rules on Mexican and U.S. financial institutions. It will also enable us to consider improvements to Mexican and U.S. compliance and enforcement efforts, and identify how this may impact money laundering trends, particularly those on the border where we have observed some changes over the past few years.

We are using advanced analytical tools to more quickly identify new filings related to targets of interest to both law enforcement in the United States and our Mexican colleagues and share that information on a proactive basis. We collaborate closely with our Mexican colleagues to tackle complex cases of money laundering where criminal organizations are moving funds on both sides of the border. Through the Egmont information exchange process, FinCEN and the UIF have been able to provide each other (and our respective investigative partners) with previously unknown links in criminal networks.

### ***Transparency: Striking the right balance***

I would like to once again underscore the importance of enhancing transparency in our financial system as we work together to fight organized crime. A cornerstone of ensuring this transparency is businesses, including financial institutions, having access to banking services.

In the United States and globally, we are hearing that some money services businesses are losing access to banking services because of perceived risks with this category of customer and concerns about regulatory scrutiny. Some financial institutions have suggested that this is

taking place because the perceived costs associated with opening or maintaining these accounts currently outweigh the benefits.

We are also hearing that some Mexican financial institutions have had similar experiences.

It is not the intention of our AML regulations to shut legitimate business out of the financial system. In fact, we regularly consult with private sector stakeholders to draft AML regulations that minimize the burden on industry while making it harder for criminals to abuse the financial system. To ensure transparency in the financial system, banks must be able to provide services to legitimate businesses, but at the same time they must understand the applicable risks and manage high risk customer relationships appropriately. This is the core of the risk-based approach. Financial institutions need to make sure they are effectively identifying and managing risk. Correspondent relationships depend on it. Effective management of risk in turn depends upon U.S. financial institutions having sufficient transactional information for them to better understand and manage risk.

Similarly, FinCEN requires sufficient information from financial institutions to assist law enforcement and protect the U.S. and international financial systems. A key aspect of FinCEN's mission is to collect reporting from financial institutions and get this information into the hands of our law enforcement and regulatory partners. A fundamental component of our AML regime is for businesses to have accounts through which their transactions are monitored and reported to FinCEN, as appropriate and as suspicious. This is critical to what we do, because of the indisputable value the AML reporting provides to investigations.

It can be a difficult balance to strike. On the one hand, we need banks to facilitate the free and secure movement of capital within and across borders to drive economic growth. On the other, we also need banks to help us keep dirty money from contaminating not only their institutions, but our financial system as a whole. Last September's enforcement action by FinCEN against Saddle River Valley Bank speaks to this challenge. This small, community bank in New Jersey executed \$1.5 billion worth of inadequately monitored transactions on behalf of Mexican and Dominican casas de cambio, despite information about the heightened risks of dealing with these institutions. No matter the size of your bank, having adequate controls in place, and using common sense to evaluate customer risk, is critical.

I can appreciate that these two messages are at odds with each other, but we need to find a balance between the two; a balance where we receive valuable AML reporting, but where a financial institution also feels it has effectively managed its risk in making decisions about maintaining a relationship with its customers.

We are working to better understand these challenges, especially in the current risk environment, and what the implications are for financial institutions. FinCEN continues to communicate with industry representatives in the United States, as well as our Mexican counterparts, to gather feedback. One thing that we have already heard, however, is that Mexican-U.S. banking relationships could benefit from making sure there are not any obstacles to the flow of information from Mexican banks to their U.S. correspondent banks. The

provisions in the amendments to the dollar restrictions that allow information-sharing with foreign banks related to dollar deposits are a step in the right direction, though more needs to be done related to the ability of Mexican banks to share transactional data with foreign counterparts to allow these foreign banks to effectively manage their risks.

The U.S. and Mexican governments are working with private sector institutions to explore these and other challenges facing our interrelated financial systems, looking to identify where laws, regulations and/or supervision in each of our jurisdictions may be affecting our dual objectives of healthy correspondent relationships and effective implementation of AML laws.

### ***Conclusion***

Among all the topics I have addressed in my talk today, I hope that one point you will remember is the importance of partnership and working together to achieve our shared goals.

Transnational organized crime presents us with a significant threat to both our global financial system and our nations' security. The corrosive effect of these criminal organizations on both sides of our border is evident. By their very nature, these criminal organizations continue to evolve and adapt in order to exploit international borders and regulatory gaps.

All of us must remain nimble as we work to combat criminal organizations that are increasingly more complex and more volatile. It takes courage to be on the right side of this fight. We must have the commitment and the cooperation of financial institutions, regulators, and law enforcement in both of our countries in order to succeed.

Personally, I am grateful for the incredible partners that we have here in Mexico as we confront these threats together, and I thank you for your leadership and unwavering support.

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