



**PREPARED REMARKS OF JAMES H. FREIS, JR.
DIRECTOR, FINANCIAL CRIMES ENFORCEMENT NETWORK**

**ABA/ABA MONEY LAUNDERING ENFORCEMENT CONFERENCE
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Good afternoon. It is a pleasure to be here with all of you today at this important conference. Before I begin my remarks, I would like to first thank Gordon Greenberg for that kind introduction. I am delighted to be speaking at such an event and in the company of such a distinguished group of speakers and panelists, many of whom I have worked with before and know well.

I'm Jim Freis, the new Director of the Financial Crimes Enforcement Network, better known as FinCEN. I say *new* because I have been the Director for six months and this is my first opportunity to address this conference. The valuable work of FinCEN is not *new* to me, however, since I previously worked very closely with FinCEN during my service in the Office of General Counsel at the Treasury Department before coming to FinCEN. I appreciate the opportunity to meet with the large group we have here today, not only representing the country's largest depository institution group, the American Bankers Association, but also the largest representative group of the lawyers who serve them, the

American Bar Association. As an attorney, I have been a member of the American Bar Association since my law school days, when I was President of the ABA's Harvard Law School chapter. Additionally, I feel quite at home among bankers. Prior to my public service at the U.S. Treasury Department, I spent seven years working at the Bank for International Settlements (BIS) in Basel, Switzerland and, before that, I worked at the Federal Reserve Bank of New York. In those capacities, I benefited from a wealth of opportunities to participate in policy discussions among bank supervisors, but also was directly involved in a range of banking transactions and investment decisions. I believe that this background in banking has given me an important perspective in leading FinCEN.

Just before coming to FinCEN and, in my early days there, I spoke with Secretary of the Treasury Henry Paulson about the role of FinCEN Director. He and I share the same view that FinCEN's mission of combating the abuses of financial crime contributes to the broader Treasury Department goal of promoting U.S. financial stability. We also agree that FinCEN must engage the financial industry in an ongoing dialogue in order to fulfill its mission. It is only by this strong engagement that we can learn from each other, and to reach effective solutions to the problems of terrorist financing, money laundering, fraud and other financial crimes being perpetrated through the financial system.

Before I continue, let me take the opportunity to thank all of you for partnering with us and for all the work that you do on the frontlines to protect the financial system from abuse, thereby helping to ensure that the U.S. financial markets remain safe, sound and secure.

Regulatory Effectiveness and Efficiency

I know that much is asked of the financial industry to protect the financial system, and I want to assure you that FinCEN and the rest of the Department of the Treasury are committed to working with you to achieve regulatory efficiency and effectiveness in addressing our common goal of reducing the risks to our financial system.

You will recall that FinCEN had the honor of having Secretary Paulson visit us back on June 22nd to launch the first regulatory efficiency and effectiveness initiatives. At that time I committed to taking a fresh look at how we at FinCEN can best carry out our mission and see if we can do things in a different way that helps the financial industry meet its compliance obligations. This is something I have challenged my talented staff to step back and think creatively about, and we are making progress. I'd like to spend a few minutes discussing the proposals that Secretary Paulson outlined and let you know the status of those.

Risk-based Approach to BSA Examination

The first initiative focused on enhancing the risk-based approach to BSA examination. FinCEN and the regulatory community recognize that not all financial institutions are subject to the same risk. This is certainly not a new revelation, as the FFIEC Examination Manual has stressed the importance of an effective risk assessment since the first edition was released in 2005. But it is important that we ask ourselves: How well are we doing in identifying risks through the examination process and focusing both government and industry resources on those areas where the risk is greatest?

We have been reaching out to study how different regulatory agencies are approaching risk scoping. We have had several meetings with the federal banking agencies to better understand how they go about identifying risks through the scoping process and directing their examination resources appropriately. We have also discussed the issue with several State banking departments and will be following up with more in-depth meetings.

As everyone here knows, the public policy choice requiring government and private industry to work together to fight money laundering, terrorist financing and other illicit activity is not unique to the United States, but rather represents a global consensus. So, we are also looking internationally to see how our foreign counterparts approach the same challenges. Recently, we've had very fruitful discussions with FinCEN's counterpart financial intelligence units and AML/CFT regulators, for example, to learn how in Canada there is a focus on risks by the Financial Transactions Reports Analysis Centre (FINTRAC) and the Office of the Superintendent of Financial Institutions (OSFI), and by the United Kingdom in the Serious Organised Crime Agency (SOCA) and the Financial Services Authority (FSA). Many different jurisdictions are implementing risk-based examination approaches, and we are getting a lot of good insight by looking at how other countries are approaching AML/CFT compliance. The financial markets are global, and we all know criminals don't respect national borders. My personal belief is that FinCEN must be aware of these dynamics in carrying out its responsibilities here in the United States.

Informed by consultations, such as those mentioned above with other supervisors, and in keeping with the evolution of our risk-based system, we will continue exploring the need for new tools and guidance to enhance risk-based approaches by financial institutions and bank examiners, with a view to potentially provide any such direction in future revisions to the FFIEC Examination Manual and related mechanisms. Striving to make the examination process more effective ultimately benefits industry and regulators alike. I will be meeting with the Federal banking agencies in early November to more fully discuss the direction of this initiative, and I also look forward to continuing our cooperative work with the State banking agencies in this arena.

Outreach to Money Services Businesses (MSBs)

As you may know, beginning a few months ago we, along with the IRS, met with a number of the agencies to brainstorm about examination approaches to MSBs and discuss how best to develop a BSA examination manual for MSBs that establishes a consistent approach for both the IRS and state supervisory agencies. Initial efforts are focusing on check cashers and money transmitters. The core procedures will cover the areas germane to regulatory requirements of money services businesses while the expanded sections will cover specific areas of risk and associated examination techniques, such as cash flow analysis, enterprise examinations and risk based audit techniques. This initiative is extremely important. Our collaborative work to produce a high-quality manual will support the risk-based examination of money services businesses by harnessing the collective wisdom of the IRS, state regulatory agencies, and FinCEN to identify best practices in examination and improve consistency. Lastly, as our experience with the

FFIEC Examination Manual has shown, a quality examination manual will provide a resource to the MSB industry that helps explain BSA requirements in order to foster better compliance. We look forward to continuing the excellent state and federal collaboration on this process.

Less than two weeks ago, in a speech to the Money Transmitter Regulators Association Annual Conference, I announced the availability of a new reference on common errors seen in Suspicious Activity Reports (SARs). The document, "Suggestions for Addressing Common Errors Noted in Suspicious Activity Reporting," is a compilation of useful information which FinCEN has discovered through its analysis of Suspicious Activity Reports (SARs) that will be informative to not only MSBs but all financial institutions that are required to file SARs. It provides tips for avoiding common mistakes and suggestions for establishing more efficient and effective anti-money laundering programs. The data derived from analyzing SARs is only as good as the information submitted in the actual SAR form. In providing this feedback, FinCEN is not proposing any new requirements. We are just trying to ensure, through continual outreach and education, that compliance officials accurately report the information that they already possess. We are committed to offering feedback and useful advice to help our partners protect the financial system from abuse. FinCEN expects that SAR filers who are trained on the requirements would already have available the information necessary to complete the SAR properly, meaning that substantial improvements to the SAR filing could be made without significant additional efforts beyond those already undertaken for the investigation and decision to file.

Another example of FinCEN's strong record of feedback was the recent joint announcement with U.S. Treasurer Anna Cabral, of the publication of informative MSB brochures in seven different languages including Spanish, Farsi, Chinese, Russian, Arabic, Vietnamese and Russian. These materials will greatly enhance our MSB outreach efforts to the many minority and unbanked communities affected by Bank Secrecy Act requirements. In addition, we recently introduced an MSB Registration Calculator that is aimed at helping MSBs in fulfilling their regulatory requirements to maintain a current registration with FinCEN.

New Chapter in the CFR

Another area in which we are addressing regulatory efficiency and effectiveness is looking at how we can make it easier for you to know all the regulations with which you need to comply. In the federal government, we hear a lot about confusing regulations and the difficulty in complying with sprawling regulations put together in piecemeal fashion over decades. As Treasury Secretary Paulson and I announced on June 22nd, FinCEN has begun work on the creation of its own *new Chapter in the CFR* with one general part and separate parts for each industry. Currently, under FinCEN's regulations, if you are an MSB or a covered insurance provider, you'd need to look in far flung sections of the regulations to locate your responsibilities. With this change, an institution will only need to look in two places to identify its compliance obligations.

FinCEN staff has developed several approaches to implement this new Chapter. This Wednesday we plan to discuss the issues with the Bank Secrecy Act Advisory Group, which includes various representatives from State and Federal regulatory agencies, law enforcement and financial institution representatives from the numerous industries under the purview of the BSA. Although this Advisory Group will recommend an approach going forward on this initiative, creating this new Chapter will go through a public comment period for all interested parties to provide input on the process.

Feedback

As I mentioned earlier, we are committed to continuing to work with our law enforcement partners to let industry and the regulatory community know as much as operational sensitivities allow about how BSA information is being used. There are many examples of how FinCEN gives and receives feedback from the industries we regulate. Twice per year, FinCEN publishes the *SAR Activity Review, Trends, Tips and Issues*. As the title suggests, it is a great resource for insight into the value of SARs. This publication also contains an extensive section concerning law enforcement case examples and how BSA information was used to detect and disrupt criminal enterprises. The companion publication, *The SAR Activity Review, By the Numbers*, also provides useful raw data on the types and quantity of BSA reports that are being filed.

At FinCEN, on almost a weekly basis, we participate in conferences, meetings and events that broaden our knowledge, provide feedback to the industry and inform FinCEN of important perspectives. In addition to my speech here today, FinCEN has provided five

presenters and panelists to this conference, and we also have two staff members available to answer your questions at our booth. I am proud to say that this speech marks the fiftieth different conference where I or one or more of my fellow FinCEN colleagues has made a presentation this year. In addition to banking, FinCEN staff presents to conferences for the gaming, credit union, securities, futures, accountancy, money services businesses and other industries. That is not to mention law enforcement conferences and intergovernmental meetings and events. For a small bureau of 300 people, I think that is a noteworthy commitment. Let there be no doubt that feedback is a priority for FinCEN.

In the six months since I joined FinCEN, I have taken opportunities to address groups of compliance professionals, industry leaders and executives in the US and abroad. I am committed to continuing to focus a significant amount of FinCEN's resources to providing our regulated entities and the professionals who serve them with open channels and multiple vehicles for giving and receiving feedback.

When Secretary Paulson came to FinCEN, he talked about how we will build on our recent successful efforts with other regulators for timeliness and consistency of enforcement actions, and how we will work toward better communication on how penalties are correlated to the underlying violations and avoid misimpressions about the nature of such conduct. Our recent enforcement actions, which were each joint and concurrent actions with other responsible government authorities, serve as an example of this collaboration to apply a consistent approach to BSA enforcement. As I have stated when we issue enforcement actions - especially major enforcement actions - they are rare

and only applied when appropriate. It is a well-considered public policy choice to place BSA responsibilities on our financial institutions which serve as gatekeepers to the financial system. Moreover, the information lost to law enforcement when an institution fails in its obligations puts other institutions, and the broader financial system, at risk. I understand that the financial community and its lawyers pay attention to enforcement actions, and I am committed to ensuring that when we take these actions, that we provide as much information as possible about the underlying facts that led to the penalties. It is paramount to FinCEN and our federal partners that we dispel the myth that minor technical infractions lead to major penalties. I recognize the significant investment of resources made by the industry consistent with the public policy choice to promote national security, and those working in good faith to carry out their AML/CFT obligations should not be distracted by a misleading view of the enforcement process.

BSA Data and How We Use It

We understand that many in the financial industry have raised concerns about FinCEN balancing the value of the information we receive with the effort it takes for you to collect it. You've asked for feedback on this use and we have provided a growing number of statistics and case studies. The information that you provide not only gives law enforcement, regulatory and intelligence agencies indicia of illicit activity, but it also provides data for identifying patterns, trends, vulnerabilities and compliance-related deficiencies, and for focusing law enforcement resources. Earlier at this conference, you had the opportunity to attend a presentation by representatives from the Drug Enforcement Agency, Immigration and Customs Enforcement and the Federal Bureau of

Investigation and hear first-hand about how these agencies use the BSA data which you provide. For those of you who could not attend, and as a refresher for those who did, I would like to again emphasize the ways that BSA information is used by law enforcement every day:

Tip Off: Primarily with respect to SARs, but also sometimes with the other forms, the information provided can be the first tip that starts an investigation. An employee's good instincts can, and do, result in the contribution of critical information that serves to set investigatory wheels in motion to track down suspected criminal activity. For example, the IRS often says that Money Laundering is tax evasion in progress, BSA information can be the first lead into investigations that can recoup these funds and help to reduce the tax gap. Most people understand and expect these types of "lead" or "tip-off" usage, yet fail to appreciate the following, arguably broader uses of BSA data.

Identifying Information: When an investigation is already underway, the BSA information can add significant value by pointing to the identities of previously unknown subjects, exposing accounts and other hidden financial relationships, or unveiling items of identifying information like common addresses or phone numbers that connect seemingly unrelated individuals and, in some cases, even confirming locations of suspects at certain times. Law enforcement, again and again, confirms the reliability of the information in BSA reports which is a direct reflection of the diligence and training within institutions such as yours.

Trends: Law enforcement investigators, as well as FinCEN analysts, can use technology to examine the entire BSA information base more broadly. When expertly queried, the data unmask trends and patterns that hold the tell-tale signs of criminal or terrorist networks and emerging threats. Hidden in the wealth of information, but easily revealed by skilled analysts with the right tools, are very reliable and credible reports of mortgage fraud, check fraud, identity theft, bribery, counterfeiting, insider abuse and other suspected crimes. This information can also be overlaid on a map to make apparent the geographic range of suspicious activity and allow law enforcement agencies to better allocate their limited resources for maximum effectiveness. We can only gain such insights with the aid of an entire database in which we see vulnerabilities invisible to individual institutions or perhaps seemingly innocuous in a single report.

Deterrence: The existence of BSA regulations has a deterrent effect on those who would abuse the financial system. The certainty of a CTR filing and the mere possibility of a SAR filing force criminals to behave in risky ways that expose them to scrutiny and capture. The least efficient way to transfer a large amount of money is using a suitcase full of cash. DEA and ICE interceptions of shipments of bulk cash on our borders and our highways continue to increase. This demonstrates that criminals fear detection if they use the US financial system and are willing to take great risk to avoid its well-designed capability to detect illicit activity. In addition to the increased likelihood of discovery, it's a success of its own that our collective efforts make it more expensive, difficult and time consuming for illicit actors to realize the proceeds of crime or to raise funds for terrorist attacks.

Other Developments at FinCEN

Before I conclude, I would like to take a few more minutes to discuss some of the other initiatives we have either completed or that are currently underway at FinCEN consistent with my overall regulatory efficiency and effectiveness vision.

After consulting with FinCEN, on July 19 the Federal Functional Regulators issued a statement setting forth the agencies' policy for enforcing specific anti-money laundering requirements under their prudential authority. This was done to provide greater consistency among the agencies in enforcement decisions in BSA-related matters and to provide you with greater insight into the considerations that form the basis of those decisions. While this did not relate to FinCEN's own authorities, it reflects one of the many authorities available to government agencies responsible for BSA/AML compliance issues. We applaud this public clarification of policy and share a commitment to initiatives of this kind, which are entirely in line with the initiatives outlined by Secretary Paulson in June.

A new item I would like to announce today is that in November, we will be updating our Secure Information Sharing System to enable industry to more readily demonstrate to regulators their compliance with specifically requested searches of databases by FinCEN on behalf of law enforcement under section 314 (a) of the PATRIOT Act. The new

functionality provides financial institutions the option to verify that they searched 314(a) subject information against their records and generate a report to record that verification.

This enhancement is designed to ease the obligation of compliance verification relating to 314(a) search requirements. By making available the option for institutions to print a search verification for each 314(a) distribution, search compliance documentation can be provided to examiners in a stream-lined process, which will reduce the current record-retention load some institutions experience. This option will also assist those institutions who utilize third-party vendors to perform their searches in providing examiners with proof of compliance.

The printed verification is not the only source of search compliance available. In addition, the institution's verification is stored in FinCEN's databases and is available for reporting purposes for the institutions, examiners and regulators. This will help ease the examination process for all parties.

Testing is scheduled for one to two transmissions with a selected number of institutions beginning in October. If all goes as planned in the testing phases, our goal is to implement this new enhancement with the November 20th transmission. Prior to implementation, information on this new enhancement will be posted on SISS under the "What's New" and "Answers to Your Questions" links. It is important to note that industry suggested this change, and when FinCEN looked at it we thought it made sense.

It's this type of collaboration that we hope will be the norm as we continue to try to make our administration of the BSA more effective and efficient.

In addition, we are in the process of redesigning FinCEN's entire website to make information more accessible to all of our stakeholders going forward. Some of you have graciously participated in some of the activities to identify what information is important to you and to doing your job and where it should be located on the website. The website is being redesigned to incorporate institution-specific information that is aimed at making finding compliance requirements and related information easier. I am excited about this project and hope to see it launch early next year.

Conclusion

In closing, I look forward to continuing this dialogue with you in the context of this conference and after today. Participating at events such as this one is essential to helping us carry out our mission at FinCEN and the Treasury Department. It is only through our collaborative efforts with you that we can create highly effective AML/CFT regimes, and all efforts that foster constructive dialogue between the public and private sectors contribute to our collective goals.

Thank you for your time. I believe I have time for a few of your questions.