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**FLORIDA INTERNATIONAL BANKERS ASSOCIATION  
ANTI-MONEY LAUNDERING CONFERENCE**

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Good afternoon. I want to start by thanking our hosts, the **FLORIDA INTERNATIONAL BANKERS ASSOCIATION**, for the opportunity to join you at this year's conference.

As the Director of FinCEN for about five months now, I have spent much of my time getting to know the organization and our incredibly talented employees. Since joining FinCEN, I have had one-on-one meetings with more than 230 FinCEN employees. I will continue those individual meetings until I have met with every employee. I have asked them what is working well at FinCEN and where we need to improve. FinCEN is an organization with an amazing team and an amazing mission, and my job is to give our people the tools and support they need to accomplish our mission.

In addition to focusing internally, I have been meeting with FinCEN's partners in law enforcement, on the regulatory side, and with industry stakeholders. I have talked with many of you who are here today, and I look forward to talking with more of you in the coming months. These meetings have been invaluable in understanding where FinCEN is and where it should go in the future.

FinCEN has a broad mission. We must 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 our financial authorities.

As you know, in carrying out our mission, we have numerous statutory areas of responsibility:

- Developing and issuing regulations under the Bank Secrecy Act (BSA).
- Enforcing compliance with the BSA in partnership with our regulatory partners and as the sole BSA regulator across numerous industries.

- Receiving millions of new BSA reports each year and maintaining a database of over 170 million reports.
- Analyzing and disseminating financial intelligence to federal, state, and local law enforcement, federal and state regulators, foreign financial intelligence units, and industry;
- Serving as the United States Financial Intelligence Unit (or "FIU") and maintaining a network of information sharing with FIUs in more than 130 partner countries.

Underlying our broad mission and diverse areas of statutory responsibility are three common areas of focus:

- Mapping Illicit Finance Networks;
- Identifying Compromised Jurisdictions and Compromised Financial Institutions; and
- Understanding Illicit Financial Methods and Schemes.

Each and every day, I ask our dedicated staff to think about these common themes and how we can take action on what we learn. We have a relatively small staff so it is critically important that we are all rowing in the same direction with a clearly defined vision of our destination. Today, I would like to discuss that vision for FinCEN and highlight the important role that our nation's financial institutions play in that vision.

### **Designing the Defense**

Many of you here are familiar with FinCEN's role in designing the regulatory defenses to help protect our national security and to prevent our financial system from being used for money laundering and other serious financial crimes. But while FinCEN may be *designing* the defense, it is the financial institutions that must **build and execute** it on a daily basis. This is why a strong public-private partnership is critically important as we work to protect our financial system from illicit actors. It is also this strong public-private partnership that makes it crucial that we do not develop BSA rules in a vacuum.

In developing regulations, FinCEN will consider the needs and equities of all FinCEN stakeholders, including law enforcement, regulators, foreign financial intelligence units, industry, and the public.

I think a good example of this is the series of public hearings that were held all over the country to gather information following our Advanced Notice of Proposed Rulemaking (ANPRM) on Customer Due Diligence (CDD) requirements for financial institutions.

From July through December of last year, FinCEN and the Office of Terrorist Financing and Financial Crimes held five public roundtable outreach discussions in Washington, D.C., Chicago, New York, Los Angeles, and Miami, and invited representatives from affected financial institutions to provide additional comments on specific issues raised during the comment period. We found these outreach events to be incredibly beneficial in helping inform the best path forward. We are working closely with our Treasury counterparts to develop the Notice of Proposed Rulemaking on CDD (NPRM), taking into account the input received at

these hearings, and are looking forward to issuing the NPRM soon. FinCEN also has additional rules on which we anticipate taking steps in the near future.

I know your institutions are spending a great deal of time and money on programs to comply with these rules. I think it is worth it. But we need to pay attention and ask ourselves if the money you are spending is being spent in the right ways. Industry and others have asked questions: How does industry effort on compliance risk compare with illicit financing risk? What is the difference, or the “delta,” between them? I cannot answer these questions alone. We need to answer the questions together – regulators, law enforcement, and industry.

At my first meeting of the Bank Secrecy Act Advisory Group or “BSAAG” last October, I proposed a “Delta Team” to take a hard look at the Delta issue. I will be co-chairing this new BSAAG subcommittee with Bank of America, and I have invited other BSAAG members to join us.

The purpose of the Delta Team is for industry, regulators, and law enforcement to come together and examine the space between compliance risks and illicit financing risks. The goal is to reduce the variance between the two. To the extent we are successful, we will be building a smarter, more effective, and more cost efficient regulatory framework. If we are successful, we will have our eyes squarely on the ball, protecting our financial system from illicit finance and combating serious criminal and national security threats.

For those of you who may be asking how to participate in BSAAG, FinCEN published a notice in the Federal Register last month seeking applications to join this Advisory Group. The application deadline is on February 15. Application information is available on our website.

### **Collecting and Disseminating Financial Intelligence**

Another key component of FinCEN’s responsibilities is collecting the BSA data and making sure that federal, state, and local law enforcement, federal and state regulators, and the intelligence community have appropriate levels of access to BSA data.

For several years, FinCEN has undertaken a modernization of our information technology systems to improve upon this process. I am very proud that our IT Modernization Program is on-time and on-budget. This is a testament to those FinCEN employees involved in this effort. Last fall, we began rolling out an important component in our IT Modernization Program – FinCEN Query. FinCEN Query is the new search tool for FinCEN’s law enforcement, intelligence, and regulatory partners and improves their ability to access and analyze BSA data. FinCEN Query allows users to easily access, query, and analyze 11 years of BSA data; apply filters to narrow search results; and utilize enhanced data capabilities. Our users are now able to look at the information more comprehensively, and we are excited to work with them in making sure that your filings become more valuable than ever before in this new system.

To give you an idea of the value of the information your institutions provide, in the months since FinCEN Query went live last September, there have been over 750,000 queries of the BSA data by more than 6,000 users. This past Monday alone, there were over 18,000 queries

of the BSA data through FinCEN Query. In addition, some law enforcement users access our data through their own systems, which makes the 750,000 queries just a fraction of the overall use of the data.

The Organized Crime Drug Enforcement Task Force's Fusion Center maintains a comprehensive intelligence and data center containing international organized crime, drug, and drug related financial intelligence information from 21 organizations, in addition to all the BSA data provided by FinCEN. I recently had the opportunity to visit with Fusion Center officials, where I received direct feedback on the high-value of the BSA data that your financial institutions report. As I noted, the Fusion Center has access to numerous sources of information from multiple Federal agencies, but the BSA data makes up 45% of their data – almost half. And in 2012, of the investigations that the Fusion Center has supported through research and analysis, 65% have BSA data associated with the investigations.

Similarly, the Federal Bureau of Investigation reports that, as of June 2012, 37 percent of their pending counter-terrorism cases have associated BSA records, and more than 90 percent of these counter-terrorism-related BSA records are CTRs.

I would also like to tell you a little about how the Securities and Exchange Commission utilizes those SARs you file to support its own civil enforcement efforts.

Each year, the SEC's BSA Review Group reviews thousands of SARs filed by or about persons in the securities industry or generally alleging securities fraud or securities law violations. In fact, if FinCEN receives a SAR from or about an entity, person, or transaction within the SEC's jurisdiction, the odds are quite high that someone at SEC will review it. Out of those thousands of SARs, roughly one in five provide the SEC with valuable intelligence related *directly* to active SEC Enforcement matters and between one-third and one-half relate to microcap securities – an ongoing priority of the SEC and FINRA. SEC Enforcement personnel constantly compare that information to data in their own "Tips, Complaints, and Referrals" system, their case management systems, legal databases and open source intelligence to assess the allegations in the SARs. In fact, my friends at the SEC inform me that not a week passes in which SEC Enforcement does not open a new inquiry or investigation based on information it received – at least initially – in a SAR.

In one rather gratifying example recently, an institution filed a SAR describing what may have been a registered investment adviser inappropriately allocating profitable trades to accounts he owned or controlled himself while simultaneously allocating less desirable trades to his clients. This alleged trade allocation or "cherry-picking" caught the SEC's attention – as you might imagine it would.

Further research identified additional SARs and CTRs reporting suspicious funds transfer activity and interesting gaming activity by the investment adviser himself. SEC also uncovered information from other sources that, taken collectively, suggested a pattern of possible investment fraud. Within a week, the BSA Review Group provided these findings to the SEC's Division of Enforcement.

The SEC initiated an immediate cause examination of the adviser's firm, which began only one week later. The week after that – less than one month after the SAR was filed, and while that SEC examination was ongoing, – the investment adviser came forward to confess his involvement in a securities fraud. The subject's counsel gave the U.S. Attorney's Office and SEC staff a broad sketch of facts indicating that, over a period of years, the subject had been engaged in a fraud that had resulted in losses of millions of dollars for his clients.

SEC staff promptly filed an emergency action in federal court to freeze the subject's assets and enjoin him from future violations of the securities laws. The SEC also ultimately obtained an order barring the subject from future employment in securities.

This example is a gratifying one for a couple of reasons. Most obviously, it's gratifying because of the speed with which the matter went from a SAR to a confession. Significantly though, it also is a coveted "but-for" case. By that I mean that but for the filing of this SAR, this case may have unfolded much differently, and much later.

This obviously is a dramatic example of the value of SARs, but my friends at the SEC emphasized to me that they rely on SAR reporting literally every day. The hard work that you put into your anti-money laundering programs is, and pardon the pun, in fact paying huge dividends.

One more note on our IT modernization efforts: As many of you know, FinCEN mandated the electronic filing of FinCEN reports through its E-Filing system as of July 1, 2012. E-Filing enhances the quality of FinCEN's electronic data for analytic purposes. E-Filing helps law enforcement tremendously. It makes BSA reports searchable in FinCEN Query by law enforcement in two days, rather than two weeks if filed on paper. E-Filing reduces environmental waste from paper reports. And in times of fiscal austerity, E-filing will save the U.S. Government millions of dollars by eliminating the costs of paper processing and manual entry of information.

In another aspect of our modernization, financial institutions will be required to utilize the new FinCEN reports, including CTRs and SARs, by April 1, 2013. The new FinCEN reports were specifically developed to work with the new FinCEN Query system that we just rolled out, and these new FinCEN reports allow us, law enforcement, and regulators to slice and dice the information submitted in a much more advanced way.

### **Producing Cutting-Edge Financial Intelligence**

And while FinCEN is responsible for receiving BSA reports and making them available to our law enforcement and regulatory partners, our responsibility does not stop there. FinCEN must continue to be a leader in the analysis of BSA data and financial intelligence.

One of the key components of FinCEN's mission is to carry out our statutory responsibility to collect, analyze, and disseminate financial intelligence. But in order to be successful in disrupting the threats to the U.S. financial system, we will need to take FinCEN's

intelligence capabilities to the next level by providing proactive, cutting-edge, and multi-source financial intelligence and analysis.

FinCEN has a strong track-record of serving its stakeholders: law enforcement, regulators, foreign financial intelligence units, industry, and the public. Our advanced analytic tools and highly skilled analysts play a unique role in analyzing and integrating BSA data and other information to identify illicit finance networks, compromised financial institutions and jurisdictions, and current methods and schemes for illicit finance. In 2012, we provided more than 2,000 analytical reports to our various stakeholders in support of law enforcement investigations and compliance efforts by our regulatory partners.

One example of this is FinCEN's analysis of BSA data in support of a federal law enforcement investigation of two money services businesses (MSBs) suspected of laundering the proceeds of health care fraud, federal tax refund fraud, and other criminal activities. FinCEN analyzed the SARs and CTRs filed by financial institutions on the MSBs to further identify companies and individuals that utilized the MSB's services. FinCEN then conducted further analysis on these identified companies to help determine the illegal activity and origin of the funds.

The owner of one MSB was recently sentenced to 60 months in prison for criminal BSA violations, including failure to have an effective anti-money laundering program and failing to file CTRs for transactions aggregating over \$8 million dollars. The compliance officer was sentenced to eight months in prison and two years' probation. Additionally, the business was ordered to pay a fine of over \$900,000 and ordered to forfeit more than \$200,000.

The other MSB and its manager pled guilty to various BSA criminal violations including eight counts of failing to file CTRs and one count of not maintaining an effective anti-money laundering program. At sentencing, the business was sentenced to a term of five years' probation, ordered to pay a fine, and must permanently close down once the fine is paid.

Every year, we also issue, in partnership with law enforcement, numerous advisories to financial institutions on current threats and red flag indicators to the financial system. Your SARs — in combination with CTRs and other BSA information available to FinCEN — are instrumental in allowing FinCEN to better understand new and trending money laundering and financial crime threats. It is important to note that FinCEN leverages our strategic trend/method analysis of all BSA data, especially CTRs and CMIRs, in order to identify the perpetrators of criminal activity so that we can provide leads on third-party money launderers to law enforcement, and to better inform our private sector partners about money laundering trends and indicators.

For example, for a number of years, FinCEN has dedicated analytical resources to analyzing currency flow and money laundering activity between the U.S. and Mexico, and has issued a number of law enforcement and financial institution advisories based on these analyses. Recently, these analyses suggested that one effect of the Mexican cash restriction was an increase of Funnel Account activity by Mexico-related criminal organizations. FinCEN subsequently issued an advisory to law enforcement in April 2012 alerting them to this increase.

This threat was also reported in FinCEN's public advisory issued in July 2012. In addition, following issuance of the law enforcement advisory, FinCEN received numerous requests from law enforcement field offices for tactical-level information to target and investigate funnel account activity in their jurisdictions. Drawing from specific data within our analysis, FinCEN was able to rapidly provide relevant case-specific information to law enforcement and ultimately assist them in detecting the growing trend. FinCEN is currently working to expand and enhance its ability to combine and match data from multiple sources to produce data-driven intelligence reports on other money laundering organizations and methods.

As these examples show, we do analysis well now. But, we can do better, and I am committed to making this a central role for FinCEN in the 21st Century.

What does this look like in the near future? Let's assume that your financial institution files a SAR identifying financial transactions associated with a Mexican drug trafficking organization (DTO). FinCEN analysts use our advanced analytical tools to identify additional targets related to that organization. We might also find that entities laundering money for the organization, and revealed by BSA analysis, also are laundering money for other Mexican DTOs. All of this information would be pushed out to law enforcement to aid active investigations and suggest new ones, both in the form of tactical intelligence and in the form of broader integrated products that tie together threats that before had seemed separate. This data also could be used to inform future compliance efforts and advisories to aid private industry in avoiding dealings with such parties.

### **International Information Exchange**

In the intelligence area, we must also serve as global experts on illicit finance, providing data-driven tactical and strategic perspectives and engaging our international partners to disrupt threats to the U.S. financial system. Just a few weeks ago, I attended my first series of Egmont meetings as the Director of FinCEN. As most of you know, over the years, the Egmont Group has developed mechanisms for the rapid exchange between FIUs of sensitive information across borders. I am proud to announce that my Senior Policy Advisor for International Relations, Bess Michael, was elected last month as the Vice Chair of the Egmont Committee, which coordinates all Egmont Group activities. Bess's service as Vice Chair is the next chapter in FinCEN's long-time commitment to supporting and playing a leadership role in Egmont.

The 131 FIUs around the world are important partners to FinCEN. All FIUs commit to serve as a national, central authority that receives, analyzes, and disseminates disclosures of financial information - particularly suspicious transaction reports to combat money laundering and terrorist financing.

One component of our information sharing with FIUs is something we refer to as "Spontaneous Disclosures." Spontaneous Disclosures occur when an FIU develops information that may be of interest to another country, and then passes that information to the foreign FIU for possible action. These are leads that are shared with other countries on a proactive basis, rather than simply responding to a request for information. Through these Spontaneous Disclosures, law enforcement officials are alerted to potential targets of which they were previously unaware.

This information exchange can sometimes uncover more than we were expecting. While I am unable to provide specific details as this case is ongoing, very recently, we received a spontaneous disclosure from an FIU. A FinCEN analyst researched the subject in the BSA data, which revealed that the subject of the spontaneous disclosure happened to also be a most-wanted violent fugitive here in the United States. We coordinated with the appropriate law enforcement authorities domestically and abroad, and efforts are underway to extradite the subject of the spontaneous disclosure.

However, the United States is not merely a recipient of spontaneous disclosures from other FIUs. FinCEN does its part as well to proactively share information with our foreign partners. The Spontaneous Disclosures developed by FinCEN, based on BSA data, and sent to other countries often pertain to foreign corruption, as well as terrorist financing, human trafficking, mass market fraud, internet pharmacies, child pornography, and maritime piracy. And again, while I am not able to provide specifics as investigations are ongoing, in the foreign corruption area in particular, we have provided several leads to our FIU partners for follow-up by their law enforcement agencies.

## **Enforcement**

On the enforcement side, FinCEN must also employ an intelligence-driven approach to focus our compliance efforts in high-risk areas, and to proactively investigate and exercise the full range of FinCEN authorities to disrupt the illicit use of the financial system by priority targets. And for FinCEN's enforcement program to be effective, we must use proportionate and dissuasive measures to enforce compliance with the BSA.

I know that, prior to my arrival at FinCEN, there was speculation that hiring a prosecutor from the Department of Justice signaled a significant ramp-up of enforcement. While I understand that speculation, I hope you can see from my remarks today that enforcement is not my only concern. That being said, let's not kid ourselves. FinCEN's work in BSA compliance and enforcement is critically important. We have a wide range of enforcement tools, and we have a strong role to play in this area. For example, FinCEN has used and will continue to use its enforcement powers under Section 311 of the Patriot Act to target primary money laundering concerns.

To be frank, whether it is using Section 311 or bringing enforcement actions against persons and entities who violate the BSA, this is a role that you should want us to play. We are working to level the playing field. We want to make sure everyone is playing by the same rules. Everyone playing by the same rules will improve the overall AML system in the United States and make the United States safer from organized crime and terrorism. Everyone playing by the same rules will reward those financial institutions who do put in the time and money to get it right -- by forcing those who have decided to cut corners to pay a price for that choice.

## **Conclusion**

Your financial institutions are the eyes and ears in the fight against terrorists and other bad guys. The central theme of my remarks has been the BSA data. The BSA data starts with you. It is the key to our defenses and we are depending on you. I am committed to working with you to maximize our ability to be effective partners and colleagues.

The escalation of transnational criminal threats to the U.S. financial system has increased the imperative to ensure that FinCEN is fully maximizing its potential to disrupt this activity both as a regulator and through its support for the law enforcement community policing unlawful conduct.

FinCEN is a critical partner in the fight against money laundering and terrorist financing. Our talented and dedicated team is committed to that mission. We have an incredible opportunity to serve the American public and to contribute to the safety of this country and the world. FinCEN will meet the challenges ahead working together with you, law enforcement, and our regulatory partners. Thank you once again for inviting me here to speak with you today.

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