



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

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Good morning. I would first like to thank the NAFCU members who worked to coordinate this important event. I'm pleased to be here to share my thoughts and I applaud you for coming to Washington, DC to make your voices heard in Congress.

Let me share a little about my background. One of my first jobs was as a bank teller for a bank in New Jersey. Prior to my public service at the U.S. Treasury Department, within the General Counsel's office and now at FinCEN, I spent seven years working at the Bank for International Settlements (BIS) in Basel, Switzerland and, before that, worked at the Federal Reserve Bank of New York. In those capacities, I learned about financial regulation, and also benefited from a wealth of opportunities to participate in a range of transactions and investment decisions. From working with the financial industry, I learned lessons about accountability, attention to detail and ethical behavior that I am sure will serve me well all of my life. I believe that this background has given me important perspective as I have taken on the role of leading the Financial Crimes Enforcement Network.

Just prior to my appointment as FinCEN's Director, senior members of FinCEN's staff, along with NCUA Chairman JoAnn Johnson and her staff, collaborated on a joint webinar. More than 2,000 members of the credit union industry watched on their computers and many had the opportunity to interact and to ask questions of the panel. The topics included NCUA's Bank Secrecy Act examination program, top BSA compliance issues, recent regulatory changes and FinCEN's role as the BSA administrator. I hope that some of you were able to view it, if not, it's available on the NCUA's website, and I think you will find viewing the webinar to be well worth

your time. I look forward to continuing our positive engagement with the NCUA and the credit union industry. We have much to learn from each other.

We at FinCEN are dedicated to reaching out to all of our different constituencies. Conferences like this are precious opportunities to let you know what we are doing with the valuable information that you supply to the regulatory and law enforcement agencies. It is also an opportunity to thank you for your efforts as partners in protecting the financial system from those who would abuse it.

Thirty-seven years ago the American people, through their Congress, made a public policy decision to take steps to protect the US financial system from criminal abuse. The Bank Secrecy Act reflects the conclusion that financial institutions had responsibilities to the government, to the public at large, and to their fellow institutions to help protect the system that provides them with the means to thrive.

Tomorrow is 9/11, 2007. Over the past six years, members of the financial industry such as yourselves have taken unprecedented further steps to support government efforts to try to prevent terrorist attacks in part by helping us harness the value of financial intelligence. For credit unions and other depository institutions, this means primarily the Suspicious Activity Reports and the Currency Transaction Reports that your institutions diligently, devoting significant resources, complete and file with FinCEN. I recognize that the financial industry, including your organization and its members, has occasionally raised questions about the usefulness of the information provided to FinCEN. That is a valid concern, and you deserve an answer from your government: The information provided through these reports is important and it has been helpful in discovering and building cases against criminals, including those who finance terrorism.

With that in mind, I want to spend some time to talk about why your BSA information is important and how law enforcement agencies, FinCEN and other financial regulators use the information. I like to categorize the uses into four different areas:

Tip Off

Primarily with respect to a Suspicious Activity Report (SAR), but also sometimes with a CTR, the information provided can be the first tip that starts an investigation. A teller's or a loan officer'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. Most people understand and expect this 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 a large 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. The definitive CTR threshold forces criminals to structure their transaction which, in turn, exposes them to a SAR filing. CTRs and SARs are complementary forms that together create an intimidating criminal trap. In addition to the increased likelihood of discovery, it's a success of its own that our collective efforts make it more difficult and time consuming for illicit actors to realize the proceeds of crime or raise funds for terrorist attacks.

I hope that with the foregoing explanation I have helped to give you a better understanding of how the robust implementation of the BSA contributes to our national security. If you wish to learn more, please visit FinCEN's website, where we regularly publish new examples of how BSA data is used, ranging from case examples to complex trend analyses. I recognize that you will encounter colleagues that ask good questions about the benefit our government derives from the resources that credit unions contribute to this effort. I hope that what I've stressed this morning has helped to arm you with information on how tremendously valuable the efforts of the financial community are to the fight against financial crime. Every time you help tell the story about the value of the BSA in your many interactions with your colleagues throughout the financial industry, you help us in this fight.

The financial industry's contributions to this fight benefit the industry itself. As U.S. Treasury Secretary Henry Paulson noted in a recent speech; "My strong view, based on personal experience, is that the major financial institutions, and the individuals who run them, care deeply

about the integrity of the financial system and the reputations of the institutions they run. They genuinely want to be good corporate citizens and want nothing to do with illegal behavior. Additionally, a lack of vigilance on their part is not worth the risk of a regulatory action."

I recognize that the credit union industry continues to evolve. Your customer base is growing and the services you offer are expanding. Some credit unions will be exposed to customers and risks that they haven't seen before. FinCEN has been, and will continue to be, focused on risk-based regulations that will help protect your institutions and protect the financial system. The Suspicious Activity Reports that you are asked to file are part of a global effort to uncover bad actors in the financial world. You and your employees, who facilitate thousands of transactions per day, are in the best position to spot any unusual activity. Your expertise is key to determining what is suspicious. The system is set up so that you may safely and anonymously convey that suspicion to the proper investigatory authorities. This allows you to protect your institution, and other institutions, from those who would abuse your credit union for illegal activities.

It is our focus to ensure that our regulatory scheme is efficient in its application, yet remains extremely effective in collecting the information that law enforcement investigators, FinCEN's analysts, and regulatory examiners, need as we work to safeguard the financial system from the abuses of terrorist financing, money laundering, and other financial crimes.

On June 22nd, Secretary of the Treasury Henry Paulson visited FinCEN to launch the first regulatory efficiency and effectiveness initiatives. I'd like to spend a few minutes discussing the proposals that he outlined:

- **Matching Risk-Based Examination to Risk-Based Obligations.** FinCEN and the regulatory community recognize that not all financial institutions are subject to the same risk. A credit union with minimal to no international business that serves only a handful of communities does not share the same risk profile as an institution that does business around the world in many currencies. FinCEN has initiated a joint effort with the federal banking regulators to ensure that financial institutions and regulators treat compliance obligations in a manner that helps to avoid expenditures that are not commensurate with actual risk. Over the coming months, in keeping with the evolution of our risk-based system, FinCEN and the regulators will explore the need for new tools and guidance to enhance risk-based approaches by financial institutions and examiners, with a view to providing any such direction and guidance and future revisions to the FFIEC Examination Manual.
- **Money Services Businesses (MSBs).** FinCEN has been working with the IRS, state regulators and federal functional regulators to address many issues dealing with MSB oversight and MSB access to bank and credit union services. These efforts will result in the production of MSB examination materials using the success of the FFIEC Examination Manual as a model.

FinCEN also has committed to crafting a more narrow definition of MSBs. Many of the estimated 150,000 to 200,000+ entities that are presently covered may only engage in

financial services that pose little-to-no opportunity for money laundering. A risk-based reduction in covered entities would result in a better concentration of examination resources.

- **Making Regulations More Intuitive.** FinCEN has issued AML/CFT regulations for many industries including banking, MSBs, insurance companies, brokerages, casinos, jewelers and others. Presently, a compliance official seeking to learn all the regulatory obligations for a particular industry would need to sift through many citations and cross-references located in many different areas. FinCEN will begin work on its own new chapter of the Code of Federal Regulations that will include one general part and *separate and specific parts* for each covered industry. With this change, an institution will only need to look in two places to identify its regulatory responsibilities.
- **Feedback.** BSA data is has proven to be incredibly valuable to law enforcement investigations. We are committed to continuing to work with our law enforcement partners to let industry know as much as operational sensitivities allow about how its valuable information is being used, and, even in my short remarks today, I hope I've provided some insights in this regard.

With respect to enforcement, I recognize that public actions send messages to the financial industry beyond the target of the enforcement action. But it is important to be clear, however, that formal enforcement actions are not borne out from minor technical infractions. Myths to the contrary have been propagated and perpetuated and should be dispelled.

When egregious issues of non-compliance do arise, FinCEN will continue to work to coordinate these actions with other regulatory authorities, and when warranted Department of Justice partners, to better communicate publicly how any penalties are correlated to the underlying violations. This should avoid misimpressions about the nature of such violations, and the appropriateness of the response, by so many of you who are making substantial efforts and committing significant resources to do the right thing.

As a final matter, let me reiterate my personal philosophy that it is critical to have dialogue with the industry for me successfully to carry out my regulatory responsibilities. I very much appreciate the opportunity to interact with you here today, and in other circumstances, including the Bank Secrecy Act Advisory group (BSAAG), FinCEN's unique forum for bringing together representatives of the financial industry, law enforcement, and regulatory communities, as well as through our ongoing close partnership with the NCUA.

I hope I have left you with a better understanding of how vital your BSA information is to our nation's security and also how dedicated we at FinCEN are to making the administration of the BSA as efficient and as effective as possible. We depend on your vigilance and the information that you provide. Once again, thank you for your efforts.

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