



United States Department of the Treasury
Financial Crimes Enforcement Network

FinCEN Advisory

Subject:
**Colombian
Black Market
Peso Exchange**

Date:
**November
1997**

Advisory:
Issue 9

This advisory is provided to alert banks and other depository institutions to a large-scale, complex money laundering system being used extensively by Colombian drug cartels to launder the proceeds of narcotics sales. This system is affecting both U.S. financial depository institutions and many U.S. businesses. The information contained in this advisory is intended to help explain how this money laundering system works so that U.S. financial institutions and businesses can take steps to help law enforcement counter it.

Overview

Drug sales in the United States are estimated by the Office of National Drug Control Policy to generate \$57.3 billion annually, and most of these transactions are in cash. Through concerted efforts by the Congress and the Executive branch, laws and regulatory actions have made the movement of this cash a significant problem for the drug cartels. America's banks have effective systems to report large cash transactions and report suspicious or unusual activity to appropriate authorities. As a result of these successes, the placement of large amounts of cash into U.S. financial institutions has created vulnerabilities for the drug organizations and cartels. Efforts to avoid reporting requirements by structuring transactions at levels well below the \$10,000 limit or camouflage the proceeds in otherwise legitimate activity are continuing. Drug cartels are also being forced to devise creative ways to smuggle the cash out of the country.

This advisory discusses a primary money laundering system used by Colombian drug cartels. The system involves the use of a Colombian Black Market Peso Exchange as a mechanism to place substantial amounts of currency from U.S. narcotics sales into U.S. financial institutions to avoid detection by the Bank Secrecy Act reporting requirements. In simple terms, the Colombian cartels sell drug-related, U.S.-based currency to black market peso exchangers in Colombia who, in turn, place the currency into U.S. bank accounts. The exchangers then sell monetary instruments drawn on their bank accounts to Colombian importers who use them to purchase foreign goods.



How the cartels manipulate the Colombian Black Market Peso Exchange System

The Colombian Black Market Peso Exchange method as used by the cartels is the single most efficient and extensive money laundering “system” in the Western Hemisphere. It is designed to maneuver around the currency reporting requirements of the U.S. Bank Secrecy Act (BSA) which impedes anonymous large-scale currency transactions occurring in the U.S. financial system. The “system” functions in the following manner:

- 1) The Colombian drug cartels export drugs to the United States;
- 2) Drugs are sold for dollars in the U.S.;
- 3) A cartel in Colombia enters into a “contract” with the Colombian Black Market Peso Exchanger who is usually in Colombia;
- 4) The cartel sells its U.S. dollars to the Exchanger’s U.S. agent;
- 5) Once the U.S. dollars are delivered, the peso exchanger in Colombia deposits the agreed upon equivalent (of U.S. dollars) in Colombian pesos into the cartel’s account in Colombia; (At this point, the cartel representative is out of the picture because he has successfully converted his drug dollars into pesos.)
- 6) The Colombian Black Market Peso Exchanger now assumes the risk for introducing the laundered drug dollars into the U.S. banking system; this is done through a variety of structured transactions;
- 7) The Colombian Black Market Peso Exchanger now has a pool of laundered funds in U.S. dollars to sell to Colombian importers who use the dollars to purchase goods, either from the U.S. or from collateral markets; and
- 8) Finally, these goods are transported to Colombia.

How peso exchangers place dollars into the U.S. financial system

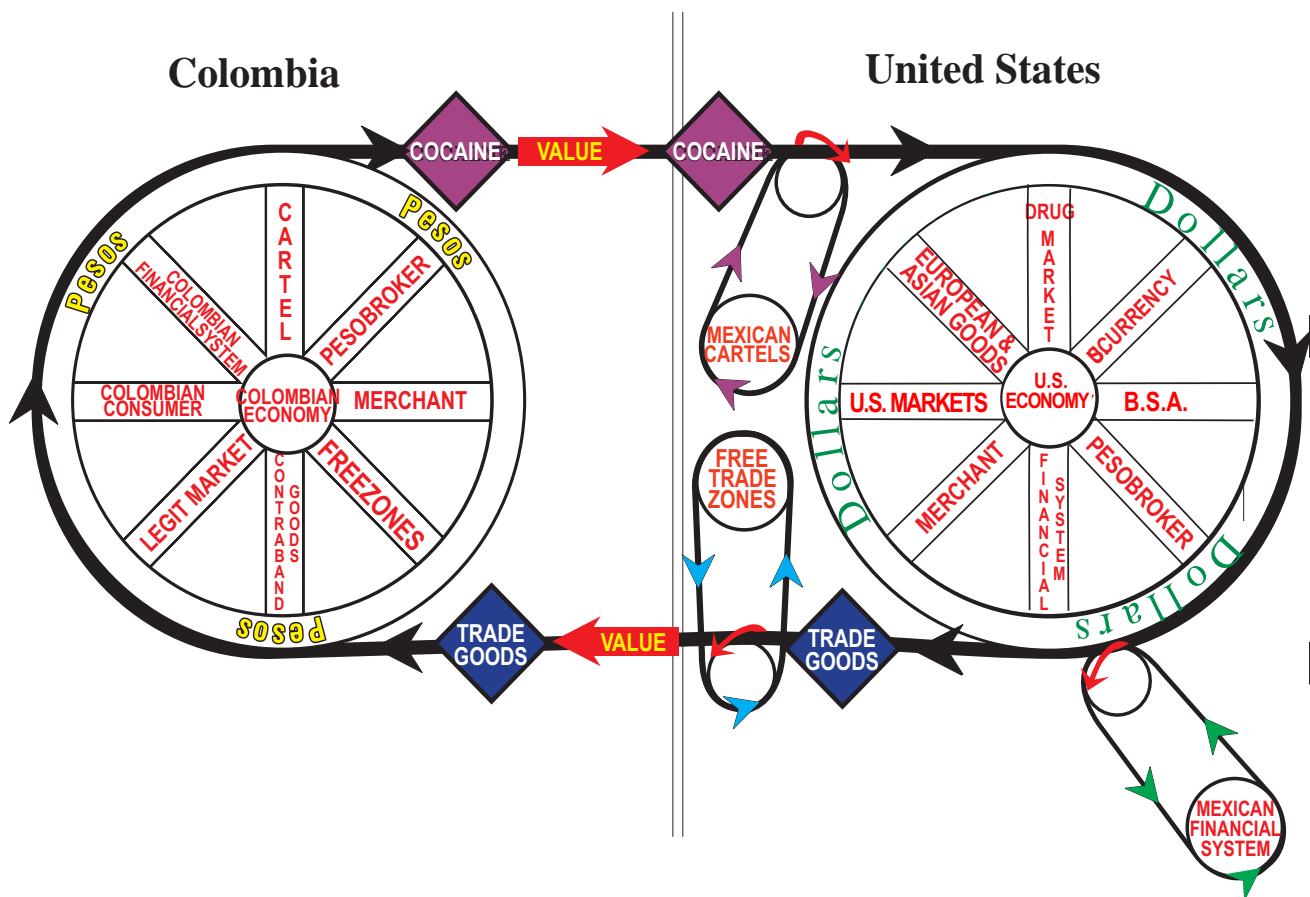
The Exchanger uses several means of placing funds purchased from the cartels into the U.S. financial system. Some of these are described below:

- 1) **Structured Transactions** — This method consists of a large pool of funds divided into amounts significantly below the \$10,000 currency reporting threshold of the BSA. These structured amounts may be deposited into one account or a series of accounts opened in false names or by nominees acting on behalf of others; in either case, these accounts are ultimately controlled by the peso exchanger.

- 2) **Falsifying Receipts** — Narcotics currency can also be added to the legitimate receipts of an established business by routinely comingling illegal currency with legitimate receipts.
- 3) **Outbound Currency Smuggling** — U.S. currency, which is not placed into the U.S. financial system, is smuggled out of the U.S. and placed into foreign financial systems. Funds are frequently wire transferred back to the U.S. through correspondent banking relationships. (NOTE: FinCEN will provide additional information in a later advisory about cartel methods to repatriate currency smuggled out of the U.S.)

It is important to note that each step in this process makes proof of the dollars' narcotics nexus more difficult. The cartel has converted the drug proceeds to relatively safe and fully usable Colombian pesos as soon as they are sold to the peso exchanger.

BLACK MARKET PESO EXCHANGE



Steps law enforcement is taking to counter the “System”

- 1) **Sharing Information with U.S. bankers.** In addition to traditional law enforcement investigative efforts, nontraditional methods are also being explored in order to help identify and disrupt this system at its most vulnerable choke points, i.e. the financial institutions and businesses in the importing chain—the points at which the money is actually laundered. In order to assist the financial and trade community in working to deny the cartel access to their businesses, a new approach is being coordinated through FinCEN and an Interagency Coordination Group known as the ICG.

Its members include representatives from the Criminal Investigation Division of the Internal Revenue Service, the U.S. Customs Service, the U.S. Postal Service, the Drug Enforcement Administration, the Department of Justice, the Federal Bureau of Investigation and FinCEN. The ICG is located at FinCEN and uses its data and analytical resources. FinCEN is further assisting the ICG through its network of partnerships with the financial and trade communities in the U.S., Colombia, Panama and Mexico. This network provides the ICG with a “highway” by which to take its knowledge of the system on the road and share that information with affected banks, merchants and officials within the Colombian, Panamanian and Mexican governments.

To start the process, the ICG and FinCEN met with officials from the regional law enforcement task force (IMPACT) in Miami during the summer of 1997; the purpose of this meeting was to obtain their approval to share information about this subject with the banking community. Together with the Task Force, the ICG then informed the banking community in South Florida about the Cartel’s use of their banks to launder drug money. Representatives of these banks were shown how drug funds were being deposited in small amounts to avoid detection. The account holders were often foreign nationals using passports as identification. The bankers were urged to review the accounts provided by law enforcement and to develop a means to deny the money launderers access to their financial institutions. The banks have been extremely cooperative and supportive of this effort.

- 2) **Sharing information with government officials, bankers and merchants in Colombia and Panama.** Reaching farther into the FinCEN network, ICG members then approached government officials and bankers in Colombia and Panama, as well as merchants in

Panama's Colon Free Zone. The ICG's message has been essentially the same as the one it took to the U.S. banks—"We are all faced with a common problem and here is what we know about it. We will benefit by working together to find solutions." The response from all of the groups contacted has been positive, and more specific information exchange initiatives are underway. While these are encouraging developments, there is still much work to be done to counter this money laundering scheme.

- 3) **Broadening the education effort.** As previously mentioned, representatives from the U.S. banking community are reviewing accounts provided by law enforcement to determine the most effective ways to identify suspicious activity resembling money laundering techniques used in the Colombian Black Market Peso Exchange System. In addition, these banking representatives have begun an information exchange among themselves to share ideas and identify the best approach to counter this Colombian cartel money laundering system.

Potential indicators

A few of the identifiable areas of vulnerability which banks and other depository institutions should be aware of are cited below:

- Structured currency deposits to individual checking accounts, often well below the typical levels for structuring, with multiple daily deposits to multiple accounts at different branches of the same bank on the same day;
- Consumer checking accounts which are used for a period of time and then become dormant. In some cases, the accounts may have become overdrawn, perhaps as a further means of avoiding detection;
- Personal checking accounts opened by foreign nationals who come to the bank together;
- Multiple accounts opened on the same day or held by the same foreign nationals at various banks;
- Increases in the frequency or amounts of currency deposits made by U.S. business account holders who export to Colombia;
- Suspicious transactions which might be linked to a common scheme.

It may also be helpful to develop a dialogue with other financial institution representatives in your area to share ideas and exchange information.

For more information

This advisory is meant to be only a first step in an on-going effort to provide information about the “System” as additional facts about it become known. By sharing this information, it is hoped that the financial and business communities will engage in a partnership effort with FinCEN and the ICG to develop concrete ways to prevent the Cartels from using this system to launder the proceeds from its U.S. drug sales. FinCEN and the ICG are also continuing their dialogue with banking and government officials in the U.S. as well as Colombia, Panama and Mexico.

Banking representatives and businesses interested in learning more about the system should contact the following ICG representatives at FinCEN:

FinCEN	Greg Passic	703/905-3875
IRS	Al James	703/905-3566



Stanley E. Morris
Director

FinCEN Advisory is a product of the Financial Crimes Enforcement Network, U.S. Department of the Treasury, P.O. Box 39, Vienna VA 22183, (703) 905-3773. For more information about FinCEN's programs, visit the FinCEN web site at <http://www.fincen.gov>

Questions or comments regarding the contents of the FinCEN Advisory should be addressed to the Office of Communications, FinCEN. Information may also be faxed to (703) 905-3885.