



U.S. Immigration and Customs Enforcement

STATEMENT

OF

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U.S. IMMIGRATION AND CUSTOMS ENFORCEMENT

REGARDING A HEARING ON

“COMBATING MONEY LAUNDERING”

BEFORE THE

**UNITED STATES SENATE
COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS**

**TUESDAY, JULY 17, 2012 -- 9:30 a.m.
106 DIRKSEN SENATE OFFICE BUILDING**

INTRODUCTION

Chairman Levin, Ranking Member Coburn, and distinguished members of the Subcommittee:

On behalf of Secretary Napolitano and Director Morton, thank you for the opportunity to appear before you today to discuss the efforts of U.S. Immigration and Customs Enforcement (ICE) to combat transnational criminal organizations (TCO) and the illicit proceeds used to fund their criminal activities. With expansive investigative authority, ICE is well-positioned, in partnership with U.S. Customs and Border Protection (CBP), to disrupt and dismantle transnational criminal networks and terrorist organizations that seek to exploit our borders and America's legitimate trade, travel, communications, and financial systems.

ICE's expertise in combating TCOs that take advantage of vulnerabilities in the sea, air, and land environments has proven essential in countering the smuggling of narcotics, money, dangerous goods, people, and materials that threaten the well-being of the United States. Our law enforcement presence is global, and ICE's Homeland Security Investigations (HSI) has a wide network of agents in Attaché offices at embassies and consulates worldwide, all working in concert to target TCOs.

Illicit Finance and Bulk Currency

One of the most effective methods for dismantling TCOs is to attack the criminal proceeds that are the lifeblood of their operations. HSI takes a holistic approach toward investigating money laundering, illicit finance, and financial crimes by examining the ways that individuals and criminal organizations earn, move, store, and launder their illicit proceeds.

The combination of successful financial investigations, reporting requirements under the Bank Secrecy Act (BSA) of 1970, and anti-money laundering compliance efforts by financial institutions has no doubt strengthened banking systems and forced criminal organizations to seek other means to diversify the movement of illicit funds, such as the use of money service businesses (MSB), prepaid access devices, and bulk cash smuggling.

HSI's broad jurisdiction includes the enforcement and investigation of money laundering and bulk cash smuggling violations. In FY 2011, HSI special agents initiated more than 4,270 financial investigations, resulting in: more than 1,770 arrests; over 1,070 criminal indictments; more than 1,040 criminal convictions; and more than 7,700 seizures worth approximately \$359 million, including \$331 million in currency and monetary instruments.

National Bulk Cash Smuggling Center

On August 11, 2009, HSI officially launched the National Bulk Cash Smuggling Center (BCSC), in cooperation with the El Paso Intelligence Center, as a 24/7 investigative support and operations facility. The BCSC has undertaken a full assessment of the bulk cash smuggling threat and developed a strategic plan to address the problem. By analyzing the movement of bulk cash as a systematic process, HSI develops enforcement operations specifically designed to combat the various methodologies currently employed by trafficking organizations. This targeted approach allows us to more efficiently and effectively utilize our interdiction and investigative resources.

Since its inception, the BCSC has initiated over 500 criminal investigations resulting in 132 seizures totaling \$65.8 million. These investigations have culminated in 319 criminal arrests, 96 indictments, and 68 convictions in both Federal and state courts. The

BCSC has also provided training and outreach to over 21,000 state, Federal, and international partners.

As an example of a recent success, in April 2012, the BCSC coordinated with HSI field offices in St. Louis, Missouri, and Greeley, Colorado, in support of a controlled delivery of illicit bulk cash proceeds of nearly \$265,000. The initial seizure was the result of a traffic stop, but agents developed additional information based on this initial seizure to successfully execute a second controlled delivery of the currency, which resulted in the seizure of an additional \$385,359 in U.S. currency, over seven kilograms of cocaine, two handguns, and five vehicles, and in seven arrests.

Operation Firewall

HSI's Operation Firewall disrupts the movement and smuggling of bulk cash en route to the border, at the border, and internationally via commercial and private passenger vehicles, commercial airline shipments, airline passengers, and pedestrians. Since 2005, Operation Firewall has been enhanced to include surge operations targeting the movement of bulk cash destined for and crossing the U.S. borders with Mexico and Canada, and joint interdiction efforts and investigations with our foreign law enforcement counterparts.

Through May 31, 2012, Operation Firewall has resulted in more than 6,700 seizures totaling more than \$621 million, and arrests of over 1,400 individuals. These efforts include 480 international seizures totaling more than \$271 million and 310 international arrests.

Cornerstone Outreach Initiative

In July 2003, ICE launched its Cornerstone Outreach Initiative to work in partnership with the private sector to systematically and strategically identify and eliminate vulnerabilities in financial systems through which criminals launder their illicit proceeds. Under this initiative, HSI builds both domestic and international partnerships by sharing law enforcement trends and methods with businesses and industries that manage the systems that terrorists and criminal organizations seek to exploit.

To the extent permitted by law, HSI shares what we learn through our investigations with the private sector to assist them in identifying and preventing attempts by criminal organizations to take advantage of weaknesses in financial systems. HSI special agents serve as subject matter experts in various types of money laundering methods, including fraudulent schemes, money service businesses, casinos, non-cash negotiable instruments, alternate remitters, charities, outbound currency initiatives, organized retail crime, and schemes to pay illegal alien workers.

Through May 31, 2012, HSI special agents have conducted nearly 12,000 Cornerstone outreach and training presentations to 248,000 participants worldwide. Our outreach efforts have resulted in the initiation of 950 criminal investigations that led to 290 arrests, 270 indictments, 228 convictions, and the seizure of nearly \$668 million.

Trade-Based Money Laundering (TBML)

TBML is a money laundering method through which TCOs earn, move, and store illicit proceeds by disguising them as legitimate trade. TCOs often exploit global trade networks to move value around the world, using the complex and sometimes confusing documentation that is frequently associated with legitimate trade transactions. To illustrate, Colombian drug cartels

use TBML extensively to repatriate drug proceeds in a scheme commonly referred to as the Black Market Peso Exchange.

Money and value transfer systems not subject to regulation or supervision, in violation of the international standards, such as underground banks and unlicensed money service businesses, are utilized by TCOs to move value via trade as settlement of a debt arising from remittances overseas. These organizations can accomplish settlement by purchasing commodities in one country and then transferring them to another country where the commodity is sold and the proceeds remitted to the intended recipient.

HSI is uniquely positioned to disrupt and dismantle TCOs that seek to launder illicit proceeds through manipulation of international trade and financial systems. Through HSI's Trade Transparency Unit (TTU), ICE is the only U.S. law enforcement agency partnering with foreign nations to exchange trade data.

HSI currently has foreign TTU partnerships with Mexico, Panama, Brazil, Colombia, Ecuador, Argentina, Paraguay, and Guatemala. Through these partnerships, HSI is able to identify, investigate, and prosecute TCOs engaged in TBML and other forms of illicit finance. HSI's TTU, our special agents, and intelligence analysts in the field, along with foreign customs and law enforcement agencies responsible for border control and enforcement of financial crimes, utilize a HSI TTU-owned and developed computer system called the Data Analysis & Research for Trade Transparency System (DARTTS) to analyze trade and financial data.

DARTTS is capable of identifying international trade anomalies and financial irregularities indicative of TBML, customs fraud, contraband smuggling, and other crimes. For example, DARTTS allows users to quickly analyze large amounts of data in a short period of time, thereby maximizing limited time and resources. HSI field agents and analysts frequently

employ DARTTS' unique capability to conduct data research and analysis to initiate and or further criminal investigations. This analysis goes beyond conventional database queries and link analysis tools as part of HSI's efforts to combat and address the global threat posed by TBML.

TTU methodology has been highlighted in numerous U.S. Government publications including *The National Money Laundering Threat Assessment*, the U.S. Department of the Treasury's *National Money Laundering Strategies*, and the U.S. Department of State's *International Narcotics Control Strategy Reports*. It was also recognized as a "best practices approach" by the Financial Action Task Force, the international standard-setting body on countering money laundering and terrorist financing, originally established by the Group of Seven member states, the European Commission and eight other countries to examine and develop measures to combat money laundering and terrorists financing.

Other countries have shown increased interest in establishing and developing their own TTU. Many of the TTUs established, most recently in Colombia and Guatemala, have benefited from the funding and support of the State Department's Bureau of International Narcotics and Law Enforcement Affairs. Future funding to expand the TTU network is under consideration.

Other Evolving Methods Including Prepaid Cards and Stored-Value Devices

The terms "prepaid card" and "stored value card" (collectively "prepaid access devices") are commonly used to refer to any card that represents money stored on or accessible by a card to facilitate a consumer's purchase of goods, services, or further conversion to cash through an ATM. These cards may be "open loop" or "closed loop." Open loop cards are usually network branded (such as Amex, Discover, MasterCard, or Visa), often reloadable, and can be used at

point of sale at terminals and ATMs anonymously. Closed loop cards, on the other hand, are designated for use at a specific merchant, typically have load limits, and cannot be converted back to cash. Examples of closed loop prepaid access devices include gift cards, mass transit cards, and prepaid phone cards.

According to the 2007 U.S. National Money Laundering Strategy, “stored value cards (sometimes referred to as prepaid cards) are an emerging cash alternative for both legitimate consumers and money launderers alike.” Of the two types, money launderers appear to prefer the open loop prepaid access devices because of their capability of being used at point of sale terminals, their wide acceptance by hotels and car rental agencies, and their portability. These cards enable the user to obtain cash from ATMs worldwide without going through a currency exchange.

Additionally, cards issued by offshore financial institutions and, therefore, not subject to U.S. reporting requirements, are widely available on the Internet, including cards with very high load limits. Prepaid access devices may be attractive to money launderers and smugglers as an alternative to bulk cash not only because their small size and portability make them difficult to detect in the manner that we detect bulk cash, but also because they are not expressly defined as monetary instruments under U.S. statutes and regulations. Therefore, they are not yet expressly and specifically subject to the CMIR reporting requirements or the potential bulk cash smuggling and structuring violations that stem from this requirement.

The Credit Card Accountability, Responsibility, and Disclosure Act of 2009, signed into law in May 2009, mandated that the U.S. Department of the Treasury (Treasury), in consultation with DHS, address the risks associated with these cards. HSI has worked with our law enforcement partners and the Treasury Department’s Financial Crimes Enforcement Network to

close vulnerabilities associated with prepaid devices. This resulted in the publication of a final rule that applies the Bank Secrecy Act to the domestic prepaid device industry and the publication of a Notice of Proposed Rulemaking that proposed to classify prepaid access devices as monetary instruments for the purposes of cross-border declaration. This proposed rule is currently being finalized as Treasury reviews and addresses the public comments. We look forward to the final publication of this rule in the near future.

One of the most significant developments in recent years was a change in Mexican banking regulations implemented in June 2010 that severely limits the amount of U.S. dollars that can be deposited within Mexican financial institutions. This change has ultimately proven to be a successful tool in combating drug trafficking and the TCOs that control the movement and smuggling of drugs by causing them to change how drug proceeds are laundered. We believe that as a result of this change, TCOs may seek to place these funds into U.S. financial institutions and then wire the proceeds back to Mexico. We continue to work closely with the Government of Mexico (GoM) to identify emerging money laundering trends.

Domestically, we have seen changes in how illicit proceeds are moved within the United States. In the last several years, we have seen domestic drug organizations attempt to place illicit funds into U.S. financial institutions to avoid currency transaction reporting requirements. In one version of this scheme, which is referred to as the “funnel account” model, drug organization members in destination cities make structured cash deposits into bank accounts opened in the United States. In turn, the account holder (a nominee for the drug organization) will withdraw funds at various banking institutions in the United States and turn them over (often minus a small fee) to the drug organization. The scheme has been difficult for bank anti-money laundering personnel to identify.

This tactic was initially identified in human smuggling organizations operating in Arizona, but we have since seen its use expanded to domestic drug organizations. We believe that the emergence of this tactic came as a direct result of the successful enforcement focus on MSBs that were being used by human smugglers to receive payments from “sponsors” in the United States. When the ability to easily use MSBs was disrupted, a transition to the funnel account model was observed. HSI has worked with other U.S. Government agencies, including FinCEN, to educate the financial industry in order to promote the identification of this scheme and reporting to law enforcement.

Illicit Pathways Attack Strategy (IPAS)

Last July, the Administration took an important step in fighting transnational crime when it issued its *Strategy to Combat Transnational Organized Crime* (TOC Strategy). This strategy complements the current *National Security Strategy*, and other national strategies and plans related to trafficking in persons, money laundering, and other transnational crime affecting the United States, by focusing on the growing threat of international criminal networks. The strategy’s single unifying principle is to build, balance, and integrate the tools of American power to combat transnational organized crime, and related threats to national security—and to urge our international partners to do the same.

HSI designed the Illicit Pathways Attack Strategy (IPAS) to build, balance, and integrate its authorities and resources, both domestic and foreign, in a focused and comprehensive manner to target, disrupt, and dismantle TOC. As recognized in the TOC Strategy, resources are not limitless, and targets must be prioritized in a systematic manner. The IPAS will provide a

mechanism for ICE to prioritize threats and vulnerabilities within its mission and to coordinate its own efforts internally and within the interagency.

The IPAS goes beyond the Nation's physical borders. By targeting the profits generated and used by criminal organizations and not just targeting the contraband being smuggled, the IPAS will protect financial systems and strategic markets by addressing how criminal organizations earn, move and store illicit proceeds. IPAS will target financial institution abuse, bulk cash smuggling and trade-based money laundering and aggressively pursue asset forfeiture.

Working with Mexican Authorities

Working with the GoM in its battle against the drug cartels and other TCOs requires strong coordination and cooperation. ICE continuously works jointly with the GoM to initiate and support investigations and operations targeting TCOs and their diverse list of illicit activities. ICE also actively participates in capacity-building programs and initiatives to strengthen and bolster the GoM counter-narcotics and counter-illicit finance efforts.

On June 2, 2010, DHS released the Department of State Bureau of International Narcotics and Law Enforcement-supported Bi-National Criminal Proceeds Study at a UnitedStates-Mexico Money Laundering Conference in Mexico City, which provided a strategic-level analysis of the processes and methods used by transnational criminals, particularly drug trafficking organizations, to repatriate illicit money from the United States to Mexico and other countries. Both the U.S. and Mexican Governments are using information collected from the study to conduct tactical operations that deny criminals the ability to move money, and to ultimately dismantle illicit operations.

ICE has strengthened its relationship with the GoM by increasing the number of HSI personnel in Mexico, who provide support to ongoing investigations of TCOs operating on both sides of the border. In addition, the HSI Attaché in Mexico City has created its own Transnational Criminal Investigative Unit consisting of fully vetted Mexican law enforcement officers. Through the HSI Attaché office in Mexico City and associated sub-offices, HSI personnel, in conjunction with the law enforcement community, will continue working closely with Mexican authorities.

CONCLUSION

Thank you again for the opportunity to appear before you today to discuss our efforts to combat the money laundering threat to the United States and our response to the innovative techniques being used by TCOs.

I would be pleased to answer any questions.