Remarks by
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Good afternoon, everyone. It is a pleasure to be here today. I would like to applaud the Puerto Rico Bankers Association for continuing to sponsor this annual anti-money laundering symposium. The Association clearly recognizes that it is through dialogue and collaboration between government and the private sector that the goals of the anti-money laundering laws and regulations will be achieved. This symposium provides an important forum for a practical discussion of the issues and challenges we all face as we ensure compliance with these important financial system safeguards.

I appreciate this opportunity to share my views and to hear your feedback on how we can strike the right balance between effective anti-money laundering regulation and regulatory burden.

The Financial Services Industry and the War on Terror

It seems that every few decades, history produces an event so profound that everyone remembers where they were and what they were doing at the time. For our grandparents' generation it was the attack on Pearl Harbor.

When I was growing up it was the assassination of President Kennedy. For everyone today, it is 9/11.

I was in Washington, DC in September of 2001, settling into my new job as the Assistant Secretary of the Treasury for Financial Institutions. When I started my job in July, my portfolio was packed with a broad array of policy matters facing the financial services industry – financial market regulation, issues surrounding Government Sponsored Enterprises, and the condition and outlook for the banking industry. I remember that on my very first day on the job, I testified before Congress on deposit insurance reform.

Anti-money laundering and financial crime issues were certainly part of my portfolio, but, as important as they were, they did not overshadow the more traditional financial services issues.

The events of 9/11, of course, changed everything. The entire country united and took stock of its priorities. The war on terror moved to the top of everyone's priority list. At Treasury, I began to focus on developing regulations to implement the USA PATRIOT Act. That experience clearly demonstrated to me, that like the rest of the country, the entire financial services industry was ready to do its part. I was both impressed and grateful for the support we received from the industry as we worked to implement the legislation.

You should take great pride in your commitment to this effort.

For years before 9/11, the banking industry – despite the burden – recognized the benefits of having a sound anti-money laundering program in place. Over time, as the Bank Secrecy Act was extended to other types of financial entities at risk for money laundering abuse—such as insurance companies and securities dealers and money services businesses—other industries began to recognize the importance of anti-money laundering programs. After 9/11, the need for these programs in keeping our financial system safe became much clearer.

I know the regulatory burden associated with the commitment to fighting financial crime is significant, particularly for smaller institutions. This is the number one regulatory burden complaint I hear from the banking industry, and I am very sensitive to your concerns.

Financial institutions may struggle at times to make the connection between the volume of reports that must be filed to comply with the anti-money laundering laws and regulations and the value they add to the efforts of law enforcement. However, while the adrenaline we all felt after 9/11 to do our part may have worn off somewhat, the commitment of the financial services industry to these efforts cannot waiver. The consequences of waning vigilance in this area may be significant.

With the experience of the past five years as our guide, I think it is important that we work together to analyze reporting requirements to see if there are opportunities to become more efficient without compromising the quality of the information that law enforcement needs. Today I would like to talk about some of the efforts the FDIC is engaged in to ensure a strong anti-money laundering program across the banking industry without needlessly increasing regulatory burden.

FFIEC BSA/AML Working Group

Many of you know that in 2004 the Federal Financial Institutions Examination Council (FFIEC) established the Bank Secrecy Act/Anti-Money Laundering Working Group. This working group coordinates the development of policy, guidance and training efforts. The working group is also active in maintaining effective communications between the Federal and state banking authorities and the Financial Crimes Enforcement Network or FinCEN. The FDIC has chaired the working group since its inception.

One of the major accomplishments of the working group was the release of the BSA/AML Examination Manual in June 2005. The Manual ensures consistent application of the Bank Secrecy Act to all regulated banking organizations by providing a uniform examination process, consolidating regulatory requirements, clear supervisory expectations and sound practices. In response to industry feedback, the 2006 Manual incorporated a new risk assessment section.

Section 312

This year we also expect the final rule for Section 312 of the USA PATRIOT Act to be issued. In July 2002, the interim rule for Section 312 placed new requirements on financial institutions to establish due diligence policies, procedures, and controls to detect and report money laundering through correspondent and private banking accounts established or maintained by non-U.S. citizens. The final rule and related examination procedures will be incorporated into the Manual.

While we realize these procedures added to banks' ever-growing "to-do" list, the procedures are important since correspondent and private banking accounts are the gateway into the U.S. financial system for both foreign banks and foreign nationals. And, this gateway must be monitored.

Currency Transaction Reports

Those involved in law enforcement consistently testify to the importance and utility of Currency Transaction Reports (CTRs).

Understandably, the industry would like more focus on the need to balance regulatory burden associated with CTRs without compromising law enforcement's ability to identify and investigate criminal activity. Legislation introduced in the House of Representatives, the Seasoned Customer Exemption Act of 2007, is designed to relieve financial institutions from the burden of filing a CTR for repeat business customers. In addition, the U.S. Government Accountability Office (GAO), in response to a congressional mandate in the Financial Regulatory Relief Act of 2006, is undertaking a study in this area.

The FDIC has met with the GAO to discuss the currency transaction and exemption reporting processes, its strengths and limitations, and how we use the data. While we look forward to reviewing their findings and recommendations, which are not due to Congress until January 2008, the FDIC will continue to stay in touch with the GAO on this subject to see what we can learn in the meantime. Given the volume of these reports and the burden on the industry – particularly small community banks – we support efforts to find ways to strike the right balance.

Money Services Businesses

Another area that has proven to be a challenge is the relationship between banks and Money Services Businesses (MSBs). The MSB industry provides valuable financial services, especially to those who may not have ready access to the formal banking sector. Many banks have expressed uncertainty about the appropriate measures that should be taken to manage potential money laundering and other risks associated with the MSB industry, while continuing to meet their obligations under the BSA. We plan to work closely with FinCEN, the Conference of State Bank Supervisors, the Money Transmitter Regulators Association, and other state regulatory agencies to understand state anti-money laundering programs. We want to explore ways that regulators can provide some comfort to banks regarding MSBs' compliance with anti-money laundering laws. This is a big challenge – an ongoing challenge – but I assure you we are working on finding ways to meet this challenge.

Our Joint Efforts have Produced Results

Speaking of meeting the challenge, I will next address how the industry's efforts have aided law enforcement to produce tangible results.

Section 314 of the USA PATRIOT Act authorized FinCEN to function as a conduit between law enforcement and financial businesses to locate accounts and transactions belonging to people that may be involved in financing terrorism or money laundering.

Using a secured Internet site to access information requests on individuals of interest, industry responses have yielded productive leads for both terrorist financing and money laundering investigations. Specific leads have surfaced for such crimes as arms and drug trafficking, international identity theft, nationwide investment fraud and operations with a U.S. sanctioned country. Because of your efforts, between November 2002 and January 2007 law enforcement authorities have been able to identify over 3,200 transactions and 2,200 new accounts that match names of suspects in money laundering or terrorist financing investigations.

During that timeframe, more than 1,700 subpoenas have been issued, resulting in over 100 indictments, 99 arrests and nine convictions. In addition, law enforcement has been able to locate over $22 million in funds related to these suspects.

The BSA data, particularly suspicious activity reports or SARs, are a vital part of the mosaic that law enforcement assembles to combat and prosecute terrorist activities. Consider these statistics.

- It is estimated that between 30 to 50 percent of the FBI's targeted terrorist subjects matched names listed in the FinCEN database.
- When reviewing those SARs coded as suspected terrorist financing, 20 percent actually contained the names of subjects of open FBI terrorism investigations.

Following Madrid's terrorist bombings in 2004, London's 2005 underground bombing, and the 2006 discovery of a terrorist plot involving trans-Atlantic commercial airliners,

FinCEN shared valuable information provided from U.S. financial institutions with their counterparts in foreign intelligence to assist in finding those responsible with these actions.
In this regard, I urge you to take a look at the regular FinCEN publication The SAR Activity Review – Trends, Tips & Issues. This publication describes the preparation, use, and value of SARs filed by financial institutions. It also describes other examples of how your reporting in this area has been responsible for uncovering cases of money-laundering and other financial crimes.

In addition, the FDIC makes use of CTRs and SARs in a variety of other ways. For example, we use this data in our supervisory process to identify internal and external financial institution fraud. Currently, the FDIC's Office of the Inspector General (OIG) has initiated 95 open bank investigations involving an estimated $1 billion in potential fraud. Over half of these investigations are being pursued jointly with the FBI. During 2006, the OIG's investigation led to 44 indictments, 36 convictions and $100 million in ordered restitution.

These statistics and results demonstrate why the efforts of the financial services industry are so important to law enforcement investigations to identify and prevent financial crime and terrorist activity. I applaud the industry for having such an important role in these investigations and outcomes.

Concluding Remarks

As I noted earlier, the events of 9/11 required all the players in the financial services industry to strengthen their commitment and resolve in the area of anti-money laundering and other financial crimes. Now, more than ever before, banks and financial services providers find themselves on the front lines of the efforts to combat terrorist activities. We all recognize that this level of involvement comes with regulatory burden. But, the difference we can all make in preventing terrorist activity and financial crimes cannot be overstated. Therefore, it is important that we continue to work together to find ways to ensure that our efforts in this important regulatory area are as effective as they can be.

I look forward to doing just that during my tenure at the FDIC.

Before I close, I would like to mention to the bankers in the room that the FDIC released a Spanish language version of the Electronic Deposit Insurance Estimator – also known as EDIE. This user-friendly Internet application helps bank customers learn about deposit insurance and calculates the insurance coverage on their deposit accounts at a single FDIC-insured bank or savings association.

The new Spanish version also incorporates the coverage changes mandated by the Federal Deposit Insurance Reform Act of 2005, most significantly the increase in coverage from $100,000 to $250,000 per depositor for retirement accounts. EDIE has

always been a very popular destination on the FDIC website, and I know your customers will find the Spanish language version to be very useful.

And now, I'd like to take your questions.

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