

**FEDERAL RESERVE BANK  
OF NEW YORK**

*St. Cir. No. 10280(c)*  
January 12, 1989

**MONEY LAUNDERING AND THE BANK SECRECY ACT**  
**Compliance Developments**

*To the Chief Executive Officer of Each State Member Bank, Edge Corporation,  
and Noninsured Branch or Agency of a Foreign Bank,  
in the Second Federal Reserve District:*

The United States Congress, the Department of the Treasury, and other Federal law enforcement agencies are very much concerned about the use of wire transfer systems for illegal purposes, such as money laundering. The misuse of legitimate funds transfer systems has recently been the subject of Congressional hearings and investigations. As a result, the Congress passed two major pieces of anti-drug legislation that are aimed at combating narcotics trafficking and money laundering activities. The implications of the new legislation, and examples of suspicious wire transfers, are described more fully below. In addition, the Department of the Treasury has eliminated the exemption status of casinos regarding the reporting of large currency transactions.

Please ensure that management and staff throughout your institution are familiar with the provisions of the recent statutory and regulatory changes.

*Anti-Drug Abuse Act of 1986*

The Anti-Drug Abuse Act of 1986 (the "Act") created a new Federal criminal offense for "laundering of monetary instruments" that may subject an institution or individual to criminal liability. The Act is designed to cover a broad range of conduct and transactions that might facilitate the concealment of the source or existence of illegally obtained income. A violation occurs whenever a person, knowing that the property involved in a financial transaction represents the proceeds of some form of unlawful activity, conducts or attempts to conduct such transaction involving the proceeds of "specified unlawful activity":

- (1) with the intent to promote the carrying on of the specified unlawful activity; or
- (2) knowing that the transaction is designed to (a) conceal or disguise the nature, location, source, ownership, or control of such proceeds or (b) avoid a transaction reporting requirement under State or Federal law.

A second criminal offense created by the Act is "engaging in monetary transactions in property derived from specified unlawful activity." This provision of the Act makes it a crime to undertake any monetary transaction involving criminally derived property that is of a value greater than \$10,000 and is derived from "specified unlawful activity."

In addition to creating new Federal criminal offenses, the Act substantially amends the Bank Secrecy Act, expanding the scope of its reporting requirements, increasing the penalties for noncompliance, and adding to the power and responsibilities of the Department of the Treasury and the Federal banking agencies.

Further, in conjunction with the passage of the Act, the Right to Financial Privacy Act was amended to permit financial institutions to report suspicious cash or other monetary transactions in greater detail to Federal law enforcement and banking agencies.

(OVER)

### *Omnibus Drug Initiative Act of 1988*

Recently the Congress passed the Omnibus Drug Initiative Act of 1988, which was signed into law by President Reagan. Under this law, the Secretary of the Treasury is now permitted to target financial institutions in certain geographic areas for money laundering investigative purposes. Also, financial institutions are prohibited from issuing negotiable instruments to individuals when \$3,000 or more of currency is used in the transaction and the customer does not present satisfactory identification.

### *Wire Transfer Activities*

The Department of the Treasury has urged that every financial institution increase its knowledge of individuals and entities who transfer money by means of wire transfers. Moreover, each financial institution should be attentive to the wire transfers made for the accounts of its customers and constantly be on the lookout for suspicious transactions. The Department of the Treasury lists the following situations as examples of suspicious wire transfers:

- Large international funds transfers to or from the accounts of domestic customers in amounts and of a frequency that are not consistent with the nature of the customers' known business activities.
- Receipt of funds in the form of multiple cashier's checks, money orders, traveler's checks, bank checks or personal checks that are drawn on or issued by U.S. financial institutions and made payable to the same individual or business, in U.S. dollar amounts that are below the \$10,000 Bank Secrecy Act reporting threshold and that are then wired to a financial institution outside the U.S.
- Deposits of funds into several accounts that are then aggregated into one account and transferred outside of the U.S. when such action is not consistent with the known business of the customer.
- Any other unusual international funds transfer requests wherein the arrangements requested appear to be inconsistent with normal funds transfer practices; for example, where the customer directs the bank to wire transfer funds to a foreign country and advises the bank to expect same-day return of funds from sources different from the beneficiaries initially named.

The Department of the Treasury, acting in its capacity as the lead agency for both the Internal Revenue Service and the United States Customs Service, encourages the reporting of suspicious wire transfers in a manner similar to reports by banks of suspicious cash transactions. In addition, the Treasury encourages financial institutions to telephone the local Internal Revenue Service (Criminal Investigation Division), the local United States Customs Service office, or either agency's national hotline at 1-800-BSA-CTRS (IRS) or 1-800-BE ALERT (Customs), regarding any suspicious wire transfer activities.

### *Transactions with casinos*

The Department of the Treasury, as the agency responsible for the administration of the Bank Secrecy Act, has also determined that large currency transactions between casinos and financial institutions are no longer eligible for exemption from the currency transaction reporting requirements of Section 103.22(e) of the Bank Secrecy Act. Additionally, any reporting exemptions granted previously for such transactions have been rescinded; therefore, any financial institution that has a casino on its exempt list must remove the casino from the list and begin to report all currency transactions by casinos in excess of \$10,000.

\* \* \*

If you have any questions regarding these matters, please contact Ben J. Szwalbenest, Regulations Specialist, Compliance Examinations Division (Tel. No. 212-720-8136) at the Federal Reserve Bank of New York.

JAMES K. HODGETTS,  
*Chief Compliance Examiner.*