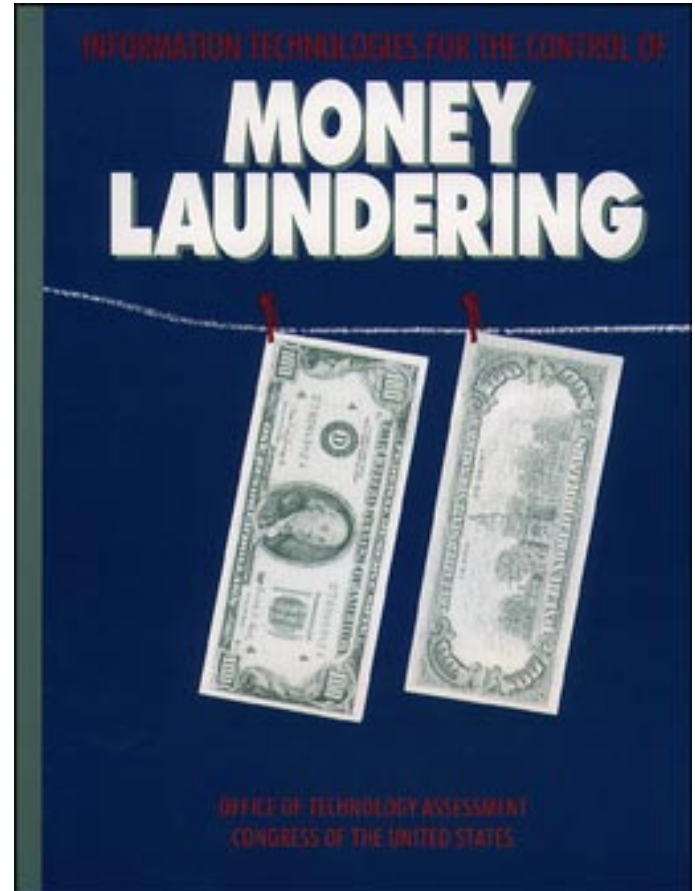


*Information Technologies for the Control of
Money Laundering*

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Foreword

The key to control of international crime may depend on cutting off the flow of illegal profits to criminal organizations. It is estimated that \$300 billion of “dirty money” may be laundered each year, its origin and ownership obscured as it passes through financial institutions and across national boundaries in an effort to hide and protect it from law enforcement authorities. Criminal organizations, like legitimate businesses, enjoy a swift and nearly risk-free conduit for moving money between countries—wire transfer systems. Illicit wire transfers are easily hidden among the 700,000 mostly legitimate wire transfers that occur daily in the United States, moving well over \$2 trillion.

OTA was asked by the Permanent Subcommittee on Investigations of the Senate Committee on Governmental Affairs to assess the proposed use of techniques derived from artificial intelligence research to monitor wire transfer traffic and recognize suspicious transfers. Fully automated computer screening of wire transfers was found to be virtually impossible for technical reasons. However, OTA analysts developed and evaluated a number of alternative configurations of technology that, combined with certain legal and institutional innovations, could greatly enhance the capability of law enforcement agencies to detect and prosecute money launders seeking to exploit U.S. financial institutions and wire transfer systems. Although all of these proposed configurations entail some economic and social costs, including possible diminution of financial privacy, strategies are suggested for minimizing these costs while enhancing the potential usefulness of information technology in control of money laundering.



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Note: OTA appreciates and is grateful for the valuable assistance and thoughtful critiques provided by the advisory panel members. The panel does not, however, necessarily approve, disapprove, or endorse this report. OTA assumes full responsibility for the report and the accuracy of its contents.

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Acronyms and Glossary of Terms

ACH:	Automated Clearing House	FATF:	Financial Action Task Force
ARPA:	Advanced Research Projects Agency (Department of Defense)	FBAR:	Foreign Bank Accounts Report
ATM:	Automated Teller Machine	FBI:	Federal Bureau of Investigations (Dept. of Justice)
AUSTRAC:	Australian Transaction Reports and Analysis Centre	FinCEN:	Financial Crimes Enforcement Network
BATF:	Bureau of Alcohol, Tobacco, and Firearms (Dept. of the Treasury)	FRS:	Federal Reserve System
BCCI:	Bank of Commerce and Credit International	FTR:	(Australian) Financial Transactions Report
BSA:	Bank Secrecy Act (Currency and Foreign Transaction Reporting Act)	HIDTA:	High Intensity Drug Trafficking Area
CHIPS:	Clearing House for Interbank Payment Systems	IRS:	Internal Revenue Service (Dept. of Treasury)
CIA:	Central Intelligence Agency	MAFIC:	Multiagency Financial Investigations Center
CID:	Criminal Investigations Division (of the Internal Revenue Service)	NSA:	National Security Agency
CMIR:	Currency or Monetary Instruments Report	OCC:	Office of the Comptroller of the Currency (Dept. of the Treasury)
CRF:	Criminal Referral Form	ONDCP:	Office of National Drug Control Policy
CTR:	Currency Transaction Report	RFPA:	Right to Financial Privacy Act of 1978
CTRC:	Currency Transaction Report-Casinos	STR:	Suspicious Transaction Report
DCC:	Detroit Computer Center (a facility of the Internal Revenue Service)	SUA:	Specified Unlawful Activity
DEA:	Drug Enforcement Administration (Dept. of Justice)	SWIFT:	Society for Worldwide Interbank Financial Telecommunication
ECPA:	Electronic Communications Privacy Act of 1986	TRAQ:	Transaction Reports Analysis Query System
EDDS:	Electronic Data Delivery System	UNCITRAL:	United Nations Commission on International Trade Law
FAIS:	Financial Artificial Intelligence System (of FinCEN)	USCS:	United States Customs Service (Dept. of the Treasury)

GLOSSARY

Artificial intelligence: The subfield of computer science concerned with the concepts and methods of symbolic inference and symbolic knowledge representation by computers; the attempt to model aspects of human thought on computers.

Asset forfeiture: The legal taking of property by government, if it has been used in the commission of illegal acts or represents the proceeds of illegal transactions.

CHIPS: Clearing House for Interbank Payment Systems, a wire transfer system (see below) operated by the New York Clearing House.

Comity: the voluntary deference of U.S. courts to the legislation of other sovereigns

Computer matching: the linking of different computerized databases by unique identifiers

Cupo account: A specialized bank account, maintained by a company (often an export/import firm) in a foreign country, where it is allowed to receive and hold a specified quota (“cupo”) of U.S. dollars outside of existing currency regulations. May be misused by money launderers.

Data protection: similar to fair information practices, data protection principles seek to restore control over personal information held by others.

Encryption: Encoding of information to protect privacy or maintain secrecy.

Expert system: Knowledge-based systems or computer programs that process data in ways that emulate human experts.

Fair information practices: principles governing the collection, use, disclosure, retention, and disposal of personal information.

Fedwire: The wire transfer system (see below) operated by Federal Reserve Banks.

Front company: An operating business, otherwise or formerly legitimate, that serves as a cover for money laundering operations.

General warrant or subpoena: a Constitutionally prohibited non-specific judicial order.

Integration: See “money laundering.”

Layering: See “money laundering.”

Money laundering: Disguising the origin and ownership of money, often by placing it in a bank, moving it through multiple transactions, and finally mixing it with legitimate funds. These steps are known respectively as placing, layering, and integrating the money. In this report, “electronic money laundering” indicates that wire transfer of the funds constitutes one or more steps in the laundering process.

Offshore banking, or offshore financial center: Agglomerations of banks and other financial institutions outside of the jurisdictions of major centers of economic activity such as the United States, in order to avoid the regulations or tax regimes of the larger countries while serving the needs of their institutions and investors. The offshore financial centers offer various advantages such as bank secrecy, low or no tax on interest income, looser regulations, etc.

Payable-through account: A specialized bank account, maintained by a bank of one country in a bank of a foreign country for the convenience of the first bank’s customers, who are given signature authority to conduct transactions using the account. Often misused by money launderers, with or without the complicity of the bank maintaining the account.

Placement: See “money laundering.”

Profile: A set of descriptors that allows recognition or categorization of subjects.

Secondary use: manipulation and use of information beyond the purpose for which it was originally gathered.

Shell company: A corporation that exists only formally, incorporated as a cover for illegal operations such as money laundering.

Smurf: To divide large illicit bank deposits into several transactions, each under \$10,000, so that they will not become the subject of a Currency Transaction Report, as required by the Bank Secrecy Act. Smurfing is more formally known as structuring (a deposit).

Structure (a deposit): See “smurf.”

Subpoena: compulsory process requiring the production of records or testimony; resistance to which may be punished by judicial proceedings.

Threshold account: A specialized bank account that allows funds to be automatically wire transferred to a specified location once deposits into the account have reached a specified amount. Used by corporations to periodically concentrate revenue from several subsidiaries; may be misused by money launderers.