

A PLAN TO END GLOBAL MONEY LAUNDERING WHITEPAPER

By Robert Mazur



More than 95% of annual illegal drug proceeds flow freely under the noses of law enforcement, regulators and compliance professionals into the world's economy.

The greatest number of meaningful achievements on the money laundering front have come through gifts handed to governments by whistleblowers. The world has been lucky in that regard, but we can't count on that alone, especially since whistleblowing is shunned in many nations. We need to develop an effective global initiative to attack this problem on a continuing basis. Here is the plan:

A JOINT MONEY LAUNDERING TASK FORCE (JMLTF); A GLOBAL ANTI-MONEY LAUNDERING INITIATIVE

The goal of the JMLTF is to establish a blueprint for a highly effective anti-money laundering program that will serve as a model for any nation seeking to dramatically reduce the laundering of illicit funds and corruption in their countries. This proposal is intended to offer a specific course of action - not theory.

Many nations have independently established task forces that were designed, at least in name, to identify and attack the money laundering threat in their corner of the world. The problem is that they failed to include critical fundamental elements that would have otherwise created a unified global working group, and they fail to focus on the biggest of the big-time money launderers. Those elements are the lifeblood of a global JMLTF initiative. At its core the JMLTF searches for laundered funds and mega-launderers, not criminals (i.e. drug dealers, etc.) who get tagged with an additional charge for laundering because they bought a house with illicit funds in the name of a nominee. Whereas those criminals are primary targets of other task forces, they are more valuable to the JMLTF as witnesses. Real money launderers ricochet transactions through multiple countries, institutions, businesses and schemes. Absent a well-coordinated global JMLTF, with collocated personnel, a shared global plan, and the responsibility for continually prosecuting the real money launderers on this planet, criminal organizations will continue to successfully launder and hide more than 95% of their treasuries.

A nation must undertake both short-term and long-term initiatives in order to build an effective proactive JMLTF. The primary goal of this plan is to identify the top ten (10) active money laundering organizations in a given country, to gather actionable information about those organizations, to prosecute the leaders/members of those laundering organizations, to identify the beneficial owners of the laundered funds, to prosecute the beneficial owners, and to seize assets acquired with illicit funds. As prosecutions are accomplished, the "top 10 list" should be updated to ensure that resources continue to be focused on the most meaningful potential prosecutions.

By way of an example for any nation, I'm offering details about the development of an initial bilateral JMLTF initiative between the U.S. and Ecuador. This prototype example presumes that U.S. authorities will lead the JMLTF initiative and embrace this formula to attack the core of money laundering, thus becoming the key lead partner with Ecuador or any nation willing to adopt the program. The positioning of the U.S. as the lead partner with other nations evolves from primarily two facts:

1. The U.S. dollar is global currency in both the legitimate and illegitimate markets.
2. The insatiable appetite within the U.S. for illegal drugs causes traffickers globally to often conduct business in U.S. dollars.

Ecuador, whose currency is the U.S. dollar, is a good model for the initial launch of this plan. The plan can be just as effective in countries that don't use the U.S. dollar as their local currency. After Ecuador, this plan could quickly be enacted in Panama (which also uses U.S. currency), Colombia, Mexico, Peru, Canada and virtually any nation.

Many Colombian based trafficking and terrorist organizations, especially FARC, are well known to have used Ecuador as a safe haven for deposits of tens of billions in drug proceeds. Furthermore, Ecuador's U.S. dollar-based banking and business sector is attractive to traffickers and money launderers because of the ease of integrating U.S. dollar narco-profits into Ecuador's legitimate markets. Ecuador's contiguous borders with both Colombia and Peru dramatically enhances its money laundering risk, since Colombia and Peru are two of the three countries in South America that produce massive quantities of cocaine and other illegal drugs marketed globally. Those illegal drugs are, for the most part, sold for U.S. dollars. It is a well-established fact that the majority of the estimated \$65 billion in U.S. currency generated from the sale of illegal drugs in America annually is physically smuggled out of the U.S. for initial placement in dollar accounts outside the United States. Ecuador is a very attractive landing spot for that cash.

Ecuador's use of US currency also creates an enhanced money laundering risk in that nation from Black Money Markets, such as the Black-Market Peso Exchange and other traditional informal banking systems. Although there is no need for importers in Ecuador to buy U.S. dollars generated from drug trafficking because they naturally possess U.S. dollars, "legitimate importers" in neighboring countries, such as Colombia, that buy dollars on the black market have an interest in acquiring U.S. dollar checks and wire transfers drawn on banks in Ecuador. In addition to other factors, this stimulates interest within black money market operators to deposit illicit U.S. dollars in accounts maintained in Ecuador.

To identify the specific business sectors and individuals in Ecuador, or any nation, engaged in money laundering it is essential to address this undertaking from both a short-term and long-term perspective.

SHORT-TERM NEEDS

1) Resources Needed Within Ecuador:

An effective Ecuadorian Joint Money Laundering Task Force (JMLTF) requires a collaborative initiative by criminal investigators, regulators, intelligence analysts and prosecutors drawn from the relevant agencies in Ecuador. These personnel must be banded together through a close-knit task force with the objective of identifying and prosecuting money launderers and seizing assets acquired with illicit funds. The criminal investigators must include not only those with expertise in narcotics investigations, but also those with expertise in conducting paper intense fraud, customs and tax type investigations. The regulators should include those involved in traditional AML/compliance examinations in banking and other financial markets. Intelligence analyst assistance is needed from both intelligence analysts within departments that investigate drug trafficking and those involved in Ecuador's Financial Intelligence Unit (FIU). Getting a firm commitment "up-front" from authorities in Ecuador to establish this multi-agency/multi-capability JMLTF is essential to drawing support from outside Ecuador to garner necessary training, intelligence and investigative support from ally nations that will be critical to the success of the Ecuador initiative. Ecuador must demonstrate that it is committed to devoting resources and personnel to this initiative before they can reasonably expect the U.S. or other nations to participate in this operation.

The investigators, regulators, intelligence analysts and prosecutors assigned by their respective agencies to the JMLTF should be collocated in an office dedicated to the mission of this group. Supervision of this group should be separately established within the JMLTF, meaning that supervision would be provided by personnel trained in the expertise of investigating/prosecuting money laundering cases. There are local task forces of this nature in the U.S. that offer a model for personnel structure in a money laundering task force. One such task force based in NYC is the "EL DORADO TASKFORCE", which is led by the Homeland Security Investigations (HSI) unit of Immigration Customs & Enforcement at the U.S. Department of Homeland Security. Although HSI leads this task force, it is comprised of officers from numerous federal, state and local law enforcement and regulatory agencies. The El Dorado Taskforce could potentially serve as a New York City office for what should become a nationwide U.S. JMLTF that has a presence in many other U.S. cities, including Miami, Los Angeles, Houston, Chicago, Detroit, Philadelphia, Atlanta, and Boston.

2) Support from Ally Nations:

An effective JMLTF initiative within Ecuador will initially require reliable support from the U.S. government. This support must be mandated by the U.S. government to require various U.S. law enforcement and regulatory agencies to support the JMLTF concept. Simply said, leadership of the U.S. government must ensure the full support of this operation by organizing a national “Joint Money Laundering Task Force” (JMLTF) comprised of experienced representatives from its agencies, especially the Drug Enforcement Administration (DEA), Homeland Security Investigations (HSI), the Internal Revenue Service (IRS), Financial Crimes Enforcement Network (FinCEN), Department of Defense (DOD), and the Money Laundering Section at the Department of Justice. In order to attract this critical support, it is essential for authorities in Ecuador to propose their JMLTF as a joint effort by the governments of Ecuador and the U.S.

The nature of the assistance needed from the U.S. will be addressed below. Bilateral cooperation is the lifeblood for the success of this operation. Therefore, it is recommended that, in order to attract this U.S. support, Ecuador consider offering a 50/50 asset sharing proposal with the U.S. for all illicit proceeds forfeited pursuant to this operation, regardless of the country in which the forfeiture occurs. In return for this asset forfeiture sharing, the U.S. government will need to provide training, law enforcement and regulatory support, as well as prosecutorial support in the U.S.

As this operation realizes success and expands its need to attract the support of other ally nations in a manner similar to the initial bilateral relationship between the U.S. and Ecuador, the asset forfeiture sharing percentage of each additional ally nation added to the operation would be funded by a donation of an equal amount of asset forfeiture proceeds from the two initial partners of the operation, Ecuador and the U.S. For example, if Ecuador and the U.S. felt it necessary to solicit participation in this cooperative initiative from the nation of Colombia in a particular case, Colombia’s share of asset forfeiture proceeds would be realized from an equal contribution of asset forfeiture revenue by the JMLTFs seeking Colombia’s assistance. In this hypothetical example of Colombia’s joining the operation, their sharing of assets forfeited would be limited to cases in which they specifically provided material assistance. As the success of the operation progresses, it is likely that consideration will need to be given to inviting additional countries to participate on a case by case basis.

Before launching a significant undertaking of identifying and prosecuting money laundering related cases in Ecuador, it is critical that the U.S. commit to providing meaningful training relative to traditional money laundering investigative techniques, conducting undercover money laundering operations, the use of informants in money laundering related investigations, asset forfeiture, the effective uses of narcotics and financial intelligence to develop targets of money laundering investigations, and effective methods of prosecuting money laundering cases. It would also be critical for U.S. and Ecuadorian authorities to agree to mutually share narcotics and financial intelligence gathered within their respective agencies relative to potential targets of investigation in Ecuador and in the U.S., when the intelligence relates to Ecuador.

All personnel from the U.S., Ecuador or any other nation participating in this taskforce must attain the equivalent of Top-Secret Clearance through a vetting process that is universally applied to all members of the taskforce, regardless of the country they represent. It would be essential to update the personnel vetting process through annual security clearance reviews and polygraphs.

3) Research:

Once an agreement is reached by authorities in Ecuador and the U.S. that they have jointly committed to a JMLTF relationship, it is critically important for both nations to undertake research that will arm the personnel of the operation with short-term actionable intelligence:

- U.S. agencies participating in this taskforce should have analysts and agents review their intelligence databases, speak with informants, and canvas agents in their respective field offices to identify any and all information they possess relative to money laundering related activities in Ecuador, the names of individuals and businesses alleged to have provided money laundering services in Ecuador or to members of criminal organizations operating in Ecuador, and assets in Ecuador acquired with illicit funds or used to facilitate illicit activity.

Likewise, the relevant Ecuadorian agencies participating in the taskforce should glean information from their intelligence databases, speak with informants, and canvas officers in field offices to identify any and all information relative to money laundering related activities in Ecuador or the U.S. that impacts Ecuador.

The relevant information garnered through the U.S. and Ecuadorian review of databases, informants and investigators should be shared and jointly reviewed by U.S. and Ecuadorian members of the taskforce to compile an initial list of individuals, companies and assets that appear to be related to the highest level of money laundering risk faced by Ecuador. From this list and future steps noted below, this information would be part of the intelligence needed to identify what appears to be the top 10 money laundering threats faced by Ecuador. Follow-up investigative steps relative to the top 10 threats should be given short-term priority.

- Major traffickers, organized crime figures, and money launderers incarcerated in the U.S. that were formerly active in Ecuador, or that appear to have worked closely with criminal organizations in Ecuador, are an important source of additional actionable information relative to current money launderers operating in Ecuador. Under U.S. law, after a trafficker or money launderer is convicted and their appeals have been exhausted, U.S. authorities have the ability to transfer that convicted trafficker or money launderer to a jurisdiction and have them appear before a grand jury that is impaneled for the purpose of investigating other crimes, such as laundering related to Ecuador through U.S. dollar transactions. In cases where high-level traffickers plead guilty, this process can be initiated within a short time after the trafficker is sentenced. These traffickers could either voluntarily provide information about money laundering in or related to Ecuador, or they could be immunized and forced to testify before a grand jury about money laundering related activity in Ecuador. If, after being immunized, they choose to refuse to answer questions before that grand jury, they could be found in contempt and their existing lengthy prison sentences could be extended for the remaining life of the grand jury they appeared before, generally 18 months. This procedure could be repeated after the termination of the life of the initial grand jury and could result in the trafficker or money launderer being brought before a succeeding grand jury, thus causing them to have their sentence extended for an additional 18 months. Historically in the U.S., this process has extended prison sentences of individuals by at least several years.

If a similar process of facilitating cooperation from incarcerated traffickers, organized crime figures, terrorists, and money launderers exists in Ecuador, that process should be followed and the results should be shared with all taskforce members.

4) Funding:

Although government funding for the JMLTF initiative will be needed during the first and possibly second year of the JMLTF's operation, it is highly likely that JMLTF funding subsequent to its second year of operation can be provided through the allocation of JMLTF asset forfeitures to the budgets of JMLTFs. Funding of the JMLTFs should not only be self-sufficient by the third year of their operation, they should become revenue generating for each participating nation. Initial funding will have to be provided by allocating portions of existing budgets of participating agencies within a given JMLTF, or shared asset forfeiture budgets from each participating agency.

5) Whistleblower Reward System:

With respect to the forfeiture of assets derived from violations of certain criminal offenses in the U.S., whistleblowers/informants can be entitled to as much as 30% of the value of assets seized by U.S. authorities if their information is significant. This substantial rate of reward is applied in income tax cases, healthcare fraud, defense contractor fraud, and other crimes. For example, in the case that led to the prosecution of the Union Bank of Switzerland (UBS) for criminal tax offenses, the whistleblower in that matter received an initial reward from U.S. authorities of \$104 million.

Currently, this accelerated rate of reward is not generally offered by U.S. authorities in drug/money laundering cases. In most drug money laundering cases, U.S. agencies tend to cap rewards at a maximum of \$250,000 per matter. This has proven to be an obstacle to gaining cooperation from insiders with knowledge about massive drug money laundering activity and the location of significant drug proceeds. It is impossible to motivate a whistleblower to provide information that endangers their lives and the lives of their family members when their potential maximum reward is \$250,000 and they are providing the critical evidence that leads to the forfeiture of \$500 million. With regard to the JMLTF, it is likely that some individual cases could involve the potential seizure of hundreds of millions in drug proceeds. U.S. and other nations should expand the Whistleblower reward system to include drug and money laundering cases, thus enabling informants that provide information in drug and money laundering cases to earn a reward as high as 30% of the value of the assets seized in a drug or money laundering case. An enhanced reward system is critical to the success of this taskforce and efforts should be made to put it in place at/near the time that a country commits to participating in this initiative.

LONG TERM NEEDS

6) Analyze Repatriated Currency:

According to the U.S. Department of State, “There is no reliable way to judge the magnitude of money laundering activity in Ecuador because only major banks have active money laundering controls and a large number of transactions take place through loosely-regulated money exchange and financial cooperatives. There is evidence that money laundering occurs through trade and commercial activity, as well as through cash couriers. Large amounts of undeclared currency entering and leaving Ecuador indicate that transit of illicit cash is a significant activity.”

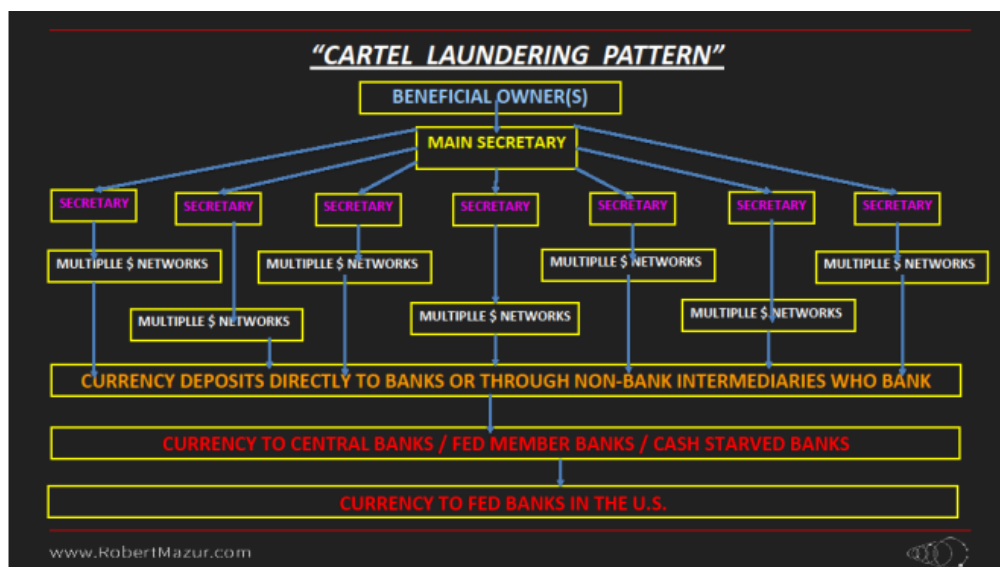
Despite the U.S. State Department’s view that there is no reliable way to judge the magnitude of money laundering activity in Ecuador, there is information available in Ecuador and the U.S. that could significantly aide in making that determination. With the help of the central banks of Ecuador and the U.S., as well as several other sources of information, data is available to back track the amount and source of U.S. currency repatriated to the Federal Reserve from Ecuador’s Central Bank and other banks and businesses within Ecuador.

The Central Bank in Ecuador can identify the various banks within Ecuador that provided them with large amounts of U.S. currency. This can also be done by any major institutions that repatriated dollars to the U.S. without the aid of Ecuador’s Central Bank. Each of the banks in Ecuador that either provided their Central Bank or the U.S. Federal Reserve with extraordinary amounts of U.S. currency can be examined by bank regulators who can determine which accounts at a respective bank deposited unusual amounts of currency in their accounts.

Research should be conducted relative to those account holders to determine the nature of their business, the extent to which they are linked to criminal activity, the source of funds provided to them by their clients, etc. If these businesses are thought to likely be accepting and transferring illicit funds, further investigative steps, including the use of compliance examinations, informants, communication intercepts or undercover operations should be considered to document the account holder’s involvement in money laundering.

An analysis should be conducted to also determine the extent of U.S. currency movements beyond those amounts that are repatriated to the U.S. through Ecuador’s Central Bank and/or certain of its larger financial institutions. Cash is moved out of Ecuador via legitimate courier services (i.e. armored car services, commercial flights, foreign exchange businesses, etc.). U.S. currency is also sold to non-U.S. banks in various countries starved for U.S. dollars. Efforts should be made to identify movements of large amounts of U.S. currency across Ecuador’s border by any and all means. Information about these movements can come from reporting requirements, regulatory reviews, industry sources, informants, etc.

The diagram below offers an illustration of the value of imposing requirements on central banks and other institutions to provide detailed records concerning the repatriation of currency.



This diagram offers an example of how a serious attack on money laundering can be initiated more efficiently through an analysis of the movement of value (in this case currency), rather than solely the analysis of the acts of individuals. The analysis of individuals will be facilitated through this process. This diagram illustrates the complexity of just one of several cells that operated within the Medellin Cartel, but it is emblematic of laundering systems used by many major criminal enterprises. In this real-life example, the principal “Beneficial Owners” of billions in laundered drug proceeds were a select number of the Medellin Cartel hierarchy.

They had a “Main Secretary” responsible for coordinating with 6 or 7 very highly trusted Secretaries. Secretaries earn a percentage of the overall money laundering fee by placing funds with launderers within their separate network. For security, at times, some Secretaries refrain from working directly with launderers and might position a Commissionist between them and the network of launderers they use (although that technique is not demonstrated in the diagram). A Secretary might have 5 or more of their own laundering contacts within their respective network.

Those laundering contacts can use any one of countless methods to launder, including methods as simple as illegally operating money service businesses, selling large quantities of goods in a free zone, or using the services of corrupt company executives in a precious metals company to exchange cash for gold. Based on the diagram above, one can see that a single cell of a cartel, using 7 Secretaries that each have 5 laundering sources within their own network, would involve funds being cleaned through 35 or more separate laundering sources. This segregation of exposure is carried out to avoid major losses when law enforcement identifies and prosecutes a single laundering source. Regardless of how many laundering sources are available to a criminal enterprise, all of their launderers ultimately need to deposit cash in banks or with non-bank intermediaries who, in turn, also eventually bank their deposits.

The banks that receive cash from these launderers must ultimately either sell the cash or repatriate it through a system that ultimately takes much of it to the Federal Reserve Banks in the United States. With requirements imposed by governments on the Federal Reserve and Central Banks outside of the United States, a process should be established to accurately audit the trail of repatriated cash back to its sources. We can't count on self-reporting by individual institutions to determine the true flow of currency, as evidenced by the endless number of Deferred Prosecution Agreements (DPAs) of institutions during the past 10 years. Efficiently tracking repatriated currency will expose banks and businesses moving massive amounts of cash, and ultimately those customers bringing abnormal cash deposits to banks. History has shown that some high-level laundering organizations have moved billions in currency a year, but at least 95% of illicit profits are not identified. To dramatically improve that ratio, governments must perfect and enact a global practice of enabling law enforcement and regulators access to the data concerning repatriated cash movements so they can routinely identify the world's most significant money launderers and criminal organizations.

7) High Risk Business Analysis

Traditionally, there are businesses in all countries that carry greater amounts of money laundering risk than others. Those businesses include:

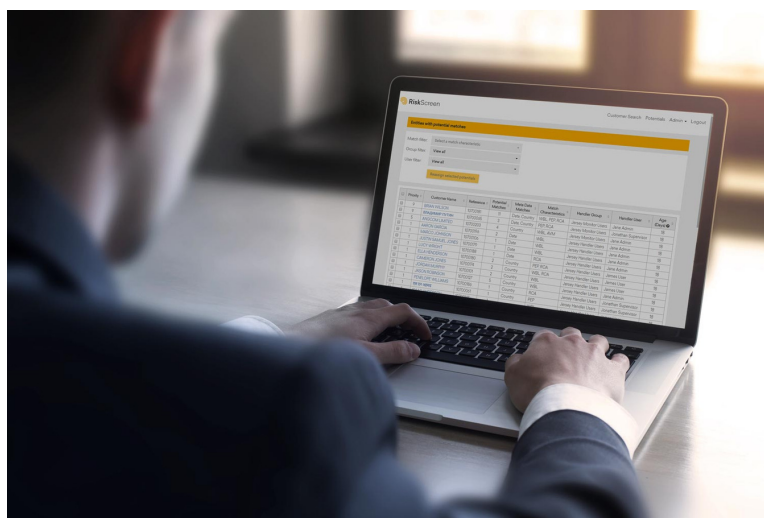
- Foreign Exchange Services
- Casas de Cambio / Money Service Businesses
- Check cashing businesses
- Precious metals dealers
- Precious stones and jewelry businesses
- Free Trade Zone businesses
- Seafood Businesses
- Import/Export businesses
- Factoring companies
- Trade Based Finance Companies
- Businesses with significant transfers to China
- Car brokers exporting large numbers of cars to nations in Africa

Efforts should be made to conduct outreach programs with members of these business sectors that are thought to be credible and honest in an effort to develop rapport and garner information about possible “bad actors” in these various business sectors that might be involved in money laundering.

A macro analysis of some of the above referenced industries, such as the precious metals industry, should be conducted in some nations. For example, in most years, Colombian gold mining produces roughly 17 tons of gold. But, in some of the years when that rate of production has been confirmed, businesses in Colombia have exported more than 75 tons of gold. This type of illogical imbalance of trade data make it obvious that significant amounts of drug proceeds are being laundered and repatriated to Colombia through over invoiced gold exports. Another likely contributor to this imbalance is the smuggling of gold into Colombia in exchange for cash stockpiled in Colombia. There are several gold mining operations in Colombia that are owned by individuals with known prior convictions and involvement in large scale drug trafficking organizations. Some of these industry leaders conduct their banking activities in Ecuador. This is an example of why high money laundering risk industry analysis is critical.

In addition, informants can make surreptitious contact with representatives of these business sectors in an attempt to develop information about businesses that appear to be involved in laundering illicit funds. Informants have proven to be the most valuable resource in the development of U.S. based drug money laundering cases.

8) Analysis & Enforcement of Reporting Requirements:



It is critical for Ecuador's Financial Intelligence Unit (FIU) to collect and analyze all reports received from financial institutions, businesses, and individuals. In instances where certain reporting requirements don't currently exist, regulations need to be enacted to require such reporting. Routine analysis of this type of data should be focused on identifying abnormal reporting, ensuring that relevant agencies are made aware of the abnormalities, and that an investigative plan is undertaken to determine if the abnormal reporting is linked to criminal activity. At the same time, it is important for representatives of the FIU or other agencies to ensure that notice of reporting requirements by institutions, businesses, and individuals is broadly known in the private sector. Compliance audits within the banking and business sector should be conducted to ensure that reporting requirements are met and actively enforced. At a minimum, fines should be imposed on those banks and businesses that fail to comply with reporting requirements. If compliance failures are linked to an attempt to facilitate criminal conduct, a criminal prosecution should be pursued.



Although it is important for each JMLTF to establish the above noted protocols, it is equally important that the JMLTFs establish a multi-national committee to conduct annual reviews to ensure that a given JMLTF is meaningfully applying personnel and resources, identifying their top ten targets, and delivering results.

The information provided above is offered as a general outline concerning effective short-term and long-term steps that could be jointly undertaken by the governments of Ecuador and the U.S. to develop a highly effective bi-lateral anti-money laundering taskforce that would eventually enable Ecuador to become self-sufficient in its identification and prosecution of significant money launderers. This plan should be considered as a roadmap for any nation that has a genuine interest in attacking money laundering and corruption threat.

About the Author: Robert Mazur is the New York Times bestselling author of *The Infiltrator*, a memoir about his undercover life, much of which was spent acting as a conduit between ruthless drug barons and corrupt legitimate appearing senior executives that cleaned billions in blood stained money through otherwise respectable international banks and businesses. For years, in the eyes of organized crime leaders he was a highly successful mob connected money launderer who helped manage their illicit fortunes. His clients, some of the most famous and deadly drug cartel bosses, issued a \$500,000 contract on his life when arrests were made around the world and he was revealed to be a highly-trained U.S. federal undercover agent. After completing a highly decorated 27-year career as a federal agent in 3 U.S. agencies, Robert is now the President of KYC Solutions, Inc., a firm that provides speaking, expert witness and consulting services to companies worldwide. More information about Mr. Mazur, his book, and the film based on his life can be found at <https://www.robertmazur.com/>. The views expressed are his own.

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