JEB HENSARLING, TX , CHAIRMAN

United States House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

MAXINE WATERS, CA, RANKING MEMBER

MEMORANDUM

To: Members of the Committee on Financial Services

From: FSC Majority and Minority Staff

Date: January 21, 2016

Subject: January 26, 2016, Task Force to Investigate Terrorism Financing hearing titled "Trading with the Enemy: Trade-Based Money Laundering is the Growth Industry in Terror Finance"

The Task Force to Investigate Terrorism Financing will hold a hearing entitled "Trading with the Enemy: Trade-Based Money Laundering is the Growth Industry in Terror Finance" on Tuesday, January 26, 2016, at 10:00 a.m. in room 2128 of the Rayburn House Office Building. This will be a one-panel hearing with the following witnesses:

- Mr. John Cassara, former U.S. Intelligence Officer and Treasury Special Agent
- Mr. Louis Bock, former Senior Special Agent, U.S. Customs and Border Protection
- Mr. Farley Mesko, Co-Founder and Chief Executive Officer, Sayari Analytics
- Mr. Nikos Passas, Professor of Criminology and Criminal Justice, College of Social Sciences and Humanities, Northeastern University

Introduction[1]

Trade-based money laundering (TBML) involves the exploitation of the international trade system for the purpose of transferring value and obscuring the true origins of illicit wealth. The Financial Action Task Force (FATF), an intergovernmental standard-setting body on anti-money laundering and combating the financing of terrorism (AML/CFT), has described TBML as the process of disguising proceeds of crime and moving value through trade transactions in order to legitimize their illicit origin—a process that varies in complexity, but typically involves the misrepresentation of the price, quantity, or quality of imports or exports.[2] When used by terrorist groups to finance their activities, move money, or otherwise disguise the source and beneficiaries of their funds, TBML schemes are sometimes referred to as TBML/ Financing of Terrorism (FT). Financial institutions are wittingly or unwittingly implicated in TBML and TBML/FT schemes when they are used to settle, facilitate, or finance international trade transactions (e.g., through the processing of wire transfers, provision of trade finance, and issuance of letters of credit and guarantees).

In June 2015, the U.S. Department of the Treasury issued two reports related to money laundering: a *National Money Laundering Risk Assessment* and a *National Terrorist Financing Risk Assessment*. The *National Money Laundering Risk Assessment* identified TBML as among the most challenging and pernicious forms of money laundering to investigate.[3] Citing information from U.S. Immigration and Customs Enforcement (ICE), Treasury described TBML schemes as capable of laundering billions of dollars annually. An earlier advisory on TBML, issued by the Treasury Department's Financial Crimes Enforcement Network (FinCEN) in February 2010, stated that more than 17,000 Suspicious Activity Reports (SARs) described potential TBML activity between January 2004 and May 2009, which involved transactions totaling in the aggregate more than $276 billion.[4]

Scope of the Problem

Although TBML is widely recognized as one of the most common manifestations of international money laundering as well as a known value transfer and reconciliation method used by terrorist organizations, TBML appears to be less understood among academics and policymakers, in contrast with traditional forms of money laundering through the international banking system and through bulk cash smuggling. Considering the volume of global trade and the value of such transactions, however, TBML's effects can result in substantial consequences

---

[1] This memorandum was prepared by the Congressional Research Service at the Task Force's request, and has been reviewed and approved by the Financial Services Committee staff.

[2] Financial Action Task Force (FATF), *Trade Based Money Laundering*, June 23, 2006. The basic techniques of trade-based money laundering (TBML) include over- and under-invoicing of goods and services, multiple-invoicing of goods and services; over- and under-shipment (i.e., short shipping) of goods and services; and falsely described goods and services, including phantom shipping.

[3] U.S. Department of the Treasury, *National Money Laundering Risk Assessment*, June 12, 2015.

[4] Financial Crimes Enforcement Network (FinCEN), *Advisory to Financial Institutions on Filing Suspicious Activity Reports Regarding Trade-Based Money Laundering*, advisory, FIN-2010-A001, February 18, 2010.

for international commerce and government revenue. The *National Money Laundering Risk Assessment* concludes that:

> TBML can have a more destructive impact on legitimate commerce than other money laundering schemes. According to ICE HSI [Homeland Security Investigations], transnational criminal organizations may dump imported goods purchased with illicit proceeds at a discount into a market just to expedite the money laundering process. The below-market pricing is a cost of doing business for the money launderer, but it puts legitimate businesses at a competitive disadvantage. This activity can create a barrier to entrepreneurship, crowding out legitimate economic activity. TBML also robs governments of tax revenue due to the sale of underpriced goods, and reduced duties collected on undervalued imports and fraudulent cargo manifests.

Global Hotspots

The U.S. government has historically focused on TBML schemes involving drug proceeds from Latin America, particularly the Black Market Peso Exchange (BMPE). BMPE emerged as a major money laundering method when Colombian drug traffickers used sophisticated trade-based schemes to disguise as much as $4 billion in annual narcotics profits in the 1980s.[5] According to FinCEN, TBML activity is growing in both volume and global reach. In an analysis of SARs between January 2004 and May 2009, TBML activity was most frequently identified in transactions involving Mexico and China. Panama was ranked third, potentially due to TBML activity linked to the Panama Colon Free Trade Zone (FTZ), while the Dominican Republic and Venezuela were identified as "countries with the most rapid growth in potential TBML activity."[6]

According to the U.S. Department of State's March 2015 edition of its annual report on money laundering and financial crimes, Volume II of the *International Narcotics Control Strategy Report*, TBML concerns have surfaced in countries or jurisdictions such as Afghanistan, Belize, Brazil, Canada, China, Colombia, Greece, Hong Kong, India, Iran, Iraq (and "the surrounding region"), Kenya, Lebanon, Mexico, Pakistan, Panama, Paraguay, Singapore, St. Maarten, Taiwan, the United Arab Emirates (UAE), Uruguay, Venezuela,[7] and the West Bank and Gaza.[8]

---

[5] Broadly, the Black Market Peso Exchange (BMPE) facilitated the "swap" of dollars owned by drug cartels in the United States for pesos already in Colombia by selling the dollars to Colombian businessmen who sought to buy U.S. goods for export. See FinCEN, *Colombian Black Market Peso Exchange*, advisory, issue 9, November, 1997; U.S. government, National Money Laundering Strategy, May 3, 2007; and FATF, *Trade Based Money Laundering*, June 23, 2006.

[6] FinCEN, *Advisory to Financial Institutions on Filing Suspicious Activity Reports Regarding Trade-Based Money Laundering*, advisory, FIN-2010-A001, February 18, 2010.

[7] The 2015 report notes that "Venezuelan government officials—including the president, the executive vice president, an central bank president, a finance minister, and an interior minister—have all admitted publicly over the past 12-18 months that 30-40 percent of the roughly $53 billion the Venezuelan government spent on imports in 2013 were paid out for over-invoiced or completely fictitious transactions...." U.S. Department of State, *International Narcotics Control Strategy Report (INCSR)*, Vol. 2, Money Laundering and Financial Crimes, March 2015.

Links to Terrorism

Although a number of anecdotal case studies in recent years have revealed instances in which TBML is used by known terrorist groups and other non-state armed groups, including Hezbollah, the Treasury Department's June 2015 *National Terrorist Financing Risk Assessment* concluded that TBML is not a dominant method for terrorist financing.[9] It stated:

> Broadly speaking, based on an analysis of U.S. law enforcement investigations and prosecutions relating to TF [terrorist financing], two methods of moving money to terrorists and terrorist organizations have been predominate in the convictions and cases pending since 2001: the physical movement of cash and the movement of funds through the banking system.... The physical movement of cash accounted for 28 percent of these cases while movement directly through banks constituted 22 percent, movement through licensed MSBs [money services businesses] 17 percent, and movement by individuals or entities acting as unlicensed money transmitters constituted 18 percent.

The footnote following the last sentence quoted above continued: "The remaining 15 percent were a mix of checks, wire transfers through unspecified financial institutions, and TBML."

In its latest *Country Reports on Terrorism*, issued in June 2015, the State Department identified TBML as a terrorism-related concern in Tunisia and Syria, particularly as a technique used by *hawala* brokers in conjunction with corrupt customs and immigration officials (*hawala* is an informal value transfer system, often used to send remittances, that can operate outside the formal international financial system to move funds internationally and anonymously).[10] The State Department's March 2015 report on money laundering and financial crimes also identified some specific countries that may be vulnerable to TBML/ Financing of Terrorism (FT) schemes. For example, the report notes that TBML in the United Arab Emirates (UAE), particularly linked to *hawala* transactions and counter-valuation through trading companies, "might support sanctions-evasion networks and terrorist groups in Afghanistan, Pakistan, and Somalia."[11]

Vulnerabilities

The potential is vast for criminal organizations and terrorist groups to exploit the international trade system with relatively low risk of detection. According to FATF, key characteristics of the international trade system have made it both attractive and vulnerable to illicit exploitation. Quoting FATF, vulnerabilities include the following:

---

[8] U.S. Department of State, *INCSR*, Vol. 2, March 2015.
[9] U.S. Department of the Treasury, *National Terrorist Financing Risk Assessment*, June 12, 2015.
[10] U.S. Department of State, *Country Reports on Terrorism 2014*, June 2015.
[11] U.S. Department of State, *INCSR*, Vol. 2, March 2015.

The enormous volume of trade flows, which obscures individual transactions and provides abundant opportunity for criminal organizations to transfer value across borders;
The complexity associated with (often multiple) foreign exchange transactions and recourse to diverse financing arrangements;
The additional complexity that can arise from the practice of comingling illicit funds with the cash flows of legitimate business;
The limited recourse to verification procedures or programs to exchange customs data between countries; and
The limited resources that most customs agencies have available to detect illegal trade transactions.[12]

Selected Case Studies

Hezbollah-Linked TBML

In an elaborate TBML scheme purported to be linked to Hezbollah, a Lebanon-based group that was designated in 1997 by the State Department as a Foreign Terrorist Organization (FTO), U.S. officials claimed that the Lebanese Canadian Bank (LCB) and multiple foreign exchange houses had facilitated the laundering of South American drug proceeds through the Lebanese financial system and through TBML schemes involving used cars and consumer goods.

In one such scheme, LCB facilitated wire transfers to U.S. banks for the purchase of used cars in the United States. Cars would be purchased in the United States and shipped to countries in West Africa and elsewhere while the proceeds from the car sales would reportedly be repatriated back to Lebanon through the use of bulk cash deposits among conspiring exchange houses. In another scheme associated with the same Hezbollah-linked drug trafficking network, Asian-supplied consumer goods would be shipped to Latin America while the proceeds would be laundered through a BMPE-styled scheme. The funds sent to pay for the consumer goods were reportedly sent through LCB's U.S. correspondent accounts.

In its February 2011 designation of LCB as a financial institution of primary money laundering concern, FinCEN stated that, according to U.S. government information, Hezbollah "derived financial support" from these drug and money laundering schemes. Ultimately, Lebanon's central bank and monetary authority, the Banque du Liban, revoked LCB's banking license in September 2011 and LCB's former shareholders sold its assets and liabilities to the Lebanese Societé Generale de Banque au Liban SAL (SGBL). Some of the individuals and entities associated with this illicit network have also variously been subject to financial sanctions and law enforcement investigations in the United States.[13]

---

[12] FATF, *Trade Based Money Laundering*, June 23, 2006.
[13] Asia/Pacific Group on Money Laundering (APG), *APG Typology Report on Trade Based Money Laundering*, July 20, 2012; Jo Becker, "Beirut Bank Seen As Hub of Hezbollah's Finances," *New York Times*, December 13, 2011; Sebastian Rotella, "Government Says Hezbollah Profits from U.S. Cocaine Market Via Link to Mexican Cartel,"

Toys-for-Drugs BMPE Scheme

In a BMPE scheme involving a Los Angeles-based toy wholesaler, Woody Toys, Inc., its owners received millions of dollars in cash payments generated from Colombian and Mexican narcotics trafficking. The cash payments reportedly were placed directly into the company's bank account from multiple locations in small deposits that were consistently under $10,000 to avoid reporting requirement (i.e., structuring). The toy company used the cash deposits to purchase toys from China, which, in turn, were exported to Colombia. The Colombia pesos generated by the toy sales in Colombia were used to reimburse the Colombian drug traffickers through the BMPE. Some of the employees of Woody Toys had previously worked for Angel Toy Company, whose owners had also been implicated in a similar toys-for-drugs BMPE scheme. The law enforcement investigation into this case benefitted from an information sharing arrangement between the United States and Colombia on trade data through the Trade Transparency Units (TTUs) established in both countries. [14]

Trade Finance and *Hawala* Networks

According to the Asia/Pacific Group on Money Laundering (APG), a FATF-style regional body (FSRB), another scheme to launder funds derived from multiple major international drug traffickers involved cash couriers, money transfer services, alternate value transfer systems (e.g., *hawala*), and formal mechanisms of trade finance, managed and directed by an Indian national living in Dubai. The individual involved operated numerous businesses in Dubai as well as numerous affiliates in Europe, Asia, Africa, and the United States.

In Dubai, the individual opened letters of credit (LCs) through his various companies for various importers, also located in Dubai. These LCs were opened to benefit various affiliated exporters located in India and in other locations and were in amounts that were substantially higher than the market value of the exports. In opening the LCs, the individual used his businesses connections with certain issuing banks and certain advising banks to transmit the LCs to the affiliated exporters in India. The individual also arranged for trade documents to be prepared that reflected the inflated value of the exports in order to make them acceptable to the issuing and advising banks. Next, the LCs, with inflated export values, along with funds received from drug trafficking, were remitted to the exporters in India, essentially moving money through the financial system in the guise of trade financing. Once in India, the exporters distributed the drug proceeds to the various affiliates and sold the exports at market value.

ProPublica, December 13, 2011; "Prosecutors Say Hezbollah Laundered Millions of Dollars into U.S.," Associated Press, December 15, 2011, http://www.foxnews.com/us/2011/12/15/prosecutors-say-hezbollah-laundered-millions-dollars-into-us.html; Devlin Barrett, "U.S. Intensifies Bid to Defund Hezbollah," *Wall Street Journal*, December 16, 2015

[14] APG, *APG Typology Report on Trade Based Money Laundering*, July 20, 2012; U.S. Immigration and Customs Enforcement (ICE), "Co-Owner of Los Angeles-Area Toy Company Sentenced in Drug Money Laundering Case," press release, May 6, 2013; https://www.ice.gov/news/releases/co-owner-los-angeles-area-toy-company-sentenced-drug-money-laundering-case.

The same Indian national also used various techniques to move funds offshore through *hawala* operators. In one scheme, the individual facilitated trade in banned goods (in this example, a "pulses," or agricultural crops) by falsifying trade documents through his network of businesses in India to export banned goods from India. In order to circumvent the restrictions, the goods were falsely described and falsely valued in trade documents. *Hawala* operators were used to settle the difference between the true value of the exported goods and the falsely documented value of the goods.[15]

Selected Policy Responses

Role of the Financial Action Task Force (FATF)

FATF was organized to develop and promote AML/CFT guidelines.[16] It currently comprises 34 member countries and territories and two regional organizations.[17] Although FATF has no enforcement capabilities, FATF relies on a combination of annual self-assessments and periodic mutual evaluations on the compliance of its members to FATF guidelines. It can suspend member countries that fail to comply on a timely basis with its guidelines. When it was established in 1989, FATF was charged with examining money laundering techniques and trends, reviewing actions already taken, and setting out the measures to be taken to combat money laundering. In 1990, FATF issued a new report containing 40 recommendations,[18] which provided a comprehensive plan of action to fight against money laundering.

In February 2012, FATF members adopted a revised set of the FATF 40 Recommendations (subsequently updated again October 2015), which integrated CFT guidelines into the core set of recommendations and added the proliferation of financing of weapons of mass destruction to FATF's areas of surveillance. The new mandate is intended to:

- deepen global surveillance of evolving criminal and terrorist threats;

---

[15] APG, *APG Typology Report on Trade Based Money Laundering*, July 20, 2012.

[16] For additional information, see CRS Report RS21904, *The Financial Action Task Force: An Overview*, by James K. Jackson.

[17] FATF members are Argentina, Australia, Austria, Belgium, Brazil, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Iceland, India, Ireland, Italy, Japan, Luxembourg, Mexico, Netherlands, New Zealand, Norway, People's Republic of China, Portugal, Russian Federation, Singapore, South Africa, South Korea, Spain, Sweden, Switzerland, Turkey, United Kingdom, and the United States; the two international organizations are the European Commission, and the Gulf Cooperation Council. The following organizations have observer status: Asia/Pacific Group on Money Laundering; Caribbean Financial Action Task Force; Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures; Eastern and Southern Africa Anti-Money Laundering Group; Financial Action Task Force on Money Laundering in South America; other international organizations including the African Development Bank; Asia Development Bank; European Central Bank; International Monetary Fund; Organization of American States, Organization for Economic Cooperation and Development; United Nations Office on Drugs and Crime; and the World Bank.

[18] FATF, *International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation: The FATF Recommendations*, adopted on February 16, 2012 and updated in 2013 and 2015.

- build a stronger, practical and ongoing partnership with the private sector; and
- support global efforts to raise standards, especially in low capacity countries.

In addition, the revised recommendations address new and emerging threats, while clarifying and strengthening many of the existing obligations. The new standards strengthen the requirements for higher risk situations and allow countries to take a more focused approach to areas where high risks remain or where implementation could be enhanced. The standards also address transparency requirements related to the adequate, accurate, and timely information on the beneficial ownership and control of legal persons and arrangements to address tax transparency, corporate governance, and various types of criminal activity.

Recommendations specifically to counter TBML, however, are not included in the current set of FATF's 40 Recommendations, despite recognition that the rapid growth and complexity of the international trade and financing system has multiplied the opportunities for abuse of this system by money launderers and terrorist financiers. FATF, however, has occasionally issued stand-alone reports that address TBML and best practices.[19] Surveys conducted by FATF, for example, indicate that there is no comprehensive data set on the extent and magnitude of TBML. In part, FATF determined that this lack of data reflected the fact that most jurisdictions do not identify TBML as a separately identifiable activity under the general topic of money laundering and, therefore, did not collect or share data on this specific type of activity. FATF also concluded that most jurisdictions do not offer training to trade and finance specialists specifically related to TBML activities.[20]

U.S. Department of the Treasury

Central to the Treasury Department's efforts to combat TBML is FinCEN, which issues advisories and geographic targeting orders, and applies special measures to jurisdictions determined to be of primary money laundering concern.

What is FinCEN?

FinCEN's mission is to safeguard the financial system through the collection, analysis and dissemination of financial intelligence to law enforcement. FinCEN's Director is appointed by the Secretary of the Treasury and reports to the Under Secretary of the Treasury for Terrorism and Financial Intelligence. FinCEN also acts as the U.S. financial intelligence unit (FIU), one of the over 100 FIUs that comprise the Egmont Group, an international body focused on information sharing and cooperation among FIUs.[21] FinCEN receives data, such as suspicious

[19] FATF, *Best Practices Paper on Trade-Based Money Laundering*, June 20, 2008.
[20] Ibid.
[21] An FIU is a national agency responsible for receiving (and, as permitted, requesting), analyzing, and disseminating to the competent authorities disclosures of financial information concerning suspected proceeds of crime and potential financing of terrorism or as otherwise required by national legislation or regulation, in order to combat money laundering and terrorism financing. See https://www.fincen.gov/about_fincen/wwd/.

transaction reports (SARs) from banks and other financial firms, analyzes the data, and disseminates it to law enforcement. It also cooperates with foreign FIUs in exchanging information, largely through its membership and participation in the Egmont Group.

FinCEN exercises regulatory functions primarily under the Currency and Financial Transactions Reporting Act of 1970,[22] as amended by Title III of the USA PATRIOT Act of 2001[23] and other legislation, together commonly referred to as the Bank Secrecy Act (BSA). The BSA is the United States' first and most comprehensive Federal AML/CFT statute. It authorizes the Secretary of the Treasury to issue regulations requiring banks and other financial institutions to establish AML programs and to file reports on financial activity that may have relevance for criminal, tax, and regulatory investigations or for intelligence or counter-terrorism.

Advisories

The purpose of a FinCEN advisory, in general, is to red flag for financial institutions activities that may be indicative of certain types of money laundering, in line with recent investigations, to assist financial institutions in filing suspicious activity reports (SARs). FinCEN first highlighted TBML in November 1997 and then again in June 1999 with advisories on the Black Market Peso Exchange (BMPE).[24]

In February 2010, FinCEN issued an advisory on TBML, based on law enforcement experience involving U.S. trade with Central and South America.[25] The purpose of the advisory was to aid financial institutions in reporting suspicious activity related to TBML. The advisory noted the basic schemes behind TBML and offered more specific red flags. The 2010 advisory further noted that reporting on suspected TBML had been inconsistent and requested that financial institutions include the abbreviation TBML or BMPE on SARs.[26] FinCEN also described substantial delays in the reporting of suspected TBML activity.[27]
FinCEN issued an additional TBML advisory in May 2014 related to Mexican TBML activity involving funnel accounts.[28] A funnel account is an individual or business account in one

---

[22] 31 U.S.C. 5311 *et seq*.
[23] P.L. 107-56.
[24] The two early FinCEN advisories on TBML were also followed in 2005 by additional sections in the Federal Financial Institutions Examination Council (FFIEC) BSA/AML Examination Manual, issued in collaboration with FinCEN, aimed at providing more guidance to bank examiners on assessing the adequacy of bank systems on risks associated with trade finance activities. See http://www.ffiec.gov/bsa_aml_infobase/pages_manual/manual_online.htm.
[25] FinCEN, *Advisory to Financial Institutions on Filing Suspicious Activity Reports Regarding Trade-Based Money Laundering*, advisory, FIN-2010-A001, February 18, 2010.
[26] Ibid. Of the approximately 17,000 SARs between January 2004 and May 2009 that FinCEN determined may have indicated TBML activity, only 24% of them clearly identified the suspected activity as TBML. The remaining 76% were identified by FinCEN based on complex queries including "trade" and other terms derived from various red flags.
[27] Ibid. For example, 14% of suspected TBML activity reported in SARs in 2004 occurred in 2004. However, 30% of such activity was not reported by financial institutions until 2009, five years after the activity occurred.
[28] FinCEN, *Update on U.S. Currency Restrictions in Mexico: Funnel Accounts and TBML*, advisory, FIN-2014-A005,

geographic area receiving multiple cash deposits, often below the jurisdiction's cash reporting threshold, and from which the funds are withdrawn in a different geographic area with little time elapsing between the deposits and withdrawals.[29] The advisory also provides several specific red flags associated with such activity conducted by Mexican criminal and drug trafficking organizations.

Geographic Targeting Orders

FinCEN appears to have also begun to rely more heavily on Geographic Targeting Orders (GTOs) in recent years, a tool that was first authorized in 1988. A GTO imposes additional, but time-limited, recordkeeping and reporting requirements on domestic financial institutions or nonfinancial businesses in a particular geographic area in order to assist regulators and law enforcement agencies in identifying criminal activity. In the absence of extensions, GTOs may only remain in effect for a maximum of 180 days. Violators may face substantial civil or criminal liability. Several recent GTOs have been used to enhance U.S. efforts to combat TBML.

In April 2015, FinCEN issued a GTO that lowered cash reporting thresholds and triggered additional recordkeeping requirements for certain financial transactions for about 700 Miami-based electronics exporters.[30] The GTO required targeted businesses to file forms with FinCEN reporting any single transaction or related transactions in which they receive more than $3,000 in cash—a stricter standard than the ordinary $10,000 filing threshold for cash transactions imposed pursuant to BSA. FinCEN stated that the new reporting requirements are aimed at combating complex TBML-related schemes employed by the Sinaloa and Los Zetas drug and transnational crime organizations. In October 2015, FinCEN renewed the GTO for an additional 180 days.[31]

In October 2015, FinCEN issued a similar GTO that also lowered cash reporting to $3,000 and triggered additional recordkeeping requirements. This GTO targeted businesses in the Los Angeles Fashion District in an effort to frustrate suspected Mexican and Colombian drug traffickers who had been exploiting fashion industry businesses to engage in BMPE schemes.[32]

Special Measures

Pursuant to BSA, as amended by the USA PATRIOT Act, FinCEN may require financial institutions and agencies within U.S. jurisdiction to take certain regulatory special measures against a

---

May 28, 2014.

[29] Ibid.

[30] FinCEN, *Geographic Targeting Order*, April 15, 2015; see also FinCEN, "FinCEN Targets Money Laundering Infrastructure with Geographic Targeting Order in Miami: 'GTO' Addresses Trade-Based Money Laundering Activity Involving Drug Cartels," press release, April 21, 2015.

[31] FinCEN, *Geographic Targeting Order*, October 20, 2015; see also FinCEN, "FinCEN Renews Geographic Targeting Order (GTO) Requiring Enhanced Reporting and Recordkeeping for Electronics Exporters Near Miami, Florida," press release, October 23, 2015.

[32] FinCEN, *Geographic Targeting Order*, September 26, 2014; see also FinCEN, "FinCEN Issues Geographic Targeting Order Covering the Los Angeles Fashion District as Part of Crackdown on Money Laundering for Drug Cartels," press release, October 2, 2014.

foreign jurisdiction, foreign financial institution, class of transaction, or type of account determined to be of "primary money laundering concern."[33] The enumerated five special measures, which may be imposed individually, in any combination, and in any sequence, range from requiring enhanced due diligence to prohibiting the opening or maintaining of correspondent or payable-through accounts. In some cases, such action corresponds with other administrative actions taken by the Treasury Department, including by the Office of Foreign Asset Control (OFAC), which is responsible for administering financial sanctions that target specially designated foreign nationals and entities. Among the 10 active cases, several were designated for their involvement in TBML, including the following:

Halawi Exchange and Rmeiti Exchange. In April 2013, FinCEN separately designated two Lebanese exchange houses, Halawi Exchange and Rmeiti Exchange, as financial institutions of primary money laundering concern. According to U.S. government information, both exchange houses facilitated transactions associated with a large-scale TBML scheme, involving the purchase of used cars in the United States for export to West Africa. Moreover, U.S. authorities claim that both exchange houses had been providing money laundering services for an international narcotics trafficking and money laundering network linked to Hezbollah.[34]

Banca Privada d'Andorra (BPA). In March 2015, FinCEN designated BPA as a financial institution of primary money laundering concern. FinCEN found high-level managers to have facilitated transactions on behalf of Third-Party Money Launderers (TPMLs) linked to individuals and organizations associated with organized crime, corruption, human trafficking, TBML, and fraud. One of these TPMLs laundered the proceeds of Venezuelan public corruption through TBML schemes, among others.[35]

U.S. Department of Homeland Security

Within the U.S. Department of Homeland Security (DHS), Immigration and Customs Enforcement's Homeland Security Investigations (ICE/HSI) established the first Trade Transparency Unit (TTU) in Washington, D.C., in 2004. Using a specialized computer system called the "Data Analysis and Research for Trade Transparency System" (DARTTS), TTUs examine trade anomalies and financial irregularities in domestic and foreign trade data to identify instances of TBML, customs fraud, contraband smuggling, and tax evasion that warrant further law enforcement investigation. With funding support from the Department of State's Bureau for International Narcotics and Law Enforcement Affairs (INL), HSI has stood up TTUs in

[33] 31 U.S.C. 5318A, as added by Sec. 311 of Title III of the USA PATRIOT Act (P.L. 107-56), and subsequently amended.
[34] FinCEN, *Notice of Finding that Halawi Exchange Co. is a Financial Institution of Primary Money Laundering Concern*, April 23, 2013; FinCEN, *Notice of Finding that Kassem Rmeiti & Co. For Exchange is a Financial Institution of Primary Money Laundering Concern*, April 23, 2013.
[35] FinCEN, *Notice of Finding that Banca Privada d'Andorra is a Financial Institution of Primary Money Laundering Concern*, March 10, 2015.

Argentina, Brazil, Colombia, Ecuador, Guatemala, Mexico, Panama, and Paraguay. According to the State Department, these eight international TTUs form the basis of broader plans to develop an international network of TTUs, similar to the Egmont Group of FIUs.[36] The 2007 *National Money Laundering Strategy* established attacking TBML at home and abroad as a national goal and specifically called on the deployment of ICE-led TTUs to facilitate the exchange and analysis of trade data among trading partners. According to one estimate, more than $1 billion has been seized since the creation of the U.S.- and foreign-based TTU effort.[37]

[36] U.S. Department of State, *INCSR*, Vol. 2, March 2015.
[37] John Cassara, *Trade-Based Money Laundering: The Next Frontier in International Money Laundering Enforcement* (Hoboken, NJ: John Wiley & Sons, 2016).

Witness Biographies

John Cassara, former U.S. Intelligence Officer and Treasury Special Agent

John Cassara retired after a 26 year career in the federal government intelligence and law enforcement communities. He is considered an expert in anti-money laundering and terrorist financing, with particular expertise in the areas of money laundering in the Middle East and the growing threat of alternative remittance systems and forms of trade-based money laundering and value transfer. He invented the concept of international "Trade Transparency Units," an innovative countermeasure to entrenched forms of trade-based money laundering and terrorist financing. A large part of his career was spent overseas. He is one of the very few to have been both a clandestine operations officer in the U.S. intelligence community and a Special Agent for the Department of Treasury.

His last position was as a Special Agent detailee to the Department of Treasury's Office of Terrorism Finance and Financial Intelligence (TFI). His parent Treasury agency was the Financial Crimes Enforcement Network (FinCEN), the U.S. Financial Intelligence Unit (FIU). He worked at FinCEN from 1996-2002. From 2002-2004, Mr. Cassara was detailed to the U.S. Department of State's Bureau of International Narcotics and Law Enforcement Affairs (INL) Anti-Money Laundering Section to help coordinate U.S. interagency international anti-terrorist finance training and technical assistance efforts.

Mr. Cassara has authored or co-authored several articles and books, including *Hide and Seek, Intelligence, Law Enforcement and the Stalled War on Terrorist Finance* (2006 Potomac Books) and *On the Trail of Terror Finance - What Intelligence and Law Enforcement Officers Need to Know* (2010 Red Cell IG). In 2013, his first novel *was released - Demons of Gadara. Trade-Based Money Laundering: The Next Frontier in International Money Laundering* (Wiley) *is* due to be released in the fall of 2015.

Louis Bock, former Senior Special Agent, U.S. Customs and Border Protection

Mr. Bock is a successful U.S. government criminal investigator who has targeted various types of trade fraud and money laundering around the world. He is an expert in data preparation and visualization representing the flow and nexus of goods and money around the world and is highly respected both as visionary and expert in targeting trade-based money laundering through the use of big trade and financial data. From 2004-2013, Mr. Bock served as Chief Investigative Officer at Data Mining International. From 2002- 2004, Mr. Bock was a Supervisory Special Agent at U.S. Immigration and Customs Enforcement (ICE) at the U.S. Department of Homeland Security. Previously, from 1991-2002, Mr. Bock was Supervisory Special Agent at U.S. Customs and Border Protection, and he also holds previous experience as a Senior Special Agent for U.S. Customs' field offices from 1986- 1991 and at U.S. Department of Agriculture's New York City offices from 1984-1986. Finally, Mr. Bock worked for the DEA as a Diversion Investigator from 1980-1984. Mr. Bock holds a BA in Behavioral and Statistical Measurement from Brooklyn College and a MA in Education and Behavioral Statistical Measurement from Kean College.

Farley Mesko, Co-founder and CEO, Sayari Analytics

Farley Mesko started Sayari Analytics after spending five years building C4ADS, a nonprofit organization focused on data-driven and technology-enabled analysis of conflict and security issues. His research on mapping and exposing illicit networks won C4ADS accolades from the highest levels of the security community and private technology sector, including being selected for a philanthropic partnership with Palantir Technologies and receiving a New Digital Age grant from Eric Schmidt, Executive Chairman of Google, as one of the top 10 most innovative organizations in the world using data and technology to solve pressing human challenges. He has worked as a consultant for the World Bank and has briefed flag officers, ambassadors, and executive-level leadership at US combatant commands, joint task forces, the national security staff of the Office of the Vice President, and various embassies. He has presented his research at New America Foundation, Yale University, Google Ideas, and American University, and has authored reports for the United Nations and Brookings. Farley received his degree in Natural Resource Policy and Economics from Bowdoin College and has worked extensively in conflict zones across Africa, including Northern Mali and Southern Somalia, and speaks Arabic.

Nikos Passas, Professor of Criminology and Criminal Justice, Northeastern University

Nikos Passas is Professor of Criminology and Criminal Justice at Northeastern University, and co-Director of the Institute for Security and Public Policy. He is also Consortium Member and Distinguished Inaugural Professor of Collective Action, Business Ethics and Compliance at the International Anti-Corruption Academy, Vienna; Distinguished Visiting Professor at Beijing Normal University; Adjunct Professor and Distinguished Practitioner in Financial Integrity; Senior Fellow of the Financial Integrity Institute at Case Western Reserve Law School; and Distinguished Visiting Fellow at the TC Beirne School of Law, University of Queensland. He is also the Head of Sanctions Implementation Legal Review Services at Compliance Capacity International.

He has served as Corruption Program Director at the Ethics and Compliance Officer Association (ECOA) and Adjunct Law Professor at Case Western Reserve University. His law degree is from the Univ. of Athens (LL.B.), his Master's from the University of Paris-Paris II (D.E.A.) and his Ph.D. from the University of Edinburgh Faculty of Law. He is a member of the Athens Bar (Greece). He is fluent in 6 languages and plays classical guitar.

He specializes in the study of corruption, illicit financial/trade flows, sanctions, informal fund transfers, remittances, terrorism, white-collar crime, financial regulation, organized crime and international crimes. He has published more than 200 articles, book chapters, reports and books in 13 languages. His next books are entitled *Trade-Based Financial Crime and Illicit Flows* and *Corruption and Crisis in Greece*.