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Highlights

Highlights of GAO-04-833T, a report to the Chairman, Senate Committee on Banking, Housing and Urban Affairs

Why GAO Did This Study

The U.S. government's framework for preventing, detecting, and prosecuting money laundering has been expanding through additional pieces of legislation since its inception in 1970 with the Bank Secrecy Act (BSA). The purpose of the BSA is to prevent financial institutions from being used as intermediaries for the transfer or deposit of money derived from criminal activity and to provide a paper trail for law enforcement agencies in their investigations of possible money laundering. The most recent changes arose in October 2001 with the passage of the USA PATRIOT Act, which, among other things, extends anti-money laundering (AML) requirements to other financial service providers previously not covered under the BSA. GAO was asked to testify on its previous work and the ongoing work it is doing for the Senate Committee on Banking, Housing, and Urban Affairs on the depository institution regulators' BSA examination and enforcement process.

www.gao.gov/cgi-bin/getrpt?GAO-04-833T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Davi M. D'Agostino at (202) 512-8678 or dagostinod@gao.gov.

June 3, 2004

ANTI-MONEY LAUNDERING

Issues Concerning Depository Institution Regulatory Oversight

What GAO Found

In recent years, GAO has issued a number of reports dealing with regulatory oversight of anti-money laundering activities of financial institutions. In 1998, GAO issued a report regarding Treasury's Financial Crimes Enforcement Network's (FinCEN) role in administering the BSA, which updated information on civil penalties for BSA violations. One focus was the Secretary of the Treasury's 1994 mandate to delegate the authority to assess civil money penalties for BSA violations to federal banking regulatory agencies. GAO noted that this delegation had not been made and said that FinCEN was concerned that bank regulators may be less inclined to assess BSA penalties and may prefer to use their non-BSA authorities under their own statutes.

Also in 1998, GAO reported on the activities of Raul Salinas, the brother of the former President of Mexico. Mr. Salinas was allegedly involved in laundering money from Mexico, through Citibank, to accounts in Citibank affiliates in Switzerland and the United Kingdom. GAO determined that Mr. Salinas was able to transfer $90 - $100 million between 1992 and 1994 by using a private banking relationship structured through Citibank New York in 1992 and effectively disguise the funds' source and destination, thus breaking the funds' paper trail.

In 2001, GAO issued a report on changes in BSA examination coverage for certain securities broker-dealers. At the time, there was no requirement that all broker-dealers file Suspicious Activity Reports (SARs); however, broker-dealer subsidiaries of depository institutions and their holding companies were required to file SARs and were examined by banking regulators for compliance. GAO determined that with the passage of the 1999 Gramm-Leach-Bliley Act, these broker-dealers were no longer being examined to assess their compliance with SAR requirements. However, with the passage of the USA PATRIOT Act and the issuance of a final rule that was effective on July 31, 2002, all broker-dealers were required to report such activity.

GAO is currently studying the depository institution regulators' BSA examination and enforcement process for the Senate Committee on Banking, Housing, and Urban Affairs. The objectives include determining how the regulators' risk-focused examinations assess BSA compliance, the extent to which the regulators identify BSA and AML violations and take supervisory actions, and the consistency of BSA compliance examination procedures and interpretation of violations across regulators. GAO plans to determine whether and to what extent regulators curtailed BSA compliance examinations and the bases for these decisions. GAO plans to track supervisory actions taken to correct violations identified. GAO will also examine the ramifications, if any, of the lack of delegation of authority to assess BSA compliance penalties by Treasury to the banking regulators, as mandated by statute. GAO will meet with government and industry officials to gain their perspective on the BSA compliance examination process.