

**ORAL STATEMENT OF WILLIAM J. FOX, DIRECTOR
FINANCIAL CRIMES ENFORCEMENT NETWORK
UNITED STATES DEPARTMENT OF THE TREASURY**

**BEFORE THE UNITED STATES SENATE
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS**

SEPTEMBER 28, 2004

Chairman Shelby, Senator Sarbanes, and distinguished Members of the Committee, I appreciate the opportunity to appear before you to discuss the issues and challenges before us as we establish an effective and comprehensive anti-money laundering regulatory regime for two diverse and important sectors in the financial industry – money services businesses and casinos. We applaud your leadership Mr. Chairman, as well as the leadership of Senator Sarbanes and the other members of this Committee on these issues. We also appreciate the direct and personal support you have shown the Financial Crimes Enforcement Network, over the past year in particular. We are honored by this support and we are doing all we can to live up to the faith you have put in us. The issues we deal with – including the specific issues we are addressing today – are critically important to the health of our nation’s financial system and, indeed, our national security. I have extended remarks that we are submitting for the record. I will keep this statement brief.

I am pleased to be here today with Superintendent Diana Taylor of the New York Banking Department and Commissioner Kevin Brown of the Internal Revenue Service’s Small Business / Self-Employed division. Superintendent Taylor and I have begun what I believe to be a very good dialogue between our two agencies. We have high hopes that this dialogue will lead to a much closer and deeper relationship with the New York Banking Department that will prove to be mutually beneficial across the spectrum of financial institutions, but particularly the challenging sector of money services businesses. I am also pleased to be here today with Commissioner Brown. As you know, the Secretary of the Treasury has delegated Bank Secrecy Act examination authority to the Internal Review Service for a variety of non-bank financial institutions including money services businesses and casinos. Commissioner Brown’s division is responsible for this program. Kevin and I are both relatively new to our respective jobs. When it comes to his office’s work, I consistently remind Kevin that we are “in the foxhole” together, with no pun intended. In the short time I have worked with him, he has demonstrated that he and his people are dedicated to this effort are taking their responsibilities under the Bank Secrecy Act quite seriously.

Today’s hearing is focused on two very different sectors of the financial industry, each presenting its own set of challenges from a regulatory perspective. I would like to

first briefly address casinos. All casinos, including tribal casinos, with gross annual gaming revenue in excess of \$1,000,000 are subject to regulation under the Bank Secrecy Act. Today, there are approximately 800 casinos and card clubs operating in at least thirty (30) jurisdictions in the United States and its territories, while ten or fifteen years ago, the vast majority of casinos were located in Nevada and New Jersey. The past few years, we have seen explosive growth of riverboat and tribal casino gaming across the country. While casinos are no strangers to comprehensive regulation, casinos are at risk to be used by money launderers and others engaging in illicit finance, including terrorist financiers. Casinos are high volume cash businesses vulnerable to manipulation by criminals and, possibly, terrorists. Casinos also often offer customers a broad array of financial services, such as deposit or credit accounts; funds transfers; check cashing and currency exchange services that are similar to services offered by money services businesses. These risks mandate that we implement an efficient and effective regulatory regime for casinos that includes a robust examination program.

Money services businesses present a deeper and broader challenge for us in implementing a meaningful regulatory regime under the Bank Secrecy Act. This industry includes the following service providers: currency dealers or exchangers; check cashers; issuers of traveler's checks, money orders or stored value products; and money transmitters. We are facing significant challenges in implementing the Bank Secrecy Act's regulatory regime for this industry. I have outlined those challenges in my written testimony. This industry is incredibly diverse; ranging from Fortune 500 companies with world-wide reach to mom and pop convenience stores in inner city neighborhoods where English is rarely spoken. The services provided can be particularly susceptible to terrorists and persons financing terrorist operations. In fact, in my view, money services businesses – because of their diverse nature and because of the products and services that are offered – represent the most significant risk of any financial industry sector under the Bank Secrecy Act. We believe this risk must be addressed with a multi-faceted approach – a combination of aggressive outreach and education; targeted compliance examinations; development of international standards and regulatory approaches; and, appropriate civil and criminal enforcement all coupled with extremely close coordination between law enforcement and regulators at both the State and Federal level.

We are fortunate that a large majority of both the casino and money services business industry are striving to be compliant. This majority, like other sectors of the financial services industry, has expended large amounts of money, time and effort to develop anti-money laundering programs that ensure compliance with the recordkeeping and reporting requirements of our regulations. This majority is starving for guidance and education on how to better comply with these regulations, and we must collectively be there to answer the call. We are also listening to these industries to better understand their needs for guidance and feedback and to see if we can collectively figure out ways to achieve better and less burdensome compliance. We meet regularly with representatives from these industries and we attend and participate in conferences and seminars relevant to these topics. Also, both industries have representative members on the Bank Secrecy Act Advisory Group, which is a very important dialogue among the regulators, regulated industry and law enforcement on these issues.

We are working more closely with Commissioner Brown's people at the IRS than we have in the past, and we need to work more closely with law enforcement and the state regulators of these sectors to ensure we are leveraging resources as best we can to meet the challenges posed by these diverse and dynamic industries. We have taken steps at FinCEN – such as creating a new “Office of Compliance” and devoting, for the first time, analytic muscle to our regulatory programs – which will make a difference. We are building better and smarter technology – our BSA Direct Project – that will assist all players in this arena to approach these challenges in a better and smarter way. But let me be clear Mr. Chairman, notwithstanding all of that good work, a robust and properly resourced examination function for non-bank financial institutions is the keystone to the success of our efforts to ensure well educated, properly compliant industry sectors. This is even more important as we bring other industries into the regulatory fold, which we are currently poised to do. We cannot afford the cynicism that breeds from a regulatory paper tiger. The issues are too important. I want to assure you Mr. Chairman that we are keenly aware of the importance of our task before us – we know full well that it is critical to our national security. We are committed to move as far and as fast as we can with the resources we have been given to implement this regulatory regime in the best way possible.

We appreciate your kind attention Mr. Chairman, and I am happy to answer any questions you may have.