Good morning. I want to start by thanking our hosts, **THE ASSOCIATION OF CERTIFIED ANTI-MONEY LAUNDERING SPECIALISTS,** for the opportunity to join you at this year's conference.

Some of you may have heard me speak recently about FinCEN's broad mission, and how important it is for us to build strong public-private partnerships for us to achieve success. I cannot emphasize this fact enough. Our nation's financial institutions play a vital role in our efforts to safeguard the financial system from illicit use, combat money laundering, and promote national security. And we do this through the collection, analysis, and dissemination of financial intelligence and strategic use of our financial authorities.

FinCEN depends on the information financial institutions provide to us, and today I'd like to focus on what our analysts do with that information. FinCEN is a leader in the analysis of Bank Secrecy Act (BSA) data and financial intelligence. Our advanced analytic tools and highly skilled analysts play a unique role in analyzing and integrating BSA data and other information to accomplish three ends: (1) map illicit finance networks; (2) identify compromised financial institutions and jurisdictions; and (3) understand the current methods and schemes for illicit finance. These three key pieces of analysis are critical to enable our stakeholders – law enforcement, regulators, foreign partners, and industry – to take action against money laundering and terrorist financing.

FinCEN's analysis depends primarily on the excellent information you provide – it is the baseline from which our analysts work. During my time at FinCEN, I have been continually impressed by the exceptionally high caliber of FinCEN's analytical team. What our analysts do now – and do very well – is look across that data to find interconnections to support ongoing law enforcement cases, to find trends and patterns within that data, and to understand the overall changes and shifts within it. They will also combine those findings with other information sources, such as law enforcement data or publicly available data, and enhance the picture.

Where our analysts are going – and we're not there yet, but we are on the cusp of these capabilities – is to take our analysis to a whole new level. Currently, we are capable of dissecting law enforcement and BSA information to identify a specific methodology for illicit finance in a particular segment of the financial industry related to a particular type of crime. We are also capable of using such information to identify entirely new and unknown bad actors engaged in similar activity in other parts of the country. However, right now this is long and arduous work as analysts sift through hundreds and sometimes thousands of reports. Very soon, new capacities made possible by our internal technology modernization, will allow our analysts to deal with such data sets to find leads in a fraction of the time previously necessary. Very soon, we will be able to point law enforcement and other stakeholders precisely to where they should be looking. Our analysts, working hand-in-hand with our superb technology team, are now putting these new capacities into place.

FinCEN does this analysis well now – and having seen the initial results from our new capabilities, I am excited about where we are headed. I am committed to making this a central role for FinCEN in the 21st Century. So today, I'd like to talk to you about some of the work we are doing and where our cutting-edge analytical efforts are taking us as we seek to remain out in front of emerging payment systems, identify and track third party money launderers, and uncover trends and patterns in the BSA data.

Emerging Payment Systems

I'd like to begin today by discussing how FinCEN's analysts are working hard to stay ahead of the curve in understanding emerging payment systems and related financial flows and vulnerabilities and to put that information into the hands of those customers who need it most.

As we all know, during the past decade, the development of new market space and new types of payment systems have emerged as alternatives to traditional mechanisms for conducting financial transactions, allowing developing countries to reach beyond underdeveloped infrastructure and reach those populations who previously had no access to banking services. For consumers and businesses alike, the development and proliferation of these systems are a significant continuing source of positive impact on global commerce.

These new systems have also expanded the boundaries of "money transmission" as more sophisticated payment systems have become available. And the inherent added complexity of these systems opens them to potential misuse by criminals.

FinCEN's analysts are continually working to understand the schemes and methods used to exploit emerging payment methods for money laundering and terrorist financing, and to develop related guidance for law enforcement. This guidance provides law enforcement with information on key sectors' operations, recordkeeping practices, and efforts to identify and counter vulnerabilities.

Partnership is key. As our analysts develop their understanding of these new systems, they are significantly aided by working directly with the financial industry. This partnership enables them to better follow financial trails and realistically understand financial mechanisms.

For instance, FinCEN's analysts are working to finalize a bulletin that will explore the relatively new payment technology of digital currency systems. FinCEN's bulletin will help "de-mystify" the digital currency realm by explaining to the broader law enforcement community how these systems work. The bulletin will also address the role of traditional financial institutions as intermediaries.

We're viewing our analytic work in this space as an important part of an ongoing conversation between industry and law enforcement. FinCEN is dedicated to learning more about digital currency systems, along with other emerging mechanisms, to protect those systems from abuse and to aid law enforcement in ensuring that they are getting the leads and information they need to prosecute the criminal actors. As our knowledge base develops, in concert with you, we will look to leverage our new capabilities to identify trends and patterns among the interconnection points of the traditional financial sector and these new payment systems.

To date, FinCEN's analysts have explored and produced reference products for law enforcement on many traditional and emerging payment systems. These include: cross border funds transfers and correspondent accounts, money transmitters, online payment systems, prepaid cards, and mobile payments. FinCEN's analysts then follow up this work by providing in-person analysis and training to thousands of investigators each year.

In addition to developing products to help law enforcement follow the financial trails of emerging payments methods, FinCEN also develops guidance for the financial industry to clarify their regulatory responsibilities as they relate to emerging areas.

In fact, just yesterday, FinCEN issued interpretive guidance to clarify the applicability of BSA regulations to virtual currencies. The guidance responds to questions raised by financial institutions, law enforcement, and regulators concerning the regulatory treatment of persons who use virtual currencies or make a business of exchanging, accepting, and transmitting them.

FinCEN's rules define certain businesses or individuals as money services businesses (MSBs) depending on the nature of their financial activities. MSBs have registration requirements and a range of anti-money laundering, recordkeeping, and reporting responsibilities under FinCEN's regulations. The guidance considers the use of virtual currencies from the perspective of several categories within FinCEN's definition of MSBs.

The guidance explains how FinCEN's "money transmitter" definition applies to certain exchangers and system administrators of virtual currencies depending on the facts and circumstances of that activity. Those who use virtual currencies exclusively for common personal transactions like receiving payments for services or buying goods online are not affected by this guidance. Those who are intermediaries in the transfer of virtual currencies from one person to another person, or to another location, are money transmitters that must register with FinCEN as MSBs unless an exception applies. Some virtual currency exchangers are

already registered with FinCEN as MSBs, though not necessarily as money transmitters. The guidance clarifies definitions and expectations to ensure that businesses engaged in similar activities are aware of their regulatory responsibilities.

Third Party Money Launderers

Analysts at FinCEN work on the front lines with law enforcement to help address head-on some of the U.S. government's highest investigative priorities. Healthcare fraud and tax fraud (by identity theft) are both serious and growing drains on U.S. government programs, with losses estimated in the hundreds of billions of dollars.

To combat these serious and growing frauds, FinCEN has partnered with the Department of Justice, the Internal Revenue Service, and officials within the Department of Health and Human Services to provide targeted analysis of individuals and organizations engaged in fraud. In this effort, FinCEN has to date analyzed more than 270,000 BSA filings in support of more than 300 healthcare fraud investigations.

FinCEN's mapping of the illicit finance networks used to move such fraud proceeds revealed that check cashers are a key node. They are often used to cash out fraudulent healthcare claims and fraudulent tax returns. While we cannot determine what percentage of the overall illicit proceeds pass through complicit check cashers, we assess that such third-party money launderers comprise a crucial link in the movement of fraudulent proceeds by significant organized criminal actors.

But here is where FinCEN's analysts have taken their work to the next level. In mapping these networks, FinCEN has also uncovered distinct and unique trends concerning the laundering of fraud proceeds through check cashers. Illegal proceeds from healthcare fraud and tax return fraud by identity theft are moved through the U.S. financial system in identifiable ways, leading FinCEN to identify markers of these transactions.

FinCEN's review of suspicious activity reports related to these cases reveals several indicators of money laundering in multiple transactional models. Often these transactions involved a third party closely linked to a check casher. FinCEN determined that many of these third parties received ACH credits from Medicare, Medicaid, or private insurance companies.

FinCEN analysts continue to provide ongoing support to investigations into laundering healthcare and tax fraud proceeds. And we will leverage our analytic findings to better inform industry of key indicators to improve their awareness and enhance BSA filings received on these actors. Our analysts are committed to proactively identifying financial institutions involved in the laundering of proceeds of frauds against the U.S. government. We believe that using this information will be key to furthering both criminal and civil enforcement actions, and preventing such fraudulent activity in the future.

Uncovering Trends and Patterns

In addition to providing case support, some of you may know that FinCEN has, for many years, carried out trends and pattern analyses of the information contained in the millions of SARs and CTRs that financial institutions send to FinCEN annually. For example, FinCEN studies the BSA records filed on U.S. dollar and foreign currency movement and transactions associated with Mexico and other foreign jurisdictions. These high level analyses aid in detection of illicit financial activity of specific targeted groups, such as Mexican drug trafficking organizations and other transnational criminal organizations operating in the United States and elsewhere.

For example, our advanced data matching algorithms have allowed us to increase match rates between CMIRs, CTRs, and SARs by over 50 percent in some jurisdictions. This gives us insight into dollar flow from a foreign jurisdiction to the point the dollars are deposited into a U.S. bank, from which we can work to ultimately identify the foreign beneficiary of a wire emanating from the account.

In another example, analysts have developed a product that allows investigators to review, evaluate, and compare the transactional and aggregate remittance activity of MSB agents using various "red flag" indicators to assist in the identification of agents acting as third party money launderers.

Advanced Analytics

Naturally, FinCEN's ability to conduct this kind of complex analysis would be impossible without the BSA data financial institutions provide.

There are also technical challenges to producing timely, cogent, and actionable intelligence products, useful to both our policy leaders and to field personnel. As I noted, filing protocols and the data within FinCEN reports vary from form to form, particularly with respect to those forms not filed strictly by financial institutions, such as the CMIR and Form 8300. Because of these variances, FinCEN analysts are challenged to find innovative solutions to match and fuse data as part of their mapping of illicit finance networks, identification of compromised financial institutions and jurisdictions, and understanding of schemes and methods for illicit finance.

In the very recent past, our analysts often needed to develop ad hoc tools to help analyze the data because our technical backbone was unable to sufficiently support the layers of tasks required to query, download, integrate, sort, connect, and chart the data.

Last fall, FinCEN began rolling out a key component in our IT Modernization Program to improve upon our ability to conduct analysis and make the BSA data available to a large number of federal and state agencies, including law enforcement and regulators. FinCEN Query allows users to easily access, query, and analyze 11 years of BSA data; apply filters to narrow search results; and utilize enhanced data capabilities. Our users are now able to look at the information

more comprehensively, and we are excited to work with them in making sure that your filings become more valuable than ever before in this new system.

To give you an idea of the value of the information your institutions provide, in the months since FinCEN Query went live last September, there have been over 1.1 million queries of the BSA data by more than 6,400 users. This past Wednesday alone, there were over 20,000 queries of the BSA data through FinCEN Query.

With our technology advancements, we are now getting closer to being able to leverage predictive analytics to take our work even further. This will provide us with the ability to work with our law enforcement partners, review their top completed investigations, understand the money laundering indicators present in our data, parse through the existing BSA forms, and then develop automated business rules that will allow us to provide agencies with new leads indicative of similar illicit activity elsewhere.

For example, FinCEN is working towards developing business rules based on information provided by our law enforcement and regulatory partners. Our goal is to dive deeper into aggregated regional and state level data to extract underlying drivers and trends between and among regions. We are doing this by automating the detection of regions and industries with significant changes, reviewing BSA records, and drilling down to understand which financial institutions are on the front lines of seeing changes in trends and patterns.

Moving forward, we expect to use the strategic application of business rules on the data industry provides to not only detect, but also to "predict" where certain types of money laundering, such as the placement of dollars in connection with trade-based money laundering activities, might be manifested.

This type of predictive analysis will significantly improve our intelligence and enforcement efforts by allowing us to focus on those vulnerable regions or financial sectors where money laundering or financial crimes are most prevalent. Furthermore, it will allow us to provide new leads to law enforcement, alert our regulatory partners, and develop "red flags" for industry so we can provide feedback on the kind of information that would be helpful in their SAR reporting.

We are beginning to touch the very early parts of this capability; we are very excited to be heading in this direction and I greatly look forward to seeing the products when we are able to reach full implementation.

In another aspect of our modernization, financial institutions will be required to utilize the new FinCEN reports, including CTRs and SARs, starting April 1, 2013. The new FinCEN reports were specifically developed to work with the new FinCEN Query system that we just rolled out, and these new FinCEN reports allow us, law enforcement, and regulators to slice and dice the information submitted in a much more advanced way.

We're happy that more and more institutions are coming on board with the new formats in advance of the deadline. As of last Friday, approximately 90 percent of the batch-filed SARs

and CTRs received from the largest financial institutions, and 60 percent of single SAR or CTR filings received (typically from smaller financial institutions), were submitted using the new formats. We know that industry is working hard to make the changes. One thing I want to point out in particular with respect to the new formats is the guidance that we put out last March with respect to new fields.

As that guidance clearly explains, the new FinCEN CTR and FinCEN SAR do not create any new obligations or otherwise change existing statutory and regulatory expectations. Financial institutions must provide the most complete and accurate information known to them. They are not under an obligation to collect non-mandatory information simply because there is now a field for it. However, just as has always been the case, if financial institutions have information that is pertinent to a report, they need to be able to include it in the report, so that the CTR, SAR, or other FinCEN report is complete and accurate.

FinCEN has and will continue to provide additional guidance and training materials in support of the new reports through Webinars, FAQs, and other publications and materials. And to keep this rapidly approaching deadline fresh in everyone's minds, we continue to work with our regulatory and industry partners by issuing our own reminders to industry.

As a result of all the work that is being done within the industry, at FinCEN, and in partnership with regulatory and law enforcement partners, the adoption of the new reports will prove extremely valuable to our shared fight against money laundering, terrorist financing, and other financial crimes.

Conclusion

My remarks today have focused extensively on the work being done by FinCEN's analytical team – not only their ongoing efforts, but where we are heading in the future. From the time I arrived at FinCEN, I have been continually impressed by the fascinating work our analysts are doing, and even more so, by their dedication each and every day to FinCEN's mission, and their desire to make a real difference as public servants.

I've been in government long enough to know that FinCEN's analysts can stand toe-to-toe alongside the best analysts in the federal government and around the world. And to be their champion as Director of FinCEN is an honor. It is gratifying to hear how passionately our analysts feel about their work. In their own words, here is what some of them have to say:

> *"Arriving at FinCEN as an analyst from the banking compliance sector opened up a whole new world for me. I was really excited to join FinCEN because for the first time I would be able to view and analyze all of the SARs associated with a case and gain a better understanding of how my SARs were being used by FinCEN, as well as our Federal, state, and local partners. My first assignment was to analyze the movement "repatriation" of U.S. dollar currency from Mexico and the players engaged in the wholesale banknote industry. This project relied heavily on my banking knowledge, but it also required me to work alongside law enforcement, regulators, and the financial industry in a whole new capacity. I*

learned how best to review and analyze BSA data, but more importantly, I was having a real-time impact on the fight against Mexican Drug Cartels and their ability to place large amounts of illicit dollars back into the U.S. financial system. It was amazing that as a new analyst I could make such a difference."

"As a career analyst, I truly enjoy coming to work every day here at FinCEN for many reasons, but specifically because I am challenged by analyzing the BSA, adding value to a law enforcement case, developing a methodology for how money is laundered through a specific industry, or identifying a money laundering network. I think the best way to describe my job is to imagine five different 1,000 piece puzzles mixed together in a pile. My job is to try and determine how to put together each puzzle, while not knowing how many actual puzzles are in front of me. It's truly a rewarding and satisfying experience once you've finished a "puzzle" and are confident that you know not only what you're looking at, but that you can explain it to others."

There is no doubt that we will never run out of puzzles to complete. And as the escalation of transnational criminal threats to the U.S. financial system has increased, so too has the imperative to ensure that FinCEN is fully maximizing its potential to disrupt this activity. I am hopeful that my remarks today have given you new insight into the team at FinCEN working to respond to these threats.

But we can't do it alone. Your financial institutions are the eyes and ears in the fight against terrorists and other bad guys. The BSA data starts with you. It is the key to our defenses and we are depending on you. I am committed to maximizing our ability to be effective partners and colleagues.

FinCEN is a critical partner in the fight against money laundering and terrorist financing. Our talented and dedicated team is committed to that mission. We have an incredible opportunity to serve the American public and to contribute to the safety of this country and the world. FinCEN will meet the challenges ahead working together with you, law enforcement, and our regulatory partners.

Thank you once again for inviting me here to speak with you today.

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