

Statement of
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Before the
Permanent Subcommittee on Investigations
Governmental Affairs Committee
United States Senate
July 15, 2004

Chairman Coleman, Ranking Member Levin and members of the Subcommittee, my colleagues and I appreciate this opportunity to discuss the supervisory and enforcement actions the OCC has taken against Riggs Bank, as well as the challenges that we and the other regulatory agencies face in combating money laundering and terrorist financing in the United States. I am joined today by Jennifer Kelly, Deputy Comptroller for Midsize and Credit Card Bank Supervision, and Lester Miller, Examiner-in-Charge at Riggs.

Since the passage of the Bank Secrecy Act in 1970, our nation's anti-money laundering laws have been vital weapons in the fight against drug trafficking, organized crime and other illicit activities. Today, in the aftermath of the 9-11 terrorist attacks, these laws take on special importance. As the OCC's Deputy Chief Counsel, I can tell you without any hesitation that the OCC is committed to denying terrorists and criminal elements access to our nation's financial system, and to ensuring that law enforcement agencies have the information they need to do their jobs.

Overall, the OCC's BSA compliance supervision has been effective, and we have had a number of important successes in this area. Perhaps most importantly, most national banks have strong anti-money laundering programs in place and some of our largest national banks have programs that are considered among the best in the world. Our examiners have also worked closely with law enforcement in major money laundering cases and we have coordinated with other regulatory agencies to maximize our impact.

The focal point of the OCC's work in the BSA area is the National Anti-Money Laundering Group, an internal task force that was formed in 1997. Among the Group's achievements is the creation of a program to identify high-risk banks for expanded-scope BSA examinations by agency experts. In addition, it has developed training programs and drafted handbooks and guidance for our examiners and for national banks. Our examiners recently provided assistance and training in anti-money laundering techniques to the Coalition Provisional Authority of Iraq and the World Bank is planning to use our anti-money laundering school as the basis for training bank examiners around the world.

While these are significant accomplishments, we are deeply troubled by the situation we have confronted at Riggs. As Comptroller Hawke has said, Riggs represents a failure of supervision and we agree that this Subcommittee's interest in Riggs is entirely appropriate. Comptroller Hawke ordered a top-to-bottom review of what went wrong at Riggs and set a September 1 deadline for our Quality Management Division to report back to him. We will provide the Subcommittee with a copy of that report as soon as it is complete.

We will know a great deal more about the situation at Riggs when the review is finished. What I can tell you now, however, is that it is clear that we should have been more aggressive in our oversight of Riggs' BSA and anti-money laundering compliance program. This is not a

situation where deficiencies in the bank's systems and controls were undetected. But we should have insisted on remedial steps much earlier and much more forcefully than we did, and we should have taken formal enforcement actions at a much earlier stage in the process. We also should have done more extensive probing and transaction testing of those accounts – as our own BSA examination procedures require. Finally, we did not fully appreciate the risks involved in the bank's embassy banking business and in certain other accounts handled by the bank, as well as the significance of the deficiencies in the bank's systems and controls.

The OCC discovered problems with Riggs' BSA and anti-money laundering program as early as 1997. However, the deficiencies we identified in those early years were not of the same magnitude as the violations that led to our Cease and Desist Orders and Civil Money Penalty in 2003 and 2004. The deficiencies we identified in the late 1990s involved problems with training, with the bank's information systems, with its internal monitoring process and with its BSA internal audit coverage. Overall, we found that Riggs' program was either satisfactory or generally adequate, which means that it met the minimum requirements under the law for a BSA program. Because the bank's management appeared willing to correct the deficiencies, we addressed them through a series of informal supervisory actions.

After the 9-11 terrorist attacks, the OCC escalated its efforts to bring Riggs' compliance program to a level commensurate with the risk profile of its business lines. As part of our supervisory response to the 9-11 attacks, we conducted a series of anti-terrorist financing reviews at large and high-risk banks, including Riggs.

During 2002, we also discovered suspicious transactions involving accounts controlled by former Chilean dictator Augusto Pinochet. We took quick action to ensure that the suspicious transactions did not recur in the accounts and we promptly notified law enforcement. The bank

also agreed to close the accounts. Our discovery of the Pinochet accounts was one of several events that year that prompted us to begin a more detailed review of the bank's BSA and anti-money laundering program.

The examination we began in January of 2003 focused on Riggs' embassy banking business and, in particular, on the Saudi accounts. The examination lasted for approximately five months and involved agency experts in the BSA and anti-money laundering area. It disclosed serious BSA compliance program deficiencies that resulted in the bank's failure to identify and report suspicious transactions occurring in the Saudi Embassy accounts. The findings from the January 2003 examination formed the basis for the July 2003 Cease and Desist Order.

Throughout this examination, we were in regular contact with the FBI investigators. We provided the FBI with voluminous amounts of documents and information on the suspicious transactions, and we hosted a meeting with the FBI to discuss these documents and findings. We also provided the FBI with expertise on both general banking matters, and on some of the complex financial transactions that were identified.

The OCC began its next examination of the bank's BSA compliance in October 2003. The purpose of this examination was to assess compliance with the Order and the USA PATRIOT Act, and to review accounts related to the Embassy of Equatorial Guinea. The examiners found that, as with the Saudi Embassy accounts, the bank lacked sufficient policies, systems, and controls to identify suspicious transactions concerning the bank's relationship with Equatorial Guinea. The findings from this examination, as well as from previous examinations, formed the basis for the OCC's recent Civil Money Penalty and Cease and Desist actions.

Our decision to impose a Civil Money Penalty on the bank was reached in close consultation with the Financial Crimes Enforcement Network, or FinCEN, which is the administrator of the Bank Secrecy Act, and which has specific authority under the statute to assess penalties for BSA violations. The \$25 million penalty is the largest ever monetary fine for BSA violations and it is particularly large for an institution of Riggs' size. This penalty will serve as a stern warning both to Riggs and to other financial institutions that the OCC and the United States government are seriously committed to BSA compliance.

While we believe that the current regulatory scheme generally works well with respect to banks, there is clearly room for improvement. We are already taking a number of steps to improve our BSA and anti-money laundering supervision. For example, together with the other federal banking agencies, we recently developed revised examination procedures for several key sections of the USA PATRIOT Act and we expect to be issuing a revised version of our BSA Handbook by yearend. We are making changes to our enforcement policy to emphasize areas where there is a statutory mandate to take enforcement actions under certain circumstances, such as the BSA area. We recently initiated two programs that will provide stronger and more complete analytical information to assist our examiners in identifying banks that may have high money laundering risk. And we are exploring how we can systematically capture BSA and anti-money laundering criticisms in examination reports so that we can track situations where no follow-up formal action has been taken. To this end, our Committee on Bank Supervision recently sent an alert to remind OCC examination staff of the need for vigilance in this vital area.

While these are all significant steps, prevention and deterrence of money laundering and terrorist financing cannot be accomplished by any one agency standing alone. Rather, better coordination and information sharing is needed among all of the agencies involved in the fight

against money laundering and terrorist financing, as well as on a cross-border basis. We live in a world where money launderers have become increasingly sophisticated, and terrorist financiers are particularly adept at engaging in transactions that are not detected by even the most sensitive software monitoring programs. Without greater information sharing, especially from law enforcement and intelligence agencies to banks and the bank regulatory agencies, and data analysis, detecting money laundering and terrorist financing could become an inefficient, ineffective exercise. We are very optimistic, however, that the new BSA Direct and other initiatives being undertaken by FinCEN will make substantial, positive changes in information sharing and data analysis.

The OCC is committed to taking an honest look at what went wrong with our supervision of Riggs and in taking steps to make sure that nothing like this happens again. We will continue to work closely and cooperatively with law enforcement, with our colleagues at the other financial institutions regulatory agencies and with members of this Subcommittee to ensure that our nation's financial institutions are not used as vehicles for money laundering, terrorist financing or other illicit activities.