



OFFICE OF THE
ATTORNEY GENERAL OF TEXAS

**Money Couriers,
Trade-Based Money Laundering
and Funnel Accounts
Used in Financial Criminal Activity**



Money Couriers and Trade-Based Money Laundering

- ▶ Traditionally, Drug Trafficking Organizations (DTO) have smuggled U.S. currency out of the United States into Mexico. However, due in part to new laws in Mexico, this trend has been changing.
- ▶ DTOs are now utilizing money couriers to repatriate the previously smuggled U.S. currency back into the United States.
- ▶ Additionally, DTOs are utilizing trade-based money laundering techniques to legitimize the proceeds of the illegal activities.



Recent Financial Regulation Change in Mexico (Slide 1 of 2)

- ▶ The Government of Mexico Finance Ministry enacted anti-money laundering changes.
 - Restricts amount of U.S. currency to be accepted by Mexican financial institutions.
 - \$300 day/ \$1500 month for Non-Bank Customer
 - \$4,000 per month by individual bank customers
 - \$14,000 per month by businesses in border or tourist regions
 - No limit if the business has had an account for 3 yrs.+

- ▶ The goal was to prevent laundering of USD through the Mexico Financial Institutions system.



Recent Financial Regulation Change in Mexico (Slide 2 of 2)

- ▶ This new financial policy is consistent with the government of Mexico's policy / strategy to confront organized crime.
- ▶ These regulations do not prohibit the deposit of USD over these amounts, but would require a CTR equivalent in Mexico for those deposits.
- ▶ Regulations also apply to money exchangers limiting the exchange to \$10,000 / day / customer when no banking activity is involved.
- ▶ Because of these new regulations, U.S. officials are attempting to determine where the displaced currency may move for integration into the U.S./Mexico financial systems.



Money From Mexico

- ▶ A study by Global Financial Integrity, a Washington, D.C.-based nonprofit, showed that \$872 billion of illegal money has flowed out of Mexico into the international financial system since 1970. The report points out that “the U.S. is, by far, the preferred destination of Mexican private sector deposits into current accounts, both licit and illicit.”
- ▶ A former mayor and certified public accountant said about 40 percent of the estimated \$13 billion in bank deposits in the Texas valley made annually are from Mexican nationals.



Money Laundering Process

Step 1 - Placement

- ▶ Traditionally, depository institution money laundering involves the placement of illegal proceeds into the financial system or retail economy.
- ▶ The goal is to avoid detection at the first and most venerable placement stage.



Money Laundering Process

Step 2 - Layering

- ▶ The second stage is layering, which is done to conceal or mask the source or ownership of the funds.
- ▶ This is accomplished by creating complex layers of financial transactions designed to disguise the audit trail and provide anonymity.
- ▶ Examples of these include dummy corporations, straw accounts, straw owners, etc.



Money Laundering Process

Step 3 - Integration

- ▶ Integration is the final stage in the process. Money is integrated into the legitimate economic and financial system and is assimilated with all other assets in the system.
- ▶ If illegal funds make it to this level of the process, it will become increasingly harder to make a case for money laundering.



Money Couriers (Slide 1 of 3)

- ▶ A recent trend utilized by the DTO is the use of money couriers to repatriate U.S. currency back into the United States.
- ▶ These couriers cross the border and will declare the currency on the CMIR form with Customs officials. Many of these couriers will indicate that they are going to purchase cars or other goods, and some will indicate that they are going to a bank to make deposits.
- ▶ The couriers have one thing in common – the ability to cross into the U.S. readily with a visa or border crossing card.



Money Couriers (Slide 2 of 3)

- ▶ Some of these money couriers have drawn the attention of Customs officials because they cross frequently with U.S. currency.
- ▶ These couriers could be subject to both state, federal and foreign regulations, based on the amount of money that they carry and the explanation for the activity.
- ▶ Couriers who indicate that they are going to a bank are making deposits into accounts that they have no ownership to or business relationship with.



Money Couriers (Slide 3 of 3)

- ▶ Some deposits are made into accounts that are business-related for goods to be purchased, or debits for prior goods or services.
- ▶ However, officials have observed that some deposits are being immediately wire transferred back into Mexico in the form of pesos.
- ▶ Deposits such as this could be the source for either trade-based money laundering or used in the Black Market Peso Exchange.



Black Market Peso Exchange (Slide 1 of 2)

- ▶ The Black Market Peso Exchange (BMPE) was a mechanism for drug cartels to maneuver around the financial reporting requirements in an attempt to launder the cash proceeds of narcotics sales within the United States.
- ▶ The BMPE facilitates the “swap” of dollars owned by drug cartels in the United States for pesos by selling the dollars to businessmen who are seeking to buy United States goods for export.



Black Market Peso Exchange (Slide 2 of 2)

- ▶ Originally developed by Colombian DTOs to circumvent restrictive Colombian policies regarding dollar/peso currency exchange
- ▶ DTOs arranged for dollar peso exchanges to occur with neither currency leaving the home country. Mexican DTOs use the same method to make use of drug proceeds that have been integrated in the U.S depository institutions.
- ▶ BMPE is considered as a form of trade-based money laundering.



Trade-Based Money Laundering (Slide 1 of 7)

- ▶ Criminal organizations use the international trade system to transfer value across international borders and disguise the illicit origins of criminal proceeds.
- ▶ Trade-based money laundering methods vary in typology from the most basic to very complex.
- ▶ Basic schemes include misrepresenting the price and quantity of goods and services (over and under invoicing) and invoicing the same goods or services more than once (double invoicing).



Trade-Based Money Laundering (Slide 2 of 7)

- ▶ In the past, a common method used for the initial placement of illicit funds into the financial system was structured deposits in the form of cash, money orders or other financial instruments.
- ▶ Money launderers are now employing diversified methods such as utilizing individuals or businesses that have control over numerous bank accounts, often spread over multiple financial institutions.



Trade-Based Money Laundering (Slide 3 of 7)

- ▶ Some of the following activities may be associated with trade-based money laundering. These may be directly linked to a misrepresentation of price, quantity or quality of merchandise involved in a trade transaction processed through a financial institution.
- Third-party payments for goods or services made by an intermediary (either an individual or an entity) apparently unrelated to the seller or purchaser of goods. This may be done to obscure the true origin of the funds.



Trade-Based Money Laundering (Slide 4 of 7)

- Amended letters of credit without reasonable justification
- A customer's inability to produce appropriate documentation (invoices) to support a requested transaction
- Significant discrepancies between the descriptions of the goods on the transport document (bill of lading), the invoice, or other documents (packing list, etc.)



Trade-Based Money Laundering (Slide 5 of 7)

- Negotiable instruments (such as traveler's checks, cashier's checks and money orders) in round denominations under \$3,000 used to fund domestic accounts or, alternatively, smuggled from the United States for placement into accounts at foreign financial institutions. The negotiable instruments may be sequentially numbered or purchased at multiple locations and may frequently lack payee information or contain visible broker markings or symbols. These negotiable instruments may also be used to pay for goods and services.



Trade-Based Money Laundering (Slide 6 of 7)

- International wire transfers received as payment for goods into U.S. bank accounts or processed through U.S. correspondent or intermediary accounts, especially where the ordering party (importer of goods) of the wire does not live in the country from which the wire originated.
- Wires where no apparent business relationship appears to exist between the originator and the beneficiary.
- Frequent transactions involving rounding or whole dollar amounts



Trade-Based Money Laundering (Slide 7 of 7)

- Sudden onset and equally sudden cessation of payments – typically wire transfers – within a short duration. This could be an indication that the account is temporarily being used to launder illicit proceeds.
- No one activity by itself is an indication of TBML; however, more evaluation should be considered.



Funnel Accounts (Slide 1 of 3)

- ▶ **Funnel Account - defined:**
 - An individual or business account in one geographic area that receives multiple cash deposits, often in amounts below the cash reporting threshold, and from which the funds are withdrawn in a different geographic area with little time elapsing between the deposits and withdrawals
- ▶ Criminal organizations use wires and checks issued from funnel accounts to move illicit narcotics proceeds to the accounts of businesses offering trade goods and services as part of trade-based money laundering.



Funnel Accounts (Slide 2 of 3)

- ▶ When goods are sold in Mexico, a DTO or its intermediary, termed a “money or peso broker” will contract with a U.S. or Mexican business owner to open a funnel account at a bank or credit union where they can readily receive cash deposits in multiple states. The peso broker directs the deposit of narcotics proceeds into the funnel account and makes payments for the purchase of U.S. and foreign goods.
- ▶ These goods are then shipped to Mexican businesses where they are sold for pesos. In essence, the drug trafficking organization has exchanged the U.S. dollar cash proceeds in the United States for Mexican pesos in Mexico through the use of a funnel account and TBML.



Funnel Accounts (Slide 3 of 3)

- ▶ The criminal actors can both repatriate and give a plausible source to the proceeds of illicit activity obtained in the United States through apparently legitimate business transactions.
- ▶ Additionally, individuals within the U.S. are being utilized as funnel account owners. These accounts received narco proceeds deposited in the U.S. and then the DTO will remove the proceeds via wire transfer or electronic check. The individual acct owner may or may not know that they are involved in illegal acts.



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