

# History of Anti-Money Laundering Laws

Money laundering is the process of making illegally-gained proceeds (i.e. "dirty money") appear legal (i.e. "clean"). Typically, it involves three steps: placement, layering and integration. First, the illegitimate funds are furtively introduced into the legitimate financial system. Then, the money is moved around to create confusion, sometimes by wiring or transferring through numerous accounts. Finally, it is integrated into the financial system through additional transactions until the "dirty money" appears "clean." Money laundering can facilitate crimes such as drug trafficking and terrorism, and can adversely impact the global economy.

In its mission to "safeguard the financial system from the abuses of financial crime, including terrorist financing, money laundering and other illicit activity," the Financial Crimes Enforcement Network acts as the designated administrator of the Bank Secrecy Act (BSA). The BSA was established in 1970 and has become one of the most important tools in the fight against money laundering. Since then, numerous other laws have enhanced and amended the BSA to provide law enforcement and regulatory agencies with the most effective tools to combat money laundering. An index of anti-money laundering laws since 1970 with their respective requirements and goals are listed below in chronological order.

## Bank Secrecy Act (1970)

- Established requirements for recordkeeping and reporting by private individuals, banks and other financial institutions
- Designed to help identify the source, volume, and movement of currency and other monetary instruments transported or transmitted into or out of the United States or deposited in financial institutions
- Required banks to (1) report cash transactions over \$10,000 using the Currency Transaction Report; (2) properly identify persons conducting transactions; and (3) maintain a paper trail by keeping appropriate records of financial transactions

## Money Laundering Control Act (1986)

- Established money laundering as a federal crime
- Prohibited structuring transactions to evade CTR filings
- Introduced civil and criminal forfeiture for BSA violations
- Directed banks to establish and maintain procedures to ensure and monitor compliance with the reporting and recordkeeping requirements of the BSA

## Anti-Drug Abuse Act of 1988

- Expanded the definition of financial institution to include businesses such as car dealers and real estate closing personnel and required them to file reports on large currency transactions
- Required the verification of identity of purchasers of monetary instruments over \$3,000

### Annunzio-Wylie Anti-Money Laundering Act (1992)

- Strengthened the sanctions for BSA violations
- Required Suspicious Activity Reports and eliminated previously used Criminal Referral Forms
- Required verification and recordkeeping for wire transfers
- Established the Bank Secrecy Act Advisory Group (BSAAG)

### Money Laundering Suppression Act (1994)

- Required banking agencies to review and enhance training, and develop anti-money laundering examination procedures
- Required banking agencies to review and enhance procedures for referring cases to appropriate law enforcement agencies
- Streamlined CTR exemption process
- Required each Money Services Business (MSB) to be registered by an owner or controlling person of the MSB
- Required every MSB to maintain a list of businesses authorized to act as agents in connection with the financial services offered by the MSB
- Made operating an unregistered MSB a federal crime
- Recommended that states adopt uniform laws applicable to MSBs

### Money Laundering and Financial Crimes Strategy Act (1998)

- Required banking agencies to develop anti-money laundering training for examiners
- Required the Department of the Treasury and other agencies to develop a National Money Laundering Strategy
- Created the High Intensity Money Laundering and Related Financial Crime Area (HIFCA) Task Forces to concentrate law enforcement efforts at the federal, state and local levels in zones where money laundering is prevalent. HIFCAs may be defined geographically or they can also be created to address money laundering in an industry sector, a financial institution, or group of financial institutions.

### Uniting and Strengthening America by Providing Appropriate Tools to Restrict, Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act)

[Title III of the USA PATRIOT Act is referred to as the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001]

- Criminalized the financing of terrorism and augmented the existing BSA framework by strengthening customer identification procedures
- Prohibited financial institutions from engaging in business with foreign shell banks
- Required financial institutions to have due diligence procedures (and enhanced due diligence procedures for foreign correspondent and private banking accounts)

- Improved information sharing between financial institutions and the U.S. government by requiring government-institution information sharing and voluntary information sharing among financial institutions
- Expanded the anti-money laundering program requirements to all financial institutions
- Increased civil and criminal penalties for money laundering
- Provided the Secretary of the Treasury with the authority to impose "special measures" on jurisdictions, institutions, or transactions that are of "primary money laundering concern"
- Facilitated records access and required banks to respond to regulatory requests for information within 120 hours
- Required federal banking agencies to consider a bank's AML record when reviewing bank mergers, acquisitions, and other applications for business combinations

#### Intelligence Reform & Terrorism Prevention Act of 2004

- Amended the BSA to require the Secretary of the Treasury to prescribe regulations requiring certain financial institutions to report cross-border electronic transmittals of funds, if the Secretary determines that such reporting is "reasonably necessary" to aid in the fight against money laundering and terrorist financing