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I wish to thank His Highness Sheikh Mohammed bin Rashid Al Maktoum, Tawfique Abdullah, CEO of the Dubai Metals and Commodities Center, and Eli Izhakoff and the other officers and members of the World Diamond Council for the opportunity to address this very important gathering. Opportunities like this to engage in dialogue underscore the importance of the ongoing dialogue and partnership between the diamond industry and governments of the world. This partnership is critical to identifying the possible ways in which criminals or terrorists may seek to exploit the most precious of stones, the diamond.

I think it is important at the outset to give you some background about myself and the agency I represent. I'm the Director of the United States Financial Crimes Enforcement Network – popularly known as FinCEN – which is an agency in the United States Treasury Department and the USA's financial intelligence unit. FinCEN's mission is quite simple – to safeguard the U.S. financial systems from the abuses imposed by criminals and terrorists. There are two points I would like to make about this mission that are, in my view, quite important. First, while FinCEN's mission is focused on protection of the U.S. financial systems, we recognize that this is a global problem. Finance today knows no borders. It is important that we first understand and then work with our colleagues around the globe to address the challenges that confront the global community. Second, we are not so arrogant that we pretend we can address this problem alone. We are acutely aware that we cannot be successful in our mission without assistance and commitment from the private sector.

At FinCEN our work begins through the administration of a regulatory regime premised on security and transparency. The United States' Bank Secrecy Act imposes controls upon the financial industry to

seek to protect the system from those seeking to abuse it. It is a “risk based” regime that mandates the industry to develop anti-money laundering plans custom tailored to address the industry member’s customer base and the business that it conducts. The Bank Secrecy Act also requires the reporting of suspicious activities and other important financial information to FinCEN. We collect and maintain that information and ensure that it is made available – under appropriate circumstances – to law enforcement and to other financial intelligence units around the world. In addition to making this information available, we analyze the information we collect – from both a tactical and strategic perspective. It is our hope that our analysis not only contributes to law enforcement’s work on issues relating to illicit finance, but also contributes to a better understanding by financial industry of the risks the industries we regulate face from illicit finance.

So, I am sure many are asking why the United State’s financial intelligence unit is addressing the diamond industry. I am here to do what one might expect – to give you an overview of Title III of the USA PATRIOT Act, landmark legislation passed in the wake of the September 11th attacks on the United States that enhanced our anti-money laundering regime and how that legislation will affect the diamond industry. But perhaps more importantly, I hope to highlight some of what we see as the vulnerabilities of the commodities trade – including the diamond and jewelry industry – to abuse by criminals and terrorists. Mr. Oppenheimer of DeBeers said it best this morning – foremost amongst the challenges facing your industry “is the vulnerability of the diamond and jewelry industry – as with other commodities – to misuse and abuse by criminals and the perpetrators of terror. . . . In a world where our personal security, that of our families and communities, is under a real and present threat, we must take notice and take action.”

I. Commodities and Money Laundering

Money laundering is a necessity for any profit-generating criminal activity and those that engage in it are always looking for the weakest points in whatever regulatory regime we erect. Not too long ago criminals in the United States favored dumping large amounts of cash into banks. But, as regulatory regimes and controls were put in place, and as the banking industry became aware of the problem, and as we continued to study the problem, we began to understand that criminals use other types of financial

institutions to launder their illicit funds, institutions such as securities brokers, casinos, or even insurance companies.

The illicit trade in commodities by criminals – including precious metals and stones – is an issue that has increasingly caught the attention of respective government officials. Within this context the use of precious stones and precious metals to launder illicit proceeds has further come to the forefront as being vulnerable to money laundering. To illustrate this vulnerability I want to briefly highlight an operation that illustrates how precious metals can be used to launder illicit funds.

In a recent U.S. law enforcement investigation certain narcotic traffickers in the New York area were identified as converting bulk cash proceeds into gold followed by the gold being smuggled to Colombia. Working in conjunction with corrupt jewelers, bulk cash was delivered to the jewelers in exchange for gold. Once converted, the gold was further moved to Colombia through couriers or smuggled by concealing the gold in various items and/or product. As a method to further disguise the gold prior to it being moved to Colombia, some of the jewelers molded the gold in the shapes of belt buckles, tools, bolts, etc. Once the gold was smuggled to Colombia, it was sold for pesos in order to fund additional narcotics trafficking.

The example I have just cited is noteworthy for two principle reasons: it is typical of a trade-based mechanism that characterizes the largest money laundering systems in the Western Hemisphere – something commonly referred to in our circles as the black market peso exchange system. Secondly, the criminal has managed to bring in a commodity in the quintessential currency for illegal black market trafficking throughout the world.

It is generally accepted that the black market peso exchange is a way that drug proceeds generated in the United States are laundered. In brief, drug proceeds are being used to fund the purchase of commodities such as appliances, alcohol products, cigarettes and electronics into Colombia from such markets as Aruba, Panama, Venezuela, Asia and the United States, with devastating consequences to Colombia's legal business community. The scheme has created a very uneven playing field for the legitimate businesses that are confronted with criminally financed commodities with a built-in competitive edge.

The need to address the black market peso exchange came not only from law enforcement but as importantly, from businesses that wanted a level playing field and to preserve the legitimacy of their trade. A number of companies argued that the time had come for these major corporations to exercise “due diligence” in their international dealings.

Crucial alliances began to form between the private and public sectors to tackle this systemic problem. Businesses, banks and law enforcement began a dialogue to devise solutions allowing law enforcement to go after the main perpetrators and beneficiaries of the scheme - the money brokers. At the same time, this dialogue prompted businesses to assess their own vulnerabilities to money laundering and address them. What many of the established companies did not want is their reputation tarnished by the activities of a criminal minority.

We believe the diamond industry could be confronted with a similar situation. And we believe the industry stands to benefit from a similar public-private partnership.

The very characteristics of the diamond that make it so valuable may also be the characteristics that make it appealing to criminals and criminal networks. Diamonds have relatively stable prices and can pass undetected across borders and through customs. They can serve as an international medium of exchange and are easy to buy and sell outside the formal banking system. You are all aware of the widely published studies of the use of diamonds by terrorists by NGOs and journalists. Although evidence to prove the connections between diamonds and terrorists is still being developed, we are receiving enough information from government agencies, private concerns and the industry to warrant a closer examination of the problem.

Just as countries around the globe have made significant progress in implementing financial transparency, I believe we must begin a cooperative effort aimed at addressing issues related to trade transparency. Any such effort should – in my view – be taken collaboratively with the private sector. Your industry can be proud of the efforts taken to address the terrible problems associated with conflict diamonds. The Kimberly Process is a very important step to begin to add transparency in the trade of rough “conflict” diamonds. We believe efforts to add transparency to other aspects

of the diamond trade should be pursued – and let me submit to you that it is in your interest to add transparency to the legitimate diamond trade. Such transparency will focus law enforcement and other government’s efforts where it should be – on the illegitimate trade – particularly on any such trade involving terrorists, or their financial facilitators.

II. The US Regulatory Regime

In the United States, our principal focus over the past two years has been implementing the sweeping changes to our anti-money laundering regime occasioned by the USA PATRIOT Act. Generally, the Act sought to accomplish the following: first, to enhance our ability to share information important financial information; second, to protect the international gateways to the U.S. financial system, the correspondent account; third, to prescribe uniform customer identification verification procedures for all financial institutions opening accounts; and fourth, to expand our anti-money laundering regime to all categories of financial institutions whose services may be abused by money launderers or terrorists.

The Patriot Act required us to expand our basic anti-money laundering regime to a wide range of industries that had previously not been subject to regulation. This includes dealers in precious metals, stones or jewels. While new to the US, regulation of this industry is not new to our European colleagues: European Union Directives as well as most European Union member and accession countries have already established regulations addressing this sector. The decision to expand our regulatory regime to include these industries is based in large part on the assessment that these industries are potentially vulnerable to abuse and the experience of law enforcement.

We have issued for public discussion and comment a regulatory regime that will require dealers in precious metals, stones or jewels to establish anti-money laundering programs. The proposed regulation would require dealers to have a written anti-money laundering program that is reasonably designed to detect and prevent money laundering or the financing of terrorism. Our focus in the proposed rule is on those businesses in the United States that both buy and sell the items. For example, a pure retailer, regardless of size, that purchased its stock solely from dealers subject to our proposed rule, would not itself be subject to our proposed rule. We sought to tailor our regulation to those businesses that engaged in the type of

transactions that may be susceptible to abuse. If criminals purchase diamonds or gems, they eventually have to sell them or trade them; this is our focus.

Our approach to anti-money laundering regulation is risk-based. We believe effective implementation must be predicated upon an institution's careful assessment of its vulnerabilities to money laundering and other financial crime. This is especially important in this industry. You know your business better than we ever will. As a result, we ask that you build an anti-money laundering program that makes sense for your institution and its customers. FinCEN expects each institution to assess its vulnerabilities according to its lines of business, types of customers, and geographic locations served.

Our approach requires a commitment on behalf of the industry. The industry must – from the very top of the organizations – seriously assess the risks it has for money laundering and other financial crime. Then the organization must design and implement a plan – within the guidelines and guidance provided by the regulator – that will address and minimize those risks. While this approach is, in some ways, more challenging for the industry, it results in a regulatory regime that ultimately imposes less burden and operates more effectively.

Equally as important to the success of a risk-based regulatory regime is that the regulator must provide constant and consistent regulatory guidance– formal and informal – using every technology available to us to reach the regulated industry. In other words, we have a responsibility under this approach to provide you with “guideposts,” within which you can design your program. More importantly, the regulator under this system must share information about risks and vulnerabilities faced by the industry it regulates. An industry cannot be expected to design an anti-money laundering program custom tailored to address risks, if the industry does not know what those risks are. That is our job and it will not be easy. It also requires that our regulatory regime must never become static. We must continually critically assess our regime and ensure that it addresses – in the broadest sense – the risks posed to our system.

Your industry should be commended for taking a proactive approach working with the NGO community to address a number of other very serious issues surrounding the diamond trade. To your credit, you and your leaders

acknowledged that specific failings and weaknesses exist and can be exploited, and there is an urgent need to grapple with the issues and preserve the integrity of the industry. Please know that you have my commitment and the commitment of my agency, to work with you cooperatively and collaboratively to proceed together to address the risks associated with the illicit diamond trade – particularly those risks posed by those who would facilitate terror.

The word diamond stems from the Greek word adamas that means “unconquerable.” Diamonds are truly unconquerable – not only for their indestructibility, but even more for what they represent when given to a loved one. I look forward to working with all of you to continue to safeguard the integrity of this industry.

Thank you very much.