

THE ROLE OF FINANCIAL INSTITUTIONS IN LAUNDERING MONEY
FOR THE MEXICAN DRUG CARTELS

by

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Abstract

The rise of Mexico's drug trafficking organizations (DTOs) has increased to great levels due to the vast sums of money that these illicit businesses generate. These organizations are forced to constantly search for ways to launder their profits. The purpose of this capstone is to evaluate the role of Casas de Cambios and Money Services Businesses in the fight against money laundering. The intent behind this capstone is to shed light on how these businesses are used as vehicles to launder the DTOs' cash. The research suggests that Casas de Cambios are poorly regulated in Mexico. This project documents how U.S. Government organizations such as the Financial Crime Enforcement Network (FinCEN) and Financial Action Task Force (FATF) have proven to be important in providing data to regulators and law enforcement to combat money laundering. Changes made to anti-money laundering laws and regulations have proven to be important tools in combating illicit practices. It is revealed that although the US is continuously revising their anti-money laundering regulations, the same cannot be said for Mexico and that there is a need for cooperation between the countries in order to restrict this ever-growing problem. The lack of transparency present in Mexico makes it even more difficult to determine if existing laws are having any effect in combating this crime. The proceeds from drug trafficking contribute to the drug war and the violent crimes committed by the DTOs. Recommendations to the Mexican Government are made regarding ways to identify money laundering and create processes for effectively combating future crimes.

Keywords: Economic Crime Management, Dr. Shannon Johnson, training, fraudulent.

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Introduction

Drug trafficking in the US generates significant profits for criminal organizations. International criminal drug organizations use various methods and routes to transport their products into the US. The U.S. State Department estimated that upwards of 90% of all of the cocaine consumed in the US comes from Mexico (Stastna, 2013). For decades criminal groups from Mexico and other Latin American countries have smuggled different types of drugs across the southwest border of the US. The amount of profits deriving from drug trafficking varies from source to source, although some analysts estimate that drug trafficking from Mexico is worth about \$13 billion a year (Stastna, 2013). The profits from the sale of narcotics and other illegal activities such as extortion, kidnapping, and human smuggling are then laundered in order to finance further crimes. These drug trafficking organizations (DTOs) often use US financial institutions as a means to launder their illicit funds.

U.S. banking institutions are often accused of being involved in the laundering of the profits generated by the sale of drugs. There are also other smaller financial institutions such as Casas de Cambios (CDCs) in Mexico and Money Services Businesses (MSBs) in the US that are integral in the process of laundering large amounts of currency. CDCs and MSBs may be used as intermediaries for the transferring of the illegal funds. After the funds have been introduced into the financial system, it is easier to move money into other financial institutions as well as accounts of legitimate businesses that transfer money, thus making it difficult to ascertain the origin of the currency.

Types of Financial Institutions

The Financial Crimes Enforcement Network (FinCEN, n.d.b) is assigned with the mission to safeguard the financial system from illicit use. It does this by collecting, analyzing,

and circulating financial intelligence. FinCEN also receives, maintains, and protects all data regarding all financial transactions filed by institutions under FinCEN's reporting requirements. FinCEN defines a financial institution as any person doing business in the capacity of a bank, casino, money services business, or broker or dealer in securities of the following capacities.

Commercial banks. Commercial banks are institutions that offer a vast array of transactions to their customers and handle their everyday financial needs. This type of institution offers customers safety on their deposited money. The deposits are insured by the Federal Deposit Insurance Corporation (FDIC). Some of the services offered by commercial banks include wire transfers, deposit accounts to safeguard the client's money, and processing loans. Commercial banks are the most extensive source of financing for assets investment (Federal Financial Institutions Examination Council [FFIEC], 2010). Despite the trend of globalization in recent years, the role of banks varies depending on the type of economy it serves. Banks in the US are heavily regulated by the federal government, and foreign banks must abide by US regulations and restrictions.

Money Services Business. A Money Services Business (MSB) is defined by FinCEN (2014b) as a person doing business, whether or not on a regular basis or as an organized or licensed business concern, wholly or in substantial part within the United States in the capacity to issue, sell, or redeem money orders and traveler's checks. MSBs also transmit money, cash checks, and deal in foreign exchange currency in amounts less than \$1,000 a day per transaction (FinCEN, 2014b).

Broker or dealer in securities. A broker or securities dealer is in the business of buying and selling securities. The person may act as a dealer, a broker, or both and conducts orders on behalf of the client's trading on the account or accounts of said client. Brokers are those

individuals who are engaged in the business of carrying out transactions in securities on behalf of their clients. These individuals and organizations are under the supervision of the Securities Exchange Commission (SEC) and are required to be registered by said institution as per the Securities Exchange Act of 1934 (FFIEC, 2010).

This project will focus on the role that MSBs and Casas de Cambios play in laundering the illicit profits of Mexican drug cartels. Casas de Cambios are foreign currency exchange companies. Although these U.S. businesses share similarities with those in Mexico, the Casas de Cambios located in the US are generally very small MSBs and have no affiliation with Casas de Cambios located in Mexico (Kobor, 2007). Customers use these facilities in order to exchange their local currency for U.S. dollars. MSBs such as Western Union and MoneyGram allow customers to send currency to other locations for retrieval by an intended recipient (Kobor, 2007).

Casas de Cambios. Casa de Cambios is a money exchange facility, enabling the remittance of international payments to private individuals or companies. This capstone project refers to Mexican Casas de Cambios. These organizations have differing functions than those of MSBs in the US and act as brokers for financial transactions where cash is exchanged from one currency to another. Casas de Cambios are not considered financial institutions in Mexico the way that banks are and instead serve as an integral element of the money laundering process.

Money Laundering

The International Criminal Police Organization (Interpol) defines money laundering as any act or attempted act to conceal or disguise the identity of illegally obtained proceeds so that they appear to have originated from legitimate sources (Interpol, 2014). Money laundering also involves moving the illegally generated funds to make them appear as legitimate sources around

the world and exploiting legitimate businesses and financial institutions by damaging their integrity and reputation. By this the funds remain concealed and are integrated into legal businesses and then into the economy. Money laundering can take place in connection with a variety of crimes such as theft of checks and credit cards, securities fraud, human trafficking, market manipulation, and wire transfers. Money laundering consists of three stages, which include placement, layering, and integration. Once these steps have occurred, the laundered funds appear as legitimate. Monies in the financial system are monitored, and their influence is visible in the global economy.

According to the Financial Action Task Force (FATF), the United Nations Office on Drugs and Crime conducted a study where it was determined that about 2.7% of the global Gross Domestic Production (GDP), consisting of US\$1.6 billion, was laundered globally (FATF, n.d.b). The International Monetary Fund calculated the amount laundered between 2% to 5% of the world's GDP. Most recent estimates place the flow of money laundered at up to 10% of the global GDP (FATF, n.d.b). These staggering numbers indicate a large and growing influence that criminal organizations have on our global economy.

Money laundering is a serious problem in the US as well as around the world. The global financial system is different in many aspects from what it was 20 years ago, and no segment of the global banking system is exempt from illegal activities such as money laundering. Money laundering usually occurs in three different stages: placement, layering, and integration of cash into legitimate businesses (FATF, n.d.b). In order for criminal organizations to give the appearance that their proceeds were obtained legally, the three stages in the money laundering process are followed.

Placement. Placement is the initial movement of cash from its original source. The placement of the proceeds of a crime is done in a number of ways to disguise or conceal the source of funds. A method often used is that of depositing structured amounts of cash under the reporting limits of \$10,000 by several people known as smurfs or runners. The purpose of this action, known as smurfing, is to evade the regulatory reporting requirements. Another form of placement is when financial institutions that are controlled by individuals of low character illegally obtain funds, which can be placed into the corrupt institution without question. Other forms of placement include the comingling of the cash with other legitimate cash intensive businesses. These types of businesses can be restaurants, beauty parlors, liquor stores, and retail stores (FATF, 2014).

Layering. The layering stage of money laundering is the most complex and can be referred to as structuring. A common known way of layering is the conversion of cash into monetary instruments such as money orders or bank drafts. Another method of layering used is through the purchase of assets with cash followed by the sale of the recently purchased assets. The funds generated by the sale of the assets appear as a legitimate transaction. The purpose of layering is to make the detection of the laundering activity difficult as well as to separate the illicit money from the source. Layering also makes it harder for law enforcement to seize funds by legal proceeding (FATF, 2014).

Integration. Integration is the final stage of the money laundering process and consists of the allocation of the previously laundered money into the economy. Integration is achieved by depositing, lending, and spending the cash obtained. If deposited into the banking system, it provides the funds with the appearance of legitimate business earnings. Some of the most common methods of integration are property dealings, which involve using shell companies to

buy property. Other examples of integration include foreign bank complicity, which includes willing assistance of foreign banks, making it much more difficult for law enforcement to investigate, and the use of false import/export invoices, which have proven to be an effective way of integrating illicit proceeds back into the economy (Naim, 2005).

Regulation

MSBs can range from large sophisticated chains, with operations that cover several states and provide a wide range of financial services, to one small storefront that provides few financial services. MSBs are required to register in the US with the Department of Treasury and are regulated by the Office of the Comptroller of the Currency (OCC). As a requirement of the OCC, MSBs also have to maintain an anti-money laundering program. The complexity of the establishment as well as the risk profile vary depending on the size of the MSB. The Bank Secrecy Act (BSA) determines that the responsibilities of the MSBs will vary depending on the type of activities the MSBs conduct. As stated previously MSBs are required to implement an effective anti-money laundering program, the reason being to prevent the MSBs from being used to facilitate money laundering (Rules for Money Services Businesses, 2011). MSB's anti-money laundering programs must contain policies, procedures, and internal controls designed to ensure that compliance is effective and ongoing. A designated individual ensures the implementation of day-to-day compliance of the program and provides required training to staff. In order to ensure success of the program, there must also be periodical monitoring conducted by an independent reviewer who confirms that reports are filed properly and records are retained (Rules for Money Services Businesses, 2011). MSBs that are large and complex are more likely to implement internal controls for compliance with BSA regulations.

Casas de Cambios in Mexico work under the authorization of the Secretaría de Hacienda y Crédito Público and are regulated by Mexico National Bank. Their supervisory body is the Comisión Nacional Bancaria y de Valores, which is the Mexican equivalent of FinCEN in the US. It is delegated to preserve the financial system from illicit use and to combat money laundering. It is imperative that policies that support integrity of the system through the collection, analysis, and dissemination of strategies and financial intelligence be implemented by this organization in order to further combat anti-money laundering. These governing bodies may look to the various law enforcement agencies in the US for support in policy making that is used to monitor further illegal activities.

Cases involving money laundering are investigated by several law enforcement agencies in the US such as the Internal Revenue Service (IRS), the Federal Bureau of Investigation (FBI), Customs and Border Protection, and the U.S. Postal Inspector. These are only some of the federal law enforcement agencies that investigate high value cases of money laundering. Other cases of low monetary value may be investigated by local law enforcement agencies. The convictions vary depending on an array of circumstances. As seen in the case of US v. Datta, some convictions may have a severe impact on a company's existence.

Vikram Datta owned multiple retail perfume stores located along the US-Mexico border, and in September 2011 he was found guilty of conspiracy charges to launder. Datta was convicted of laundering millions of dollars for a Mexican narcotics organization. According to court documents, Datta operated a business that sold large quantities of perfumes to Mexican purchasers. He accepted millions of dollars in cash generated from drug sales in the US - Mexican money exchange businesses that purchased the drug proceeds in exchange for Mexican pesos at a steep discount compared to the prevailing interbank exchange rate. The exchange

businesses later transported the drug proceeds back into the US and used them to purchase perfumes from businesses, including the one owned by Datta, which was located in Laredo, Texas. The businesses would then ship the perfumes to purchasers in Mexico. Datta admitted to receiving more than \$25 million in cash from the Sinaloa Cartel, deposited into bank accounts that he owned. He frequently failed to file financial reports concerning cash transactions that were required by the Bank Secrecy Act (IRS, 2012).

Purpose of this Project

The purpose of this paper is to evaluate the impact that money laundering has on banking institutions in the US and Mexico with a focus on CDCs in Mexico and the MSBs in the US as a conduit for money laundering. This capstone project will examine how newly enacted regulations by their respective governments have succeeded in detecting and preventing the movement of illicit funds from Mexican drug cartels. Furthermore, the paper will also review available data for indications if there is still a need for stronger laws and more regulations. In addition, it will review information to determine what type of economical impact the new anti-money laundering regulations imposed is having on Mexico's economy. Research will be done in order to learn what recommendations can be made to the Mexican government to investigate money laundering in a more effective way and to identify what red flags exist in identifying this type of crime. It is important to examine this information and ascertain if Mexico and the US are being compliant with anti-money laundering standards established by the Financial Action Task Force (FATF).

Literature Review

Money laundering is a global event, but it is the growing dominance in recent years of Mexican drug trafficking organizations (DTOs) that has given Mexico and the US grave reasons of concern. The laundering of funds originated from the sales of narcotics has long been a major interest for the US. The manner in which these criminal organizations launder their funds creates a burden on financial institutions' ability to operate. This has occurred at the same time that the US has enhanced anti-money laundering regulations, especially after September 11, 2001. While the US had strengthened regulations applicable to financial institutions as recently as 2001 with the USA Patriot Act, Mexico had enacted their own anti-money laundering regulations in 2010 followed by some significant changes in October 2014. Due to the stricter rules, Mexican cartels have been forced to create ways to use commercial banks to launder their profits and depend less on Casas de Cambios (Farah, 2011). Money laundering can have catastrophic effects on the solidity of financial institutions and produce unpredictable capital flows and exchange rates. Another consequence of money laundering is that from the economic perspective it could reduce tax revenues, which often hinders legitimate businesses and undermines financial institutions. This threat produces several challenges to the governments of Mexico and the US (Schroeder, 2001).

Money laundering is a crime based on deception through the moving of funds obtained by illicit means. The fundamental idea of money laundering is the concealment of illegally obtained money that makes it appear as if acquired by legitimate means. Money laundering can occur in connection with a wide variety of crimes such as wire, credit, check, mail, and securities fraud; public corruption; human trafficking; and insider trading. Many money-laundering statutes have been enacted over the years by the U.S. Government in an effort to curtail such activities.

These statutes were originally enacted as a means to counter narcotics trafficking but now apply to a vast array of other crimes. The substantial amount of cash that drug trafficking generates has to be laundered so that the illicit gains can be legitimized. An effective anti-money laundering strategy will reduce the negative impact that drug trafficking organizations from countries like Mexico and Colombia have on U.S. society. The same strategy can be effective to obstruct the illegal proceeds from other illicit activities (Ferragut, 2012). One of the ways that drug trafficking organizations launder their money is within the financial sector.

In the US Money Services Businesses (MSBs) such as Western Union and MoneyGram are licensed by the states in which they operate. The states in which they operate are also responsible for all day-to-day supervision that may be required due to regulations (Western Union, 2011). MSBs are subject to the Bank Secrecy Act just like other regulated financial institutions. However, in Mexico Casas de Cambios, which are regulated by the Mexican Finance Ministry and Secretaría de Hacienda y Crédito Público de México (SHCP), are not as heavily regulated as they are in the US. They have been identified by the Drug Enforcement Administration (DEA) as one of the major money laundering threats relating to the moving of drug proceeds to Mexico (DEA, n.d.).

One of the most well known MSBs is Western Union. The company has existed for 160 years and serves an important role through its function of sending and receiving money around the world in a fast and reliable way (Western Union, 2014). Other services offered are the purchase of money orders and allowing payments directly to bank accounts. Western Union completes person-to-person money wire transfers to more than 200 countries around the world (Western Union, 2014). In 2010 Western Union settled with the state of Arizona and three other border states after allegations surfaced that the company did not have acceptable anti-money

laundering controls in place despite it spending over \$100 million a year to comply with government anti-money laundering regulations (Western Union, 2010).

Just like banks, MSBs are susceptible to misuse by money launderers who intend to use financial organizations to support their activities. According to testimony from its Chief Compliance Officer Cachey, Western Union already employed approximately 325 people on anti-money laundering compliance at the time of the investigation (CHRG107: Regulation of Money Services Businesses, 2010). Since MSBs already work under a complex mixture of regulations, it is doubtful that additional regulations will result in more efficiency. MSBs are subject to the Bank Secrecy Act and with few exceptions must register with the Department of Treasury; therefore, MSBs are required to have an efficient anti-money laundering (AML) program. The program must be effective in preventing MSBs from being used by criminals to launder their funds (IRS, n.d.). There is a three-step process that criminals use to launder their gains obtained from illegal activities.

The Process of Money Laundering

All three stages of money laundering – placement, layering, and integration – are difficult to accomplish without detection. According to experts, the riskiest part of the process is the placement of the illicit funds because the funds have not yet been introduced into the financial system. Since AML controls have become increasingly complex, narcotics traffickers do not often make cash deposits at their local banks. A common method used by criminals is placing their cash into cash-intensive businesses such as restaurants, liquor stores, parking garages, and cigarette distributors. At this stage the dirty money is mixed in with the income originated from the legitimate business and deposited in a bank (Skalak, Golden, Clayton, & Pill, 2011).

After the cash has been successfully integrated into the financial system, the funds are

then layered by purchasing goods of high value such as real estate, luxury vehicles, or jewelry. At this point the launderer could also initiate a series of transactions to hide the origin of the funds. In the case of the Mexican traffickers, the transaction can be moved electronically from one country to another and subsequently transferred out into a corresponding account at a foreign bank to further camouflage the illegal source of the funds. The main purpose of this stage is to separate the illicit money from its source. Some of the transactions used during the layering stage can vary from wire transfers, payment of loans, and purchases of cashier's checks.

The final stage in the process of money laundering occurs when the funds are returned to the criminal from what appears to be a legitimate source (Skalak et al., 2011). This is accomplished after the laundered funds are extracted from the financial institution under the guise of legitimacy. There are several red flags that an employee or agent of an MSB can recognize at the beginning phase of money laundering, during the placement stage. Indicators such as unusually large cash transactions, unnecessary routing of funds by third parties, a customer receiving and sending funds to himself, and a customer using the service provider for no apparent reason are only a few of the red flags (FATF, 2010).

If the funds were undetected during the placement stage, several financial transactions designated by the launderer can be used so that the trail can become more difficult to trace. Wire transfers, sometimes out of the country, are often used so as to be protected by privacy laws allowed by other countries. A lack of concern for losses on investments and commissions is a red flag. The final stage in this process of money laundering is commonly known as integration, which is when the funds have made their way into the economy. The money launderer would have set up a large portion of his funds into personal assets such as jewelry, real estate, vehicles, and financial investments, among others. Some of the other illegal funds are converted into

negotiable tools such as money orders and cashier's checks and can be used immediately if needed. As illustrated in Figure 1, money laundering occurs in three steps.



Figure 1. Stages of Money Laundering.
Retrieved from <http://www.operationalriskinstitute.com/aml/wp-content/uploads/2014/01/money-laundering-stages.jpg>

The Impact of Laundering Drug Money in the United States and Mexico

Money laundering has wide ranging negative impacts in the US and Mexico. It facilitates not only the proliferation of many types of crime but terrorism as well. Mexico and the US share more than just a border. Transnational organized crime both in the US and in Mexico presents a significant threat to the global financial system and the security of both nations. Moreover, it threatens the credibility of international financial institutions and undermines the financial system.

Several banks in Mexico and the US have recently been fined for conducting ineffective monitoring of suspected transactions. Wachovia, acquired by Wells Fargo, admitted in 2008 that it neglected to detect and report approximately \$378 billion laundered for the Mexican drug cartels (Webster, 2013). U.S. authorities uncovered billions of dollars in wire transfers, traveler's

checks, and cash shipments through Casas de Cambios in Mexico. Bank of America was also accused of allowing drug traffickers to conduct transactions in Oklahoma on accounts that were used to buy planes involved in cocaine transport to the US. Both banks were investigated by the U.S. Justice Department for handling transactions for Mexican currency-exchange houses on behalf of Mexican drug cartels (Webster, 2013).

During a visit to Mexico, then Secretary of State Hillary Clinton said, “Our insatiable demand for illegal drugs fuels the drug trade, and the US bears shared responsibility for drug-fueled violence sweeping México” (Conde, 2010, para. 1). Clinton was referring to the 70% of narcotics that reach the US each year, which enter through Mexico; it is estimated that 90% of the cocaine consumed enters through México. According to Webster (2013), there is a correlation between money laundering by the banks HSBC, Wachovia, and Bank of America and the more than 100,000 people that have been killed in Mexico since 2004. When the banks are laundering the funds of the cartels, the same banks are financing the deaths. It is because of the large consumption of drugs in the US that the drug cartels in Mexico are in constant war in order to control the market; the use of narcotics costs the U.S. economy as much as \$215 billion a year between the street crime, courts, prison, hospitals, and loss of productivity (Webster, 2013). According to a study conducted by the National Institute on Drug Abuse (n.d.), 42% of the population in the US has used marijuana while another 16% has tried cocaine (Conde, 2010).

Mexican cartels often fight over control of the routes used to transport drugs into the US. The largest and most notoriously violent cartels in Mexico are the Sinaloa Cartel, the Gulf Cartel, the Juarez Cartel, the Tijuana Cartel, and the Zetas. Mexico has very strict gun laws, and most of the guns smuggled into Mexico are from the US. The violence has intensified in recent years due to the crackdown on these cartels imposed by the Mexican government under President

Felipe Calderon. For decades Mexico and the US have pursued very different anti-drug strategies. While the US looked to eradicate the drugs entering the country, Mexico's policy was that of willful blindness (González, 2009).

Former Homeland Security Secretary Janet Napolitano and Attorney General Eric Holder called Mexico's drug trafficking organizations a national security threat to the US (Archibold, 2009). Archibold (2009) was referring to the spread of operatives from Mexican drug cartels and drug trafficking affiliates to 230 cities in the US. There are some cities that have seen an increase in drug-related crimes, which appears to be the result of the crackdown on Mexico's four major drug cartels.

The State of Arizona Attorney General Terry Goddard urged President Obama to intensify efforts to secure the border with Mexico. According to Mora (2012), the amount of drug-related casualties since Mexican President Felipe Calderon began a military-style crackdown on the cartels in December 2006 has surpassed 47,500 deaths. There are currently seven major drug cartels operating in Mexico with some other smaller groups that have split from them. According to Figure 2, all of Mexico appears to be under the control of at least one major drug cartel. Geographically, Los Zetas and Sinaloa Cartels appear to control the largest territory.



Figure 2. Mexican Cartel Territory Map. Borderland Beat. Retrieved from <http://www.borderlandbeat.com/2013/06/bar-heaven-mass-kidnapping-tepito-12.html>

Mexico’s Attorney General Jesus Murillo Karam claimed in December 2012 that there were as many as 60 to 80 smaller to mid-size drug trafficking organizations operating in Mexico (Associated Press, 2012). The reality may be that it is unknown how many cartels actually exist in Mexico, but the same article alluded to a report released by the previous administration of President Felipe Calderon where only eight cartels were named in August 2012 (Associated Press, 2012). The statements given by the Attorney General of Mexico opposed the actions taken by the previous administration in their handling of the drug organizations and partially blamed the strategy as having caused much bloodshed in Mexico.

Mexico

Mexico, or the United Mexican States, is one of the largest countries in North America. It is located south of the US and north of the Central American countries of Guatemala and Belize. The population of the country has grown more than six times than that of its population size in 1910 (Cline, 2014). There are no concrete estimates of the population of Mexican illegal migrants who have migrated to the US since the late 1970s, but there are estimates that between 8 and 13 million Mexican citizens migrated to the US during that period (Cline, 2014). The remittances sent by the Mexican workers, especially from the US, provide billions of dollars in relief to the Mexican economy each year (Cline, 2014). MSBs and CDCs are the organizations of choice to send money by Mexicans in the US. Mexico receives a total of \$22 billion in remittances from the US each year, making it the largest recipient in Latin America (Mallen, 2013) and second only to oil as the largest source of foreign currency. The U.S.-Mexico border is nearly 2,000 miles long, sharing a border with Arizona, California, New Mexico, and Texas. Arizona alone shares approximately 380 miles with Mexico (Lee, et al., 2013).

Mexico's Drug Cartels

In January 2014 a reporter for International Business Times reported the top five most violent drug cartels in Mexico, including the Sinaloa Cartel, Knights Templar, and the Zetas, among others. The gangs of drug traffickers were labeled cartels after they started fighting each other for control of the drug smuggling territory and their operations, which caught the attention of the Mexican government and the US. The Mexican government has often found itself powerless against the violence since the network of the cartels is expansive, elaborate, and ever growing. The fighting for territory and resources has also driven the cartels to intensify the violence (Iaccino, 2014). The cartels and their areas of influence are briefly described below.

Sinaloa Cartel. The Sinaloa Cartel is also known as the Guzmán-Loera Organization, Pacific Cartel, and Blood Alliance. According to US intelligence, the Sinaloa Cartel is considered the most powerful drug trafficking organization in the world (Iaccino, 2014). The cartel has a presence throughout 17 states in Mexico and maintains a large presence in Central America and South America in the countries of Argentina, Brazil, Chile, Colombia, Costa Rica, Guatemala, Honduras, Nicaragua, and Panama (Leicht, 2014). There are reports that the group also has operations in several U.S. states such as New York, Arizona, Washington, New Mexico, and Nevada. Under the leadership of Joaquin “El Chapo” Loera, the Sinaloa Cartel has become one of the most powerful cartels in the world and is primarily involved in the smuggling and distribution of Colombian cocaine, Mexican marijuana and methamphetamines, and Mexican and Southeast Asian heroin (Leicht, 2014).

The Knights Templar. The Knights Templar was created in 2010 after a split from La Familia Michoacána. This cartel is based in the Mexican state of Michoacán (Leicht, 2014). It is believed that the name was adopted from the Templar order of the Middle Ages that once safeguarded Jerusalem (Iaccino, 2014). When the group was first formed, they claimed that they intended to protect the community in Michoacán, which is located in the midwestern part of Mexico. They maintain that they want the best for the community and this is the reason why they round up drug users and enroll them in rehabilitation centers sponsored by the organization despite their drug activities (Leicht, 2014). The group also has rules for its members that they have to abide by. Members that fail to follow the rules risk their own lives and the lives of their families (Iaccino, 2014).

Los Zetas. Los Zetas is allegedly the deadliest and largest of Mexico's drug cartels, with control of 11 states in the country (Leicht, 2014). The group also has operations in Guatemala, Italy, and the US, specifically in the state of Texas. Their leader, Omar Trevino Morales, has organized camps to train recruits for his operation. On his payroll he has corrupt former federal, state, and local police officers. The group separated from the Gulf cartel in 2010 and is considered the most sophisticated due to having recruited in their ranks the services of former members of Kaibiles, the Special Forces commandos of the Guatemalan military (Leicht, 2014).

Jalisco New Generation Cartel. Jalisco New Generation, also known as CGNJ or Mata Zetas, was founded in 2009 under the pretense that they were organizing to rid Mexico of corruption and violence. The group is attributed with the killing of 36 people on October 6, 2011, and 67 others on the following day (Iaccino, 2014). The group is currently involved in a bloody fight with Los Zetas for control of the states of Guadalajara, Jalisco, and Veracruz. The organization's name is translated from Spanish as the Zeta killers, and the group is accused of perpetuating many massacres, including the 2011 massacre where the bodies of 35 corpses were found near a shopping mall in the town of Veracruz (Iaccino, 2014). The violence attributed to this cartel prompted government action to stop the mass executions.

The Gulf Cartel. As indicated by their name, the Gulf Cartel is very busy in the Gulf coast of Mexico and is believed to be the oldest of the drug trafficking organizations, founded in 1930 by Juan Nepomuceno Guerra (Iaccino, 2014). The current leader, Juan Francisco Tamez Saens, was recently arrested in Edinburg, Texas, on October 10, 2014 (Taylor, 2014). The group largely deals with the trafficking of cocaine and uses Houston, Texas, as a hub before distributing the drugs locally as well as to other states (Taylor, 2014). The Gulf Cartel is thought to be responsible for the greatest number of kidnappings, along with Los Zetas Cartel.

The Role of Organized Crime and Drug Trafficking in Mexico

A large portion of the increase in violence that has ravaged Mexico over the last decade is attributed to drug trafficking. According to the Mexican newspaper Reforma, 7,163 organized crime related homicides occurred in 2013 (Heinle, Ferreira, & Shirk, 2014). According to the report, this number is alarming because Mexico's homicide rate had declined steadily until the mid-2000s, when the sharp increase began. Mexico had an estimated population of over 100 million in 2013, therefore the slightest percentage of increase in homicides equates to thousands of lives. According to Figure 3, Mexico's homicide rate tripled from 8.1 homicides per 100,000 people in 2007 to 23.7 homicides per 100,000 people in 2011(Heinle et al., 2014).

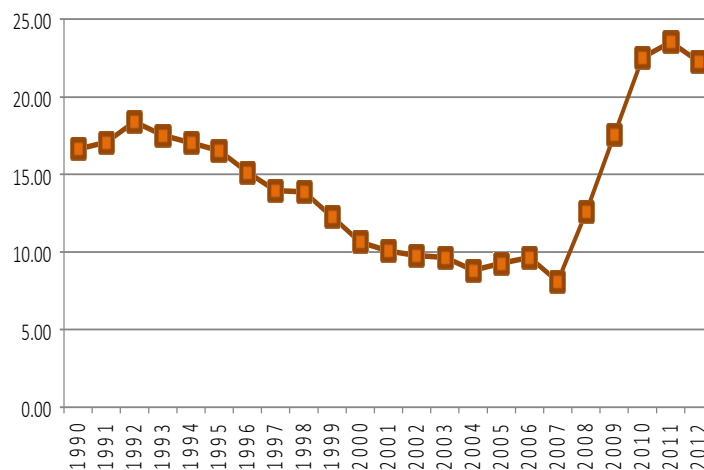


Figure 3. Homicide rate in Mexico, 1995-2012.

Retrieved from <http://justiceinmexico.files.wordpress.com/2014/04/140415-dvm-2014-released1.pdf>

During the 1970s and 1980s drug trafficking became more profitable in Mexico when the country was determined to be a major route of transportation of cocaine from Colombia into the US (Heinle et al., 2014). The Mexican government began to crackdown on the DTOs in the 1980s. Starting in the early 2000s, competition became more aggressive due to a series of crackdowns by the Mexican government and internal fighting within organizations; DTOs and

gangs started to split and form their own organizations. Due to the difficulties in obtaining data from the government to substantiate some of the claims regarding the violence that has engulfed Mexico, some media sources, nongovernmental organizations, and researchers collected data on their own. Using the data that is available at the municipal and state levels, there are some findings that reveal violence is more prevalent in some parts of the country than in others (Heinle et al., 2014). According to Heinle et al. (2014), violence is particularly prominent in the Mexican states of Baja California, Sonora, Chihuahua, Coahuila, Nuevo Leon, and Tamaulipas, all of which happen to border the US.

Money Laundering Regulation in Mexico

The Mexican banking system has gone through several dramatic changes in the last two decades. The banking system was nationalized in 1982 and then privatized in 1992 (Mujica & Rocha, 2003). Foreign investments were then allowed in 1994, followed by a severe economic and banking crisis that prompted changes to the banking laws. It was at this time that Mexico's Central Bank became the regulator for the currency supply. The bank also serves as the regulatory body of Mexico's National Banking Commission (Mujica & Rocha, 2003). As with almost every country, financial services in Mexico are subject to financial regulations dictated by the government. The purpose of these regulations is to protect the integrity of the financial system and investors. The Mexican banking system has witnessed some dramatic changes since 1982 when it was nationalized, only to be privatized in 1992. In 1994 restrictions that did not allow foreign investments were removed, while in the same year a severe economic banking meltdown occurred (International Financial Law Review, 2005). The inconsistency of Mexico's banking system along with heavy influence from drug cartels has created the perfect avenue for illegal activities such as money laundering to occur.

According to an advisory report released by FinCEN on June 21, 2010, the new banking regulations imposed by the government of Mexico on June 15, 2010 (FinCEN, 2010), limited the amount of cash that a person can physically deposit into his or her bank accounts. The transactions only affect cash such as banknotes and coins. Other non-cash transactions such as wire transfers, ACH payments, credit card transactions, and traveler's checks were not affected. Since the imposing of these new regulations in Mexico, Mexican nationals are only allowed to receive a total of US\$4,000 per month provided the person is a customer of the bank. For noncustomers, the total amount is US\$1,500 per month or US\$300 per day (FinCEN, 2010).

Recently, Mexico identified the main source of money laundering to be associated with the production or trafficking of illegal drugs. The new regulations that the Mexican government enacted were in an effort to restrict the use of U.S. currency since the bulk of DTOs' profits originate in the US. Additionally, some of the confidentiality rules that prevented the financial intermediaries in sharing information with law enforcement were loosened (Conesa, 2010).

According to a report from FinCEN (2014a), the cash restrictions implemented in Mexico were having an immediate impact on the illicit funds circulating in the US's financial institutions. Due to this FinCEN informed U.S. financial institutions of the methods used by criminals and ordered transaction trends to be closely monitored by law enforcement organizations and regulators. This close monitoring of transactions among other new regulations have helped to strengthen the anti-money laundering policies now currently in place in Mexico.

The money laundering law implemented in Mexico on June 15, 2010, was designed to fight corrupt business practices and limit the large cash transactions often linked with organized crime. It aids by limiting large cash transactions and the purchase of high-end goods like real estate, planes, and luxury cars (Stratfor, 2013). As with any other business, the money made in

profits is what fuels the DTOs. The focus of the Mexican anti-money laundering law enacted in 2010 is to restrict the flow of laundered U.S. dollars into the Mexican economy. The new law may throw into disarray the operation of illicit financial operations in Mexico. In the end efficacy of the law will depend in part on the watchful eyes of Mexican businesses and financial firms (Stratfor, 2013).

According to Spagat of the Associated Press (2014), in October 2014 the President of Mexico, Enrique Pena Nieto, lifted the restrictions imposed by the country's anti-money laundering regulations in June 2010. The measure that had received heavy criticism by Mexican businesspersons limited the amount of U.S. dollars that could be deposited into personal and business accounts. The Mexican president prompted this move after it was alleged that \$70 million went over the border to Mexico in the trunk of cars. It would seem that it was the president's impression that, while legitimate businesses had to abide by rules that restricted commerce, drug trafficking organizations were still conducting business as usual (Spagat, 2014).

Money Laundering Regulation in the United States

The term money laundering originated sometime in the early 20th century when criminal organizations in America began to launder their illegally gained profits (Anti-Money Laundering Forum [AMLF], n.d.). As one of the most famous gangsters in the US, Alphonse "Al" Capone was able to accumulate an estimated \$100 million of illegally gained proceeds; the U.S. government sought out a means to create mechanisms in an effort to prevent criminals like Capone from prospering after breaking the law (AMLF, n.d.). Criminals were becoming more organized, and as the awareness of money laundering increased, so did the mechanisms that the government put into place in an effort to fight these activities. Money laundering has become a valuable activity for lawbreakers since financial systems cannot always stop it; financial

institutions only make it harder for criminals who are willing to accept that losses can occur as the costs of doing business (AMLF, n.d.). The act of concealing funds became a federal crime and slowly progressed into laws and regulations that have continued to evolve for the past 44 years.

The Bank Secrecy Act. The Bank Secrecy Act (BSA) was the first law created in the US to fight money laundering. Its creation in 1970 was initially meant to maintain records of large transactions involving currency and establish requirements for recordkeeping such as reporting cash transactions over \$10,000. It also required financial institutions to maintain a trail of financial transactions. The law also mandated the accurate identification by the institutions of any person conducting transactions. The BSA has become one of the most important tools in the fight against money laundering, and the law has been amended several times since its implementation in 1970 (FinCEN, n.d.a). Following the establishment of the BSA, the Money Laundering Control Act was then established in 1986.

The Money Laundering Control Act. The Money Laundering Control Act, established in 1986, made money laundering a federal crime. This act also prohibited the structuring of cash transactions in order to avoid the filing of Cash Transaction Reports (CTRs). Structuring cash transactions is the act of breaking up the transactions into smaller transactions (under \$10,000) so that the financial institutions do not have to meet the reporting requirements that can alert authorities to suspicious activity. A CTR is required to be filed at all financial institutions when a deposit or transaction over the amount of \$10,000 in currency is made. There are few exceptions as to whether or not the CTR needs to be filed. The Money Laundering Control Act also allowed the government to seize assets and property of those violating the Bank Secrecy Act. The intent of this was for it to serve as a deterrent against criminals, and the punishment for committing

money laundering could be incarceration and/or a loss of property (FinCEN, n.d.a).

Anti-Drug Abuse Act. This law came into effect in 1988. It expanded the definition of financial institutions previously established by the BSA. It required that businesses, such as car dealerships and real estate agents, file reports for cash transactions. The law also required that individuals purchasing monetary instruments over the amount of \$3,000 be properly identified. (FinCEN, n.d.a). Congress enacted the law with the explicit intent to punish and deter any person that causes the death of another person while working as a member of a drug organization or while in the commission of any drug related felony (DOJ, n.d.).

Annunzio-Wylie Anti-Money Laundering Act. The Annunzio-Wylie Anti-Money Laundering Act was enacted in 1992. The law required that financial institutions not disclose to an individual that a Suspicious Activity Report (SAR) has been filed based on the activities of the individual. According to the law, financial institutions must file a SAR if the institution suspects any suspicious activity that may be related to money laundering or illegal activity. The filing of a SAR is also required if any person attempts to evade the reporting requirements mandated by the BSA. The financial institution is required to file the SAR even if it has no knowledge whether the funds involved in the transaction are legitimate or not (FFIEC, 2010). It only requires that the analyst suspect a transaction to be unlawful after examining the funds.

Money Laundering Suppression Act. Enacted in 1994, the Money Laundering Suppression Act required financial institutions to enhance training and develop anti-money laundering examination procedures for its personnel. It also required that financial institutions have a procedure in place for referring cases to law enforcement. It was required that these procedures be reviewed and enhanced on an ongoing basis. This law made the operation of an unregistered MSB a federal crime, forcing all MSBs to be registered by the owner or person in

control of the MSB (FinCEN, n.d.a).

Money Laundering and Financial Crimes Strategy Act. This law required that banks develop anti-money laundering training for examiners. Passed by Congress in 1998, it required the Department of the Treasury and other agencies to develop a National Money Laundering Strategy. Due to this legislation, the High Intensity Money Laundering and Related Financial Crime Area (HIFCA) Task Force was created (FinCEN, n.d.a).

The task force's main purpose was 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. (FinCEN, n.d.a, para. 1).

The USA PATRIOT Act. The USA PATRIOT Act (Uniting and Strengthening America by Providing Appropriate Tool Required to Intercept and Obstruct Terrorism) Act is also known as the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001. This law was created in response to the terrorist attacks to the US on September 11, 2001. Some of the requirements of this law are related to money laundering while targeting the detection of financing of terrorist acts. It also prohibited financial institutions from engaging in business with foreign shell banks. This law required that banks respond to regulatory requests for information within 120 hours of receiving the request. The USA PATRIOT Act outlined that industries in the financial sector are required to implement anti-money laundering (AML) programs. Some of these businesses include real estate brokers, investment companies, MSBs, securities broker-dealers, futures commission merchants, pawn brokers, and travel agents to name a few (FinCEN, n.d.a).

FinCEN recently reported that 42% of all SARs were filed by non-depository institutions, indicating a 5% decrease from the previous year (FinCEN, 2013). Non-depository institutions are organizations such as car dealerships, casinos, securities, and future industries (FinCEN, 2013). According to Table 1, depository institutions had the largest increase in the amount of SARs filed from 2003 to 2012. During the same period, MSBs almost tripled the amount of SARs submitted during the same period of time. Although not a large increase in comparison to numbers, casinos and card clubs as well as securities and futures industries quadrupled the amount of SARs submitted during the same period (FinCEN, 2013).

Form	Number of Suspicious Activity Report Filings by Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Depository Institution	288,343	381,671	522,655	567,080	649,176	732,563	720,309	697,367	798,688	860,858
Money Services Business	209,512	296,284	383,567	496,400	578,439	531,761	530,518	596,494	685,009	585,874
Casinos and Card Clubs	5,095	5,754	6,072	7,285	9,943	11,162	12,093	13,987	17,627	21,282
Securities & Futures Industries	4,267	5,705	6,936	8,129	12,881	15,104	18,385	18,758	19,903	21,308
Universal SAR	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	93,557
Subtotal	507,217	689,414	919,230	1,078,894	1,250,439	1,290,590	1,281,305	1,326,606	1,521,227	1,582,879
Total	11,447,801									

Table 4. Number of SARs filings by year. Total SARs filed from 2003 to 2012. Retrieved from http://www.fincen.gov/news_room/rp/files/btn18/sar_by_num_18.pdf

Describing the Role of MSBs and CDCs in Money Laundering

Casas de Cambios (CDCs) are allowed to exchange currency and move money internationally. As part of Mexico's new banking regulations enacted in 2010, all transactions above \$3,000 must be reported. Customers must now present identification and register their names for all transactions over \$500. This helps to end the anonymity that enabled money laundering. As a result leaders representing CDCs complained that, due to the regulations, this type of business was no longer profitable. As a result CDCs began to be replaced by money

remittance houses that were unregulated. Since Mexico implemented the new banking regulations in June 2010, Western Union and other U.S.-based companies have taken over the void left by the disappearance of the CDCs (Farah, 2010, pp. 150-151).

In 2010 Western Union reached an agreement with the states of Arizona, California, New Mexico, and Texas to assist with the implementation of improvements in enforcing the movement of drug money. As part of the agreement, it would also provide unparalleled access to records of all the transactions originating from the US with a destination to Mexico (Holstege, 2010). The agreement cost Western Union \$94 million, while the company already spent over \$100 million in enforcing anti-money laundering regulations and other compliance endeavors (Ensign, 2014). In 2013 Western Union severed ties with over 7,000 agents that had failed to meet compliance standards (Williams, 2013). The company has also been plagued by negative reports that kidnappers have used their services to collect ransom monies from the relatives of kidnapped victims. As far back as 1992, Western Union and other non-bank institutions were part of a report to the U.S. government implicating the company for laundering billions of dollars in drug profits by drug trafficking organizations (Ensign, 2014). The purchase of money orders and wire transfers made up for 93% of all the suspicious activity reports filed by MSB filers since 2003 (FinCEN, 2012). According to Figure 5, the number of SARs filed by MSBs from January 1, 2008, to December 31, 2012, increased every year. The sharpest increase in SARs filed occurred in 2011. Following that year there was a decline in the amount of SARs filed of approximately 14% from 2011 to 2012 (FinCEN, 2013). It is unknown precisely what prompted the decline during that period.

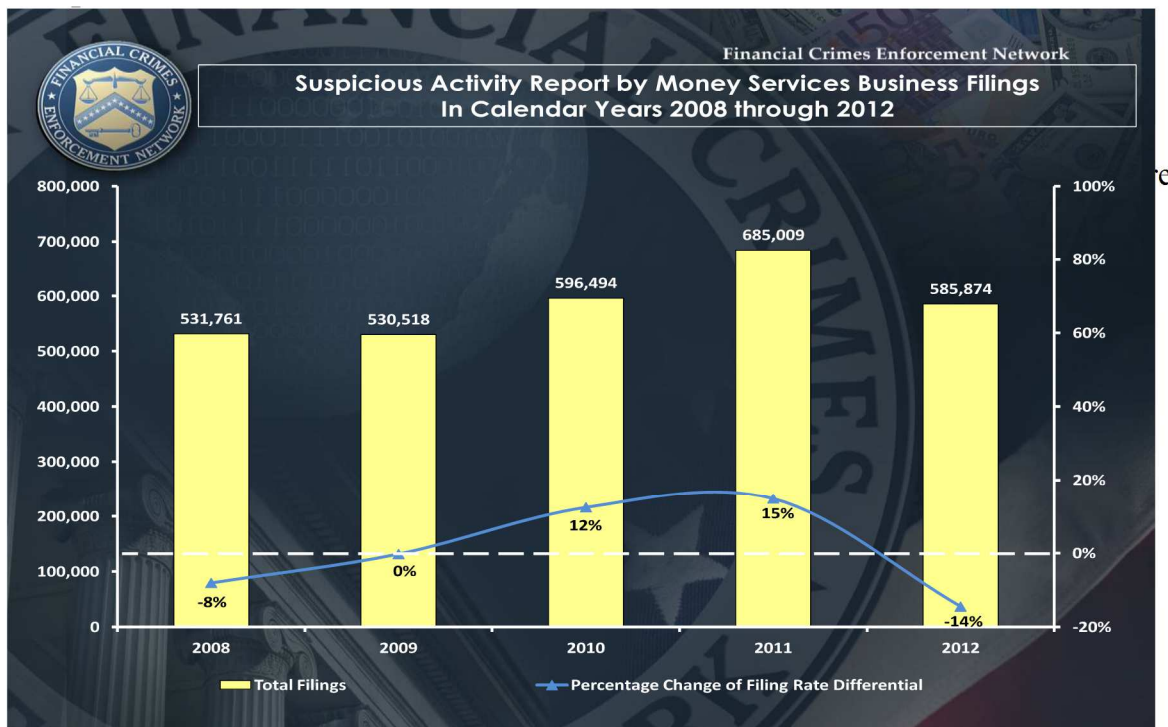


Figure 5. Suspicious Activity Reports filed by Money Service Businesses. Reveals the increase in SARs filed by MSBs from 2008 to 2012. Retrieved from http://www.fincen.gov/news_room/rp/files/btn18/sar_by_num_18.pdf

Recent Statistics

According to FinCEN (2014b), the amount of SARs filed by MSBs in 1997 was in excess of 200,000. These were comprised mostly of Western Union and MoneyGram filings. Another 40,000 were outlets of the U.S. Postal Service (USPS), and they are considered MSBs because money orders are sold there. As shown in Table 6, the latest statistics found regarding SARs filed with FinCEN by MSBs indicated that from March 1, 2012, through September 2014 there were substantial increases in SARs filed with 15,116 and 12,075 during the months of November and December 2012. The activity then increased tremendously after the month of April 2013 with 37,366 and continued to grow. There have not been any months where the amount of SARs filed fell below 20,000 after March 2013 (FinCEN, 2014b).

Filings by Year & Month by Money Services Business (MSB)*
 March 1, 2012, through September 30, 2014

Month	2012	2013	2014**
January	-	14919	57353
February	-	10203	55217
March	7	19746	55700
April	327	37366	64642
May	632	58562	57753
June	1083	44577	63961
July	4102	43846	57667
August	5195	45074	54290
September	6037	45729	64317
October	6308	59559	-
November	15116	48535	-
December	12075	62899	-
Subtotal	50882	491015	530900
Total Filings	1072797		

Table 6. SARs filed by MSBs through September 2014.

Retrieved from http://www.fincen.gov/news_room/rp/sar_by_number.html.

The data have shown that the states along the southern border of the US have been identified as having the most money laundering activity. Due to the lack of recent data, it could not be verified if the trend has continued, but the data showed that New York placed second only after California, and the state of Illinois was placed at fifth in the list of top five states where SARs were filed by depository institutions. Data retrieved from FinCEN also indicated that money laundering and structuring were the major cause of a SAR filing, with 48.22% of the SARs filed for that reason (FinCEN, 2005). This was followed by 11.65% of reports involving check fraud, indicating that structuring was the preferred method of choice by criminals to introduce funds into the banking system.

The Effects of Money Laundering on the Economy

There have been numerous reports in recent news about banks being involved in the laundering of money for DTOs. The negative reputation associated with the activities can be devastating for financial institutions. Illegal money must be integrated into the legitimate financial system and institutions in order to be laundered. Money laundering can be done with or without the knowledge of the financial institution. Financial institutions cannot afford to have their reputations tarnished by an association with money laundering, especially in today's global economy. One of the effects on the economy is that money laundering can erode confidence in the markets and profits. Regulators have recently increased the amounts of the fines imposed on institutions that conduct illegal activities such as money laundering.

Money laundering is a crime that affects the global financial sector. As banks have been on the frontline in the fight against money laundering, the regulated sector has been confined to the banking population. Money laundering is a crime with an incredible economic impact, which can threaten the stability of a country's financial sector. The true effects of money laundering on the economy are difficult to quantify. This type of activity does irreparable damage to institutions in the financial sector that are crucial to economic growth, effectively reducing productivity and diverting valuable resources. It also encourages crime and corruption, which in turn slows down economic growth (McDowell & Novis, 2001).

An effective anti-money laundering program is essential to protect the integrity of the affected corporations and any associated markets. In recent years the International Monetary Fund (IMF) became a key organization in cooperation with the Financial Action Task Force on Money Laundering (FATF) to develop a standard for anti-money laundering (FATF, 2012). It is the responsibility of all organizations to involve the authorities in establishing a solid financial

transaction reporting system that identifies customers and maintains record keeping standards. This provides a means to verify compliance with the laws and regulations established.

In 1990 the FATF made several recommendations that have become the standard to implement effective measures to combat money laundering. Since countries that are members of the FATF have different legal standards and financial systems, the measures were created to attend their individual needs. Since then the recommendations have been reexamined in order to keep up with the latest money laundering trends and techniques to strengthen the measures in areas where there is a higher risk. The recommendations are recognized as the international standard for anti-money laundering and have been endorsed by over 180 countries (FATF, 2012). Countries must criminalize and freeze and seize property laundered and proceeds of illicit activity that have been laundered and take investigative measures to establish the origin of the funds. Among the recommendations made by the FATF is that legislation is essential to regulate financial institutions and require due diligence measures. Financial institutions are heavily influenced by criminal behavior, and only technology and well-trained personnel will influence regulators as proof of confidence and prevention of criminal activity (FATF, n.d.b).

Despite laws and policy against it, money laundering continues to grow and affect our world economy. The US is plagued by the illicit activities conducted by DTOs, specifically those from Mexico, who despite changes in their nation of origin, continue to find means to illegally launder money and integrate it into our economy. Laws and regulations, such as the USA PATRIOT Act and the Bank Secrecy Act, all provide the foundation for a stronger guard against money laundering. It is imperative, however, that Mexico also develops a consistent and structured method of combating money laundering so as to lead the fight against DTOs such as Los Zetas and the Sinaloa Cartel—DTOs that are continuously finding means to conduct their

illegal activities. As seen in Figure 5, trends in money laundering change, and with appropriate measures against them, there is hope that money laundering through MSBs and CDCs will occur less and less.

The Role of Technology in the Fight Against Money Laundering

Techniques in money laundering as with many other crimes are undergoing transformation due to advances in technology. Despite changes in regulations specifically designed to curb money-laundering activity, alternative methods of money laundering are often sought by criminals to launder illegal profits. Such is the case that occurred on May 28, 2013. U.S. prosecutors indicted seven people involved in the money laundering of more than \$6 billion for drug dealers and other criminals. The persons involved in this scheme used the latest technology to conduct their crimes. This was done through an anonymous exchange of digital currency (Williamson, Vazquez, Thomas, & Sagona-Stophel, 2013). As seen in this particular case, criminals are at the front lines developing and implementing new techniques in order to successfully carry out their crimes.

Information Technology (IT) companies such as Clear and World Check assist financial institutions in identifying money-laundering techniques. Some of their software systems identify patterns in transactions, with particular focus on the incoming and outgoing of funds. Sophisticated data mining software also allow the organizations to explore public records and identify possible associations with other individuals that may be supporting money-laundering activity. The same data mining software allows law enforcement to investigate more extensively in order to obtain information about suspicious activity. Due to the development of this technology, financial institutions are investing profoundly in IT programming to investigate transactions and gain knowledge about their customers (Williamson et al., 2013).

One of the larger issues associated with new technology development in the fight against money laundering is training. For the most part, larger financial institutions have the funds necessary to invest in expenses related to the training of staff in IT, but smaller local banks often struggle with the resources to fund effective training. A comprehensive understanding of transaction systems by bank employees provides financial institutions with a front line of defense against money laundering. The incorporation of software such as those developed by Clear and World Check provide a stronger defense against money laundering (Williamson et al., 2013).

While drug trafficking organizations penetrate financial institutions, law enforcement and regulatory government agencies must continue to examine ways to detect money-laundering activity. Mexico and the US are obliged to work jointly due to the significant threat to their financial systems and the security of both nations that the cartels represent. MSBs are non-bank financial institutions that are subject to anti-money laundering regulation. Financial institutions are often influenced by criminal behavior and regulatory demands set to deter money laundering. The laws enacted by the Mexican Government to deter money laundering have been inconsistent, which provides an atmosphere of acceptance of money laundering activity by Mexican financial institutions. Analysis of the enforcement of the laws and regulations enacted by the U.S. government to combat money laundering must be made. Regulation such as BSA, Money Laundering Control Act, and the USA Patriot Act are the foundation of money laundering laws in the US. As attention to this activity will continue to increase, financial institutions will need to spend money in technology and training to curtail the activity.

Discussion of Findings

This capstone project reviews the role that Money Services Businesses (MSBs) in the US and Casas de Cambios (CSCs) play in the laundering of cash for Mexico's drug trafficking organizations. The research reviewed indicates that Mexican Cartels take advantage of dishonest operators of the aforementioned types of businesses and use these institutions to circumvent the laws to launder illicit funds. The findings indicate that money laundering originated by drug trafficking organizations from Mexico pose a significant threat to financial institutions in the US. The data presents evidence that implementation and enforcement of regulations have assisted the government and law enforcement agencies to identify but not necessarily deter the growing threat.

Financial organizations are in the best condition to provide the necessary data regarding money laundering and compare their activity with others in the same business while governments are better served by accumulating, recording, and comparing data in order to ascertain the situations that may impact the results of a study. The effectiveness and ability to monitor these transactions will increase the odds of preventing money laundering from affecting the financial systems of these countries. Through this project limitations were identified due to a lack of data provided by the Mexican government. Unlike the US, Mexico does not maintain or collect data of their financial institutions' transactions for public knowledge as the United States does. For the United States data was identified that was provided by FinCEN, the IRS, and the DEA, demonstrating that there is a wide contrast between the two countries. The lack of transparency identified does not allow for a clear picture of the severity of the problem in Mexico. The regulations enacted by the government of Mexico were recently revoked (FinCEN, 2014a), indicating that the government has other concerns differing from those of the US.

There were no data available from Mexico that would have provided the number of suspicious reports filed in Mexico before and after the regulations were enacted in 2010. Because of this, it is almost impossible to determine what impact the previously enacted regulations had on the economy of Mexico that prompted the recent change in regulation in 2014. U.S. officials, therefore, have legitimate reasons to be concerned that the Mexican banks will again be institutions where DTOs deposit their cash to be laundered.

Regulations to Combat Activities

Research demonstrates that several laws have been enacted in the US in an effort to combat money laundering. The laws dating as far back as 1970 were put in place by the U.S. Government with the hope that by keeping records of large transactions where cash was involved, it would prevent criminals from participating in the activity. Due to the large amount of cash that law enforcement organizations have confiscated going to Mexico from the US, the regulations make it difficult to deposit cash into financial institutions.

The Bank Secrecy Act enacted in 1970 established that cash transactions in the amount of over \$10,000 needed to be reported. The reporting is required for all the commercial banks, which identify the individuals as well as the institutions processing the transactions. Unfortunately, despite changes in regulations some banks continue to turn a blind eye to the suspicious activity of some of their patrons and staff. The government's attitude creates a business atmosphere that money laundering is common and that a perpetrator caught can be settled with a fine. The findings revealed that it is the financial institution's responsibility to protect the banking sector and maintain a significant role in the enforcement of the laws. Regulations have been created to keep up with the changes in society, technology, and other

factors just to stay ahead of the different methods that criminals develop to achieve their money laundering goals.

There has been an increase in the preparation of SARs from 2008 to 2012 (FinCEN, 2013). Depository institutions, otherwise known as commercial banks, had an approximately 300% increase in SARs filed from 2003 to 2012. This indicates that more cash is being deposited into banks than other previously preferred methods. There was also an increase in the amount of SARs filed by MSBs during the same period of time but not as great as in depository institutions.

It was discovered that even for a financial institution operating in another country, if the institution is based in the US, it is required to comply with the regulations in the US.

MoneyGram is a well-known financial institution classified as an MSB by FinCEN. As mentioned in MoneyGram (2008), there was information instructing MoneyGram branches to follow the laws of the countries where business was being conducted. Since MoneyGram is based in the US, there appears to be a contradiction to the requirements of the laws in the US. This also gives the impression that MSBs are overregulated, creating confusion, and that enforcement of the present laws is necessary rather than creating new ones.

Enforcement

Money laundering is typically prosecuted by federal law enforcement agencies such as the Federal Bureau of Investigation (FBI), Internal Revenue Service (IRS), and the Office of Inspector General. The penalties imposed on those found guilty seem to vary from case to case. The review of data during the research indicated that while individuals and some business owners are sentenced to lengthy punishment for money laundering, large financial institutions that have admitted guilt for the same crimes, even in a greater magnitude, get away with fines.

These actions show inconsistencies as to how the laws are applied and the consequences for such businesses even suspected of participating in money laundering.

In 2006 a letter was sent to the director of the Financial Crimes Enforcement Network by Robert W. Werner, the executive director of the National Money Transmitters Association, in which he complained of the unfair treatment and denial of banking services to 43 MSB-licensed companies (Landsman, 2006). Werner also mentioned the social and economical impact it would have not allowing the MSBs to continue banking services. While Wachovia and HSBC received great profits for their wrongdoing and got away with fines, the smaller businesses mentioned by Werner may be out of business for good. Stricter enforcement of laws by imposing fines along with criminal convictions would create far more humiliation to those violating the laws.

Changes in Mexico

On June 15, 2010, the Mexican government enacted regulations affecting financial institutions and the amount of US currency allowed to be received (Gunster, 2010). These regulations affected individuals as well as businesses and were intended to reduce the risks of laundering the illicit gains associated with the trafficking of narcotics. The sanctions limited the amount of cash negotiated by individuals but not all other non-cash transactions. The restrictions adopted have serious economic impact on the Mexican economy since Mexico is the largest recipient of remittance in Latin America with approximately \$22 billion received annually (Mallen, 2013). According to the World Bank, while remittances will continue to increase in the rest of Latin America, Mexico will not see any increases. There are other factors such as a decline in immigration and a slow recovery of the U.S. economy while Mexican analysts blame the decrease on the new restrictions involving remittances from the US to Mexico.

The Mexican banking system has had several regulatory changes that may affect the more stable U.S. financial system since both countries perpetuate strong cultural and commercial affiliations. The regulations were expected to have a noteworthy effect on the operations of U.S. financial institutions in Mexico. No data were identified during the research as to how the changes had affected Mexico. It was also expected that the strategy of DTOs to launder money was going to change. One significant change may be that individuals who may no longer be able to deposit U.S. currency into Mexican banks in Mexico may attempt to deposit the currency into U.S. banks. Also an increase in banknotes, credit cards, money orders, checks, and wire transfers may be in order (Gunster, 2010).

These findings suggest that although U.S. regulations put forth a means to combat money laundering, DTOs from Mexico continue to launder their funds through the use of MSBs and CDCs, thus continuing to influence our economy. Reports made available through FinCEN indicate the growing number of incidences of money laundering in larger financial institutions, but there is still a lack of evidence from Mexico available regarding the number of SARs reports made through Mexican financial organizations, MSBs and, CDCs. These findings suggest that although money laundering continues to grow, especially from Mexico into the US, there is still little data available from Mexican authorities that would help shed light on possible ways to modify Mexican regulations to deter this and other illegal practices. Inconsistency in Mexican government regulating money laundering also hinders the enforcement and effectiveness of outside organizations, such as FinCEN, and their policies set forth to combat money laundering.

Recommendations and Conclusion

Legislations such as the BSA and the USA Patriot Act have been essential in combating money laundering. These legislations were implemented with the goal to hold financial institutions liable for their actions and accountable for the actions of their employees as well as the organizations. Money laundering is a crime that must be addressed by both financial institutions and the government. Financial institutions and regulators in the US and Mexico need to constantly update their methods of detection by incorporating technology and the knowledge of experts in the field of money laundering. The countries of Mexico and the US have come face-to-face with the difficult task of combating the drug trafficking organizations' attempts to launder their profits and incorporate their gains into the financial system. The effectiveness and ability to monitor these transactions will increase the odds of preventing money laundering from affecting the financial systems of these countries.

The data demonstrated that the suspicious activity reports filed by Money Services Businesses increased from 2010 to 2011 and then decreased in 2012 (FinCEN, 2013). Research by Menon and Kumar (2011) supports that advanced technology can assist law enforcement investigators and financial analysts to process data more efficiently. Transaction monitoring software that is used by financial institutions on a daily basis can provide investigators with an entire profile of customer accounts and serve as a support tool to other technology applications. These other applications serve as transaction monitoring systems, currency transaction reporting, and compliance software. Antiquated and out-of-date technology will not prove effective to persevere against the consistent efforts by criminals to hide their illegitimate profits. Newer technology provides the ability to monitor financial transactions and unusual behavior. Technology also provides support for employees, often making the reporting process more

efficient (Menon & Kumar, 2011).

Another recommendation is for the government of Mexico to allocate the necessary funds to implement investigative resources that assist in the prevention of money laundering. These funds can be obtained from the confiscation of funds relinquished from those found guilty of money laundering. Mexico would benefit from emulating some of the changes made in the US concerning money laundering. From the enactment of the Bank Secrecy Act in 1970 to the USA Patriot Act, the U.S. Department of Treasury through FinCEN (n.d.a) has continued to enhance and amend laws to provide law enforcement and regulatory agencies with the most effective tools to combat money laundering. One of the most influential changes that Mexico has made to prevent money laundering by drug trafficking organizations were the changes enacted in June 2010 but subsequently reversed in October 2014. The restrictions were lifted by the Mexican President after he stated that the anti-money laundering restrictions were hurting legitimate business owners without providing any proof to his claim (Spagat, 2014).

As regulators take the necessary steps to prevent illicit funds from entering the financial systems, financial institutions have to be held responsible by the government of the US as the BSA and USA Patriot Act intended it for monitoring transactions that involve their branches. Authorities in the US have demonstrated a lenient approach towards perpetrators by only imposing fines but no arrests or indictments of the executives of the financial institutions such as Wachovia and HSBC found to have violated the laws. The BSA and USA Patriot Act both outlined the responsibilities of policing the financial organizations by policing the financial institutions. Those identified as participating in money laundering should be vigorously prosecuted. This is essential to discourage others from participating in these activities. Tougher sentences accompanied by greater fines and the forfeiture of assets of those individuals found

guilty should serve as a deterrent. By doing this the institutions can make sure that the transactions are compliant with all regulations created and enforced by FinCEN as well as money laundering regulations. A failure to enforce the laws makes the U.S. government complicit of the money laundering activities and money laundering will continue to afflict our financial system.

Money Services Businesses in the US such as MoneyGram and Western Union will benefit with the improvement of detection and prevention methods that will assist in categorizing the data of transactions made by their customers that is part of the agreement reached by Western Union and the states of Arizona, California, New Mexico, and Texas. As part of the agreement reached with Western Union, all transactions that may appear suspicious will be blocked and then reported to the compliance department for further analysis before withdrawal of the funds is completed. Educating the organization's personnel is essential so that it can stay abreast of the ever-evolving regulations that affect financial institutions and the latest methods criminals use to launder money.

Limitations of this Study

The main limitation of this study was the lack of data regarding activity involving Casas de Cambios in Mexico. Having such data available from Mexico would have provided a definite indication of how the banking regulations enacted in 2010 were impacting the Mexican economy. Other data examined in regards to Mexico's economy did not directly blame the restrictions placed on financial institutions with the downward trend in Mexico's economy. While it may not be possible to provide an exact figure on the amount of currency drug trafficking organizations launder through CDCs, exact figures of how much money flows through these types of businesses could be better estimated if records of customers' transactions are kept and made available for examination. That type of information could also provide a better

estimate of the impact the regulations were having. The Mexican Finance Ministry, also called Secretaría de Hacienda y Crédito Público de México (SHCP), which is responsible for administrating the anti-money laundering efforts in Mexico, did not provide any data regarding the reporting of financial transactions. A visit to their website provided an explanation of what the function of this governmental agency was, but there was no link to access any recorded data (SHCP, 2012).

Conclusion

Money laundering continues to be a serious crime that affects not only the US and Mexico but also the world. Mexican drug trafficking organizations prefer to hold on to their cash in U.S. dollars being that it is more stable than Mexican pesos. CDCs in Mexico will eventually be replaced by U.S. businesses such as Western Union and MoneyGram due to the hindrance of increased regulatory controls. Advances and integration of new technology cannot be sustained by the Casas de Cambios, making them unable to compete with the larger U.S.-based companies. The threat of drug trafficking organizations, specifically the drug cartels in Mexico, continues to increase due to the lack of cooperation between the US and Mexico.

On October 11, 2014, the Associate Press reported that Mexico had eliminated the restrictions that limited the amount of U.S. currency used in transactions involving companies and Mexican citizens, citing that the measures that had been put into place by the previous administration to curtail the laundering of money by drug trafficking organizations was hurting legitimate businesses (Spagat, 2014). The data to compare results from before and after the regulations were put into effect could not be found, making it difficult to determine the influence any regulatory changes will have on Mexico. According to data identified in this paper, the US has examined for decades the impact that money laundering has on the financial institutions of

the country and created new regulations to detect and prevent this crime. Incorporating an approach that is multifaceted is ideal, but technology and personnel are necessary to sustaining an effective anti-money laundering effort. The inefficacy of any country to effectively enforce, detect, report, and prosecute those involved in money laundering will only give strength to those involved. The magnitude of an organization found violating the laws should not influence the consequences that employees of such institutions such as HSBC and Wachovia should face since as mentioned before, those large institutions face penalties and no prosecution. The principle of fighting money laundering begins with every financial institution, government, employee, and law enforcement agency unified and sharing information to achieve a common goal of combating this type of financial crime. The heart of fighting money laundering does not initiate and conclude with government bodies but with a coalition of the various organizations that perpetrators use to commit money laundering and the government (ACAMS, 2012).

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