

Statement of Chairwoman Sue Kelly
Subcommittee on Oversight and Investigations
"Risk Management and Regulatory Failures at Riggs Bank and UBS: Lessons Learned"
June 2, 2004

Two weeks ago, this Subcommittee explored proposals to streamline and centralize our current system to prevent money laundering and terror financing.

The recent cases involving Riggs Bank and UBS reveal regulatory and risk management breakdowns that also must be examined in order to strengthen our government's ability to enforce our anti-money laundering laws.

This afternoon, the Subcommittee will investigate the noncompliant and inexcusable behavior of these two banks along with the inadequate response of our regulators.

In the OCC's oversight of the Riggs Bank case, we find no better illustration of the inherent weaknesses of a fragmented regulatory regime.

We find a regulator that was reportedly aware of noncompliance by Riggs with high-risk foreign clientele as far back as 1999 -- perhaps even earlier -- and did nothing about it.

We find a regulator that was slow to act even after the Sept. 11 terrorist attacks inside our borders made the threat posed by terror funding networks all too clear.

We find a regulator with credibility so diminished that Riggs shamelessly continued to violate the Bank Secrecy Act even after a full-time OCC examiner was placed on the bank's premises following last summer's consent order.

I am very interested in hearing directly from the OCC about how this happened.

I am deeply concerned that we are combating illicit funding networks inside our country with a regulatory structure that was not designed to be part of our arsenal in a war on terror.

Though great strides forward have been taken, particularly with the creation of the Office of Terrorism and Financial Intelligence (TFI) and with an elevated focus on improving FinCEN's capabilities, it is evident that this is still a work-in-progress.

The time has come to replace a slow-footed regulatory system with one that is centralized, multi-dimensional, and focused intently on preventing our financial institutions from being exploited by criminals and terrorists.

Therefore, this subcommittee will continue to pursue proposals that centralize our examination and compliance assets, and that establish a criminal enforcement authority that will restore the credibility of our regulators.

Such reforms should establish clear lines of oversight, improve our ability to quickly detect and respond to suspicious activity, and will make clear to financial institutions that, from now on, brazen violators will be going to jail instead of just paying a civil fine.

Our hearing today also focuses on UBS's contract with the Federal Reserve Bank of New York to serve as an Extended Custodial Inventory (ECI), which facilitates the international distribution of U.S. currency.

Beginning with its contract in 1996, UBS was in violation of its agreement to repatriate old U.S. banknotes and redistribute new banknotes on behalf of the Federal Reserve.

The bank knowingly traded U.S. currency through the ECI with countries subject to restrictions from the Office of Foreign Asset Control (OFAC), including Cuba, Iran, Libya, and Yugoslavia.

The most serious and disturbing violation has been the discovery that officers and employees at UBS intentionally falsified documents to sidestep detection by U.S. authorities.

While these actions and the company's failure to implement internal controls made it exponentially more difficult to detect suspicious activity, it is also important to examine how and why routine oversight by the Federal Reserve and the OCC did not raise any concerns.

In fact, this Subcommittee is deeply concerned that the contract violations would likely still be occurring today had our military not been in a position to find U.S. dollars from the Federal Reserve Bank of New York on the ground in Iraq.

As such, I believe we must investigate all ECI contracts to ensure that foreign governments and financial institutions are cooperating with our government.

While Riggs Bank and UBS illustrate two distinct regulatory meltdowns, they both speak clearly to the need for improving our efforts to stop terror financing.

It may create new and unfamiliar responsibilities for financial institutions, but it is a moral and ethical responsibility and a license required to do business in this country.

We thank our witnesses for their testimony and hope they can shed some light on these issues. I look forward to continuing this examination in the Subcommittee's hearing next week regarding oversight of the Department of Treasury and the agency's anti-money laundering efforts.

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