

[REDACTED]
ATTORNEY AT LAW
[REDACTED]
NEW YORK, NEW YORK 10001

[REDACTED]

November 30, 1995

Mr. Larry E. Roluff, Director
Bureau of Engraving and Printing
United States Department of the Treasury
14th and C Street, S.W. - Room 119 M
Washington, D.C. 20023

Re: Use of Electronic Scanning, Bar Coded Currency
and Databank Monitoring To Detect and Deter
Counterfeiting and Money Laundering

Dear Mr. Roluff:

Mr. William H. Pickle of the Secret Service has suggested that I might obtain from your office information as to the Advanced Counterfeit Deterrence Steering Committee's review of the use of bar code technology for possible inclusion in the comprehensive redesign of U.S. currency.

Mr. Pickle's suggestion was made in his November 13, 1995 letter to me (copy enclosed), which was a response to my October 25, 1995 letter to Secretary Rubin and the accompanying memorandum on the subject referenced above (copies enclosed).

As the correspondence with Secretary Rubin indicates, I am a consultant to CIAS, Inc., and to that extent I have a bias in favor of the work done in this field by the two CIAS inventors, [REDACTED] and [REDACTED].

But, beyond that, as a citizen I am convinced there is a real possibility that using modern bar coding and computer technology could be of great benefit to our Nation in dealing with the serious problems of counterfeiting and money laundering. At the very least, it merits in-depth study by the Treasury Department. Yet, apparently there has been no such study. Indeed, there has been institutional opposition to doing such a study.

Mr. Pickle refers to a review conducted by the ACD. But I surmise that the ACD's review of bar code technology was, at best, cursory. My belief is based partly on the fact that the ACD's review dealt with the "redesign" of the currency and, as such, would have been concerned with making it difficult or impossible to exactly copy the bills. While random number bar coding would complement that concern, the bar coding/databank approach is different in that it also provides for "accountability" -- in which

the authenticity of each individual bill can be validated by electronic scanning and comparison with a central databank. Also, I respectfully suggest, the bar code/databank approach offers overwhelming benefits for Government enforcement agencies which would have been clear if serious consideration had been given to that technology.

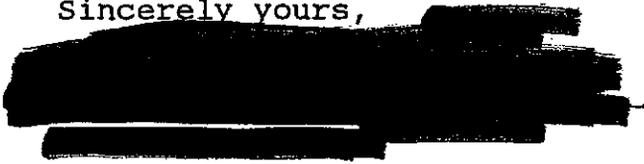
Even if I am correct in surmising that the ACD's review was very limited, we would like to be able to assess any points that were made; and, as you might guess, we would hope to have a further opportunity to try to interest the Secretary and your Bureau in doing a comprehensive study of the use of modern bar code and databank technology to detect and deter counterfeiting and money laundering.

In any event, following through on Mr. Pickle's suggestion, I respectfully request that your office provide us with "information on the specifics of the decision" by the ACD not to use bar coding. The specifics Mr. Pickle was referring to would presumably include information as to the factors which were the subject of the ACD's evaluations -- impact, proven reliability, durability, costs, public acceptance, and manufacturing limitations. We would, of course, reimburse the Bureau for copying and other costs involved.

Mr. Pickle's letter suggests that information with respect to some of the ACD's review might be classified. But I assume there would be no need for classification of information on what was probably the very limited review of bar coding technology. At that, classification would seem unnecessary where a negative decision was reached.

If, however, there is something in the ACD's decision about bar coding which is classified, it would be helpful if, in addition to receiving the non-classified parts of the ACD review and report, we could be given some general information about how extensive the review of bar code and databank technology was, in terms of pages in the report and the number of people and time involved in doing the studies.

I thank you for the consideration given this request.

Sincerely yours,


cc: Secretary Robert E. Rubin
William H. Pickle



DEPARTMENT OF THE TREASURY
UNITED STATES SECRET SERVICE

November 13, 1995

[REDACTED]
Attorney at Law
[REDACTED]

New York, New York 10001

Dear [REDACTED]

Your October 25, 1995, correspondence to Treasury Secretary Rubin has been forwarded to this office for a response. The United States Secret Service, as the agency responsible for the suppression of counterfeit United States currency is a member of the Advanced Counterfeit Deterrence Steering Committee (ACD). Other members include representatives from the Federal Reserve System, the Bureau of Engraving and Printing, and the Department of the Treasury.

The ACD Committee was actively involved in reviewing a variety of features which were in various stages of consideration, for inclusion in the comprehensive redesign of counterfeit currency. It is my understanding, that numerous overt and covert security features were evaluated based on several factors such as their impact, proven reliability, durability, public acceptance, manufacturing limitations, and production costs. The use of bar code technology was one of many features considered, but not adopted. Information on the specifics of the decision might be obtainable in an unclassified version from the Bureau of Engraving and Printing.

Your interest is appreciated.

Sincerely,

William H. Pickle
Executive Assistant
to the Director
(Congressional Affairs)

(sorting, counting, and recording) of Federal Reserve Bank Centers and all banks. Beyond that, in a situation where sophisticated counterfeiting has produced bills that cannot be spotted by tellers or sales clerks, an automatic bar code databank system would be a positive means to detect counterfeiting (including the daunting counterfeiting that is done to finance terrorists). The tracking capability of such a system, would also provide a powerful means of detecting money laundering and other crimes involving cash.

My interest in this subject stems from consulting work I have done for CIAS, Inc., which has developed and patented an electronic scanning/bar code/databank monitoring system to detect and deter counterfeiting, money laundering and other crimes.

In the past, [REDACTED], president of CIAS (and co-inventor of its binary coded binary bar code system), has had some contacts with officials in the Bureau of Engraving and Printing, the Secret Service and U.S. Customs. While there has been some interest in his work, the impetus for in-depth consideration of the system's possibilities was not there.

A request by the Secretary of the Treasury for a study of possible use of electronic scanning of bar coded currency would provide the impetus for serious consideration of recent technological developments in this area, with inputs from experts on coding, symbology, scanning systems and computer data base monitoring.

I enclose a short memorandum which reviews the provisions in the Crime Control Act of 1990 for an electronic scanning study and discusses reasons why apparently no study was made. The memorandum recommends a similar but less formal study which might be done in two months.

If there is a Treasury study, or if there is any other interest on the part of Treasury officials, I, Mr. Storch and others from CIAS would be pleased to meet with the officials to discuss the use of a bar coding system in the battle against counterfeiting, money laundering, terrorism, and other crimes.

Very truly yours,
[REDACTED]

October 25, 1995

MEMORANDUM

For: United States Department of the Treasury

By: [REDACTED]
Consultant to CIAS, Inc.

Subject: Use of Electronic Scanning, Bar Coded Currency
and Databank Monitoring To Detect and Deter
Counterfeiting, Money Laundering and Other Crimes

This Memorandum is submitted in support of the recommendation that the Treasury Department conduct a study of the above subject.

A study of this subject was mandated in the Crime Control Act of 1990. But it is my understanding that the prior Administration did not carry out the mandate, and the study was never done.

Whatever the reasons for the prior Administration's failure to do the mandated study and report in 1991, consideration should now be given to the possibilities for using electronic scanning technology in a new databank "accountability" approach to deterrence of counterfeiting and money laundering.

The magnitude of the counterfeiting and money laundering problems is such that any reasonable possibility for obtaining improved results in dealing with those problems should be thoroughly investigated and analyzed.

This Memorandum will give a summary of the study which was outlined in the Crime Control Act of 1990, and it will include a short discussion of the reasons no study was made. In support of the idea that a study is desirable now, the Memorandum describes

the CIAS system as being the kind of approach which would be worthy of consideration in a study of the use of electronic scanning to aid law enforcement efforts.

1. **The Crime Control Act of 1990**

A copy of the Crime Control Act of 1990, Public Law 101-647, November 29, 1990, 101st Congress, 104 STAT. 4789, is attached to this Memorandum. "Title I - International Money Laundering" included "Section 102 - Electronic Scanning Of Certain United States Currency Notes," (other sections dealt with Currency Transaction Reports and some technical amendments to other money laundering statutes).

a. The mandated study of electronic scanning

Under Subsection 102 (a), the Secretary of the Treasury was to appoint an Electronic Scanning Task Force to:

(A) study methods of printing on U.S. currency notes of \$10 or more an individual serial number that could be read by electronic scanning;

(B) assess costs of implementing such electronic scanning of currency notes; and

(C) make recommendations as to the amount of time needed to implement such electronic scanning.

Under Subsection 102 (b), the Secretary of the Treasury was to issue a report to Congress by May 29, 1991 which summarized the findings and recommendations of the Task Force and included any additional recommendations by the Secretary.

b. The failure to do the mandated study

In December 1994, Leonard Storch, president of CIAS, Inc., was advised by Thomas Ferguson, of the Bureau of Engraving & Printing, that the Department of the Treasury had not done the 1991 study and report. He referred to a typographical error in the statute which apparently made it unworkable.

The problem was that under 102 (a)(2), the Electronic Scanning Task Force had to include: (A) the Assistant Secretary for Enforcement, (B) experts from five scanning technology fields, and (C) representatives of the Bureau of Engraving, the Federal Reserve and the Secret Service. But 102 (a)(3) stated that "Except as provided in paragraph (2)(A), no individual who is a full-time employee of the Federal government may serve as a member of the Task Force." The typographical error is that obviously the exceptions in 102 (a)(3) should have included (2)(A) and (2)(C).

Of course, even accepting the typographical error as it was, the Secretary could have appointed Federal Representatives who were consultants to but not full-time employees of the three agencies designated in (2)(C). At the same time he could also have had three full-time experts from those agencies (whose input Congress obviously wanted) participate in the study even though they were not formally members of the Task Force.

It would seem that the problem of the typographical error in the statute could have been resolved if, in 1991, there had been real interest in the Department in doing the electronic scanning study. Without such interest and with likely opposition from some

experts in the Department who were committed to more traditional approaches to fighting counterfeiting, the typo excuse carried the day; and apparently Congressional interest lagged and died.

2. Recommendation for a New Electronic Scanning Study

It is respectfully submitted that a study of the possible use of electronic scanning of individual U.S. currency notes was a good idea in 1990 and the desirability of such a study is even greater today.

(a) The desirability of a study of possible use of electronic scanning technology

To say the least, counterfeiting and money laundering continue to be serious problems. The seriousness of the problems can be seen in the calls for a "war on drugs" and the related call for a "war on drug money" by Rachel Ehrenfeld and others; and it can be seen in the references during the last month in New York City newspapers to an "avalanche" and a "flood" of counterfeit money and to the use of "supernotes" as "economic terrorism" under the possible sponsorship of Middle Eastern governments (a subject which has received considerable attention from the House Republican Research Committee on Terrorism and Unconventional War).

The use of the word "war" is appropriate; and, as in wartime, our Government's response ought to be to expedite the mobilization of every possible means of fighting the war, including researching all possible new ways of achieving victories which have eluded us in the past. Given the billions that have been

spent and are being spent in these wars, without great successes (a March 1993 ABA Journal article said that during the years of the Bush administration, federal, state and local governments spent about \$100 billion in the war on drugs) and the additional billions of losses incurred by society, even if use of an electronic scanning bar code system were very costly (which would not have to be the case), the money would be well spent if it were to produce positive results.

The new \$100 bills are an impressive response to the mounting counterfeiting problem. But this traditional approach in dealing with counterfeiting -- making notes that are impossible to exactly duplicate -- has become progressively harder to implement because of sophisticated technology which is available for use by well financed counterfeiting interests. At that, even if bills cannot be exactly duplicated, minute differences between genuine bills and some of today's counterfeits cannot readily be detected by lay persons.

Pertinent in these circumstances are the admonitions of Vice President Gore and Speaker Gingrich to the effect that our Government should be more open to the use of modern technologies.

Electronic scanning and related technologies are certainly among the technologies whose uses in recent years have expanded exponentially: bar coding is universally used in all phases of commerce, including manufacturing, distribution, wholesaling and retailing; retailers, whatever the size, are connected to electronic credit card reading facilities; ATM's are available for

instantaneous use nationally and internationally; and huge computer databases are in use as computer capacity increases toward infinity and computer costs go down.

As indicated in the discussion of the CIAS system below, use of electronic scanning technology would bring an added new approach to bear on the counterfeiting problem. In addition to the Treasury's present improved techniques for making notes impossible to copy exactly, an electronic scanning and databank approach would provide accountability: scanning individually coded notes the authenticity of which could be verified by electronic reference to a databank.

Not only would the electronic scanning approach be an added new tool to fight counterfeiting, it could provide significant breakthroughs in combatting money laundering and other crimes.

(b) Suggestions for a study format

The subjects of the study outlined in the 1990 Act are still good ones -- dealing with (a) methods for use of electronic scanning, (b) costs, and (c) estimates of the time it would take to implement such an approach. Essentially, the study would involve analyses of the feasibility of an electronic scanning approach, but it would also need to include practical assessments of exactly how such an approach would add to Enforcement's ability to detect and deter counterfeiting, money laundering and other crimes.

The study itself could be quite informal; it could be done by a relatively few people in the Department. It would not be necessary or desirable to have a formal Task Force like that pro-

vided for in the 1990 Act. But the study should still have inputs from agencies and disciplines such as those listed in the Act -- persons from Enforcement, the BEP, the Secret Service, the Federal Reserve, as well as the U.S. Customs, FBI, CIA and DEA, and experts in bar coding, printing, symbology, scanning systems, computer data compilation, large computer databank installations, and computer software.

It would be best to avoid large committee meetings; and individual interviews of and written submissions by experts would be preferable to a "hearings" type of approach. Ideally, specific responsibilities could be assigned to a relatively few persons who would be working full-time on the study. One person could be a coordinator, expediter and supervisor; and it might be helpful to have that person assisted by one individual who would be a champion of the electronic scanning approach and by another who would function as devil's advocate. Lastly, wartime "impossible" schedules could be set with the goal of having the analyses and a report ready for the Secretary within two months.

End of suggestions.

3. A Summary Description of the Use of an Electronic Scanning System To Detect and Deter Counterfeiting and Money Laundering -- The CIAS Scanning/Bar Code/Databank System

The CIAS system is covered by two patents, U.S. Patent Nos. 4,814,589 and 5,283,422 and a pending patent application. The following is a description of various elements in the system.

(a) The BCB currency bar code

It is already true that each U.S. currency note has its own unique identification, including a serial number. If it is thus desirable to have such I.D. serial numbers, then, just at that simple level, bar coded I.D. serial numbers would have to be an improvement. Optical Character Reading ("OCR") devices can be used to read printed numbers; but in terms of cost, size and accuracy, the OCR devices are not practical and are markedly inferior to bar code scanning devices. Without getting into sophisticated aspects of a bar code system, bar code scanning would add substantial efficiencies in everyday bill handling, sorting, counting and record keeping operations -- just as bar codes have done in thousands of other applications.

The capacity of the suggested format of the CIAS binary coded binary ("BCB") bar code would allow for greater than 9,000,000,000,000,000 (9×10^{15}) unique currency serial numbers -- more numbers than would be needed for all of the World's currencies. This BCB format would be 1.41 inches long by .25 inches high (smaller than most existing bar code symbology), with the narrowest line of the code being .01 inch in width. Exhibit A to this Memorandum is an example of a format for using the BCB bar code on twenty dollar bills.

The BCB bar code is unique. BCB has the strongest inherent error control capability of any existing bar codes, and it is the only linear bar code with error correcting. Moreover, BCB is the only modern bar code that has been designed so that it can

be printed with currency numbering machines just as serial numbers are printed.

(b) Scanning and databank detection of counterfeit currency

The CIAS system would use a central currency databank to track and record information about currency transactions. When a bill is issued, its coded I.D. serial number would be recorded in the databank, along with distribution information. As the system is phased in, information could be recorded in the databank to reflect banking deposits and withdrawals, and large retailer transactions.

Using the CIAS system and databank, the Federal Reserve could initially scan the currency it received from the banks to see if any I.D. serial numbers are in a crime "hot" list (e.g., planted "tracer" currency or stolen currency); and, then, a more comprehensive use of the databank would involve the determination of whether the scanned currency I.D. serial numbers are authentic or whether a seemingly authentic I.D. serial number is already accounted for elsewhere or is otherwise part of a pattern of duplicate numbers. Computerized statistical analyses and following "paper trails" could also identify counterfeit bills or other illegal cash and the banks from which it comes.

(c) Security I.D. numbers

To provide a further precaution against counterfeits, the BCB bar code has the capability for using random digits as part of the serially printed coded numbers. Thus, one more bar coded digit

can be added to a bill's bar coded serial I.D. number; the digit is not serially selected, but is randomly selected and goes into the databank with the I.D. serial number of the bill.

The added digit would be checked automatically in the central databank when a bill is scanned; if the digit is not the same as the randomly selected digit which was originally stored, the bill is counterfeit. Thus, even if a counterfeiter were able to serially print bar coded numbers, he could not predict what the randomly selected digit would be -- and that would be another deterrent to large scale counterfeiting.

(d) Practical considerations

After first bar coding the currency I.D. serial numbers on the bank notes, there would be the large practical problem of implementing the system by putting the central databank on line. No doubt, concern about this underlay the 1990 Act's requirements for studying costs and the estimated time to implement a system. But in recent years scanning devices have come into use in all fields with increased effectiveness and at decreased cost. Also, monumental strides have been made in computerizing all aspects of the banking business. All in all, it would seem that there would be no shortage of contractors eager to work out solutions to databank implementation problems.

The initial phase of implementing the system might only involve use of limited sampling scanning and monitoring by enforcement agencies and the Federal Reserve Bank Centers. But as banks were charged back by the Federal Reserve for bad bills received

from them, the banks would have an incentive to install scanners and become part of the databank system; and, as casinos were charged back by the banks for bad bills received from the casinos, the casinos would have an incentive to install scanners and become part of the databank system; and large retailers would be similarly motivated.

The advantages of this automatic accountability system should be obvious to bankers and others. Among other things, they would not have to rely on the ability of a teller or retail clerk to spot the minute imperfections which characterize some of the notes produced by well financed and equipped counterfeiting operations like those reportedly located in Lebanon, Syria, Iran and Columbia.

(e) Money laundering and CTR's

Standard anti-counterfeiting measures -- making the notes impossible to exactly duplicate -- are not directly involved with the problem of money laundering. But a tracking system such as the CIAS system could be of great help in dealing with that problem. Just judging from the statute, it would appear that it was concern about money laundering which stimulated the mandate for a study of electronic scanning in the 1990 Crime Control Act.

Right on point was a Reader's Digest (April 1990) review of Claire Sterling's book "Octopus" which concluded that "a data bank to track large currency transactions" was desperately needed to fight crime. Similarly, former Attorney General Thornburgh said that "the most vulnerable point for any drug operation is the door-

way to the bank." The problem is immense; one estimate, given on Nightline, December 6, 1989, was that 26 million pounds of twenty dollar bills were laundered annually.

The tracking capability of the CIAS system would greatly add to Law Enforcement's ability to detect money laundering.

For example, in the past, Cash Transaction Reports ("CTRs") (also a subject of the 1990 Act) of transactions over \$10,000 have been used in the fight against money laundering, apparently with limited success. Presently only a small percentage of the manually filled out and processed CTRs can be checked, and those that do get examined may often have inaccurate or incomplete information. But the inevitable involvement of local banks with the bar code currency databank system could mean that CTRs would be replaced with more useful automatically generated information. Also there could be less reliance on bankers reporting suspicious transactions and more reliance on computer analyses of tracking patterns.

An electronic CTR system would have the ability to check for "traced currency", such as planted drug money, stolen money or terrorist money. This could, for example, lead to significant victories in the war on drugs -- victories which would be won with brains, not brawn.

(e) Terrorism

It could be expected that as the currency databank grows, software would be developed to enable authorities to deal with crime more effectively -- e.g., tracking terrorist activities through their currency transactions. But even without such

sophistication, the bar code currency databank system would help in the fight against terrorism simply by depriving terrorists of their financing, which, reportedly, often involves the use of counterfeit money -- and, as discussed above, the system would provide a means of counterfeit detection and deterrence which has not heretofore been available.

Conclusion

It is respectfully submitted that the Department of the Treasury should conduct a study of systems using electronic scanning, individually bar coded currency notes, and databank monitoring to detect and deter counterfeiting, money laundering, and other crimes.

Such a study would be a demonstration that the Treasury Department is, as it should be, open to exploring the possibilities for applying today's technologies to add to its traditional methods of fighting counterfeiting. Moreover, if, as a result of the study, the possibilities for using a new databank accountability approach to the counterfeiting problem were to become realities, the realities would also include use of the system to win some much needed victories in the war against drugs and other crimes.

RS

Below is a sample, shown at 75% of actual size, of what bar coded currency might look like:

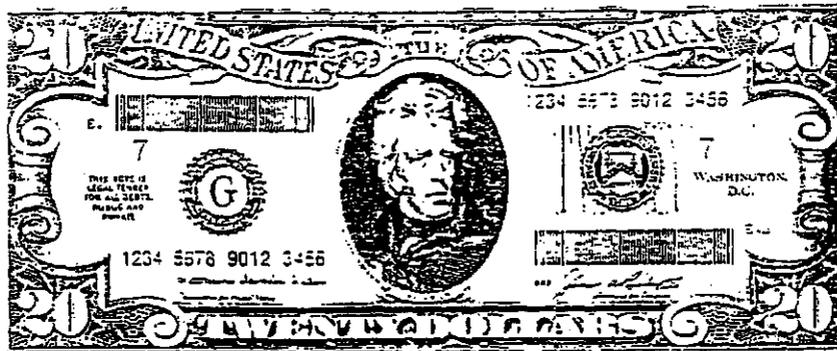


EXHIBIT A
Memorandum
10/25/95

Public Law 101-647
101st Congress

An Act

To control crime.

Nov. 29, 1990

[S. 3266]

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

Crime Control
Act of 1990.
18 USC 1 note.

SECTION 1. SHORT TITLE.

This Act may be cited as the "Crime Control Act of 1990".

**TITLE I—INTERNATIONAL MONEY
LAUNDERING**

SEC. 101. REPORTS ON USES MADE OF CURRENCY TRANSACTION REPORTS.

31 USC 5311
note.

Not later than 180 days after the effective date of this section, and every 2 years for 4 years, the Secretary of the Treasury shall report to the Congress the following:

(1) the number of each type of report filed pursuant to subchapter II of chapter 53 of title 31, United States Code (or regulations promulgated thereunder) in the previous fiscal year;

(2) the number of reports filed pursuant to section 6050I of the Internal Revenue Code of 1986 (regarding transactions involving currency) in the previous fiscal year;

(3) an estimate of the rate of compliance with the reporting requirements by persons required to file the reports referred to in paragraphs (1) and (2);

(4) the manner in which the Department of the Treasury and other agencies of the United States collect, organize, analyze and use the reports referred to in paragraphs (1) and (2) to support investigations and prosecutions of (A) violations of the criminal laws of the United States, (B) violations of the laws of foreign countries, and (C) civil enforcement of the laws of the United States including the provisions regarding asset forfeiture;

(5) a summary of sanctions imposed in the previous fiscal year against persons who failed to comply with the reporting requirements referred to in paragraphs (1) and (2), and other steps taken to ensure maximum compliance;

(6) a summary of criminal indictments filed in the previous fiscal year which resulted, in large part, from investigations initiated by analysis of the reports referred to in paragraphs (1) and (2); and

(7) a summary of criminal indictments filed in the previous fiscal year which resulted, in large part, from investigations initiated by information regarding suspicious financial transactions provided voluntarily by financial institutions.

SEC. 102. ELECTRONIC SCANNING OF CERTAIN UNITED STATES CURRENCY NOTES.

(a) ELECTRONIC SCANNING TASK FORCE.—(1) Not more than thirty days after the date of enactment of this section, the Secretary of the Treasury (hereafter in this section referred to as the "Secretary") shall appoint an Electronic Scanning Task Force (hereafter in this section referred to as the "Task Force") to—

(A) study methods of printing on United States currency notes issued under section 51115 of title 31, United States Code, in denominations of \$10 or more a serial number on each such United States currency note that may be read by electronic scanning;

(B) make an assessment of the cost of implementing such electronic scanning of such United States currency notes; and

(C) make recommendations about the amount of time needed to implement such electronic scanning.

(2) In appointing members to the Task Force described in subsection (a), the Secretary shall appoint such number of members as the Secretary determines to be appropriate. The Secretary, shall, at a minimum appoint to the Task Force—

(A) the Assistant Secretary for Enforcement in the Department of the Treasury (who shall serve as a nonvoting, ex officio member);

(B) at least one recognized expert from each of the following fields relating to electronic scanning technology:

- (i) coding,
- (ii) symbology,
- (iii) scanning systems,
- (iv) computer data compilation, and
- (v) printing technology, and

(C) Representatives from each of the following:

- (i) the Bureau of Engraving and Printing,
- (ii) the Federal Reserve Board, and
- (iii) the United States Secret Service.

(3) Except as provided in paragraph (2)(A), no individual who is a full-time employee of the Federal Government may serve as a member of the Task Force.

(4) The provisions of the Federal Advisory Committee Act shall not apply with respect to the Task Force.

(5) Members of the Task Force shall, while attending meetings and conferences of the Task Force or otherwise engaging in the business of the Task Force (including travel time), be entitled to receive compensation at a rate fixed by the Secretary, but not exceeding the rate specified at the time of such service under GS-18 of the General Schedule established under section 5332 of title 5, United States Code.

(6) While away from their homes or regular places of business on the business of the Task Force, such members may be allowed travel expenses, including per diem in lieu of subsistence, as authorized by section 5703 of title 5, United States Code, for persons employed intermittently in the Government service.

(7) Upon the issuance of the report by the Secretary under subsection (b), the Task Force shall cease to exist.

(b) REPORT TO THE CONGRESS.—Not later than one hundred and eighty days after the date of enactment of this section, the Secretary shall issue a report to the appropriate committees of the Congress

that summarizes the findings and recommendations of the Task Force under subsection (a)(1), and includes any additional recommendations by the Secretary.

(c) AUTHORIZATION OF APPROPRIATIONS.—There are authorized to be appropriated such sums as may be necessary to carry out the purposes of this section.

SEC. 103. CONFORMING AMENDMENT RELATING TO THE EQUITABLE TRANSFER OF FORFEITED PROPERTY TO A PARTICIPATING FOREIGN NATION.

Section 981(i) of title 18, United States Code, is amended—

(1) by striking out the matter before paragraph (1);

(2) by realigning paragraphs (1) through (5) 2 ems to the left, so that the left margins of such paragraphs are flush;

(3) by striking out “(1) Notwithstanding” in paragraph (1) and all that follows through the end of the second sentence of that paragraph and inserting in lieu thereof the following:

“(i)(1) Whenever property is civilly or criminally forfeited under this chapter, the Attorney General or the Secretary of the Treasury, as the case may be, may transfer the forfeited personal property or the proceeds of the sale of any forfeited personal or real property to any foreign country which participated directly or indirectly in the seizure or forfeiture of the property, if such a transfer—

“(A) has been agreed to by the Secretary of State;

“(B) is authorized in an international agreement between the United States and the foreign country; and

“(C) is made to a country which, if applicable, has been certified under section 481(h) of the Foreign Assistance Act of 1961.”;

(4) by inserting after “Attorney General” in the third and fifth sentences of paragraph (1) the following: “or the Secretary of the Treasury”; and

(5) by striking out the last sentence of paragraph (1).

SEC. 104. ADDITION OF CONFORMING PREDICATE MONEY LAUNDERING REFERENCES TO “INSIDER” EXEMPTION FROM THE RIGHT TO FINANCIAL PRIVACY ACT.

Section 1113(1)(2) of the Right to Financial Privacy Act of 1978 (12 U.S.C. 3413(1)(2)) is amended by inserting “or of section 1956 or 1957 of title 18, United States Code” after “any provision of subchapter II of chapter 53 of title 31, United States Code”.

SEC. 105. CLARIFICATION OF DEFINITION OF “MONETARY INSTRUMENTS”.

Section 1956(c)(5) of title 18, United States Code, is amended to read as follows:

“(5) the term ‘monetary instruments’ means (i) coin or currency of the United States or of any other country, travelers’ checks, personal checks, bank checks, and money orders, or (ii) investment securities or negotiable instruments, in bearer form or otherwise in such form that title thereto passes upon delivery;”.

SEC. 106. MONEY LAUNDERING AMENDMENTS.

Section 1956(c)(1) of title 18, United States Code, is amended by striking “State or Federal” and inserting “State, Federal, or foreign”.

SEC. 107. CORRECTION OF ERRONEOUS PREDICATE OFFENSE REFERENCE UNDER 18 U.S.C. 1956.

Section 1956(c)(7)(D) of title 18, United States Code, is amended by striking out "section 310 of the Controlled Substances Act (21 U.S.C. 830) (relating to precursor and essential chemicals)" and inserting in lieu thereof "a felony violation of the Chemical Diversion and Trafficking Act of 1988 (relating to precursor and essential chemicals)".

SEC. 108. KNOWLEDGE REQUIREMENT FOR INTERNATIONAL MONEY LAUNDERING.

Section 1956(a) of title 18, United States Code, is amended—

(1) in paragraph (2) by inserting at the end the following: "For the purpose of the offense described in subparagraph (B), the defendant's knowledge may be established by proof that a law enforcement officer represented the matter specified in subparagraph (B) as true, and the defendant's subsequent statements or actions indicate that the defendant believed such representations to be true."; and

(2) in paragraph (3) by striking "For purposes of this paragraph" and inserting "For purposes of this paragraph and paragraph (2)".