



# Homeland Security Investigations

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STATEMENT OF

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U.S. DEPARTMENT OF HOMELAND SECURITY

REGARDING A HEARING TITLED

*“Chinese Money Laundering Organizations: Cleaning Cartel Cash”*

BEFORE THE

U.S. SENATE CAUCUS ON INTERNATIONAL NARCOTICS CONTROL

April 30, 2024  
Dirksen Senate Office Building  
2:00 p.m.

Chairman Whitehouse, Co-Chairman Grassley, and distinguished Members:

Thank you for the opportunity to appear before you today to discuss the critical role Homeland Security Investigations (HSI) continues to play in addressing the emerging threat posed by Chinese money laundering organizations (CMLOs). CMLOs represent one of the most worrisome new threats in combating transnational organized crime. CMLOs, many associated with China-based criminal organizations, have become key players in the multi-billion-dollar criminal empires run by Mexican-based cartels and other transnational criminal organizations (TCOs). CMLOs operating in the United States act as foreign currency exchanges, enabling TCOs to seamlessly exchange U.S. dollars derived from criminal activity for foreign currencies. By using encrypted apps to communicate with criminal associates and employing complex money laundering schemes, such as underground banking, these organizations move vast sums of dirty money quickly and quietly. In addition to laundering drug proceeds, CMLOs are implicated in far-reaching criminality that spans multiple crime types, including financial fraud and cyber-related schemes perpetrated against U.S.-based individuals and corporations. My statement today will focus on some of the challenges posed by CMLOs as well as HSI's efforts to safeguard the U.S. financial system from these evolving threats.

As the largest investigative component of the Department of Homeland Security (DHS), HSI has a broad investigative mandate and unique authorities to secure the homeland from transnational crime and threats. With more than 6,800 special agents located in hundreds of offices throughout the United States and the world, HSI investigates, disrupts, and dismantles terrorist, transnational, and other criminal organizations that threaten our nation's security. In collaboration with its partners in the United States and abroad, HSI special agents develop evidence to identify and advance criminal cases against CMLOs, terrorist networks and facilitators, and other criminal elements that threaten the homeland. HSI works with prosecutors to arrest and indict violators, execute criminal search warrants, seize criminally derived assets, and take other actions with the goal of disrupting and dismantling CMLOs and other TCOs operating throughout the world. These efforts help protect the national security and public safety of the United States.

Today, much of HSI's focus is on addressing the myriad threats to the homeland emanating from or otherwise associated with the People's Republic of China (PRC). The PRC endorses the illicit acquisition of cutting-edge technologies through intellectual property theft and the use of non-traditional collectors, and aids rogue nations in sanctions evasion. These activities harm our nation's interests and undermine the strength and sovereignty of the United States. Also, PRC-based criminal organizations are implicated in all phases of the deadly fentanyl epidemic. The chemicals used to manufacture illicit fentanyl are largely produced in China; Chinese criminal syndicates operate in Mexico and collaborate with the cartels to produce illicit fentanyl that is then smuggled across our southern border; and increasingly, PRC Chinese nationals operating on behalf of these syndicates are located throughout the United States and Mexico providing support to the cartels by laundering illicit fentanyl proceeds. The number of HSI investigations involving the PRC continues to increase every year. In Fiscal Year (FY) 2023, HSI opened more than 600 such investigations, an increase of more than 1,000 percent over FY 2019. Many of these new cases involve CMLOs.

## **Rise of Chinese Money Laundering Organizations in the United States**

CMLOs have come to dominate much of the money laundering activity in the United States as well as globally. As I will describe in further detail, CMLOs use several complex money laundering techniques to help Chinese citizens evade the PRC's currency controls, including through the use of Chinese underground banking, an informal value transfer system (IVTS) that is commonplace within Chinese diaspora communities. In general terms, underground banking involves paying the amount required to be remitted overseas to a bank account controlled by an entity – in this case the CMLO – which then arranges for a reciprocal payment, or “mirror transfer,” to be made into a bank account of the remitter's choice. CMLOs use these mirror swaps to launder funds for TCOs faster and cheaper than other professional money laundering organizations. While specific typologies of mirror transactions can vary, generally they are unlicensed cross-border currency swaps where funds are credited and debited without physical money movement.

For instance, in mirror transactions involving illicit drug proceeds, a TCO delivers the cash drug proceeds to a CMLO courier. Upon receipt of the illicit cash proceeds in the United States, the CMLO transfers a comparable amount of yuan from a bank account it controls in the PRC to another PRC-based bank account the CMLO is using to launder funds. Often, the bank account nominally is in the name of a company not otherwise affiliated with the underlying criminal activity. Once this transaction occurs, a second “mirror swap” occurs which results in a comparable sum of foreign currency being credited – almost immediately – to the drug trafficker's account of their choosing anywhere in the world. These transactions occur outside the U.S. banking system, with no paper trail that connects the criminal proceeds originally obtained in the United States with the final cash in the hands of the TCO. This method also allows TCOs to avoid the risk and cost associated with attempting to smuggle bulk cash across borders.

The rise of Chinese underground banking activity in the United States can be attributed, at least in part, to stringent currency controls imposed by the PRC government on its citizens. Chinese foreign exchange rules now cap the number of yuan PRC citizens are allowed to convert into other currencies at approximately \$50,000 (USD equivalent) each year. Further, PRC law also limits PRC citizens from transferring more than \$50,000 USD equivalent in yuan abroad per year. This has driven PRC citizens seeking to circumvent currency restrictions to increasingly rely on the services of CMLOs for access to U.S. dollars as well as to the U.S. financial system. CMLOs operating in the United States increasingly need access to significant amounts of U.S. dollars to satisfy the growing demand for underground banking services by PRC nationals. Since the use of large sums of cash in the United States is uncommon and raises flags, CMLOs regularly source the U.S. dollars they need from TCOs operating throughout the country. This has created a symbiotic relationship between the two: CMLOs have a supercharged demand for U.S. dollars, while TCOs need their illicit financial proceeds laundered.

## **Use of Money Mules and Counterfeit Chinese Passports**

CMLOs require access to a substantial number of bank accounts to place, layer, and integrate these dirty funds obtained from cartels and other TCOs into the formal financial system. CMLOs are known to recruit witting and unwitting PRC nationals living in the United States to assist with the creation of bank accounts at U.S. financial institutions. These “money mules” are often enlisted

by CMLOs using social media platforms, including messaging apps such as the Chinese app WeChat. Money mules may be told they are providing money transmission services for international students, or they are servicing unbanked Chinese citizens residing in the United States. Money mules are known to use counterfeit Chinese passports supplied by the CMLO to open bank accounts for the explicit purpose of moving, concealing, and laundering the proceeds of a variety of crimes, including drug trafficking, human smuggling, prostitution, bank fraud, fraudulent mass marketing, and other financial fraud schemes. CMLOs are known to use encrypted messaging applications such as WeChat, QQ, and other PRC-based programs, to purchase high-quality counterfeit Chinese passports that are produced in the PRC and shipped to the United States. HSI investigations have confirmed that some of these passports also contain counterfeit U.S. visas as well as counterfeit entry stamps. Upon receipt, CMLOs provide these counterfeit passports to money mules to establish bank accounts at U.S. financial institutions and to evade detection by law enforcement.

HSI utilizes copies of these counterfeit passports obtained from financial institutions to further criminal investigations aimed at identifying, disrupting, and dismantling CMLOs. However, many financial institutions do not retain copies of identity documents used by customers to open bank accounts. Provisions passed as part of the USA PATRIOT Act, while requiring financial institutions to identify their customers, do not require them to make or retain copies of the underlying identity documents. The absence of copies of identity documents continues to hinder CMLO investigations.

Money mules recruited by CMLOs for these schemes often purport to be students or workers in the hospitality or food service industry, such as a chef, cook, server, laborer, or delivery driver, when opening bank accounts at financial institutions. These mule accounts are often funded with an initial small dollar cash deposit (e.g., \$100), followed by large dollar cash deposits shortly thereafter that are inconsistent with the stated occupation of the account holder. Once opened, it is not uncommon for other members of the CMLO to use and have access to the accounts. As documented in HSI investigations, CMLOs often fly money mules to different regions of the United States to make deposits into existing mule accounts. Investigators noted several instances where money mules were instructed to wear face masks when conducting transactions at financial institutions. On occasion, other members of the criminal organization were present when conducting counter transactions at banks, often claiming to act as translators.

Funds deposited into money mule accounts are almost immediately withdrawn and used to purchase cashier's checks, generally in round-dollar amounts between \$10,000 and \$100,000—although purchases as high as \$380,000 have been documented—made payable to third parties not affiliated with the account holder. Cashier's checks purchased by money mules are generally negotiated by the payees at different financial institutions located throughout the United States and subsequently withdrawn. Using these mule accounts, CMLOs convert duffle bags full of small denomination bills, generated from suspected street-level drug deals and other crimes, into large denomination bills that are easier to transport and consolidate. In some instances, CMLOs are known to dispose of the dirty cash by purchasing real estate or college tuition on behalf of Chinese nationals evading restrictions on capital flight. In other instances, CMLOs profit from the cash by engaging in massive trade-based schemes as described below.

## **Use of Trade**

CMLOs dispose of criminal proceeds in part through what they call “Daigou schemes” based on the practice of “daigou,” a Chinese term that translates to “buying on behalf of.” In these schemes, CMLOs recruit mules to purchase high-value electronics and luxury goods such as handbags and subsequently export the merchandise from the United States to China where it is sold for a profit. Funds generated from these goods remain offshore where they are used to replenish overseas bank accounts used to facilitate Chinese underground banking activities.

HSI is investigating multiple CMLOs that are using criminal proceeds to procure iPhones and other Apple products that are being exported from the United States to Hong Kong, the United Arab Emirates, and elsewhere. These CMLOs have shipped thousands of parcels containing these products using express consignment companies. Many of these products were determined to be stolen or otherwise fraudulently obtained by the CMLO. For instance, CMLOs are implicated in large retail gift card fraud schemes that involve removing, altering, then re-stocking gift cards at a particular retail location. During the alteration process, the gift card barcodes are replaced by barcodes controlled by the CMLO. When an unwitting customer loads funds onto the altered gift card, the CMLO converts those funds to hard goods, often iPhones, through retail purchases made by CMLO mules throughout the United States. Those iPhones, together with devices procured with criminal proceeds purchased from TCOs, are then exported abroad for resale to complete the underground banking cycle.

## **Bank Insider Threat**

HSI investigations have established that CMLOs actively recruit existing bank employees and seek to place members of their criminal organizations inside banking institutions to facilitate criminal activity. The insiders act as facilitators to monitor bank accounts being utilized by the CMLO to launder money in the event the account is flagged by the bank, or to obtain sensitive personally identifiable information of bank customers targeted for bank account takeovers or identity theft. The bank insiders provide the CMLO the ability to open bank accounts without a person physically being present at the bank – otherwise known as “ghost accounts.” Moreover, CMLO insiders have also been observed to manipulate account information, such as the account holder’s telephone number, so that verification calls from the bank are routed to the CMLO instead of the true account holder. In other instances, the insider manipulates addresses so debit cards can be reissued and sent to an address under the control of the CMLO.

## **HSI Response**

One of HSI’s top priorities is to investigate the vast international money laundering schemes connected to the illicit narcotics trade and other cross-border criminal activities. HSI, with its unique customs and financial investigative authorities is well positioned to identify criminal conspiracies that hide ill-gotten proceeds within the stream of legitimate commerce, and on conveyances and persons entering or departing the United States, or in the virtual environment such as cryptocurrency. HSI works to identify and seize the illicit proceeds and instrumentalities of crime and target financial networks that transport, launder, and hide such proceeds. HSI is the U.S. Government’s primary law enforcement agency responsible for investigating trade-based criminal schemes – one of the key techniques used by CMLOs and other criminal actors to

launder narcotics proceeds – and as customs officers, HSI special agents have essential access to financial and trade data. HSI’s financial crime efforts in FY 2023 resulted in 2,474 arrests, 1,579 criminal indictments, 842 convictions, and the seizure of \$457 million in illicit currency and other assets (as valued at the time of seizure). HSI investigations related to cryptocurrency have risen from one criminal investigation in 2011 to over 530 criminal investigations in FY 2023. In FY 2022, HSI seized nearly \$4 billion (valued at the time of seizure) in cryptocurrency. This substantial increase signifies growing confidence in cryptocurrency use by criminals and criminal networks.

Recognizing the unprecedented epidemic of deaths from illicit opioids, HSI developed and launched a plan called the *Strategy for Combating Illicit Opioids*. The Strategy builds upon many of HSI’s core investigative authorities and capabilities in combating TCOs and focuses efforts on four main goals, all of which align with the National Drug Control Strategy: 1) reduce the international supply of illicit opioids; 2) reduce the domestic supply of illicit opioids; 3) attack the enablers of illicit opioid trafficking: illicit finance, cybercrime, and weapons smuggling; and 4) conduct outreach with private industry. A key component of HSI’s Strategy is to attack the CMLOs and other criminal financial networks that are the lifeblood of their operations.

In 2023, HSI established the Cross-Border Financial Crime Center (CBFCC) to strengthen the United States’ anti-money laundering framework. The CBFCC is physically located in the National Capital Region, operates at the national level, and will convene federal law enforcement agencies, partner nation authorities, banks and financial institutions, and financial technology (fintech) companies to promote collaboration on cross-border financial crime. This effort directly supports the disruption, prosecution, and dismantlement of CMLOs and other TCOs, strengthens financial and fintech industry protections against illicit activity, and enhances communication between government and private sector partners. The CBFCC is prioritizing efforts to identify, disrupt, and dismantle CMLOs given the emerging threats they pose to the financial system and our nation’s security. In January, HSI’s Cornerstone program focused its monthly financial crimes newsletter on the prevalent use of counterfeit Chinese passports by CMLOs to facilitate criminal activity.<sup>1</sup> The newsletter also identified multiple red flag indicators that banks could use to identify these CMLO mule accounts.

By leveraging the expertise of the HSI Forensic Laboratory, a crime laboratory specializing in document authentication, and the CBFCC conducting analysis of thousands of pages of Bank Secrecy Act reporting, HSI identified that CMLOs were using counterfeit Chinese passports to open bank accounts in the United States. The CMLOs utilized the accounts for the explicit purpose of laundering tens of millions of dollars of suspected drug and other criminal proceeds on behalf of TCOs. The HSI Forensic Laboratory continues to provide evidentiary analysis of identification documents in support of outreach programs and criminal investigations throughout federal law enforcement.

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<https://content.govdelivery.com/accounts/USDHSICE/bulletins/37fff16#:~:text=Money%20mules%20are%20known%20to,mass%20marketing%2C%20and%20other%20financial>

HSI also continues to build upon decades of success of the El Dorado Task Force platform. First established under the U.S. Customs Service in New York in 1992 and expanded to Miami in 2018, HSI's El Dorado Financial Crimes Task Forces (EDTFs) continue to be incredibly effective platforms to identify, mitigate, and close the gaps exploited by TCOs to disguise and move their illicitly obtained funds. The EDTFs – a highly successful multi-agency model for investigating and prosecuting complex financial crimes – bring together federal, state, tribal, and local law enforcement to disrupt and dismantle transnational money laundering organizations. The EDTFs focus on high-priority financial investigations, actively engage private sector partners, and leverage federal and state laws and regulations to bring successful prosecutions. Historically, the EDTFs have been responsible for some of HSI's most significant money laundering investigations. For instance, EDTF investigations have led to the identification, indictment, and extradition of the hierarchy of Colombian and Mexican-based cartels engaged in the trafficking of cocaine, as well as corrupt foreign officials. These cases resulted in record fines to multinational banking institutions. Over the last decade, EDTF investigations have led to over 2,100 arrests and the seizure of over \$2.68 billion in illicit proceeds.

Earlier this year, HSI approved the expansion of the EDTF model to each of HSI's 30 domestic Special Agent in Charge offices to further enhance the ability of the United States to investigate and prosecute individuals, businesses, and banks involved in money laundering and other financial crimes. The CBFCC will assume responsibility for managing the nationwide rollout and implementation of the EDTF program. This task force model is increasingly important to address emerging and evolving threats to the U.S. anti-money laundering framework, including those posed by CMLOs.

Another program established by HSI to combat illicit financial flows is the HSI Third-Party Money Laundering (3PML) Program. Third-party money laundering investigations involve professional money launderers such as CMLOs who operate in the United States and abroad to facilitate the movement of criminal proceeds on behalf of TCOs. Third-party money laundering investigations target professional money launderers such as accountants, attorneys, notaries, bankers, real estate agents, and others who provide professional services to criminal organizations. Professional money launderers are not typically involved in the commission of the money laundering predicate offense; however, they use their professional influence and expertise to transfer funds on behalf of third parties, knowing that the funds are proceeds of, or otherwise related to, illicit activity. Since the initiation of the 3PML Program in 2013, HSI has initiated over 400 investigations into professional money laundering networks, including CMLOs. In FY 2023, HSI seized over \$100 million in criminal proceeds and made over 200 criminal arrests in connection with 3PML-designated investigations.

HSI is actively engaged with the U.S. Department of the Treasury including the Financial Crimes Enforcement Network and the Bank Secrecy Act Advisory Group, and the Department of Justice including their Money Laundering and Asset Recovery Section, to strengthen and enforce regulations and statutes dedicated to anti-money laundering. In addition, HSI participates in several critical intergovernmental agreements and organizations to include the Financial Action Task Force, the Five Eyes Law Enforcement Working Group, and the World Customs Organization. HSI provides anti-money laundering assessments, training, current best practices and lessons learned in the fight against the movement and laundering of illicit proceeds.

## **Conclusion**

Thank you again for the opportunity to appear before you today and for your continued support of HSI and our efforts to use our unique authorities and global footprint to dismantle Chinese money laundering organizations. The actions of CMLOs represent a pervasive threat to the U.S. and global financial systems, the rule of law, and the public health and safety of people across the world. I look forward to your questions.