

**CRAIG D. MAGAW
Deputy Assistant Director
Office of Investigations
United States Secret Service**

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United States Sentencing Commission
Public Hearing on Counterfeiting and “Bleached Notes”**

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Good afternoon Chairman Hinojosa and distinguished members of the Commission. On behalf of the men and women of the United States Secret Service, it is my pleasure to be here today to discuss the Commission’s proposed amendments to the sentencing guidelines for offenses involving counterfeit bearer obligations of the United States.

The counterfeiting of money is one of the oldest crimes in the history of the country. At some periods in our history, it was considered treasonous and even punishable by death. During the American Revolution, the British counterfeited U.S. currency in such large amounts that the Continental currency soon became worthless. “Not worth a Continental” even became a popular expression of the era. During the Civil War, one-third to one-half of the currency in circulation was counterfeit. As a result, the Secret Service was established in 1865 to suppress the widespread counterfeiting of the nation’s currency.

Over the past 143 years, our mission has expanded to provide broader protection of the U.S. financial system by investigating additional crimes such as bank fraud, identity theft, access device fraud, and money laundering. However, the investigation of those who seek to counterfeit U.S. currency still remains a top priority for the Secret Service.

Counterfeit U.S. currency can be produced using a variety of methods. One method involves traditional printing processes such as “offset” printing, which is one of the same methods used by the Bureau of Engraving and Printing (BEP) when producing genuine U.S. currency. Another method is a newer, technology based process called “digital imaging.”

A counterfeiter who uses the “offset” method requires a technical expertise in printing and the ability to use specialized equipment, such as a printing press, plates and negatives. This type of counterfeit operation typically yields large quantities of counterfeit notes and can only be accomplished by a small number of sophisticated criminals. However, the Secret Service has observed that in the last 15 years, counterfeiters have changed their primary method of manufacturing to “digital imaging.” This newer method of manufacturing requires only minimal technical knowledge and access to scanners and printers easily available at local retail stores. This shift to “digital imaging” manufacturing has now enabled a larger number of individuals to engage in this criminal behavior.

In recent years, the Treasury Department has taken significant steps to defeat or dissuade modern day counterfeiters. In addition to sophisticated printing methods, the Treasury Department has integrated new security features known as “distinctive counterfeit deterrents.” These include watermarks, micro-printing, security threads and different colored inks designed to protect the integrity of our currency while complicating the counterfeiting process. The Secret Service continues to work to stay ahead of modern counterfeiting operations through its involvement in the currency design process and its close working relationships with the BEP, the Federal Reserve Board (FRB), and the Treasury Department.

Today, counterfeiters are adapting their manufacturing methods to incorporate the Treasury Department's "distinctive counterfeit deterrents" and "distinctive paper" into their production methods to generate highly deceptive counterfeit notes. In one such process, the counterfeiter takes a lower denomination genuine U.S. note, usually a \$5 bill, and removes the printed ink through a labor-intensive process commonly referred to as "bleaching." This "bleaching" process creates a blank note of genuine U.S. currency paper that retains many of its "distinctive counterfeit deterrents" and is, of course, made of the "distinctive paper" adopted by the Treasury Department. The counterfeiter then transfers an image of a higher denomination U.S. note, usually from a \$100 bill, onto the "bleached" genuine paper. Color computer printers are the most common devices used to transfer counterfeit images to the genuine "bleached" paper, but a counterfeiter can also accomplish this through the more traditional "offset" printing method. In either circumstance, the final product is an extremely deceptive hybrid counterfeit bill that blends the unique feel and features of a genuine note with a counterfeit image.

The Secret Service has observed that counterfeit notes produced on "bleached" paper are both a domestic and international concern. Counterfeiting operations based in Colombia, Nigeria, Italy, and North Korea have all produced significant quantities of counterfeit notes that were printed on "bleached" genuine U.S. currency paper. Counterfeiters are also targeting foreign currency for their "bleaching." "Bleached" Venezuelan and Iraqi currencies have been used to produce counterfeit U.S. \$100 bills.

The use of genuine U.S. currency paper in the production of counterfeit obligations has presented some unique issues regarding the applicability of the current counterfeit

guidelines. The current guidelines, found at §2B5.1, Counterfeit Bearer Obligations of the United States, appear somewhat ambiguous as to which guideline applies when an individual is being sentenced for counterfeit activity related to “bleaching.” As the Commission is aware, several federal courts have resolved differently the question of whether offenses involving “bleached” notes should be sentenced under §2B5.1 or §2B1.1. As a result, some defendants convicted of “bleached” note counterfeiting are receiving lower sentences from the courts than defendants convicted of less sophisticated counterfeiting methods. The proposed amendments should effectively respond to the concerns expressed by federal judges and members of Congress and provide much needed clarity in this area.

The Secret Service fully supports the proposed Sentencing Commission changes to §2B5.1. The Secret Service believes that currency illegally produced on genuine U.S. paper is counterfeit. Moreover, defendants who “bleach” genuine U.S. currency paper typically manufacture a highly deceptive counterfeit note that is easier to pass. These counterfeiters rely on the “distinctive counterfeit deterrents” and unique feel of genuine U.S. currency paper to create counterfeit currency that is often difficult to detect or identify. As such, “bleached” note counterfeiters should be subject to the sentencing provisions governing counterfeit offenses.

The Secret Service feels strongly that individuals engaged in counterfeiting, regardless of the method they choose, should be treated with parity in sentencing. Furthermore, the Secret Service feels the potential increase of prison sentences under the proposed amendments to §2B5.1 will present not only a deterrent for those considering engaging in the counterfeiting of U.S. currency for the first time, but also for those already

previously convicted of a counterfeiting offense who may undertake such criminal activity again at a later time.

Therefore, the Secret Service is pleased that the Commission is considering the proposed amendments to the counterfeiting sentencing guidelines.

Mr. Chairman and members of the Commission, I appreciate your time today and thank you again for the opportunity to speak to you regarding this issue. I will be pleased to answer any questions that you may have.