



U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

EMBARGOED UNTIL 10:00 a.m. (EDT), April 1, 2008
CONTACT John Rankin, (202) 622-1343

UNDER SECRETARY FOR TERRORISM AND FINANCIAL INTELLIGENCE STUART LEVEY

TESTIMONY BEFORE THE SENATE COMMITTEE ON FINANCE

WASHINGTON – Chairman Baucus, Ranking Member Grassley, and distinguished members of the Committee, thank you for the opportunity to speak with you today about the work of the Treasury Department’s Office of Terrorism and Financial Intelligence (TFI). I want to thank this Committee and the others that oversee TFI for the continued support and guidance we have received. Today, I want to brief you on the progress we have made over the past four years and also talk about some of the challenges we face moving forward.

THE OFFICE OF TERRORISM AND FINANCIAL INTELLIGENCE AND THE TREASURY DEPARTMENT’S ROLE IN PROTECTING NATIONAL SECURITY

Nearly four years have passed since I first testified before this committee as the nominee for my current position. At the time, I think it is fair to say that the extent of the Treasury Department’s future role in protecting U.S. national security was uncertain at best. Most of the Treasury’s law enforcement functions had been moved to the Departments of Justice and Homeland Security in 2003, the Treasury was not integrated into the Intelligence Community, and the office that I was being asked to lead was only in the process of being established.

But there were some who recognized that the Treasury Department’s efforts to protect the safety and soundness of the international financial system were indispensable to our national security, especially given the types of threats we face in a post -9/11 world. Globalization is a positive trend; open finance and free trade enhance the economic security and prosperity of people in this country and around the world. But illicit actors seek to abuse the global financial system to support their dangerous activities. The financing of terrorism and weapons proliferation often occurs within the same system that spreads prosperity at home and abroad. It was therefore important to adapt our national security strategy to confront this challenge. This was the genesis of the Office of Terrorism and Financial Intelligence, or TFI.

Fast-forward to today, and we have a Treasury Department that is playing a greater role in national security than ever before. The guiding principle of TFI's approach is that many of the threats we face – from terrorism to the proliferation of weapons of mass destruction (WMD) to narcotics trafficking – all have one thing in common: they rely on financial support networks. These threats are not neatly confined within the borders of another country. They are asymmetric and borderless and thus not necessarily susceptible to being solved exclusively by traditional means of deterrence. The Treasury is well-situated to address them because of the authorities we command, the relationships we possess with governments and private sector actors around the world, and the financial information we can draw upon.

Transactions by those engaged in threatening conduct typically leave a trail of detailed information that we can follow to identify key actors and map their networks. Opening an account or initiating a funds transfer requires a name, an address, a phone number. This information tends to be very accurate and durable. In 2004, with the creation of TFI's Office of Intelligence and Analysis, the Treasury became the first finance ministry in the world to develop in-house intelligence and analytic expertise to use this information. We now work with the broader Intelligence Community to communicate the Department's requirements and evaluate information that threatens our national security. The Treasury then considers this information with an eye toward potential action – be it a designation, an advisory to the private sector, or a conversation to alert the private sector and government officials in another country to a particular threat. The financial networks of these illicit actors are not only a rich source of intelligence, but also they are a vulnerability we can exploit. As I will explain, we have seen in various contexts that targeting these financial networks, when we do it right, can place an enormous amount of pressure on these networks and the actors they support.

A. COMBATING THREATS WITH TARGETED FINANCIAL MEASURES

As we have applied our authorities to different threats over the past several years, we have adopted a new strategy of using targeted, conduct-based financial measures aimed at particular bad actors. I intentionally refer to these targeted actions as “financial measures” rather than “sanctions” because the word “sanctions” often evokes such a negative reaction. These targeted financial measures are proving to be quite effective, flying in the face of a widely-held historical view that dismisses sanctions as ineffective, harmful to innocents, or both.

In the case of broad, country-wide sanctions that are often perceived as political statements, it can be difficult to persuade other governments and private businesses to join us in taking action. Even when other governments agree with us politically, they generally tend to be unwilling to force their businesses to forgo opportunities that remain open to others. When the private sector views such broad sanctions as unwelcome barriers to business, companies are unmotivated to do more than what is minimally necessary to comply. Indeed, history is replete with examples of participants in the global economy working to evade such sanctions while their governments turn a blind eye.

The dynamic is different when we instead impose financial measures specifically targeted against individuals or entities engaging in illicit conduct. When we use reliable financial intelligence to build conduct-based cases, it is much easier to achieve a multilateral alignment of interests. It is difficult for another government, even one that is not a close political ally, to oppose isolating actors who are demonstrably engaged in conduct that threatens global security or humanitarian interests. Also, whatever their political views, all countries want their financial

sectors to prosper and to have good reputations. They therefore share a common interest with us in keeping their financial sectors untainted by illicit conduct.

The key difference when we use targeted financial measures is the reaction of the private sector. Rather than grudgingly complying with, or even trying to evade these measures, we have seen many members of the banking industry, in particular, voluntarily go beyond their legal requirements because they do not want to handle illicit business. This is a product of good corporate citizenship and a desire to protect their institutions' reputations. The end result is that private sector voluntary actions amplify the effectiveness of government-imposed measures.

Once some in the private sector decide to cut off companies or individuals we have targeted, it becomes an even greater reputational risk for others not to follow, and so they often do. Such voluntary implementation in turn makes it even more palatable for foreign governments to impose similar measures because their financial institutions have already given up the business, thus creating a mutually-reinforcing cycle of public and private action.

Armed with the critical intelligence capability I have described, as well as our experience building and maintaining multilateral government and private sector support for our actions, TFI draws on any one or a combination of authorities to respond to a particular threat. In many circumstances, we have found that our most effective tool is simply sharing information about illicit actors with other governments and members of the international private sector.

I would now like to describe some of the results of this marriage of intelligence and strong financial authorities, and the role it plays across various elements of our national security strategy.

1. Disrupting and Dismantling Terrorist Support Networks

Our efforts to track and combat terrorist financing are critical pillars of the U.S. government's efforts to protect U.S. citizens and other innocents around the world from terrorist attacks. These efforts span across U.S. departments and agencies and range from intelligence collection and analysis to public actions aimed at holding terrorist financiers accountable for their conduct and deterring other would-be donors. Activities to combat terrorist financing are more integrated than ever before into the U.S. government's strategic approach to counterterrorism by virtue of the National Implementation Plan, which synchronizes the U.S. government's overall counterterrorism efforts.

Over the last four years, we have become more adept at pursuing that strategy and at pursuing the most appropriate course of action to combat the particular terrorism threat presented. In December of 2005, the 9/11 Commission's Public Discourse Project awarded its highest grade, an A-, to the U.S. government's efforts to combat terrorist financing. Since then, we have continued to develop and improve our strategy and there are signs that we are making important progress.

To start, we have made significant progress in mapping terrorist networks. "Following the money" yields some of the most valuable sources of information we have in this effort. As 9/11 Commission Chairman Lee Hamilton has stated: "Use of this tool almost always remains invisible to the general public, but it is a critical part of the overall campaign against al Qaida." That is because financial intelligence is extremely reliable; money trails don't lie. At times, our

best course is not to take public action, but to continue to trace the network both upstream to the ultimate donors and downstream to the operational cells.

On some occasions, we decide that the best approach is to share intelligence with other countries and urge them to take action against the relevant actors. We have found that almost all countries will take such requests very seriously, especially when the information concerns al Qaida.

At other times, we have determined that the best course is for the Treasury to take public action. We have a powerful Executive Order that allows us to designate terrorists and their supporters, freezing any assets they have under U.S. jurisdiction and preventing U.S. persons from doing business with them. We have used this authority against key terrorist entities, facilitators, donors, and terrorist-supporting charities, ranging from Bayt al-Mal and Yousser Company, which are financial institutions that functioned as Hizballah's unofficial treasury in Lebanon, to Adel Abdul Jalil Batterjee, a Saudi-based donor to al Qaida.

When it comes to al Qaida and the Taliban, there is a UN Security Council resolution, UNSCR 1267, which provides for designations similar to our Executive Order designations. There are other Security Council resolutions dealing with terrorist financing more generally, but for Hamas, Hizballah and other terrorist organizations we have designated, there is no comparable UN list. We are still grappling with this challenge. We nevertheless have found that our unilateral designations are followed voluntarily by many banks around the world that have decided they simply do not want to do business with these actors.

The disruptive impact of these actions is significant. Beyond the direct effect on the designated individual or entity, designations can also deter other would-be financiers. The terrorist operative who is willing to strap on a suicide belt may not be susceptible to deterrence, but the individual donor who wants to support violent jihad may well be. Terrorist financiers typically live public lives with all that entails: property, occupation, family, and social position. Being publicly identified as a financier of terror threatens an end to that "normal" life.

Designations have also been an effective tool in combating terrorist abuse of charities. Historically, al Qaida and other terrorist groups have set up or exploited some charities, preying on unwitting donors trying to fulfill their religious obligation of charitable giving or seemingly engaging in humanitarian activity to garner support from communities in need. Indeed, many terrorist-supporting charities have gone to great lengths in attempting to obscure their support for violence.

Through a combination of public designations and law enforcement and regulatory actions against corrupt charities, both at home and abroad, we have exposed and taken out key organizations and deterred or disrupted others. We have thus far designated approximately 50 charities worldwide as supporters of terrorism, including several in the United States, putting a strain on al Qaida's financing efforts.

There is also increased awareness among charities around the world of the danger of terrorist abuse. In that regard, our active engagement with the charitable sector has been just as important as our actions against specific charities that have supported terrorism. This is particularly important because we want humanitarian assistance to reach those who are truly in need through channels safe from terrorist exploitation.

We have issued guidance to assist charities in mitigating the risk of exploitation by terrorist groups. We have engaged in a comprehensive outreach campaign to the charitable sector and the Arab/Muslim-American communities to explain the threat, provide guidance, and address questions regarding Treasury enforcement actions. Internationally, we have worked through organizations like the Financial Action Task Force – or the “FATF,” the world’s premier standard-setting body on combating terrorist financing and money laundering – to develop and implement standards and best practices on preventing terrorist financing through charitable organizations. This effort has made it much more difficult for al Qaida and other terrorist groups to raise money through ostensibly mainstream charities while also helping well-intentioned donors support worthy causes.

The real value of all of our counter-terrorist financing efforts is that they provide us with another means of maintaining persistent pressure on terrorist networks. Terrorist networks and organizations require real financing to survive. The support they require goes far beyond funding attacks. They need money to pay operatives, support their families, indoctrinate and recruit new members, train, travel, and bribe officials. When we restrict the flow of funds to terrorist groups or disrupt a link in their financing chain, we can have an impact.

With respect to the terrorist group that poses the greatest threat to the United States, al Qaida, we have made real progress. We have disrupted or deterred many of the donors on which al Qaida used to rely. At the very least, these donors are finding it far more difficult to fund al Qaida with the ease and efficiency provided by the international financial system. The same applies to many of the charities that al Qaida previously depended upon as a source of funds. To the extent we can force terrorists and their supporters out of the formal financial system, we force them into more cumbersome and riskier methods of raising and moving money, subjecting them to a greater likelihood of detection and disruption. In this regard, we are also pursuing important efforts to facilitate the interdiction of cash couriers, for example by working with DHS to identify and interdict them. The Department of Homeland Security's Customs and Border Protection is playing a leading role in this global effort.

Along with our allies around the world, we have disrupted many of al Qaida’s most important facilitation networks. Consider this relatively recent quote from an interview by a high-ranking al Qaida official, Mustafa Abu-al-Yazid, also known as Shaykh Sa’id:

“As for the needs of the Jihad in Afghanistan, the first of them is financial. The Mujahideen of the Taliban number in the thousands, but they lack funds. And there are hundreds wishing to carry out martyrdom-seeking operations, but they can’t find the funds to equip themselves. So funding is the mainstay of Jihad. . . . And here we would like to point out that those who perform Jihad with their wealth should be certain to only send the funds to those responsible for finances and no other party, as to do otherwise leads to disunity and differences in the ranks of the Mujahideen.”

Al Qaida’s expression of concern about its financial difficulties is not limited to this one comment; this concern has recently been echoed elsewhere in al Qaida’s upper ranks. This, in part, is the impact of being forced out of the formal financial system. Al Qaida has had no choice but to turn to less reliable methods of raising, storing, and moving money, giving rise to opportunities for fraud and distrust within its ranks.

The overall impact of all of our efforts has been substantial: as DNI McConnell recently testified, over the last year to 18 months we have seen that the core leadership of al Qaida has had difficulty raising funds and sustaining itself.

That does not mean that I am satisfied; there are still tough issues that need to be tackled. One of our greatest challenges will be to foster the political will required to deter terrorist financiers more consistently and effectively. It has proven difficult to persuade officials in some countries to identify and to hold terrorist financiers publicly accountable for their actions. This lack of public accountability undermines our ability to deter other donors. Those who reach for their wallets to fund terrorism must be pursued and punished in the same way as those who reach for a bomb or a gun. We have made some progress in this area, but we have a long way to go. So long as that is the case, even when we are successful in disrupting terrorist facilitators and financial conduits, our successes may well be short-lived.

Stemming the violence in Iraq continues to be a significant challenge, but TFI is contributing to the effort. Our intelligence work has been particularly useful in helping to restrict the flow of funds fueling the Iraqi insurgency. The Treasury and Defense Departments established in late 2005 a Baghdad-based interagency intelligence unit, known as the Iraq Threat Finance Cell (ITFC), to enhance the collection, analysis, and dissemination of timely and relevant financial intelligence to combat the insurgency. The ITFC has made significant contributions to our war fighters. Senior U.S. and Coalition military commanders have come to rely on the cell's strategic and tactical analysis to help combat the Iraqi insurgency and disrupt terrorist, insurgent, and militia financial networks.

The presence of al Qaida in Iraq is representative of another trend that poses a significant challenge for us. In the years since September 11, al Qaida has continued to merge with regionally-based terrorist groups to support its cause. Although these partners, which include groups based in Africa, the Middle East and elsewhere, may have had long-standing objectives of using terrorist tactics against governments and regimes, their affiliation with al Qaida brings with it the potential that their personnel and resources could be used to engage in attacks globally including against the United States. Our challenge is to stay in front of this trend by working to understand these groups' operations, organizational structure and, of course, their financial networks, as quickly as they are evolving. By focusing on the financing of these nodes, we can better understand the relationship among them and identify potential vulnerabilities.

We are also not yet where we need to be with respect to State Sponsors of Terrorism, particularly Iran and Syria. These states not only provide support and safe haven to terrorists, but also a financial infrastructure that terrorists can use to move, store, and launder their funds. Iran poses the biggest problem in this area, using its Qods Force to provide weapons and financial support to the Taliban and terrorist organizations. We have designated individuals or entities in both Iran and Syria for supporting terrorism-related activities, and, as in other areas, we find that responsible financial institutions take these actions into account and adjust their business accordingly.

Finally, there is only so much that the United States can do alone. We have good cooperation from many other governments and the private sector on counter-terrorist financing. The work of the UN Security Council in implementing Security Council Resolution 1267 and the FATF in setting international standards has been instrumental. But there are still challenges. Legal authorities and operational capacity to combat terrorist financing on a national level remain

uneven. Some countries still have not criminalized terrorist financing; others have taken this step, but have yet to use the authority. Most importantly, countries need to develop and apply intelligence as a basis of disrupting terrorist financing networks through law enforcement as well as through the use of targeted financial measures. Even some of our best partners still lack the political will or national authorities to consistently and aggressively disrupt terrorist financing networks. This is particularly true when it comes to terrorist groups beyond al Qaida or when there is need to rely on intelligence as a basis for financial action.

2. Targeting Proliferators and their Supporters

We are applying the lessons we have learned in combating terrorist financing to respond to the threat of WMD and missile proliferation. Targeted financial action against proliferation networks has the potential to be particularly effective for two reasons. First, while terrorist organizations are likely to use informal networks or cash couriers, proliferation networks often engage in ostensibly legitimate commercial transactions and therefore tend to depend upon access to the formal financial system, where transparency and our controls are greatest. Second, many in the proliferation chain are motivated by profit, rather than ideology, making them more susceptible to deterrence if we can credibly threaten to publicly expose or isolate them.

Recognizing this, President Bush issued Executive Order 13382 in June of 2005, adding targeted financial measures to the array of options previously available to the U.S. government to combat proliferation. This order authorizes the Treasury and State Departments to target key nodes of WMD and missile proliferation networks, including their suppliers and financiers, in the same way we do with terrorists. We have used it to designate a number of banks, entities, and individuals supporting proliferation activities in Iran, North Korea, and Syria.

In the Iran context, UN Member States are implementing targeted financial measures against entities and individuals identified by the Security Council in a series of Chapter VII UN Security Council resolutions for their involvement in Iran's nuclear and missile programs. Beyond that, most governments do not yet have a national-level designation authority similar to ours as a tool to stem proliferation. Nonetheless, U.S. designations in this area gain worldwide recognition, particularly among financial institutions. My colleagues and I have traveled worldwide explaining our actions to, and sharing information with, foreign government officials and private sector representatives to help them understand the nature of the threat. The result is that our actions jeopardize designated proliferators' access to the international financial system and put their commercial partners on notice of the threat they pose. Those who continue to do business with them do so at the risk of tainting their reputations or even being designated themselves.

We also continue to work bilaterally and multilaterally to raise awareness of the problem of WMD proliferation finance and to encourage the creation of authorities like those we have under our Executive Order. We have been working closely with our G-7 Finance Ministry counterparts, in particular, to determine what steps can be taken to isolate proliferators from the international financial system through multilateral action. One of the most promising avenues is the recent and ongoing work of the FATF to study the threat of proliferation finance and assess the types of actions countries can take to prevent and disrupt proliferators' financial activities. This work has been strongly and unanimously endorsed by the G7, and we hope it will lead to international standards and best practices on proliferation finance, much like we already have on terrorist financing and money laundering. The Treasury and State Departments are also working to encourage the more than 85 countries that participate in the Proliferation Security Initiative (PSI)

– aimed at stopping shipments of weapons of mass destruction, their delivery systems, and related materials to state and non-state actors of proliferation concern – to use financial measures to combat proliferation support networks.

3. Combating the Illicit Financial Conduct of Rogue Regimes

States engaged in illicit conduct pose a particular challenge. They hide behind a veil of legitimacy, disguising their activities, such as weapons sales or procurement, through the use of front companies and intermediaries. In some cases, they intentionally obscure the nature of their financial activities to evade detection and avoid suspicion. We have had important successes countering the illicit financial activity of both North Korea and Iran by using a combination of financial measures, fueled by financial intelligence, to target their conduct in a way that is persuasive both for other governments and the private sector.

North Korea

Confronted with North Korean conduct ranging from WMD and missile proliferation-related activities to the counterfeiting of U.S. currency and other illicit financial behavior, the Treasury Department took two important public actions. First, we targeted a number of North Korean proliferation firms under E.O. 13382. Second, we acted under Section 311 of the USA PATRIOT Act to protect our financial system from abuse by Banco Delta Asia, a Macau-based bank that, among other things, knowingly allowed its North Korean clients to use the bank to facilitate illicit conduct and engage in deceptive financial practices.

Much of the real impact of these actions came from the information we made public in conjunction with the actions and the information we shared with governments and banks around the world. The private sector's reaction was dramatic. Since the information pointed to the North Korean regime's involvement in the illicit conduct, many of the world's private financial institutions terminated their business relationships not only with designated entities, but with North Korean clients altogether. Banks in China, Japan, Vietnam, Mongolia, Singapore and across Europe decided that the risks associated with this business far outweighed any benefit. The result has been North Korea's virtual isolation from the global financial system. That, in turn, put enormous pressure on the regime – even the most reclusive government depends on access to the international financial system. This effort was valuable both in securing the integrity of the international financial system and in providing the State Department with leverage in its diplomacy with North Korea.

In addition to these public actions, we have continued to work with the U.S. Secret Service to counteract North Korea's counterfeiting of U.S. currency. The Secret Service is continuing to investigate North Korea's counterfeiting activities and the high-quality counterfeit bills produced by North Korea, known as the "Supernote," continue to surface.

Iran

Dealing with Iran – a country that is much more deeply integrated into the international financial system than North Korea – has presented an even more complex challenge. Iran poses a number of threats. Among them are the regime's continued pursuit of nuclear capabilities in defiance of UN Security Council resolutions and its provision of financial and material support to terrorist groups. The combination of these dangerous activities has an extraordinarily lethal potential. Iran

uses its global financial ties to pursue both policies, and it engages in an array of deceptive financial conduct specifically designed to avoid suspicion and evade detection by regulators and law-abiding financial institutions. By combating Iran's illicit financial activities with a strategy that combines targeted financial measures with an unprecedented level of outreach around the world, the Treasury is playing an integral role in the U.S. and multilateral strategy for dealing with Iran.

Iran's financial conduct underlies its proliferation and terrorism activities. Iran uses its state-owned banks for its nuclear and missile programs and for financing terrorism. It also uses front companies and intermediaries to engage in ostensibly innocent commercial transactions that are actually related to its nuclear and missile programs. These front companies and intermediaries enable the regime to obtain dual-use technology and materials from countries that would typically prohibit such exports to Iran.

We have also seen how Iranian banks request that other financial institutions take their names off of transactions when processing them in the international financial system. This practice is intended to evade the controls put in place by responsible financial institutions and has the effect of threatening to involve them in transactions they would never engage in if they knew who, or what, was really involved. This practice is even used by the Central Bank of Iran.

Over the past year and a half, I and other senior Treasury officials have met with our finance ministry and central bank counterparts from around the world to discuss the importance of ensuring that the international financial system is not tainted by Iran's abuse. We have also met with scores of banks to share this information and to discuss the risks of doing business with Iran.

We have taken targeted financial action under our proliferation and terrorism Executive Orders against key Iranian banks, entities and individuals facilitating the regime's dangerous conduct. Among these designations, we have acted against state-owned Bank Saderat, which has been used by the regime to funnel money to terrorist organizations. We have also designated three other Iranian state-owned banks – Bank Sepah, Bank Melli, and Bank Mellat – for facilitating the regime's proliferation activities and designated the Qods Force under our terrorism Executive Order for providing material support to the Taliban and terrorist organizations. The State Department has designated other key entities of proliferation concern, including the Islamic Revolutionary Guard Corps (also known as the Iranian Revolutionary Guard Corps) and the Ministry of Defense and Armed Forces Logistics.

These U.S. efforts have been accompanied by international action. The State Department's intensive diplomatic efforts have resulted in three UN Security Council resolutions imposing sanctions on Iran for its pursuit of nuclear capabilities and ballistic missiles. The most recent resolution, UNSCR 1803, calls upon UN member states to exercise vigilance over their own financial institutions' activities with all financial institutions domiciled in Iran, and their branches and subsidiaries abroad. This provision makes special mention of the risks posed by Bank Melli and Bank Saderat. And, in February, the FATF issued its second statement on Iran, sending a clear message to governments and financial institutions worldwide about the threat Iran poses to the international financial system.

In response to Resolution 1803 and the FATF's warning, Treasury's Financial Crimes Enforcement Network (FinCEN) issued an advisory on March 20 to U.S. banks warning them of

the risks of doing business with Iran and identifying Iranian state-owned and private banks and their branches and subsidiaries abroad. We also warned financial institutions about the conduct of the Central Bank of Iran, both in obscuring the true parties to transactions and in helping Iranian proliferation and terrorist-supporting entities avoid sanctions.

The overall result has been just the type of mutually-reinforcing cycle of governmental and private sector action that I previously described. In reaction U.S. and multilateral actions, the world's leading financial institutions have largely stopped dealing with Iran, and especially Iranian banks, in any currency. Foreign-based branches and subsidiaries of Iran's state-owned banks are becoming financial pariahs – threatening their viability – as banks and companies around the world resist dealing with them. This represents a substantial success in protecting the integrity of the financial system from Iranian illicit conduct while simultaneously providing leverage to support the multilateral effort to reach a negotiated solution on Iran's nuclear program.

4. Combating other Threats

Our use of targeted financial measures is not limited to combating terrorism, proliferation, and the illicit financial conduct of Iran and North Korea. We are also using these tools in a variety of other contexts, including against corruption, narcotics trafficking, and abusive and oppressive regimes. In all of these situations, we can help put pressure on specific bad actors and try to rally the private sector to isolate them from the international financial system. Of course, these financial measures cannot alone solve these types of intractable problems. They are just one component of broader U.S. and, in some cases international, strategies to address them.

Combating Corruption

Corruption is one of the newer areas where we are increasingly relying on targeted financial measures. Corruption erodes democracy, the rule of law and economic well-being around the world. It taxes the poor, deprives legitimate businesses of opportunity and breeds criminality and mistrust. To address this threat, the President announced a strategy in August 2006 to combat high-level corruption, or “kleptocracy.” The Treasury's charge in this strategy is to ensure that the international financial system is not misused by kleptocrats seeking to hide or move their ill-gotten gains. We also have targeted financial authorities aimed at exposing and disrupting corrupt officials' financial networks in countries such as Belarus, Burma and Syria.

In addition to the use of targeted financial measures to combat corruption, we are also working to increase transparency in the U.S. domestic and international financial systems, ensuring that an appropriate level of due diligence is applied to the financial dealings of foreign officials in positions of public trust, otherwise know as “Politically Exposed Persons,” or PEPs.

Addressing Human Rights Abuses and Oppressive Regimes

In the past several years, we have learned that targeted financial measures can play a helpful role in reinforcing broader strategies to address human rights abuses and the conduct of brutal and oppressive regimes. Our efforts span across the crisis in Darfur to human rights violations and other oppressive activities in Zimbabwe, Burma, and Belarus. In the context of Darfur, for example, we have used the precision of targeted financial measures to focus on those who foment violence and human rights abuses. Our designations have included Sudanese individuals,

including government and rebel leaders, elements of the logistical support network that arm those committing atrocities, and companies tied to the regime. These actions supplement an already comprehensive country sanctions program and have played an important role in exposing ongoing atrocities and bringing a new element – the financial sector – into the fight to bring them to an end. In the context of Burma, we have designated key financial operatives of the Burmese regime and their business networks.

Combating Narcotics Trafficking

No discussion of the success of targeted financial measures would be complete without mention of the Treasury Department's counternarcotics sanctions program. This program has been in place since 1995, when President Clinton issued an Executive Order targeting the activities of significant foreign narcotics traffickers in Colombia, with the objective of isolating and incapacitating the businesses and agents of the Colombian drug cartels. Designations under this order continue today and span multiple industries, including such enterprises as drugstore chains, construction firms, agricultural businesses, and department stores. This program was the model in 1999 for the Foreign Narcotics Kingpin Designation Act ("Kingpin Act"), which provides a statutory framework for the President to impose sanctions against foreign drug kingpins and their organizations on a worldwide scale. Targets under the Kingpin Act have been identified in Mexico, the Caribbean, Middle East, and Southeast Asia.

This program has achieved many successes. Among them is the historic September 2006 plea agreement between the U.S. government and Miguel and Gilberto Rodriguez-Orejuela, the brothers who ran the infamous Cali Cartel in Colombia, which was responsible for importing tons of cocaine into the United States during the past two decades. According to the plea agreement, the Rodriguez-Orejuela brothers admitted smuggling over 30 metric tons of cocaine into the United States, generating an illicit fortune in excess of one billion dollars. Treasury, Justice, and other law enforcement agencies had for years worked to uncover and immobilize the hidden assets of the Cali Cartel, with the Office of Foreign Assets Control (OFAC) designating hundreds of front companies and individuals in Colombia and 10 other countries. In the end, the Rodriguez-Orejuela brothers were willing to plead guilty and spend the rest of their lives in jail just to make their family members eligible to be removed from OFAC's list.

B. SAFEGUARDING THE INTEGRITY OF THE FINANCIAL SYSTEM

Our efforts to combat threats to our national security using our financial authorities are most effective when they build on a foundation of strong systemic safeguards in the financial sector. Indeed, one of the Treasury's core missions is to ensure that these safeguards are part of our own domestic financial system and to encourage the adoption of similar safeguards worldwide. The common thread that runs throughout these initiatives is the goal of bringing greater transparency to the international financial system.

Transparency is, in and of itself, a powerful safeguard against the kinds of abuse of the financial system that I have described today. It is critical to enabling financial institutions and law enforcement, regulatory and other authorities to identify sources and conduits of illicit finance so that they can take steps to protect themselves, contributing to the overall safety, soundness, and security of the international financial system. Their efforts, in turn, deny terrorist organizations, proliferators and other criminals access to the financial system, forcing them to adopt costlier and riskier alternative financing mechanisms. We work to promote security by:

- Understanding how illicit actors abuse the financial system and ensuring that the U.S. financial system is protected by a comprehensive, efficient, and rigorously enforced anti-money laundering/counterterrorist financing (AML/CFT) regime;
- Strengthening and expanding international AML/CFT standards;
- Taking protective actions against threats and systemic vulnerabilities; and
- Partnering with the private sector.

I would like to share with you some of the actions we are taking to meet each of these objectives.

1. Understanding How Illicit Actors Abuse the Financial System and Ensuring the Protection of that System

The first step in safeguarding the financial system is to understand where it is vulnerable and the threats it faces. The Treasury Department has worked for many years to improve its understanding of illicit finance, and, in 2006, we coordinated the first U.S. government-wide Money Laundering Threat Assessment. The assessment brought together the expertise of regulatory, law enforcement and investigative officials from across the government to investigate the current and emerging trends and techniques used to raise, move and launder illicit proceeds. Following the assessment, the Treasury joined with the Departments of Justice and Homeland Security to craft the 2007 National Money Laundering Strategy, which is mapped explicitly to the vulnerabilities identified in the threat assessment.

The Treasury is working with other agencies to ensure that we are appropriately addressing these threats. Highlights of this effort include FinCEN's ongoing efforts to analyze Bank Secrecy Act (BSA) filings to provide geographic threat assessments, such as the 43 State-specific reports provided to State regulators last year, analysis of Suspicious Activity Report (SAR) filings related to the districts of individual U.S. Attorney offices, and the ongoing analytical work in the area of mortgage fraud following FinCEN's first published report on that topic in November 2006. FinCEN also continues its coordination with the IRS and law enforcement agencies to identify potentially unregistered money services businesses and to target those businesses with outreach, education, and, where appropriate, enforcement efforts.

In addition to taking these specific steps, we are constantly examining our regulatory system to ensure it is as efficient and effective as possible. In that regard, on June 22, 2007, Secretary Paulson announced the first in a series of ongoing initiatives to promote the efficiency and effectiveness of the AML/CFT regulatory framework. FinCEN has been working with the Federal Banking Agencies and other government authorities, and in the coming months will be taking public steps in the areas previewed by the Secretary, including discussing the results of our efforts with the banking regulators to enhance risk-scoping in the bank examination process; proposing a clearer and more tailored regulatory definition of money services businesses; and proposing a restructured set of regulations to enable covered industries to focus more quickly on rules that apply specifically to them. Moreover, FinCEN continues to provide feedback to the financial industry on the usefulness to law enforcement of reported information and through analytical studies, guidance, and advisories to help financial institutions better target their risk control activities.

Strong enforcement of our money laundering and sanctions laws also plays an important role in protecting the financial system from abuse. The Department of the Treasury works with its other financial regulatory colleagues to administer and promote understanding of, and compliance

with, these laws. Most enforcement in this area is civil, involving the banking regulators, OFAC, or FinCEN. In cases of serious violations, however, criminal enforcement may be warranted.

In the summer of 2005, the Department of Justice amended the United States Attorneys' Manual to require that all money laundering prosecutions of financial institutions be coordinated with, and approved by, the Criminal Division in Washington. The Manual contains a similar provision for cases under the International Emergency Economic Power Act – or IEEPA – which is one of the principal statutory authorities for OFAC's sanctions programs. These provisions promote consistency and uniformity in the use of these statutes and help ensure that unintended consequences from relevant cases are minimized. In that regard, they were specifically designed to enable Justice to consult with other agencies, including the Treasury Department. In enforcement actions involving violations of the BSA, Justice and the Treasury attempt to act concurrently whenever possible to promote consistency and avoid multiple actions against the same financial institution at different times for similar and related conduct.

The continued consultation between the Justice and Treasury Departments is vitally important given the complexities surrounding potential criminal charges against banks and other financial institutions, including the potential impact of such cases on the U.S. financial system. Under Assistant Attorney General Alice Fisher's leadership, the right atmosphere has been created for that consultation. In the end, the U.S. government must strike a delicate balance. We need to ensure the proper respect for the laws that safeguard the integrity of our financial system, but do so in a way that (1) allows our civil regulatory system to function effectively and (2) ensures that we maintain our position of leadership in the global financial system. This requires the exercise of well-informed and wise prosecutorial discretion. Consultation between the Treasury and Justice is an important part of that process.

2. Strengthening and Expanding International AML/CFT Standards

Given the global nature of the financial system, focusing only on the U.S. financial system and its AML/CFT regime is not sufficient. Safeguarding the U.S. financial system requires global solutions and effective action by financial centers throughout the world. We work toward this objective through multilateral bodies that set and seek to ensure global compliance with strong international standards.

The Treasury Department primarily advances this strategic objective through FATF, which articulates standards in the form of recommendations, guidelines, and best practices. The FATF standards have been recognized by more than 175 jurisdictions and have been integrated into the work of international organizations such as the United Nations, the World Bank and the International Monetary Fund. The FATF seeks global implementation of its standards through a number of mechanisms. Partnership with the IMF, World Bank and FATF-Style Regional Bodies ensures that every country in the world is assessed against the same standards using the same methodology. AML/CFT is one of twelve core standards used by the IMF to evaluate financial sector stability and is the sole required standard for all countries. As of September 2007, the IMF had conducted 50 assessments -- four of which were done jointly with the World Bank -- of country compliance with AML/CFT standards. These assessments highlight the key deficiencies for countries seeking to improve their AML/CFT standards. We have seen steady progress in legislation by countries to address their deficiencies identified in their assessments. Assessments also highlight deficiencies in a way that is useful to the private sector in assessing risk.

In some cases, implementation of AML/CFT standards is a question of political will. In other cases, however, countries need help to comply with the standards. In such cases, the Treasury has worked through its Office of Technical Assistance and other agencies to provide technical assistance to support the development of legal authorities and operational capacity that will enable countries to meet these standards.

While we work to ensure the current standards are being implemented, we also have consistently engaged the FATF to expand and strengthen these international standards to address the systemic vulnerabilities that terrorists and other criminals exploit. Most recently, we have successfully engaged the FATF to adopt a new international standard to combat the illicit use of cash couriers, and we have enhanced the international standard for combating terrorist abuse of charities.

Not only does this investment in foreign capacity building make it more difficult for illicit actors to hide and thrive, it also opens up new avenues to share information across borders. For this purpose FinCEN is the designated financial intelligence unit (FIU) for the United States and has played a leading role in fostering the sharing of financial intelligence among the FIUs of 106 countries that are members of the Egmont Group.

One new and promising initiative that touches on these important issues is the Merida Initiative – a U.S.-proposed multi-year cooperation initiative with the governments in Mexico and the countries of Central America. For Fiscal Year 2008, the Administration has requested \$500 million for Mexico and \$50 million for Central America to fulfill U.S. obligations under the initiative. This would be the first tranche of a potential \$1.4 billion multi-year package. The assistance proposed falls into three broad areas: counternarcotics, counterterrorism, and border security; public security and law enforcement; and institution-building and the rule of law. A key part of the effort will be to modernize the Mexican financial intelligence unit's ability to respond more effectively to the evolving nature of money laundering. Overall, this initiative would complement existing U.S.-Mexico and Central America cooperation in countering the cross-border movement of billions of dollars in drug proceeds and in restricting the placement of these illicit proceeds into the U.S. financial system.

3. Taking Protective Action against Systemic Vulnerabilities

Although it is important to focus on improving transparency and ensuring adequate AML/CFT controls are in place on a global level, there are also times when specific, discrete vulnerabilities are not adequately addressed in the international financial system. In those cases, we need to take action to warn the financial industry of the risks and to protect ourselves from the threat those vulnerabilities pose to our financial system.

In that regard, Section 311 of the USA PATRIOT Act – which I mentioned briefly in the context of our efforts on North Korea – is an important and extraordinarily powerful tool. Section 311 authorizes the Treasury to designate a foreign jurisdiction, foreign financial institution, type of account or class of transactions to be of “primary money laundering concern,” thereby enabling the Treasury to impose any one or combination of a range of special measures that U.S. financial institutions must take to protect against illicit financing risks associated with the designated target. We are the only country in the world that has an authority to take such protective action.

The Treasury has utilized Section 311 against both jurisdictions and financial institutions that posed a serious money laundering concern. When we have designated an entire jurisdiction – such as the Ukraine or Nauru – we have done so as part of, or in response to, a multilateral action, such as a FATF determination that these countries were “non-cooperative” on AML/CFT issues. One of the things that makes the Section 311 authority unique, however, is that it also allows us to finely target our actions so that we can protect ourselves from the threat that an individual financial institutions poses. This gives us enormous flexibility in determining how best to apply this authority to achieve the desired impact.

Our use of Section 311 has been extremely effective. Not only have our Section 311 designations had a significant effect in protecting the U.S. financial system, but they also have spurred actions by other countries that have the result of protecting the broader international financial system. In some instances, designation under Section 311 has facilitated the development of rehabilitative measures by a financial institution or jurisdiction that effectively addressed the underlying systemic vulnerability to the extent that withdrawal of the 311 designation was warranted.

4. Partnership with the Private Sector

Finally, we know that it is not sufficient to work only in partnership with governments on strengthening AML/CFT standards and identifying and closing specific vulnerabilities to the financial sector. The private sector brings a unique and invaluable insight into how the international financial system works and how we can be effective in achieving our objectives. We have forged important partnerships with both the domestic and international private sector to tap into and better utilize their expertise.

On the domestic side, Congress established the Bank Secrecy Act Advisory Group (BSAAG) in 1992 to enable the financial services industry and law enforcement to advise the Secretary of the Treasury on ways to enhance the utility of BSA records and reports. Since 1994, the BSAAG has served as a forum for industry, regulators, and law enforcement to communicate about how SARs and other BSA reports are used by law enforcement and how recordkeeping and reporting requirements can be improved. Under the chairmanship of the Director of FinCEN, the BSAAG meets twice a year in plenary and through multiple subcommittees over the course of the year. It has become an increasingly active group in suggesting priorities and to promote the efficiency and effectiveness of BSA rules and regulations.

On an international scale, we collaborated effectively with the private sector on the issue of “cover payments.” Cover payment transactions occur typically with respect to foreign correspondent banking, where the actual movement of funds is made through one or more intermediary banks that “cover” the payment amount, but the intermediaries do not know on whose behalf they are settling a given transaction. It became increasingly clear to many banks that this practice, which developed over time for a variety of commercial reasons, is inconsistent with international AML/CFT standards, in particular with the purpose behind FATF Special Recommendation VII requiring that originator information remain with the funds transfer throughout the payment chain.

Industry representatives raised with the Treasury Department the issue of vulnerabilities of cover payments—together with a proposal on how to rectify the situation in the most efficient way. In April 2007, the Clearing House Association – a provider of payment services owned by the U.S. affiliates of almost two dozen major banks – and the Wolfsberg Group – an association of 12

global banks – proposed an amendment to the global bank messaging standards to incorporate all relevant transaction information. That proposal was refined and endorsed by national bank groups in January 2008, and SWIFT, the Society for Worldwide Interbank Financial Telecommunication, will introduce the new message standards in November 2009. In addition to the technical changes, these groups of leading global banks announced payment message standards that they would follow to further enhance transparency in international payments, and thereby help avoid abuse by individuals and organizations that these banks would not accept as their own customers, such as money launderers and terrorist financiers. The Treasury Department, together with the Federal Banking Agencies, has engaged with their counterparts through the Basel Committee on Banking Supervision, FATF and the Egmont Group to promote a consistent global approach to ensuring compliance with these emerging global best practices.

The Treasury has also spearheaded an important initiative, the Private Sector Dialogue (PSD), to facilitate dialogue between U.S. financial institutions and their counterparts in key regions on AML/CFT issues. Our goal for these dialogues, which focus on the Middle Eastern and North African and Latin American banking and regulatory communities, is to raise awareness of domestic and regional money laundering and terrorist financing risks, international AML/CFT standards and regional developments, and U.S. government policies and private sector measures to combat terrorist financing and money laundering. These dialogues are also helping us to assess the impact of these international standards and U.S. laws and regulations and to strengthen development and implementation of effective AML/CFT measures, particularly in regions of strategic importance and jurisdictions that lack fully-functional AML/CFT regimes.

CONCLUSION

Over the past four years, I believe that, with your active support, we have transformed the Treasury Department into an important part of our country's national security architecture. We have greatly improved our ability to analyze and use financial intelligence. We have further developed and implemented strategies for combating terrorist financing and other pressing threats to our national security, including through the innovative use of targeted financial measures against specific bad actors. These strategies, particularly in the cases of North Korea and Iran, have provided valuable leverage in difficult diplomatic negotiations. We have also made important strides in strengthening the systemic safeguards in the financial system both here in the United States and around the world. But our work is not nearly complete. We continue to face significant challenges as we move forward with these efforts, including fostering and maintaining the political will among other governments to take effective and consistent action.

I look forward to continuing to work with this Committee as we tackle these challenges.