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Highlights

Highlights of GAO-04-1006, a report to congressional requesters

FOREIGN REGIMES' ASSETS

The United States Faces Challenges in Recovering Assets, but Has Mechanisms That Could Guide Future Efforts

Why GAO Did This Study

For many years, the United States has used economic sanctions, including the freezing of foreign regimes' assets, when such regimes have been determined to be a threat to the nation. In light of recent efforts to "recover"—or target, identify, freeze, and transfer—Iraqi assets, GAO was asked to examine overall U.S. efforts to recover foreign regimes' assets. This report (1) describes the approach the U.S. government uses to recover foreign regimes' assets, (2) examines the challenges the United States faces in recovering foreign regimes' assets, and (3) examines the mechanisms the United States has used to recover Iraqi assets and their applicability to future efforts.

What GAO Recommends

GAO recommends that the Departments of State and the Treasury (1) work with U.S. intelligence and law enforcement agencies to improve target identifiers and (2) develop and document lessons learned from the Iraq effort that could assist with future efforts. State agreed with these recommendations. Treasury did not comment on them. GAO also recommends that Treasury seek legislative authority to allow financial regulators to share complete information from their examinations with OFAC. Treasury said it was working on this issue and is uncertain that a legislative change is needed to allow OFAC access to information from financial regulators' examinations.

www.gao.gov/cgi-bin/getrpt?GAO-04-1006.
To view the full product, including the scope and methodology, click on the link above.
For more information, contact Joseph A. Christoff at (202) 512-8979 or christoffj@gao.gov, or Davi M. D'Agostino at (202) 512-8678 or dagostinod@gao.gov.

What GAO Found

The approach the U.S. government takes to recover foreign regimes' assets varies depending on the foreign policy and national security goals pursued. Treasury officials stated that the goal of economic sanctions is to freeze assets of a sanctioned jurisdiction or targeted designee and prohibit U.S. persons from dealing with them. In certain cases, once the foreign policy goals of the sanctions are met, the assets are returned to a country. The Departments of Justice, State, and the Treasury, as well as intelligence and law enforcement agencies, work together in the targeting process. Identifying the location of financial assets throughout the international financial system requires the cooperation of U.S. and foreign financial institutions. The United States has procedures to freeze assets of targeted regimes located in the United States or under the control of U.S. persons. Pursuant to executive orders issued by the President under various authorities, Treasury's Office of Foreign Assets Control (OFAC) issues regulations that can require assets to be frozen and transactions to be blocked and administers sanctions programs.

U.S. government agencies and financial institutions involved in recovering targeted regimes' assets face a number of challenges. First, U.S. agencies may not be able to readily obtain accurate and complete information on targeted entities, such as the spelling of names, addresses, and dates of birth. Financial institutions can also lack complete identifying information on their clients. Second, the laws of some foreign governments complicate the ability of overseas branches of U.S. financial institutions to comply with OFAC regulations. In these situations, the U.S. government encourages the relevant foreign governments to allow U.S. financial institutions to freeze or transfer assets in a manner consistent with U.S. law or Treasury issues a license to allow U.S. financial institutions to comply with local laws. Third, OFAC's ability to monitor financial institutions' compliance with its regulations is limited because it relies on financial regulators to monitor financial institutions' OFAC compliance programs.

The United States has used a variety of legal authorities and coordinating bodies in its recent effort to recover Iraqi assets; some of these mechanisms could be applied to future efforts. The USA PATRIOT Act of 2001 allowed the United States to take ownership of $1.9 billion of Iraqi assets and transfer them for use in Iraq reconstruction efforts. United Nations Security Council Resolution 1483 has resulted in the transfer of about $847 million in frozen Iraqi assets to a fund for Iraq. However, factors that include existing claims against the assets and other countries' laws have slowed the transfer of an additional $2.9 billion held in other countries. In addition, some mechanisms developed to combat money laundering and terrorist financing might be applicable to recovering foreign regimes' assets. Although the U.S. government has used various legal authorities and coordinating bodies to recover foreign regimes' assets, it has yet to compile lessons learned from past efforts that could guide future efforts.