



DEPARTMENT OF THE TREASURY OFFICE OF PUBLIC AFFAIRS

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**“A Current Assessment of Money Laundering and Terrorist Financing Threats and
Countermeasures”**

Before the Senate Committee on Banking, Housing, and Urban Affairs

Chairman Shelby, Ranking Member Sarbanes and other distinguished members of the Committee, thank you for the opportunity to speak to you today about our progress in combating terrorist financing and money laundering. In the last four months, we have seen assessments of our progress in both of these arenas – the 9/11 Commission Public Discourse Project’s evaluation of our terrorist financing efforts and the U.S. Government’s first-ever Money Laundering Threat Assessment. These assessments and this hearing provide an opportunity to take stock of how we are doing with respect to two of the leading concerns of my office. I welcome this committee’s ongoing focus on these threats, and your continued support for our efforts to help stop illicit flows of money.

Terrorist Financing

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. This praise truly belongs to the dozens of intelligence analysts, sanctions officers, regional specialists, and regulatory experts in the Treasury’s Office of Terrorism and Financial Intelligence (TFI) who focus on terrorist financing, along with their talented colleagues in other agencies – law enforcement agents who investigate terrorism cases, Justice Department prosecutors who bring terrorist financiers to justice, foreign service officers in embassies around the world who seek cooperation from other governments and many others from the intelligence community. You will not find a more talented and dedicated group of people, with no trace of ego and a total focus on the mission.

The 9/11 Commission Public Discourse Project did not provide a detailed explanation of the reasoning behind its conclusions but I am certain that one contributor to the high mark was the

close interagency teamwork that has been a hallmark of our government's efforts in this arena. Along with my colleagues here today – the State Department, FBI, and DHS – as well as the intelligence community and Deputy National Security Advisor Juan Zarate, we have forged a team with complementary strengths and outlooks but a single mission and great mutual respect. That teamwork translates into effectiveness. We have continued to improve our ability to track key targets and to take the most appropriate action against the terrorist target. Sometimes that means that the Treasury will take public action, sometimes it involves persuading another country to take action, and sometimes we decide to continue to collect intelligence to better map out the terrorist network. From the formation of TFI, we have been committed to that philosophy, resisting the application of metrics to our activities that would distort our incentives, for example, by emphasizing the number of terrorism designations.

In my view, reducing the USG's wide-ranging efforts against terrorist financing to a single letter is necessarily going to tell only part of the story. So much is being done to combat terrorist financing, including intelligence collection, enforcement actions, capacity building, and systemic improvements to safeguard the U.S. and global financial systems. Our theater of engagement literally spans the world, from the money changing tables of Kabul to the jungles of South America's Tri-Border Area, from the finance ministries of the world to the compliance offices of the world's most sophisticated banks. In some of these areas we have attained far greater success than in others, perhaps because of deeper intelligence penetration, the availability of more effective tools, or closer partnership with certain host governments. No single grade will be able to convey this nuance.

The indicators that we find meaningful are typically complex and not readily quantifiable, such as anecdotal reporting about terrorist cells having difficulty raising money or paying salaries or benefits. In recent months, we have seen at least one instance of what we look for most – a terrorist organization indicating that it cannot pursue sophisticated attacks because it lacks adequate funding.

Usually, though, the information we receive is not as clear. As an example, one interesting trend that we have witnessed is a decrease in the average amount of transactions that we learn about. Obviously, we are only privy to a subset of the total transactions, but this observation carries across various financial conduits and terrorist organizations and we have no reason to believe that it is unrepresentative. Interpreting this indicator is more difficult. It could reflect an overall decrease in the amount of money moving to and from terrorists. Just as easily, it could indicate that terrorists are breaking their transactions out into smaller sums, fearing interception. Alternatively, the trend could be an outgrowth of a movement by terrorist organizations away from banks towards less formal mechanisms, like cash couriers. These couriers may offer concealment, but some get caught and some get greedy, and so it is very risky to entrust them with large sums of money. Any of these alternatives would indicate that our efforts are having an impact and this trend may bear out our assessment that terrorists who fear using the banking system do not have a ready and reliable alternative for moving large sums of money. We will continue to monitor developments, but I hope this provides a sense of how complex a task it is to assess the overall impact of our efforts to combat terrorist financing.

In specific areas, we can point to more concrete indicators of success. We have made dramatic progress in combating terrorist abuse of charities. Prior to 9/11 and even afterwards, terrorists

used charities as safe and easy ways to raise and move large sums of money. Al Qaida and Hamas, in particular, relied on charities to funnel money from wealthier areas to conflict zones with great success. Through a combination of law enforcement and regulatory actions against several corrupt charities, both at home and abroad, we have taken out key organizations and deterred or disrupted others. In tandem, active engagement with the legitimate charitable sector has succeeded in raising transparency and accountability across the board.

We have thus far designated more than 40 charities worldwide as supporters of terrorism, including several U.S. charities such as the Holy Land Foundation, the Global Relief Foundation, the Benevolence International Foundation, the Al Haramain Islamic Foundation, and the Islamic African/American Relief Agency (IARA). The impact of these actions is serious, and sometimes decisive. IARA once provided hundreds of thousands of dollars to Osama bin Laden. More recently, IARA country offices have experienced increased pressure and its leaders have expressed concern about the organization's future.

Our most recent action targeted KindHearts, a purported charity in Ohio that was supporting Hamas. In that instance, we took coordinated action with DOJ prosecutors and the FBI, which executed a search warrant at the moment that we froze the group's assets. Although we generally do not disclose specific blocked asset information, KindHearts has stated that over one million dollars of its assets were blocked. Overall, engagement with the charitable sector combined with enforcement actions against bad organizations have radically altered the dynamic, leaving dirty charities isolated and imperiled.

A second conduit where we have seen a shift is donations from private individuals, another primary source of terrorist funds. Unlike charities, individual donors to terrorist organizations do not need to maintain a public profile and are considerably harder to track. Our advantage in pursuing donors, however, is the heightened power of deterrence. A person who is willing to commit a suicide bombing cannot be deterred by fear of punishment. Even those wealthy donors who sympathize with an extremist cause, however, may well be unwilling to support it at risk of losing their reputation, their assets, and potentially their freedom. As financial investigators track donations back to their sources and wealthy individuals are held to account, we have begun to change the risk calculus of donors and narrowed the set of individuals who are willing to take that chance.

Accountability and deterrence have been an area of particular focus for me. I believe we need to heighten our deterrence of donors by treating terrorist financiers as the terrorists that they are. 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. In that regard, I was heartened by a recent statement from Saudi Arabian Foreign Minister Prince Saud al-Faisal, who said that "[t]he extremists who condone, support, incite, or legitimize terrorism should be held accountable for the criminal consequences of their message of hatred and intolerance." If Saudi Arabia and others in the region see this commitment through, it will send a powerful message of deterrence to would-be terrorist financiers.

Another important measure of our progress is an increase in the number of countries approaching the U.N. Security Council to seek the designation of terrorist supporters. This global designation

program, overseen by the U.N.'s 1267 Committee, might be the most powerful tool for global action against supporters of al Qaida. It envisages 191 UN Member States acting as one to isolate al Qaida's supporters, both physically and financially. Increasingly, countries have begun to look to this committee, and administrative measures in general, as an effective complement to law enforcement action. In 2005, 18 Member States submitted names for the Committee's consideration, many for the first time, and we will continue to support this process and encourage others to do so as well.

In other arenas of this fight, however, we are not where we need to be. State sponsors of terrorism, like Iran and Syria, present a vexing problem, providing not only money and safe haven to terrorists, but also a financial infrastructure through which terrorists can move, store, and launder their funds. While this is a daunting challenge, I believe that the Treasury Department's tools, combined with cooperation from responsible financial institutions, can make a difference. In the past year, for example, we have designated top Syrian officials, including the then-interior minister Ghazi Kanaan and the head of Syrian Military Intelligence, Assaf Shawkat, in part for their support to terrorist organizations. Also, on March 9, we issued a final rule under Section 311 of the PATRIOT Act confirming that the Commercial Bank of Syria (CBS) is a "primary money laundering concern" and forbidding U.S. financial institutions from holding correspondent accounts for CBS. Among our reasons for that action was the risk of terrorist financing posed by a significant bank owned and controlled by an active and defiant state sponsor of terror like Syria.

We have ample reason to believe that responsible financial institutions around the world pay close attention to such actions and other similar indicators and adjust their business activities accordingly, even if they are not required to do so. A recent example of interest was the announcement by the international bank UBS that it intended to cut off all business with Iran and Syria. Other financial institutions are similarly reviewing their business arrangements and taking special precautions to ensure that they do not permit terrorist financiers or WMD proliferators access to the global financial system. As discussed below with respect to North Korea, this sort of voluntary action by responsible firms in the private sector can have tremendous impact.

Another difficult problem we face is that couriers continue to move terrorist money across the world's borders with insufficient scrutiny. New international standards for impeding cash smuggling, issued by the Financial Action Task Force in 2004, are a very positive step, but we still have an enormous distance to go in ensuring that trained and capable border agents are implementing these rules. In these and other areas, there is a great deal still to be done.

So long as terrorists are able to fund their organizations, we will not be satisfied or complacent. Reading intelligence about terrorist attacks planned and frustrated every week, I understand how much hangs in the balance.

The Strength of Financial Measures

Before turning to our domestic money laundering challenge, I wanted to briefly highlight for the committee some of the lessons we have learned in the last year about the power of financial measures to effectively counteract national security threats, especially when they are

implemented multilaterally by governments and private financial institutions. Just as terrorist organizations require money to survive, WMD proliferation networks do as well. By capitalizing on a growing international consensus that these activities have no place in the legitimate global financial system, we have been able to apply effective pressure to counteract these threats.

Executive Order 13382, issued by the President in June 2005, authorizes the Treasury and State Departments to target key nodes of WMD proliferation networks, including their suppliers and financiers, in the same way we target terrorist financiers. A designation under this Executive Order cuts the target off from access to the U.S. financial and commercial systems and puts the international community on notice about the threat the target poses.

Thus far, we have designated eleven North Korean entities, six Iranian entities, and one Syrian entity engaged in proliferation activity. Just last week, the Treasury designated two more proliferators, the Swiss company Kohas AG and its President, Jakob Steiger. Kohas AG acts as a technology broker in Europe for the North Korean military and has procured goods with weapons-related applications. Nearly half of the company's shares are owned by a subsidiary of Korea Ryonbong General Corporation, a previously-designated North Korean entity that has been a focus of U.S. and allied counterproliferation efforts.

The impact of these actions depends on the extent of international cooperation. As in the terrorism context, the international community has called for cooperative efforts to isolate proliferators financially, as set forth in U.N. Security Council Resolution 1540 and the G-8 statement at Gleneagles. The Treasury and State Departments are engaging intensively with our international partners to see that these broad principles are turned into reality.

Confronted with North Korean conduct ranging from WMD proliferation-related activities to currency counterfeiting and other illicit behavior, the Treasury took two significant steps in the past year, one offensive and one defensive. Offensively, we targeted several North Korean proliferation firms under Executive Order 13382, as described above. Defensively, we took regulatory action to protect our financial system against Banco Delta Asia (BDA), a Macanese bank that was handling a range of North Korean illicit activities without any pretense of due diligence or control. Indeed, BDA officials intentionally negotiated a lower standard of due diligence with regard to the financial activities of North Korean clients. We employed section 311 of the PATRIOT Act to cut off this troubling institution's access to the U.S. financial system.

As a result of our actions and the revelations about North Korea's illicit activities, a number of responsible jurisdictions and institutions abroad have likewise taken steps to ensure that North Korean entities engaged in illicit conduct are not receiving financial services. The combined effect has been described as causing a "ripple effect around the world," constricting the flow of dirty cash into Kim Jong-II's regime.

This example should be of particular note to this Committee as it demonstrates the impact of financial tools, some of which were created through the leadership and vision of this Committee.

Money Laundering

While distinct from the threats posed by terrorist financing or proliferation of weapons of mass destruction, money laundering is a serious threat in its own right to our national and economic security. Money laundering enables crime and contributes to an erosion of confidence in our legal and financial systems.

The U.S. Money Laundering Threat Assessment represents an unprecedented step forward for the U.S. Government's efforts to combat money laundering in the United States. For years, dedicated regulators, policymakers, law enforcement agents, and prosecutors from across the government have worked to safeguard our financial system against abuse, and to pursue and punish those who laundered illicit proceeds. Never before, however, had so many of the agencies that face these issues come together to share their findings and to sketch out a joint assessment of the depth and contours of America's money laundering threat.

The aim of the Threat Assessment was to provide policymakers, the law enforcement community, regulators, and supervisors with a picture of how money is being laundered in and through the United States. It was also intended to identify the priorities to be addressed in this year's National Money Laundering Strategy. Ultimately, we cannot successfully treat a problem until we have diagnosed it.

Sixteen federal bureaus and offices from across the law enforcement, regulatory, and policy communities came together, with each office bringing its own perspective and experiences to the table. The interagency working group pulled together arrest and forfeiture statistics, case studies, regulatory filings, private and government reports, and field observations from those in the trenches.

The report analyzes more than a dozen money laundering methods, identifying how each method functions, any geographic or other concentrations of activity, the legal/regulatory backdrop, and vulnerabilities. The Threat Assessment does not tout our successes – it is a candid look at the serious challenges we face.

Key findings of the Money Laundering Threat Assessment include the following:

- Financial institutions remain key guardians of our country's financial system. Once illegal proceeds get into the formal financial system, they can be moved instantly by wire or disguised through commingling with legitimate funds. With the advent of internet and remote banking, financial institutions face increased challenges in ascertaining the identity of customers and the sources of funds.
- Criminals and money launderers have exploited corporate vehicles and trusts to disguise beneficial ownership and hide their activities. When state registries impose minimal information requirements and exercise lax oversight over the shell companies and trusts they register, it can be difficult or impossible for financial institutions to verify who is using a commercial account and for what purpose.

- Money Services Businesses (MSBs) make up a vast and varied alternative system to banks. Many MSBs operate without federal regulatory supervision due to their failure to register with U.S. authorities. Some of these unregistered MSBs are informal money remittance services or check cashers that are operated as a side business by small retailers.
- Casinos are cash-intensive businesses that can be used to launder funds. Casinos have been subject to anti-money laundering regulations longer than any industry other than banking. But the money laundering threat posed by casinos has grown with the rapid increase in tribal gaming. Last month, the Financial Crimes Enforcement Network (FinCEN) announced its first enforcement action under the casino provisions of the Bank Secrecy Act (BSA) against an individual and an Indian tribe for a broad range of BSA violations.
- Certain sectors of the insurance industry have undergone a transformation. While traditional insurance policies remain an important part of the life insurance business, agents and brokers now offer a range of financial products that can be readily purchased, transferred, and sold, and that are more akin to investment funds than traditional insurance policies. This evolution has created new opportunities for money laundering.
- Some of the largest and most complex methods of money laundering harness trade into and out of the United States. Trade-based money laundering takes many forms including the Black Market Peso Exchange, which poses a particular challenge to law enforcement because it separates the crime from the cash early in the money laundering process. Under this scheme, drug dealers are able to hand off their illicit dollars in the U.S. to professional money launderers, who make clean currency available in Colombia or elsewhere.
- Smuggling cash out of the United States for deposit elsewhere is a well-established money laundering method and appears to be on the rise because of the barriers criminals face attempting to launder cash domestically. Bulk cash smuggling is most often used to launder the proceeds from illegal drug sales. Cash associated with drugs typically flows out of the U.S. across the southwest border into Mexico, retracing the route that the drugs took entering the United States. Drugs and illicit proceeds also cross our northern and other borders.

It is only natural that, as we survey the various money laundering threats, we focus in on emerging technologies and new transaction methods. These developments certainly warrant our close attention. I would emphasize, though, that – in terms of dollar volume – some of the oldest methods of money laundering, particularly bulk cash smuggling, remain the most common.

The overall picture that emerged from the Threat Assessment is both sobering and promising. Large amounts of dirty money are circulating through the United States as criminals exploit money laundering methods old and new. At the same time, there has been considerable progress. The approach of U.S. law enforcement and regulatory agencies has undergone a sea change over the past decade, such that money laundering is now treated as an independent and primary priority across all relevant agencies. Perhaps most encouraging are interagency initiatives and task forces that, when properly coordinated, focus the talents, expertise, and resources of multiple agencies to bear problem to great effect.

While the interagency Money Laundering Threat Assessment is an excellent development, it is, of course, only the beginning of the process. We now need to build on the cooperation that went into the assessment to craft effective ways to counteract the vulnerabilities identified. That work is already ongoing. For example, to get the upper hand on the Black Market Peso Exchange and other trade-based money laundering schemes, Immigration and Customs Enforcement, with the support of the State and Treasury Departments, is working with U.S. trading partners and countries vulnerable to money laundering to create trade transparency units. These units allow countries to compare import and export logs to uncover anomalies that may indicate money laundering, and represent a serious advance in our worldwide anti-money laundering efforts.

We also continue to extend the Bank Secrecy Act, as amended by the USA PATRIOT Act, to financial sectors deemed to be the most vulnerable to money laundering and/or terrorist financing. We recently issued regulations requiring dealers in precious metals, stones and jewels, as well as certain segments of the insurance industry to establish anti-money laundering programs. A regulation also requires the insurance industry to file suspicious activity reports. We are presently working on regulations that would apply to other vulnerable financial industries.

As this committee knows well, we have worked hard to respond to the threat posed by certain types of correspondent and private banking operations. We recently published regulations to implement Section 312 of the PATRIOT Act. The rule requires certain U.S. financial institutions to establish due diligence policies, procedures, and controls to detect and report money laundering through certain correspondent and private banking accounts. Having sought additional comment on the provision of section 312 requiring “enhanced due diligence” for identified, high-risk foreign banks, a top priority is to complete this rulemaking by finalizing this last provision. We are currently examining options for responding to the other vulnerabilities identified in the assessment.

While the Money Laundering Threat Assessment focused, by design, on domestic money laundering, in today’s global economy, we cannot ignore the threat posed by money laundering abroad. To this end, the United States, with Treasury as its head of delegation, has taken a leadership role in the Financial Action Task Force (FATF) to establish and promulgate international standards for combating money laundering and terrorist financing. We and our colleagues devote continuous effort to shaping and ensuring implementation of these standards, through comprehensive assessments as well as international training and assistance. Over 150 nations now subscribe to FATF’s standards and have committed to meeting them.

The Treasury Department has also worked closely with the International Monetary Fund and the World Bank Group to promote member country programs against money laundering and terrorist financing. By the end of 2005, the IMF and World Bank had conducted more than 50 assessments of member countries’ compliance with the FATF standards and had provided technical assistance on related projects in more than 125 countries. In addition, Treasury continues to encourage the regional multilateral development banks to conduct internal risk assessments similar to those undertaken by the World Bank in order to identify additional areas where anti-money laundering and counter-terrorist financing measures could be strengthened.

We are also working directly with the private sector in priority regions. Last month members of my staff helped to organize an extraordinary conference in Cairo, where private sector bankers and public sector regulators from the United States met with their counterparts from Egypt, Saudi Arabia, Kuwait, and Lebanon to share concerns and approaches to combating money laundering and terrorist financing. Representatives from American Express, Citibank, J.P. Morgan Chase, and Pershing gave generously of their time, meeting with some 350 bankers from the Middle East and North Africa. This conference marked the beginning of what we hope will be an ongoing dialogue that will parallel and augment our work with public sector counterparts.

Conclusion

The threats of terrorist financing and money laundering remain serious and very real. I am encouraged, however, by our progress. Over the past few years, there has been increasing accord in the international community about the threats posed by these activities to national and economic security and their corrosive effect on the global financial system. There is also an increasing recognition of the power of financial measures to disrupt and isolate the sources of these threats. If responsible nations employ financial measures in a coordinated and consistent manner, we can make a decisive difference.

Thank you again for holding this hearing and for your sustained commitment to these issues. I would be happy to take your questions.