



DEPARTMENT OF THE TREASURY OFFICE OF PUBLIC AFFAIRS

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**Testimony of
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I. Introduction

Chairman Shelby, Ranking Member Sarbanes, and Members of the Committee, thank you for inviting me to testify today about the Treasury Department's central role in the international war against terrorist financing and financial crime. I welcome this opportunity to discuss this subject with you, and to outline our vision for moving forward in this vitally important fight.

Though I have only been at the Treasury Department for a short period, it is clear to me that this Department is well placed to shape policy and practice in areas of financial and economic interest that affect our national security. Through its broad authorities and expertise, the Treasury Department is charged with preserving the integrity of the financial system and does so every day by charting our counter-terrorist financing campaign; setting and implementing anti-money laundering and counter-terrorist financing polices, regulations, and standards at home and abroad; gathering and sharing financial information with law enforcement and foreign counterparts regarding financial crime; implementing our nation's economic sanctions; and enforcing relevant regulations and laws related to these missions. Of course, this is done in close coordination with our partners at the Departments of Justice, State, Homeland Security, and all other relevant Federal departments and agencies.

Immediately after September 11th, the President directed the Treasury Department to guide the Federal Government's efforts in the global war against the financing of terrorism. Since that time, we have continued to devote our resources and extensive expertise to ensure that financial intermediaries and facilitators who infuse terrorist organizations with money, materiel, and support are held accountable along with those who perpetrate terrorist acts.

The war on terrorist financing is a vital responsibility of the Department. Terrorists – like any other organized criminals – rely on financial networks to fund and support their activities. Disrupting and dismantling those networks can make it more difficult for terrorists to carry out their deadly activities. Our success, therefore, can save the lives of Americans and of our friends and allies.

We know that the United States Government has had an effect on the ability of al Qaida and other terrorists to raise and move money around the world. The designations and other actions we have taken have made it riskier and costlier for them to try to use the formal financial system – which previously provided an open gateway for their funds to be sent instantly around the world. Our domestic and international efforts have tightened the net in the international financial system – through greater oversight, transparency, diligence, and capacity. Because of these efforts, terrorists have had to change the way they do business and are relying more on home-grown methods of raising money and slower methods of moving money. These are signals of our success.

As the recent bombings in Madrid and Riyadh demonstrate, however, we still have much work to do. Commitment to defeat terrorism is not enough. We must ensure that our commitment to disrupt and dismantle terrorist financing networks is matched by tangible results. I believe that we have achieved important and considerable results, but that we can and must do more, building not only upon our successes against terrorist financing, but also upon our experience and expertise in combating financial crime generally.

What is clear is that the rest of world has now begun to view the world as Treasury and others in the U.S. Government have always seen it. Dirty money and tainted financial flows not only corrupt the financial system but also threaten the lives of innocents and the economic and political stability of the world. Whether it is financing raised and moved to fuel terrorism or financial networks created to facilitate the proliferation of weapons of mass destruction, the global mission is clear: to disrupt and deter criminal activity that threatens our national security. In this endeavor, we must leverage all of our power to dismantle the financial infrastructure of such networks and of rogue regimes. This is now the axiom of the international community, and it is so because the U.S. Government has helped reshape the way the international community thinks about these issues.

In my testimony today, I will first explain how Treasury has helped to lead our nation's efforts in the campaign against terrorist financing and financial crime more generally. I will then describe how we have marshaled our resources over the past year to achieve significant and meaningful results against terrorist financing and other criminal networks. I will conclude by laying out some of our new initiatives, the most important of which is the establishment of the Office of Terrorism and Financial Intelligence.

During the past year, our people have worked extremely hard and achieved many significant results. At the same time, we all recognize that our enemies are sophisticated and determined, and so we must continue to adapt and revitalize ourselves so that we can continue to achieve results. This new office – which will bring together under one roof: intelligence, regulatory, law enforcement, sanctions, and policy offices – will build upon our achievements over the past year,

and allow Treasury to be more effective in the war on terrorist financing and in preserving the international financial system.

II. Treasury's Role in Combating Financial Crime

The Treasury Department has traditionally had the responsibility of safeguarding the integrity of the U.S. and international financial systems from all threats. This has resulted in the Treasury Department's developing expertise in the wide range of disciplines necessary to meet that responsibility. Today, Treasury has expertise in disciplines that stretch across the entire counter-terrorist financing spectrum. These include:

- application and implementation of sanctions and administrative powers;
- direct law enforcement action and law enforcement support,
- international initiatives;
- private sector outreach and engagement; and
- financial regulation and supervision.

As reflected in Congress' decision five years ago to charge Treasury with the leading role in the development of the *National Money Laundering Strategy*, Treasury's wide range of authorities, skills and relationships makes it well-positioned to devise, coordinate, and help to implement government-wide strategies to target, attack, and dismantle the financial networks that support terrorism and other criminal activity. We take a targeted as well as a systemic approach to these complex issues, using all possible regulatory, economic, diplomatic and strategic tools and policies to ensure our systems are not abused by money launderers, terrorists and other criminals.

In an effort to consolidate these tools and policies against all elements of financial crime, one year ago the Secretary of the Treasury established the Executive Office for Terrorist Financing and Financial Crime (Executive Office). This Office is responsible for developing policies relating to the Department's anti-money laundering, terrorist financing and financial crimes mission. It also oversees the offices and Bureaus responsible for implementing and administering these policies, i.e., the Office of Foreign Assets Control (OFAC), the Financial Crimes Enforcement Network (FinCEN), and the Treasury Executive Office for Asset Forfeiture (TEOAF). It also works very closely with the Internal Revenue Service's Criminal Investigation Division (IRS-CI) which possesses unparalleled financial investigation experience.

Treasury's authorities and expertise relating to combating financial crimes may also be leveraged to accomplish financial missions of critical importance to our national security interests. This is perhaps best seen in the hunt for Iraqi assets. I would like to briefly explain our efforts in the campaign to identify and repatriate Iraqi assets as one example of how Treasury has leveraged its resources and coordinated those of the interagency community to advance a mission critical to our national security interests.

On March 20, 2003, President Bush directed the Treasury Department to a world-wide hunt for Saddam Hussein's assets and directed Treasury's newly-formed Executive Office to lead the U.S. government's efforts to find, freeze, and repatriate Iraq's money for use in the reconstruction of Iraq. Consequently, the Treasury Department established and chairs the Iraqi

Assets Working Group (IAWG), comprised of all the relevant elements of this U.S. Government effort, including the National Security Council, the Departments of State, Justice, Homeland Security, Defense, and the law enforcement and intelligence communities. In this context, the Treasury Department has coordinated the intelligence and law enforcement efforts of this hunt -- relying on IRS-CI investigators and OFAC and intelligence analysts to unearth Saddam's hidden accounts and front companies around the world -- and our diplomatic actions -- leveraging the contacts and influence of the State Department and the Treasury abroad to gain international cooperation.

Since Secretary Snow's announcement of the campaign to identify, freeze and repatriate stolen Iraqi assets on March 20th of last year, the Treasury, working closely with other parts of the United States Government, has achieved important results in returning assets to the Iraqi people and in uncovering the schemes and networks used by the regime to steal from Iraq:

- Almost \$2 billion of Iraqi assets has been newly identified and frozen outside the U.S. and Iraq;
- More than three-quarters of a billion dollars have been transferred by foreign sources to the Development Fund for Iraq (DFI). In total, the United States, foreign countries, and the Bank for International Settlements have transferred back to Iraq over \$2.6 billion in frozen Iraqi funds;
- Approximately \$1.3 billion in cash and valuables has been recovered in Iraq.
- We continue to identify key individuals and entities whose assets should be frozen. In the past few weeks, the Department of the Treasury has undertaken the following important actions: (i) designated 16 immediate family members of senior officials of the former Iraqi regime pursuant to Executive Order 13315; (ii) listed 191 Iraqi parastatal (quasi-governmental) entities; (iii) designated five front companies of the former Iraqi regime and four associated individuals; (iv) re-designated three other front companies and one individual previously designated by the Treasury department; and (v) through the U.S. Mission to the U.N., submitted the names of all of these entities and individuals to the United Nations, requesting that they be listed by the UN 1518 Committee under UNSCR 1483.
- In Iraq, our financial investigators from IRS-CID have conducted over 80 interviews of key individuals who have information relating to Iraqi assets, ranging from the top ministers of the State Oil Marketing Organization (SOMO), to the laborers who buried Saddam's U.S. currency. These investigators are finding and interrogating key financial facilitators like accountants and bankers, who have knowledge about the movement of Iraqi assets. Under IRS-CI questioning, these witnesses have identified assets that can be recovered for the DFI, and which we are aggressively pursuing.
- While searching for Iraqi assets abroad, IRS-CI agents determined that the former Iraqi Ambassador to Russia had stolen \$4 million in Iraqi assets that had been entrusted to him.

As a result, that amount has been frozen in Russia, and we are working to have it repatriated.

- Working closely with the governments of Liechtenstein, Switzerland, and Jordan, we are attempting to recover one of Saddam's Falcon 50 corporate jets and to uncover a financial network that had been used by the Iraqis to move money and people in the heart of Europe.
- The financial investigation teams have also uncovered important leads for other IRS-CI financial investigators to follow up on in jurisdictions outside of Iraq. We have identified bank accounts and other assets held in over twenty countries, including Switzerland, France, Germany, Liechtenstein, Russia, Spain, Egypt, Thailand, Indonesia, Lebanon, Belarus, Iran, South Korea, Malaysia, Japan, Morocco, Saudi Arabia, UAE, British Virgin Islands, Jordan, Syria and Yemen.
- As a result of interagency cooperation and investigative and other efforts in Baghdad and at Headquarters, the Departments of Treasury and State have provided identifying information on over 570 identified Iraqi bank accounts to 41 countries for review and follow-up. Those accounts were identified as belonging to the Central Bank of Iraq, Rafidain Bank, and Rasheed Bank.

The identification and recovery of stolen Iraqi assets is just one area in which we have helped to drive key efforts and initiatives. This – and other Treasury initiatives – demonstrate our ability to help to coordinate government efforts and achieve positive results.

I would like to review briefly some of our successes under the U.S. Government's strategy for combating financial crime.

III. Treasury's Recent Accomplishments in Combating Financial Crime

A. Background and Strategy

Treasury's success in combating terrorist financing and financial crime reflects a strategic approach of developing and implementing policies that utilize our administrative powers, law enforcement resources, international relationships, engagement with the private sector and regulatory authorities to attack financial crime on a targeted and systemic basis. We have focused our efforts on identifying and interdicting key financial networks that support terrorist and other criminal activity, and on protecting financial systems from terrorist and criminal infiltration. Our systemic efforts are improving the transparency and accountability of financial systems around the world, making it easier to identify, disrupt and dismantle those terrorists and criminal networks that continue to abuse such systems. As we succeed in these goals, we have expanded our efforts to address alternative and informal financial systems that are vulnerable to terrorist and criminal abuse, including charities, alternative remittance systems, and cash couriers.

Targeting money flows is among the best means of tracking, exposing and capturing terrorists and their facilitators, narco-trafficking cartels and their supporting infrastructure, organized crime networks, and deposed kleptocratic regimes and their ill-gotten assets worldwide. Money flows leave a signature, an audit trail, and provide a road map of terrorist and other criminal activity. Financial investigations lead upstream to those who are generating the underlying financial crimes, as well as downstream to provide a roadmap to those financial professionals who facilitate the terrorist or criminal activity itself. As we and our international partners work together to follow and stop terrorist or illicit funds, we strengthen the integrity of our financial systems and erode the infrastructure that supports terrorists and other criminals.

B. Economic Sanctions and Administrative Powers

Treasury wields a broad range of powerful economic sanctions and administrative powers to attack various forms of financial crime. We have continued to use these authorities in the campaign against terrorist financing, drug trafficking, money laundering and other criminal financial activity.

In combating terrorist financing, our primary, and most public, tool is the ability to designate terrorists and those who support terrorists, and to implement orders that freeze the assets of terrorists through Executive Order 13224. These designation actions not only prevent terrorist activity by freezing terrorist-related assets and bankrupting terrorist operations, but they also:

- identify existing terrorist activity through financial trails evident in the accounts and transactions of designated parties;
- shut down sources of and pipelines for terrorist financing;
- force terrorists to expend resources developing alternative and higher risk means of raising and moving money;
- alienate terrorist supporters from the global economy by shutting them off from the U.S. financial system and prohibiting any U.S. person from engaging in any future financial or other related services with such designated parties; and
- deter those who might otherwise be inclined to support, financially or otherwise, terrorist activities or organizations.

Through our designation actions, we have made it more difficult for terrorist groups, like al Qaida, to raise and move money around the world. Under E.O. 13224, we have designated a total of 361 individuals and entities, as well as frozen or seized approximately \$200 million of terrorist-related funds worldwide. Designations under E.O. 13224 in the past year include the following:

- Ten al Qaida loyalists related to the Armed Islamic Group (GIA) on March 18
- Shaykh Abd Al-Zindani (al Qaida-related) on February 24, 2004

- Four branches of the Al Haramain Islamic Foundation (al Qaida-related) on January 22, 2004);
- Abu Ghaith (al Qaida-related) on January 16, 2004;
- Dawood Ibrahim (al Qaida-related) on October 17, 2003;
- Al Akhtar Trust International (al Qaida-related) on October 14, 2003;
- Abu Musa'ab Al-Zarqawi (al Qaida-related) on September 24, 2003;
- Yassin Sywal, Mukhlis Yunos, Imam Samudra, Huda bin Abdul Haq, Parlindungan Siregar, Julkipli Salamuddin, Aris Munandar, Fathur Rohman A1-Ghozi, Agus Dwikarna, and Abdul Hakim Murad (members of Jemaah Islamiyah) on September 5, 2003;
- Sheik Ahmed Yassin (Gaza), Imad Khalil Al-Alami (Syria), Usama Hamdan (Lebanon), Khalid Mishaal (Syria), Musa Abu Marzouk (Syna), and Abdel Aziz Rantisi (Gaza) (Hamas political leaders) on August 22, 2003;
- Comité de Bienfaisance et de Secours aux Palestiniens (France), Association de Secours Palestinien (Switzerland), Interpal (UK), Palestinian Association in Austria, and the Sanibil Association for Relief and Development (Lebanon) (all Hamas-related charities) on August 22, 2003;
- The National Council of Resistance of Iran (including its U.S. representative office and all other offices worldwide) and the People's Mujahedin Organization of Iran (including its U.S. press office and all other offices worldwide) on August 15, 2003;
- Shamil Basayev (al Qaida-related) on August 8, 2003; and
- The Al-Aqsa International Foundation (Hamas-related) on May 29, 2003.

Together with the State and Justice Departments and other agencies, we are using our diplomatic resources and regional and multilateral engagements to ensure international cooperation, collaboration and capability in designating these and other terrorist-related parties through the United Nations and around the world.

In combating drug trafficking, Treasury continues to apply its authorities under the Foreign Narcotics Kingpin Designation Act to administer and enforce the provisions of law relating to the identification and sanctioning of major foreign narcotics traffickers. The Kingpin Act, enacted in December 1999, operates on a global scale and authorizes the President to deny significant foreign narcotics traffickers, and their related businesses and operatives, access to the U.S. financial system and all trade and transactions involving U.S. companies and individuals. During 2003, the President named seven new kingpins, including two U.S.-designated foreign

terrorist organizations -- Revolutionary Armed Forces of Colombia and United Self-Defense Forces of Colombia -- and a Burmese narco-trafficking ethnic guerilla army, bringing the total number designated to 38.

Since the inception of the Kingpin Act and after multi-agency consultations, Treasury has named 14 foreign businesses and 37 foreign individuals in Mexico, Colombia, and the Caribbean as derivative ("Tier II") designations. These derivative designations are flexible, and permit Treasury to attack the financial infrastructure of these kingpins as their infrastructure changes. A total of 104 organizations, individuals and businesses in 12 countries are now designated under the Kingpin Act. On February 19, 2004, Treasury designated 40 key individuals and companies associated with the Colombian narco-terrorist organizations, the FARC and the AUC. These two organizations were previously named by the President on May 29, 2003 as drug kingpins. We are currently working with the interagency community to develop a list of new designations to be issued by the President later this Spring.

Another weapon that our government uses aggressively against narco-traffickers and money launderers is that of seizure and confiscation. In fiscal year 2003, Treasury's Executive Office for Asset Forfeiture (TEOAF) received over 234 million dollars in annual forfeiture revenue from the combined efforts of the former Bureau of Alcohol, Tobacco and Firearms, the U.S. Secret Service (USSS), the Internal Revenue Service (IRS), and the former U.S. Customs Service (USCS). This represents a significant increase over fiscal year 2002, in which TEOAF received over \$152 million dollars of forfeiture revenue. Such an increase is particularly impressive when considering the transition undertaken by three of these law enforcement bureaus in the government reorganization last year.

In combating money laundering and financial crime generally, Treasury continues to direct its resources and coordinate efforts to administer and enforce the Bank Secrecy Act. Working through FinCEN, IRS, the Office of the Comptroller of the Currency, the Office of Thrift Supervision and other outside agencies, Treasury administers and enforces BSA provisions relating to monetary transaction and transportation reporting and recordkeeping requirements, suspicious activity, anti-money laundering programs and other obligations as set forth in the Act.

In addition, Treasury, after appropriate interagency consultations, has applied its new authority under Section 311 of the USA PATRIOT Act (Patriot Act) to designate jurisdictions and institutions of primary money laundering concern. Most recently, we designated the jurisdiction of Burma, consistent with the Financial Action Task Force's (FATF) demand for countries to impose additional counter-measures against that country. At the same time, Treasury designated the Myanmar Mayflower Bank and Asia Wealth Bank, two Burmese banks that are linked to the United Wa State Army, a notorious drug trafficking organization in Southeast Asia. It is important to note that this is Treasury's first application of Section 311 against financial institutions. We are focused on identifying additional foreign banks that either facilitate money laundering or are otherwise involved in financial crime as potential Section 311 targets.

These accomplishments and responsibilities are just a few examples that demonstrate the wide range of economic sanctions and administrative powers that the Treasury continually applies and implements in our ongoing mission to combat financial crime.

C. Law Enforcement

In addition to these economic sanction and other administrative authorities, Treasury combats various forms of financial crime through the direct law enforcement actions of IRS-CI and the law enforcement support provided by FinCEN and Treasury's regulatory authorities.

Whether working with DEA on the money laundering component of significant drug investigations, the FBI on terrorist financing cases, or investigating offshore tax shelters and other tax-related matters, IRS-CI brings an unparalleled financial investigative expertise to the table. The financial forensic expertise of our IRS criminal investigators around the country and the world is critical in the US law enforcement community's attack on sources and schemes of terrorist financing.

A good example of our direct law enforcement action through IRS-CI is evident in our efforts to attack terrorist financing emanating from abroad. Since September of 2003, IRS-CI agents have been actively participating in a joint U.S./Saudi counterterrorism task force located in Riyadh. The Task Force both provides and receives investigative lead information on various terrorist financing matters. Additionally, the investigators seek assistance from Saudi counterparts in following terrorist financing, and using that information to identify and attack terrorist cells and operations. Information received by US agents is passed through FBI's Terrorist Financing Operations Section in Washington to the interagency JTTFs nationwide. As a part of this initiative and under the auspices of the State Department chaired Terrorist Financing Working Group, IRS-CI participated in two, week long classes of financial investigation training to Saudi Arabian criminal investigators. The courses delivered by IRS-CI included the following specialized topics: charitable entities, money laundering, net worth method of proof, expenditures method, documenting financial crimes, and computer sources of financial information. A third class will be presented this spring.

We complement such direct law enforcement action with law enforcement support. Through FinCEN, Treasury serves as a repository and analytical hub for Bank Secrecy Act information, which aids investigators across the interagency community in finding financial links to criminal enterprises and terrorist networks. Since February 2003, we have also used Section 314(a) of the Patriot Act to enable law enforcement, through FinCEN "Blastfaxes" to more than 31,800 financial institutions as of April 27, 2004, to locate quickly the accounts and transactions of those suspected of money laundering or the financing of terrorism. Since Section 314(a)'s creation, the system has been used to send the names of 1,712 persons suspected of terrorism financing or money laundering to financial institutions, and has resulted in 12,280 matches that were passed on to law enforcement. We understand the sensitivity of the use of this system, and will continue to ensure through vigorous review that this system is used only in cases where terrorist financing is suspected, or in the most egregious money laundering cases.

As a result of these efforts, FinCEN has made 342 proactive case referrals to law enforcement potentially involving terrorism based upon analysis of information in the Bank Secrecy Act database. The Terror Hotline established by FinCEN has resulted in 853 tips passed on to law enforcement since 9/11. FinCEN is also implementing an Electronic Reports program that will further enhance law enforcement's ability to utilize this information. Additionally, with the

expansion of the Suspicious Activity Report (SAR) regime, as of April 28, 2004, financial institutions nationwide have filed 4,294 SARs reporting possible terrorist financing directly to FinCEN, including 1,866 SARs in which terrorist financing represented a primary suspicion. This has further enhanced our efforts to identify and vigorously investigate terrorist financing webs and dismantle them.

D. International Initiatives

The success of our efforts to combat financial crime and particularly terrorist financing, depends in large part on the support of our allies and the international community. Treasury – working through the Executive Office for Terrorist Financing and Financial Crime and the Office of International Affairs – has worked with other elements of the U.S. Government to engage the international community to develop and strengthen counter-terrorist financing initiatives and regimes, and to enhance the transparency and accountability of global financial systems generally. Internationally we have received support from over 200 countries and jurisdictions, including blocking orders to freeze assets from 170 countries and jurisdictions, and other direct actions around the globe to deal with the common scourge of terrorism. We are working constantly with other governments on a bilateral, regional, and multilateral basis to focus their attention on this issue and to deal with identified risks.

We have developed and implemented a multi-pronged strategy to globalize the campaign against terrorist financing and strengthen our efforts to combat financial crime, using all of our authorities, expertise, resources and relationships with various international bodies and other governments. Our strategy includes: (i) improving global capabilities to identify and freeze terrorist-related assets; (ii) establishing or improving international standards to address identified vulnerabilities; (iii) ensuring global compliance with these standards; (iv) addressing financing mechanisms of particular concern, and (v) facilitating the sharing of information to defeat these threats.

1. Improving Global Asset-Freezing Regimes

A focal point of our international efforts to combat financial crime over the past year has been to improve the effectiveness of global asset-freezing regimes in the campaign against terrorist financing. After many months of negotiation and discussion at the FATF, we successfully developed interpretive guidance to clarify and specify international obligations and best practices in identifying and freezing terrorist-related assets. In October 2003, the FATF issued an Interpretive Note and Best Practices Paper to FATF Special Recommendation III, describing these obligations and standards. This accomplishment will provide a basis for countries to develop or reform their existing asset-freezing regimes to improve their effectiveness. We are currently using these obligations and standards to encourage necessary reforms to asset-freezing regimes in countries around the world, including our European allies. Pursuant to these efforts, the European Union is now considering adjustments to the EU Clearinghouse process used to identify and freeze terrorist-related assets across the EU. We are working with the Europeans, both bilaterally and collectively, to assist in this process.

In addition to these international public sector efforts, we are working with leading global financial institutions to develop a technical assistance initiative within the private sector to enhance capabilities in identifying and freezing terrorist-related assets. This initiative seeks to leverage existing banking expertise through bank-to-bank training, awareness and outreach.

2. Setting International Standards

Internationally, we have worked not only through the United Nations on blocking efforts, but also through multilateral organizations and on a bilateral basis to promote international standards and protocols for combating terrorist financing and financial crime generally. Such standards and protocols are essential to developing the financial transparency and accountability required to identify and attack elements of financial crime, including terrorist financing networks.

We have primarily focused our efforts to establish international standards against terrorist financing and financial crime through the FATF. The FATF is the premier international body in the international effort against money laundering and terrorist financing. Created by the G-7 in 1989, the FATF has since grown to 33 members, along with numerous observers, including the United Nations, IMF, and World Bank. The FATF's primary mission is to articulate international standards in the areas of money laundering and terrorist financing, and to work toward worldwide implementation. Treasury's Executive Office for Terrorist Financing and Financial Crime heads the U.S. delegation to the FATF and co-chairs the FATF's Working Group on Terrorist Financing.

We have worked with our counterparts in the FATF to revise the 40 Recommendations, thereby enhancing international standards of transparency and accountability required to effectively combat money laundering and other financial crimes. In June 2003, the FATF issued the revised 40 Recommendations by adding shell banks, politically-exposed persons, correspondent banking, bearer shares, the regulation of trusts, the regulation of trust and company service providers, and the regulation of lawyers and accountants. These newly revised Recommendations were endorsed by the G-7 Finance Ministers in a public statement issued the same day the revised Recommendations were adopted by FATF.

We have also capitalized on the FATF's expertise on money laundering to specifically attack terrorist financing, largely through the Eight Special Recommendations on Terrorist Financing developed and adopted by the FATF in October 2001. As co-chair to the FATF's Working Group on Terrorist Financing, the Treasury has worked closely with FATF members to issue interpretive guidance on the Eight Special Recommendations, particularly with respect to: freezing terrorist-related assets; regulating and monitoring alternative remittance systems such as hawala; ensuring accurate and meaningful originator information on cross-border wire transfers, and protecting non-profit organizations from terrorist abuse. We are currently directing the FATF's Working Group on Terrorist Financing to further attack the problem of terrorist financing through charities and cash couriers.

Through our efforts in the FATF, many countries have taken important steps to improve their legal regimes and strengthen the oversight of their financial sectors, acknowledging the need for strong anti-money laundering requirements to fight terrorist financing. Countries like Egypt,

Guatemala, Indonesia, Israel, Lebanon, and the Philippines have taken important strides to develop and implement effective and comprehensive anti-money laundering regimes, strengthening their institutions and their enforcement of anti-money laundering and counter-terrorist financing laws and regulations. Treasury has played an important role in the development of anti-money laundering and counter-terrorist financing regimes in each of these countries.

Moreover, we have engaged the IMF and World Bank to gain their recognition of the FATF 40 + 8 Recommendations as one of the 12 Key International Standards and Codes. In March of this year, owing largely to the leadership of the G7, the IMF/World Bank made their AML/CFT assessment program permanent and comprehensive, thereby ensuring that all countries throughout the world are assessed against FATF standards. Additionally, Treasury, along with the State and Justice Departments, has furthered our efforts to globalize the FATF standards through our work with various FATF-style regional bodies (FSRBs). We are currently engaged in the development of two new FSRBs to cover the regions of the Middle East / North Africa and Central Asia.

3. Promoting Worldwide Implementation of International Standards

Establishing international standards is only the first step toward identifying and destroying terrorist and criminal networks and denying these groups access to the international financial system. If these standards are not implemented worldwide, terrorists and other criminals will enter the international financial system at the point of least resistance, and preventive national efforts will be rendered considerably less effective.

The United States is working together with the international community to ensure global compliance with improved international standards through a three-prong approach that includes: (i) objectively assessing all countries against the international standards; (ii) providing capacity-building assistance for key countries in need, and (iii) isolating and punishing those countries and institutions that facilitate terrorist financing.

Our federal government has identified 24 countries as priorities for receiving counter-terrorist financing technical assistance and training, and Treasury is a key supporter of the State Department-led efforts of the interagency community to work bilaterally to deliver such assistance to these priority countries.

Together with other federal government agencies and departments, we are also working with our allies in the G-8 Counter-Terrorism Action Group (CTAG) the IMF, World Bank and the FATF to coordinate bilateral and international technical assistance efforts to additional priority countries in the campaign against terrorist financing. As part of these coordinated international efforts, the FATF Working Group on Terrorist Financing has completed terrorist financing technical needs assessment reports in several priority countries. These reports will be used by the CTAG to match appropriate donor states with identified needs in each of these priority countries.

Moreover, we will continue to utilize domestic tools – including those made available through the Patriot Act -- to focus on jurisdictions that are not taking adequate steps to address terrorist financing, money laundering and other financial crimes concerns. As discussed above, Treasury is has used Section 311 of the Patriot Act to address primary money laundering concerns on a jurisdictional and institutional basis. Working in cooperation with the law enforcement and intelligence communities, we have designated three foreign jurisdictions and two financial institutions under Section 311. In addition to the Burmese designations described above, Treasury has also designated the jurisdictions of Ukraine and Nauru under Section 311. Ukraine responded to this designation almost immediately by enacting significant anti-money laundering legislation. This quick response demonstrates the power of Section 311 in promoting positive reform and addressing vulnerabilities in the international financial system. Moreover, even the possibility of a Section 311 designation can result in other nations making important changes to their legal and regulatory regimes that enhance the global anti-money laundering and anti-terrorist financing infrastructure. We will continue to seek out appropriate opportunities to utilize these new powers to protect the U.S financial system.

4. Addressing Financing Mechanisms of Particular Concern

In addition to developing and implementing broad initiatives and systemic reforms to increase the transparency and accountability of international financial systems, we have targeted specific financing mechanisms that are particularly vulnerable or attractive to terrorist financiers. These mechanisms include the abusive use of charities and NGOs, hawala and other alternative remittance or value transfer systems, wire transfers, and cash couriers, as well as trade-based money laundering and cyber-terrorist financing.

Our strategy for attacking terrorist financing and financial crime perpetrated through these mechanisms is consistent with our global strategy for combating financial crime in the formal international financial system: we will continue working domestically and with the international community to develop the transparency and accountability required to identify, disrupt and destroy terrorist financing and other criminal networks embedded in these sectors. We will also continue allocating resources to focus on high-risk elements of these sectors and concentrate our efforts on high-value targets.

To effectively counter the threat of terrorist financing through charities, we have engaged countries through the FATF to examine and analyze existing oversight mechanisms and vulnerabilities in their domestic charitable sectors. These efforts capitalize on the FATF's expertise in promoting transparency and accountability in formal financial sectors, as well as the experience gained in developing international best practices to protect charities from terrorist abuse in accordance with the FATF's Special Recommendation VIII.

We have also engaged the international community bilaterally and multilaterally to combat the threat of terrorist financing and financial crime through alternative remittance systems, such as hawala. Over the past two years, we have achieved significant progress on this issue, as reflected in the Abu Dhabi Declaration made at the conclusion of the first International Conference on Hawala in May 2002, and the adoption of interpretive guidance to FATF Special Recommendation VI in February and June of 2003. Earlier this month, Treasury led a delegation

to the United Arab Emirates to continue advancing these issues in the second International Conference on Hawala.

We are also working with the international community to attack the illicit use of cash couriers by money launderers and terrorist financing networks. Treasury leads the US delegation to the Asia-Pacific Group and is working through that regional body to examine various information sharing, criminalization, and reporting mechanisms to identify and interdict the illicit use of cash couriers.

5. Facilitating International Information Sharing

Information sharing is critical to fighting terrorism and financial crime. Domestically, we have taken advantage of important information-sharing provisions of the Patriot Act to assimilate information from the financial, intelligence and law enforcement communities in identifying and attacking terrorist financing networks. To improve the global flow of financial information related to terrorist financing, we have also worked to establish and expand formal and informal, international information-sharing channels, both bilaterally and multilaterally. Through FinCEN, the U.S. Financial Intelligence Unit (FIU), we have persuaded the Egmont Group, which represents 84 FIUs from various countries around the world, to leverage its information collection, analysis and sharing capabilities to support the global war on terrorism. These ongoing efforts have greatly improved our ability to identify and unravel terrorist financing networks by tracking and tracing terrorist money trails through multiple jurisdictions.

Our efforts to combat terrorist financing and financial crime also depend upon promoting a greater understanding of the financial threats we face. To facilitate such an understanding internationally, we have worked bilaterally, regionally and globally with other governments and international bodies to develop and share case studies and typologies of financial crime, including terrorist financing.

E. Private Sector Outreach

The private sector serves as the front-line in the campaign against terrorist financing, money laundering, and other financial crime. Cooperation with the private sector, including banks and trade associations, has been essential to increasing our vigilance against the abuse of our financial system by terrorists and criminal groups. With the expansion of our anti-money laundering provisions to new segments of the financial community pursuant to the Patriot Act, we will continue and expand such cooperation by working with our domestic financial community, including banks, securities broker-dealers, mutual funds, futures commission merchants, and operators of credit card systems,¹ as well as the charitable sector outside the framework of Patriot Act regulations, to enhance their abilities to detect and report possible terrorist financing and money laundering activities.

Our ongoing outreach initiatives with the private sector promote a greater understanding of terrorist financing, money laundering and other criminal financial activity and assist us in

¹ The list also includes insurance companies; money order and traveler's check issuers and redeemers; check cashers; wire remitters; currency exchangers; and a myriad of other non-bank financial institutions.

designing effective regulations and practices to defeat these threats. We will continue to improve the effectiveness of our partnership with the private sector by: (1) increasing the amount of information the U.S. Government provides with respect to its ongoing efforts; (2) providing feedback on the usefulness of the private sector's efforts; (3) educating the private sector to recognize terrorist financing-related typologies and "red flags"; (4) reinvigorating the law enforcement-industry partnership to develop "best practices" for corporations to follow to avoid trade-based money-laundering transactions, and (5) enhancing ongoing due diligence efforts, while balancing the demands on institutions.

These goals will enhance the ability of both the public and private sectors to insulate the financial system and charitable sector from abuse, while ensuring the free flow of capital and commerce and the continued practice of charitable giving. We will advance these goals through existing mechanisms, such as the Bank Secrecy Act Advisory Group (BSAAG), and publications, such as the SAR Activity Review issued by FinCEN. In addition, Treasury officials are constantly engaged with the private financial sector on money laundering and terrorist financing issues through various conferences and meetings with trade associations and industry professionals, both domestically and internationally. We will continue to take advantage of these opportunities whenever and wherever possible to advance our partnership with the private sector in combating financial crime.

Treasury is also engaged in sustained outreach with the charitable sector. In November 2002, the Treasury Department issued *Anti-Terrorist Financing Guidelines: Voluntary Best Practices for U.S.-Based Charities* to enhance donor awareness of the kinds of practices that charities may adopt to reduce the risk of terrorist financing. Since then, Treasury officials have participated in several conferences within the charitable sector to explain these Guidelines and new developments in the campaign against terrorist financing. Earlier this week, the Treasury Department hosted an outreach event with representatives from approximately 30 charitable organizations to further explain and discuss the Guidelines and developments related to terrorist abuse of the charitable sector. We anticipate conducting similar outreach meetings with the charitable sector to continue advancing our collective interests in facilitating charitable giving by protecting charitable funds from terrorist abuse.

F. Regulation and Supervision

We have taken many steps to investigate and regulate sectors that offer opportunities for terrorists and other criminals to raise and move funds. Through outreach efforts such as those described above, we have built relationships with the private sector to enlist their support in broadening and deepening the regulatory structure and reporting requirements in the domestic financial system. We are creating a level-playing field and attacked money laundering and terrorist financing through non-banking financial systems under the Patriot Act, subjecting new sectors of the economy (the securities and futures industries) to anti-money laundering controls like record-keeping and reporting requirements previously imposed primarily on banks.

In addition to the successful implementation and applications of Sections 314(a) and 311 as discussed above, a recent example of our implementation of the Patriot Act is Section 326. This provision mandates basic, uniform customer identification and verification procedures for

individuals and businesses that open accounts with banks (including thrifts and credit unions), securities brokers, mutual funds, and future commission merchants.

IV. The Future of Treasury's Efforts in the Battle against Terrorist Financing and Financial Crimes

The efforts and accomplishments of the past year have shown two things. First, the Treasury Department plays and must continue to play a critical role in driving national policies related to terrorist financing, money laundering, financial crimes, and economic sanctions. The is well placed – given its authorities, expertise, and contacts – to deal with issues that cut across several disciplines and require concerted attention to identify and interdict tainted financial flows. Second, these efforts have to be improved, amplified, and supported because of their growing importance at home and abroad.

we have had real success in fighting this war, but as the recent bombings in Madrid and Riyadh demonstrate, there is no end to our work. Our enemies are numerous, resourceful, and dedicated, and they continually adapt to the changing environment. We must do the same. We can and must do more – using every tool that we have. We must also recognize that -- unfortunately -- we are in this fight for the long term -- and so the Department needs to be organized to reflect that reality.

This is precisely why the Administration has collaborated with Congress and this Committee to develop a new Treasury structure -- a high profile office led by an Under Secretary -- one of only three in the Department -- and two Assistant Secretaries. It is an office that will bring together Treasury's intelligence, regulatory, law enforcement, sanctions, and policy components.

I want to specifically note the important contributions made by the Chairman and Ranking Member of this Committee, which resulted in an exchange of letters with Secretary Snow at the end of last year. I also want to thank the Congress for establishing the new Assistant Secretary for Intelligence position. Since that time, the Administration has worked hard to implement the concepts described in those letters.

On March 8th, 2004, Treasury formally announced the creation of this office, entitled the Office of Terrorism and Financial Intelligence (TFI) in the Department of the Treasury. On March 10th, the President announced that he would nominate Stuart Levey, currently the Principal Associate Deputy Assistant Attorney General, for the Under Secretary position, and Juan Zarate, currently the Deputy Assistant Secretary in charge of terrorist financing at Treasury, for one of the two Assistant Secretary positions. Both of those nominations have since been transmitted to the Senate. We are working diligently to identify the most qualified individual to serve as the Assistant Secretary for Intelligence. In the meantime, we have appointed a very capable Deputy Assistant Secretary to get this office up and running.

The creation of TFI will redouble Treasury's efforts in at least four specific ways. First, it will allow us to better develop and target our intelligence analysis and financial data to detect how terrorists are exploiting the financial system and to design methods to stop them. TFI will be

responsible for producing tailored products to support the Treasury Department's contributions to the war against terrorist financing. Second, it will allow us to better coordinate an aggressive enforcement program, including the use of important new tools that the Patriot Act gave to Treasury. Third, it will help us continue to develop the strong international coalition to combat terrorist financing. A unified structure will promote a robust international engagement and allow us to intensify outreach to our counterparts in other countries. Fourth, it will ensure accountability and help achieve results for this essential mission.

TFI will have two major components. An Assistant Secretary will lead the Office of Terrorist Financing. The Office of Terrorist Financing will build on the functions that have been underway at Treasury over the past year. In essence, this will be the policy and outreach apparatus for the Treasury Department on the issues of terrorist financing, money laundering, financial crime, and sanctions issues. The office will help to lead and integrate the important functions of OFAC and FinCEN.

This office will continue to assist in developing, organizing, and implementing U.S. government strategies to combat these issues of concern, both internationally and domestically. This will mean increased coordination with other elements of the U.S. government, including law enforcement and regulatory agencies. This office will continue to represent the United States at international bodies dedicated to fighting terrorist financing and financial crime such as the Financial Action Task Force and will increase our multilateral and bilateral efforts in this field. We will use this office to create global solutions to these evolving international problems. In this regard, we will also have a more vigorous role in the implementation of measures that can affect the behavior of rogue actors abroad.

Domestically, this office will be charged with continuing to develop and implement the money laundering strategies as well as other policies and programs to fight financial crimes. It will continue to develop and help implement our policies and regulations in support of the Bank Secrecy Act and the Patriot Act. We will further increase our interaction with federal law enforcement and continue to work closely with the Criminal Investigators at the IRS – including integration of their Lead Development Centers, such as the one in Garden City, New York – to deal with emerging domestic and international financial crimes of concern. Finally, this office will serve as a primary outreach body – to the private sector and other stakeholders – to ensure that we are maximizing the effectiveness of our efforts.

A second Assistant Secretary will lead the Office of Intelligence and Analysis. In determining the structure of OIA, we have first focused on meeting our urgent short-term needs. We have assembled a team of analysts to closely monitor and review current intelligence threat reporting. These analysts, who are sitting together in secure space in the Main Treasury building, are ensuring that Treasury can track, analyze any financial angles, and then take any appropriate action to counter these threats. Treasury will make sure to coordinate with all relevant agencies, including the Terrorist Threat Integration Center (TTIC).

In the near term, the Department plans to further develop our analytical capability in untapped areas, such as strategic targeting of terrorist financial networks and their key nodes. We also plan to analyze trends and patterns and non-traditional targets such as hawalas and couriers. In

order to accomplish these goals, we plan to hire several new analysts as well as to draw on additional resources from OFAC and FinCEN. The precise number of analysts has yet to be determined -- as we are still ensuring that we have the proper leadership in place and that we do not disrupt our important ongoing efforts. Certain specifics, such as the physical location of the analysts, will be determined by a number of factors, including expertise, skills mix, and lessons learned as we go.

This Assistant Secretary will focus on enhancing the Department's relations with the intelligence community -- making sure that we are not duplicating the efforts of other agencies, but instead, are filling any gaps in intelligence targets. Ultimately, we envision that all of Treasury's intelligence analysis will be coordinated through the Office of Intelligence and Analysis. This will include intelligence support for Treasury's senior leadership on the full range of political and economic issues

We are currently confronting the question of staffing and funding for TFI. As Secretary Snow wrote in an April 16th letter to Members of Congress, President Bush has proposed significant spending increases in his Fiscal Year 2005 Budget to continue the fight against terror financing and financial crimes. The Secretary also stated that the Department would use currently appropriated Fiscal Year 2004 resources to ensure that TFI has the necessary resources to staff the new offices, as well as to bolster capabilities of existing functions.

I am able to provide some more detail today about those issues. We believe that through a combination of prudent and targeted use of resources, Treasury will be able to spend up to an additional \$2 million on staffing and other start-up needs of TFI during the rest of the current fiscal year. We anticipate that we will be able to bring on board up to 15 new personnel during the remainder of the fiscal year.

Looking forward to the next fiscal year, we have not made firm decisions about how much money we will devote to the new office. We will evaluate our needs, and we are prepared to make the hard decisions about how to allocate our limited resources. Fighting the war on terror is a priority of the President and of this Department -- and we will spend whatever we need to carry out our duties in a responsible manner. And, of course, we will work with the Congress in making those decisions.

As can be seen from the description above, TFI will enhance the Treasury Department's ability to meet our own mission and to work cooperatively with our partners in the law enforcement and intelligence communities. We are confident that TFI will compliment and not duplicate the important work being done by the Department of Justice and Department of Homeland Security, and by the various intelligence agencies, and will be fully integrated into already established task forces and processes.

President Bush and this entire Administration are firmly committed to waging a relentless war on terrorists and those who offer them support. Our fight is guided by 5 goals.

- To leverage all of the government's assets to identify and attack the financial infrastructure of terrorist groups;

- To focus Treasury's powers on identifying and addressing vulnerabilities in domestic and international financial systems, including informal financial systems;
- To direct our government's efforts on financial missions of critical importance to our national security interests, such as proliferation finance and identifying and recovering stolen Iraqi assets;
- To promote a stronger partnership with the private financial sector by sharing more complete and timely information;
- To improve domestic and international coordination and collaboration by combating financial crime by increasing the frequency and value of financial information shared across our government and with other governments.

These goals are critical to protecting and promoting our national security interests. The new office of TFI will improve our ability to advance these goals by further consolidating Treasury's unique assets in the campaign against financial crime, and by integrating and coordinating these assets with those of the interagency community.

I look forward to continuing to work with the Congress and this Committee in the creation of TFI and in advancing our mission in the war on terrorism and financial crime.