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TERRORIST FINANCING: IMPLEMENTATION OF THE USA PATRIOT ACT

HEARING

BEFORE THE

COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTH CONGRESS

SECOND SESSION

SEPTEMBER 19, 2002

Printed for the use of the Committee on Financial Services

Serial No. 107–83

U.S. GOVERNMENT PRINTING OFFICE

83–586 PDF WASHINGTON : 2002

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2250 Mail: Stop SSOP, Washington, DC 20402–0001

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TERRORIST FINANCING: IMPLEMENTATION OF THE USA PATRIOT ACT

Thursday, September 19, 2002

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to call, at 10:08 a.m., in Room 2128, Rayburn House Office Building, Hon. Michael Oxley [chairman of the committee] presiding.

Present: Representatives Leach, Bachus, Royce, Ney, Kelly, Shays, Miller, Grucci, Hart, Capito, Rogers, Tiberi, LaFalce, Waters, Maloney of New York, Watt, Bentsen, Maloney of Connecticut, Sherman, Meeks, Inslee, Moore, Lucas, Clay, and Israel.

The CHAIRMAN. [Presiding.] The committee will come to order. We would like to welcome the director—distinguished director of the Federal Bureau of Investigation, Bob Mueller, to the committee.

Director Mueller, the committee welcomes you and later on we will welcome Treasury Deputy Secretary Dam and Undersecretary of State Larson.

Disrupting terrorist financing is an issue of utmost importance and we appreciate your being here today. A year ago last Wednesday, our nation suffered its worst ever attack. The president and Congress immediately began work on a number of fronts including an effort to strangle the money supply that fuels international terrorists. The president expanded the government's ability to block and freeze assets and transactions of terrorists and terror organizations.

One month after the attacks, this committee passed the most far-reaching anti-money-laundering legislation in more than two decades, aimed at giving the government even more tools to disrupt terror financing and to stop the laundering of money from other illegal activities. The USA PATRIOT Act was signed into law by President Bush October 26, and is a source of great pride for this committee.

Director, as you well know, that effort was only the beginning of the job. Some of the first arrests with the new powers laid out in the Act came just three days after the signing, in Boston and in Minnesota and in my home state of Ohio. But the legislation laid out a strict timetable under which the Treasury Department was to promulgate regulations spelling out the way financial institutions, and a broad array of other businesses in this country, were to carry out their new duties. It was a Herculean task, and we have closely monitored the progress.

Now with the issuance yesterday of three final sets of regulations and two proposed regulations, the regulatory work on these new tools to stop dirty money is largely done. And I think we can now all step back and applaud the hard work Treasury has performed in drafting the regulations, and the FBI and others have done to apply them.

Looking forward we must ask if there are other holes we must plug. Did we ensure that the extra burdens we placed on businesses are rewarded with the sure knowledge that more dirty and terror money is being stopped? Have the terrorists and traffickers regrouped to move their assets into other channels? And can we devise new ways to stop it? I think the answer to all those questions is, yes.

The administration has seized more than $34 million, and worldwide more than $112 million has been seized. However, a United Nations report that will be released today says, ″The terrorists still have access to sizable chunks of money.″ And reports have indicated that they have transformed cash into commodities, from heroin to gold, and are moving and using it in a form to fund their efforts.

Director, this is good news. It means the PATRIOT Act is working, squeezing bad money out of the system and into forms that are harder to move and easier to interdict.

Director, we look forward to your report on the FBI's success at stopping or interrupting terrorist financing mechanisms. We are interested to know if you have identified any new tools you need or changes you believe are necessary in the Act to make it more effective.

I also hope Deputy Secretary Dam will fill us in on the Secret Service's successes in stopping counterfeiting of U.S. currency using the new tools on that front, from the PATRIOT Act. And on whether passage of the bill by the gentleman from New York, Mr. King, that would authorize the Bureau of Engraving and Printing to print currency for other countries, would help strengthen their economies and help squeeze out terrorism. That language also was part of the House anti-money-laundering legislation, but fell out in conference. Director Mueller, we thank you again for your time. And I now yield the chair—or yield the floor to the gentleman from New York, Mr. LaFalce.

Mr. LAFALCE. Thank you very much, Mr. Chairman

One year ago this week our entire nation and the world struggled to recover from the shock and the trauma of the September 11 terrorist attacks. Shortly thereafter, all of us came together at a crucial time in our nation's history, and in the wake of the most egregious acts of terrorism ever on U.S. soil, to enact far-reaching and meaningful money laundering laws.

Today we examine the progress made thus far in implementing those new powers. In the previous Congress, the 106th Congress, I authored and then Banking Committee Chairman Jim Leach joined with me in introducing legislation, bipartisan legislation, to enhance the federal government's ability to protect our nation against money laundering threats world wide. We worked very closely with the then Deputy Secretary of the Treasury Stu Eizenstat on that.

And our banking committee took up the bill and we passed it on a nearly unanimous vote of 33 to one. I think it was Representative Paul who voted against it. But unfortunately, even after a 33 to one vote, the Republican leadership never scheduled a bill for House floor consideration.

And early in the 107th Congress, I reintroduced the bill, which as it now turns out, became one of the most important provisions in title three of the PATRIOT Act. My bill proposed to do something that had never been done in the history of anti-money-laundering legislation. It created a flexible set of practical authorities for the treasury secretary that could be invoked against specific money-laundering threats.

Prior to the enactment of the PATRIOT Act, successive treasury secretaries were limited in their ability to take proactive action on money laundering matters. After the tragic events of September 11, the need for stronger, more effective measures became quite clear.

As a result of the PATRIOT Act, which again includes the legislation I authored, the Treasury Secretary will have more flexible anti-money-laundering powers to tackle the abuses of our financial system by terrorist and criminals with much more effectiveness. Under the PATRIOT Act, the secretary can identify a region, a particular institution and even a foreign jurisdiction, as an area of primary money laundering concern, and impose a series of special measures. The secretary can prohibit certain transactions with certain countries or regions, or require collection of certain information that could be enormously useful in tracking the financial dealings of terrorists or block the opening of accounts in the U.S. by banks and other financial institutions in such jurisdictions.

Unfortunately, the administration has not used the new law, to my knowledge, to declare any part to the world, through which terrorists funnel their cash, as an area of primary money laundering concern. If that is incorrect, I can be so advised.

It is clear that the more we learn about terrorist financial networks, and the various countries through which their money passed, the more compelling it becomes for the new measures to be invoked. By failing to impose, or even to threaten to impose, a special measure, I fear that the administration may be missing an opportunity to seek permanent changes in countries that need to be more cooperative in the fight against terrorism.

It is my understanding the Treasury is working internally to develop the most effective way of taking advantage of the secretary's new authorities, and I certainly support those efforts. And I look forward to hearing from Treasury's witness, Deputy Secretary Dam, on that, and hope he will shed more light on it.

I also want to note that yesterday the Treasury did finalize two regulations pursuant to the PATRIOT Act. One specifying the steps financial institutions must take to comply with the act's prohibitions on the opening of correspondent accounts with shell banks, and the other relating to information sharing among financial institutions, regulators and law enforcement. I am hopeful that soon we will see a proposed regulation to implement section 3-11 of the Act, which would facilitate the imposition of anti-money-laundering measures against rogue jurisdictions.

Now, Mr. Mueller, you are the head of the FBI. And this past weekend the FBI arrested six individuals from the greater Buffalo, New York area. And I commend you on those efforts. Within a week after the September 11 attacks, I met with the leadership of the Muslim community at Buffalo State College. And as I looked at the list of the attendees, one of the attendees was one of the six, so I did have about a two hour meeting.

This matter is beyond the concern of this committee, but it is of deep concern to me. It is an appropriate time whether it is in your questions and answers or now. I am not sure what you can say publicly. I will leave that up to your discretion, and I will abide by it, but I am a little curious about the 1996 law under which these individuals have been charged. And I am curious as to whether the factual nexus, that might exist, is adequate to support the charges under the 1996 law. And I am sure you believe they are, and I would just like to have some brief explanation of that. This is a large issue.

The CHAIRMAN. The gentleman's time has expired. Is there further—are there further opening statements. Noting none, we now turn to the distinguished director of the FBI.

Mr. Mueller, thank you again for appearing.

Could you turn your mike on, please?

Mr. MUELLER. On now?

The CHAIRMAN. There we go.

STATEMENT OF HON. ROBERT S. MUELLER, DIRECTOR, FEDERAL BUREAU OF INVESTIGATION

Mr. MUELLER. There we go.

Good morning, Chairman Oxley, and thank you for having me. And good morning Congressman LaFalce, and other members of the Committee. I appreciate this opportunity to discuss the work of the Terrorism Financial Review Group and our use of the provisions contained in Title III of the USA PATRIOT Act, also known as the International Money Laundering and Anti-Terrorist Financing Act of 2001.

I would like to thank the members of this committee, and this Congress, for your prompt and comprehensive response to the terrorist threat we face. I would also like to thank the Treasury Department and Secretary O'Neil for their crucial assistance in this endeavor. The USA PATRIOT Act provided law enforcement powerful tools to carry out our mission. And as we use these tools in an aggressive, but responsible manner, the act will significantly help us achieve our overarching goal, and that is to prevent future acts of terrorism.

As you know, civilized countries face grave threats from terrorists. As the President stated, the war on terrorism is a long-term battle. It will not be won overnight nor without the extraordinary cooperation and coordination among law enforcement and intelligence agencies around the globe. Terrorism knows no borders, and the threat is not limited to any one region of the world. Creating an alliance between law enforcement and intelligence agencies is the key to dismantling terrorist organizations and eliminating the threat they pose.

Terrorists do not play by the rules of a civilized society. Fighting the war on terrorism requires new and formidable tools and a multi-agency approach. After 9/11, more than one-half of our agents, almost 6,500 out of 11,500, were assigned to identify the hijackers and their international sponsors and, most importantly, with other agencies, prevent the next attack.

Today, the number of FBI Agents assigned to combating terrorism is twice the number of our pre-9/11 commitment. And we will apply to prevention whatever level of resources is necessary to address this threat. In addition, 9/11 has triggered a wide range of organizational and operational changes within the FBI.

One such is the setting up of what is now called the Terrorism Financial Review Group. And I want to spend a few moments today talking about the TFRG, but also talk about the anti-money-laundering provisions of the PATRIOT Act.

In order to illustrate how these anti-money-laundering provisions aid our efforts, it is necessary for me to spend a few moments explaining how the FBI has been re-structured to address terrorist financing matters.

Identifying and tracking the financial structure supporting terrorist groups is critical to dismantling the organization and preventing future attacks. As in ordinary criminal investigations, following the money identifies, links, and develops evidence against those involved in criminal activity.

In the early stages of the investigation into the events of September 11, it was financial evidence that quickly established links between the hijackers and identified co-conspirators, particularly those co-conspirators overseas. It was also in the early stages of the 9/11 investigation that the FBI and the Department of Justice identified a critical need for a more comprehensive, centralized approach to terrorist financial matters. And in response, we established an interagency Terrorism Financial Review Group operating out of FBI Headquarters. By bringing together vast databases and the expertise of numerous federal agencies, the TFRG focuses a powerful array of resources on the financial tentacles of terrorist organizations.

As Chairman Oxley, you well know having been an FBI agent, the FBI in the past has principally been based on office of origin where investigations are conducted out of particular field office that has the responsibility of conducting such investigations. What we have done with the TFRG is set up a centralized—a centralized review group that will assist, not just one particular investigation, but any terrorist investigation whether it be within the United States or around the world.

Now, after September 11th, the FBI and CIA quickly combined our resources to investigate terrorist funding mechanisms, including exchanging of personnel between the FBI and the CIA Counterterrorism Center. In addition, after decisions with George Tenant, the CIA has generously agreed to detail a number of its analysts to the FBI Counterterrorism Division to help develop more effective analytical processes.

I believe that the relationship and information sharing with the CIA is at an unparalleled level and will continue to pay dividends in our common mission, particularly when it comes to addressing

terrorist financing. Now, information sharing has also been facilitated by PATRIOT Act provisions that permit the FBI to disclose foreign intelligence information, including information obtained through FISA, to the intelligence agencies, and exchange of information, that prior to September 11, prior to the PATRIOT Act, was precluded.

Now, the TFRG was formed with a two-fold mission. First, it was designed to conduct a comprehensive financial analysis of the 19 hijackers to link them together and to identify their financial support structure within the United States and abroad. Second, it was designed as a template for preventive and predictive terrorist financial investigations. And the mission of the TFRG has since evolved into a broader effort to identify, to investigate, to prosecute, to disrupt, and to dismantle terrorist-related financial and fund-raising activities.

The TFRG has taken a leadership role in coordinating the financial investigative effort, and it is a comprehensive one. To accomplish this mission, it has implemented initiatives to address all aspects of terrorist financing.

For instance, it conducts full financial analyses of terrorist suspects and their global financial support structures; coordinates liaison and outreach efforts to exploit financial resources of private, government and foreign entities along with the Treasury Department; uses FBI and LEGAT expertise and relationships to develop financial information from foreign law enforcement and private agencies; works jointly with the law enforcement, regulatory, and intelligence communities; develops predictive models and mines data to proactively identify terrorist suspects. And it provides the financial component to classified counterterrorism investigations in support of the FBI's counterterrorism responsibilities.

The TFRG has conducted an international outreach program, along with Treasury, to share information regarding terrorist financing methods with the financial community and with law enforcement, and we have built upon long-established relationships with the financial services community in the United States and abroad.

The international outreach initiative is coordinated through the network of FBI Legal Attache Offices located in 44 key cities worldwide, and providing coverage for more than 200 countries and territories.

Now, a significant focus of this review group is prediction and prevention. It has developed numerous data mining projects to provide further predictive abilities and to maximize the use of both public and private database information. These efforts are complemented by the centralized terrorist financial database which the TFRG has developed. This information is used to identify terrorist cells operating in the United States and abroad to prevent further terrorist acts.

And indeed, the TFRG meets regularly with representatives from the banking community and the financial services industry to share information and to refine methods to detect and identify potential terrorists around the world.

The TFRG created and updates a financial control list which contains names and identifying data for individuals under investiga-

tion for potential links to terrorist organizations. These lists are regularly shared with domestic and international law enforcement and intelligence agencies, and with the Federal Reserve Board, which disseminates the lists to financial institutions so they can flag suspicious financial activity.

As a participant on the National Security Council's Policy Coordinating Committee on terrorist finance, the TFRG participates in the effort to target non-governmental organizations believed to provide financial support to known foreign terrorist organizations and affiliated terrorist cells. The PCC coordinates the development and implementation of policies to combat terrorist financing and provides analysis on these issues. Numerous FBI Field Offices have open investigations into organizations that may be funneling money to foreign terrorist organizations, and the TFRG has acted as a clearinghouse for these cases, gathering and summarizing data.

The task force regularly shares information with the joint terrorist tracking task forces around the country, customs' operation green quest and FinCEN.

Further, the TFRG is working with FinCEN to explore new ways to data mine the suspicious activity report, and the currency transaction report and the currency and monetary instrument report databases.

Based on its international investigative abilities, and its close association with the intelligence community, the TFRG is in a position to coordinate anti-terrorism financial investigations and to ensure those investigations are coordinated with the goals and objectives of our counter-terrorism program.

Now let me turn for a moment to the use to which we have put the provisions of the PATRIOT Act. Terrorist financing methods range from the highly sophisticated to the most basic. Traditionally, their efforts have been aided considerably by the use of correspondent bank accounts, private banking accounts, offshore shell banks, bulk cash smuggling, identity theft, credit card fraud, and other criminal operations. Informal value transfer systems, such as hawalas, also present problems—substantial problems for law enforcement. They permit terrorists a means of transferring funds that is difficult to detect and to trace. These informal systems are particularly prevalent in societies in Pakistan, Afghanistan, and the Philippines.

However, provisions of the PATRIOT Act will significantly erode the effectiveness of such methods. The act establishes stricter rules for correspondent bank accounts, requires securities brokers and dealers to file SARs, and certain cash businesses to register with FinCEN and file suspicious action reports for a wider range of financial transactions.

The act contains many other provisions I believe will considerably aid our efforts to address terrorist financing. These include the authority to seize terrorist assets, and the addition of terrorism and other offenses to the list of racketeering offenses. The act also enables prosecutors to seize money subject to forfeiture in a foreign bank account by authorizing the seizure of a foreign bank's funds held in a U.S. correspondent account.

Other important provisions expand the ability to prosecute unlicensed money transmitters, allow law enforcement faster access to reports of currency transactions in excess of $10,000 and provide authority for the service of administrative subpoenas on foreign banks concerning records of foreign transactions.

This latter provision allows law enforcement to obtain critical information in an investigation on a more timely basis than was possible before. In counter-terrorism investigations, of course, speed is the essence because prevention is the goal.

Section 362 of the PATRIOT Act mandates that FinCEN establish a highly secure network to, number one, allow financial institutions to file SARs and CTRs on-line; and secondly, to provide financial institutions with alerts and other information regarding suspicious activities that warrant immediate and enhanced scrutiny.

FinCEN has developed the PATRIOT Act Communication System, known as PACS, to meet this mandate and is implementing this system. This will be a valuable tool for law enforcement, but it will require the full cooperation—the full cooperation of private financial institutions. The TFRG has worked with these financial institutions and has provided to them information to help them to detect patterns of activity possibly associated with terrorists. I am confident that the PACS will help considerably in these efforts.

While I am optimistic that the PATRIOT Act will help, it is too early to judge its full effect. We continue to digest its provisions; develop guidelines and protocols for its appropriate use; and educate investigators and prosecutors. And in addition, many of its provisions, as has already been mentioned here today, require the Department of the Treasury to issue regulations—regulations which it is working on expeditiously to promulgate. And as I understand, we mentioned before, several of these were promulgated as of yesterday.Now the committee has also indicated an interest in recommendations that the FBI might have regarding additional legislative measures to advance the financial war against terrorism.

In September of 2001, the Department of Justice submitted the proposed ″Money Laundering Act of 2001″ to Congress. The FBI concurs with the recommendations made by the DOJ, which is in the best position to address these issues. And I would like to briefly summarize these recommendations and proposals for you. The foremost problem we face regarding the recovery of criminal proceeds in terrorism cases, as well as those involving corporate fraud, is the inability to freeze assets pending trial. In both criminal and civil cases, with a limited exception, pre-trial restraining orders are limited to property directly traceable to the offense. Post-conviction, the court can enter an order permitting the confiscation of an amount of money equal to what the defendant obtained by committing the offense. But by that time the money we hope to recover and return to the victims is often gone.Now, these strict tracing requirements serve little purpose. Many common law countries permit the pre-trial restraint of property that will be subject to forfeiture without requiring strict tracing of the funds to the underlying crime. It is important to the success of our efforts against the economic underpinnings of crime that we be able to do the same.

Simply put, if the property can be confiscated after the conviction, it should be frozen prior to a conviction. Thus, the criminal forfeiture laws should be amended to allow the pre-trial restraint of all forfeiture assets without requiring strict tracing to the offense. And the civil forfeiture laws should be amended to treat all electronic funds, as well as diamonds, gold and other precious metals, as fungible property for the period of the applicable statute of limitations.And we also need to address the clandestine movement of cash that represents the proceeds of crime or that will be used to finance a future criminal or terrorist act.

Section 371 of the PATRIOT Act created a new offense of bulk cash smuggling that makes it illegal to knowingly conceal more than $10,000 in currency and attempt to transport it into or out of the United States with the intent to evade currency reporting requirements. However, it is not an offense for a money courier to transport bulk currency in a vehicle inside the country, even if the funds represent criminal proceeds.

Moreover, terrorists engage in what amounts to reverse money laundering, in which they transport large quantities of cash that is not derived from any illegal source, but which is intended to be used to finance a terrorist act or to commit another crime.

The Department of Justice proposed to make it illegal to transport more than $10,000 in currency concealed in a vehicle traveling in interstate commerce, knowing that the currency was derived from some kind of criminal activity or knowing that the currency was intended to be used to promote such activity. And we support this provision.

The Department of Justice noted gaps in our ability to seize proceeds resulting from foreign crimes, as well as our ability to restrain the funds, even temporarily, of criminals arrested in the United States. Under current law, only a limited number of foreign crimes are specified unlawful activities.

This enables foreign criminals to launder the proceeds of many foreign crimes in the United States without providing us the ability to prosecute and seize those funds for forfeiture. We similarly lack authority to temporarily restrain funds in a U.S. bank account of an international terrorist arrested in the United States to determine whether such funds were connected to illegal activity.

Let me conclude, if I might, Mr. Chairman, by saying that the PATRIOT Act is an important and certainly a necessary fix and its passage was a remarkable achievement. The act will make—and has made—a difference. It enhances the ability of law enforcement and intelligence agencies to achieve our common goal of preventing acts of terrorism, without compromising the civil liberties and constitutional protections enjoyed by our citizens

The PATRIOT Act is a shining example of this committee's devotion to that endeavor and I thank you for your support.

I am proud to be part of what I consider to be one of the premiere, if not ″the″ premiere law enforcement agency in the world. We take great pride in what we do, and the quality of the work performed by the men and women of the FBI is truly remarkable. There is always room for improvement and we, as always, welcome your guidance.

I thank you for the opportunity to appear here today. I look forward to working with this committee in the war against terrorism.

And I am happy to respond to whatever questions you have.

Thank you, Mr. Chairman.

[The prepared statement of Robert S. Mueller can be found on page 77 in the appendix.]

The CHAIRMAN. Thank you, Director Mueller. And again, we appreciate your participation in this oversight hearing on the PATRIOT Act, specifically as it relates to any money laundering issues.

One of the primary objectives, as you know, of the anti-money laundering bill was to facilitate more effective and timely sharing of information within the government about possible terrorist financing. And you have cited several law enforcement successes in your testimony for which the administration should be commended.

There have been some recent press accounts that suggest that turf consciousness after 9/11 is still with us, particularly as it relates to combating money laundering.

What assurances can you offer our committee that information is being shared freely among the relevant federal agencies and that interagency tensions are not impeding the administration's war on terrorist financing?

Mr. MUELLER. There are a number of steps that have been taken not only within the FBI, but within the CIA and Treasury and other federal agencies since September 11 to greatly enhance the sharing of information.

And just to mention a few, every morning I am briefed by the CIA on what has occurred overnight, both domestically, to the extent that they have information, but most particularly internationally when it relates to terrorism. By the same token our briefing papers are exchanged with the CIA. Both George Tenant and I meet with the president each day to discuss where we are in the war against terror—to discuss any developments there have been in the last 24 hours.

Within our organizations, there has been a substantial exchange of not only types of information, but also of individuals. We have individuals, as I think you are well aware, over at the counter-terrorism center at CIA.

I have, in the FBI, approximately 25 CIA analysts who have come from the CIA to participate in our revamped intelligence structure within the counter-terrorism division. And we are continuing to enhance our ability to analyze that information that we gather both here and overseas. And one of the benefits of having those analysts in the FBI is they can look at our information and put it together with what the CIA may have to be far more predictive than perhaps we were prior to September 11 of last year.

With regard to our sharing of information with Treasury, we have on our task force the TFRG—Treasury agents participating from a number of agencies, as well as agents from a number of other different agencies within the department or outside the Department of Treasury.

We also have persons that are participating in Greenquest, as I think I have discussed in my testimony earlier. We had database information that we are pulling together. This is shared on a week-

ly basis not only with the Treasury Department, but also with the CIA and other entities.

We have meetings—not only the exchange of personnel, but joint meetings with private industry and meetings of individuals on particular cases to share information.

So up and down the organizational structure from the very top to myself and George Tenant down to those individuals that are working on particular cases who are sharing information in ways that we have not shared, I think, prior to it.

Part of our ability to do that are the provisions of the PATRIOT Act that now allow us to share with the intelligence agencies information that previously we could not.

Having been an FBI agent, you understand that much of the information that comes into the FBI in the course of its investigations may come in pursuant to grand jury subpoena and/or maybe testimony before a grand jury. Prior to the PATRIOT Act, none of that could be shared with the intelligence community.

With the PATRIOT Act, we now can share that information whether it be from the West Coast, the East Coast, north or south and investigations with the intelligence community so that information that we have pulled together by the efforts of our agents in the United States is now provided to the CIA, the DIA and other agencies so that it can be part of the larger picture.

The CHAIRMAN. There have been several press reports, as you know, that the Al Qaeda network, feeling the pressure, I think, from the PATRIOT Act, has moved a lot of cash from traditional banking sources into precious metals and commodities. There was an article recently about moving large amounts of gold bullion or bars to Sudan.

Would you care to comment on that? And, indeed, does the PATRIOT Act need to be looked at as a result of those changes in activities?

Mr. MUELLER. I think without a question of a doubt the efforts of the government, whether it be the FBI, the CIA, the Department of Defense and whether it be within the United States or in Afghanistan or Pakistan or elsewhere around the world, has substantially disrupted the Al Qaeda network—their communications—their capability of planning and plotting additional attacks and their financing.

And because of the efforts of a number of different agencies, I do believe that the Al Qaeda network is seeking alternative ways of transporting—transmitting its funds.

And as we fear, as you have heard and some of them have made it into the press, as we hear of new ways of exchanging items of value, whether it be cash or gold or diamonds, each of those pieces of information is followed up on not only by us, but certainly by the CIA overseas.

And there have been instances where we have received reports of such things happening and we have followed them up. Most of those reports relay to the transmission of items of value overseas, as opposed to within the United States. And quite obviously, if it is overseas, it is much more difficult for us to get a clear handle on, principally because we have to rely on our counterparts—and

whether it be intelligence agencies or law enforcement agencies in other countries, principally in the Middle East.

The CHAIRMAN. Well, I guess the obvious question is that if this report appears in a major newspaper, even after the fact, the issue is where was the intelligence community? And is there any effort to try to interdict that? For example, moving large amounts of gold seems to me to be relatively—I would not say ″easy″ to detect, but it is probably easier to detect than some of the other money laundering aspects, and particularly if they have located the country in which it was supposed to be reposited.

Mr. MUELLER. Well, without being too specific, let me just say that there are reports that get into the press about movements of monies, movements of gold, movements of diamonds. To the extent that there are such reports, we have generally seen them beforehand. They may well have come to our attention through the efforts of the intelligence community. And certainly when there is any such report that has any degree of specificity, the intelligence community, as a whole, follows up on it.

To the extent that there is not the degree of specificity, I can assure you that efforts are made, nonetheless, to follow up generally as to whether or not that mechanism is being used. And that all sources are queried as to whether or not such a report has credibility.

So we look at—it may well have come to our attention as a result of the intelligence efforts. The efforts of the intelligence community as a whole are put to determining whether or not the report is true. And, as an adjunct to that, we also want to make certain as to the credibility of the individual or individuals who come forward with such reports.

The CHAIRMAN. One last question, if I may, there have been some concerns that because of the concentration by the Bureau, understandably on antiterrorist activity that it may divert resources away from traditional FBI investigations, for example bank robberies. And there have been, as you know, some concerns expressed by local authorities that that could very well impede their investigations or perhaps even spark an increase in bank robberies.

How would you respond to that?

Mr. MUELLER. Well, as I am sure the committee is aware, I recommended the shifting of approximately 500 agents last summer to the counter-terrorism effort. And that was done after looking at the needs in each of our field offices to address counter-terrorism adequately. And the vast majority of those agents will be coming from the narcotics side. There is some from white collar and some from violent crime.

I have had extensive discussions with—and we have, as an institution, with DEA in terms of what we will be doing on the narcotics front in the future. And we will be focusing on larger investigations—not doing the stand-alone cases that, perhaps, we have in the past. And adjusting with DEA to continue in the war on terrorism, particularly in the task force arena, but not do as many stand-alone cases as we have done in the past. And to defer to the DEA on certain of the cartel cases, whether they be Colombian or Mexican.

I have had discussions with the IACP, for instance, on how we would handle bank robberies. And over the last several years, we have generally not responded on one-note jobs where you have an individual and an isolated case. But we have, in the past, and we will, in the future, continue to participate with state and local where we have multi-county bank robberies, where we have violent bank robberies and where we bring something special to the table.

Where there is a state or local law enforcement entity—and the caliber—the quality of our state and local law enforcement agencies today are terrific—where there is the capability, in my mind, we, the Bureau, should be refocusing our resources on that which state and local cannot do—on terrorism—on cyber intrusions—on the counter-intelligence responsibilities of the FBI.

And so we have tried to do it in such a way that we have met our needs in counter-terrorism for the time being. I will have to evaluate it every three to six months. But also, are taking care of other areas of responsibility and focusing our resources on cases such as Enron, WorldCom and the corporate fraud cases that are critically important.

The CHAIRMAN. Well, I thank you for the answer, particularly because the last part—because our committee was so involved in corporate accounting accountability and so forth. And that is a very good point that you make.

The gentleman from New York?

Mr. LAFALCE. I thank the chairman. And I hope he will give me some latitude, permitting me to question because of the serious problem that has arisen within the past week in Western New York where six individuals have been arrested.

And FBI Director Mueller—I asked some questions in my opening statement regarding the 1996 law. And the six individuals have been arrested under it, and I incorporate that by reference now and will ask your comment on that.

But additionally, there are some other concerns that I have, too.

I have received briefings over the years and on the basis of the briefings—it is my understanding that maybe the hottest spot in the world where terrorists gather to consult and talk is Vienna, Austria. But I understand that possibly Niagara Falls could be a close second. And I know that the FBI has a major office—a counter-terrorism office in Niagara Falls. It used to be directly across from my congressional office. It has been moved now because it is going to expand by about 15 employees.

I also want you to know something that you may or may not know—well, if you do know that sometimes money laundering can take place at casinos where gambling takes place.

You may not know that within the past two weeks the Seneca Nation and Governor Pataki have filed an application with the Department of Interior for casino gambling in Niagara Falls, New York.

Now, we do have casino gambling in Niagara Falls, Ontario, right now. And in this morning's "Buffalo News," one of the arrested six supposedly spent $89,000 at Casino Niagara in Niagara Falls, Ontario where the Canadian Royal Mounted Police are omnipresent.

One of my concerns is that the Seneca Nation is proceeding, along with Governor Pataki, not under the Indian Gaming Act of 1988, which requires careful review and requires consideration of the costs and benefits, et cetera. They are proceeding under the Seneca Nation's Settlement Act that was passed a decade ago, saying that they should get the decision within a relatively short period of time. And they can be up and operational by New Year's Eve.

And they are seeking an affirmative response to that application. And they have gone to the very highest level seeking it from Secretary of the Interior Norton.

One of my great concerns is that the police power of the United States federal government—your office—the police power of the state—the police power of local officials will have virtually nothing that they can do or little that they can do within the sovereign land that the Seneca Nation is seeking within this portion of the center of the city of Niagara Falls—approximately 50 acres.

And if you are not aware of that, I just made you aware of it and I would like you to consult with Secretary Norton and make any comments now that you wish concerning it.

But also, I am wondering—this is a separate issue now—whether or not the FBI recommended the arrest of these six individuals—whether you thought that the quality of the evidence was sufficient and sufficient for what—for a violation of the 1996 law? Or was there some encouragement from the Justice Department to the FBI to find somebody someplace that could be arrested within the month of September?

I make no allegations, I just pick up rumors on the street. And, in order to satisfy those, I would like you to respond to that question, too.

Also—

Mr. MUELLER. Can I respond to that one—

Mr. LAFALCE. Sure.

Mr. MUELLER. —if I might interrupt?

Mr. LAFALCE. Yes.

Mr. MUELLER. Because that is—

Mr. LAFALCE. Yes.

Mr. MUELLER. —absolutely not true.

Mr. LAFALCE. Good.

Mr. MUELLER. The FBI does not respond to entreaties to find somebody to arrest.

Mr. LAFALCE. Yes.

Mr. MUELLER. Our agents look at the evidence and the information that is pulled in and present it to prosecutors to make a determination whether or not the elements of the offense have been made.

Mr. LAFALCE. Yes.

Mr. MUELLER. And at no point in time, during the time I have been director of the FBI or even previously, as a prosecutor, have I seen that occur. And I would not expect to see it in the future.

Mr. LAFALCE. Well, that is great. I am delighted to hear that, too.

What is the policy, too—because I know that at the press conference on Saturday—I was not invited and I do not think I should

have been invited—but I do know that other members of Congress who were of a different political persuasion were invited to the press conference and they did not represent any of the individuals or the territory that was in question where the individuals lived. What is the FBI policy on that?

Mr. MUELLER. I am not certain we have any particular policy on who is invited to press conferences.

Mr. LAFALCE. Well, I think the fewer politicians, the better. In fact, no politicians would be a good policy, I think. And I would encourage in the future.

Why don't you proceed to respond to the other questions?

Mr. MUELLER. I think in large part I have responded, I hope, to the material support—the question about—

Mr. LAFALCE. Tell me about the 1996 law.

Mr. MUELLER. Yes. Well, I can brief—I do not have it in front of me, quite obviously, but it provides that any individual who provides material support to a terrorist entity, as defined by the Department of State, is guilty of an offense and can be sentenced up to—I believe it is 15 years.

Mr. LAFALCE. Okay, now—

Mr. MUELLER. And—

Mr. LAFALCE. —I guess ″material support″ is what I want to focus in on. Some individuals have claimed—the attorney for these individuals, in the papers, that, ″Hey, attending a school that somebody may have thought was a religious school cannot be deemed material support.″

Now, I do not know what was in the minds of these individuals. I do not know what went on at those schools.

I do know, for example, that I have had to defend, the entirety of my time in Congress, the School for the Americas. And my very best friends at my church have condemned me. And they call it the School for Assassins. And I have consistently voted to keep open the School for the Americas saying, ″That is not a school for assassins.″ There are 50,000 individuals who have graduated from it. And a relatively small handful have been involved in terrible, terrible things. And maybe some teachers have said some things at certain times that at the School for the Americas that they should not have.

Now, I do not mean to make a comparison, because it could be 1,000 times different. But at least there is a question in my mind.

And also, I suspect that there are different degrees amongst the six individuals. Some may have been lured in and some may be guilty of the most serious type of offenses. I do not know. And I am not sure what you can say publicly, but you make that judgment.

Mr. MUELLER. Well, as I am sure that the congressman is aware, I cannot talk publicly about the—

Mr. LAFALCE. Okay.

Mr. MUELLER. —evidence in the case. I can just refer you to that which is already on public record. And I believe the affidavits in support of the arrest are a matter of public record. And it is possible to compare that—the allegations that are a matter of public record, whether it be in the complaint, in the affidavit supporting

the complaint or in that which is disclosed in open court to your characterization of the culpability of the individuals.

I think there is a public record that one can go to and look at the allegations and the facts that support the issuance of the arrest warrants.

Mr. LAFALCE. Okay.

As you know, I authored the—

Mr. BACHUS. Actually, you have exceeded the time by about four minutes.

Mr. LAFALCE. I am sorry? What did you say?

Mr. BACHUS. I said according to the thing, you have exceeded the time.

Mr. LAFALCE. I thank the chair.

Mr. BACHUS. Thank you.

Director Mueller, I want to thank you. I have been at a cancer awareness rally. And we have had about 10,000 volunteers on the Hill from all over the United States advocating for cancer research. And I have been there.

Now it is my honor to chair this hearing.

And I want to personally welcome you. And I do not know before I arrived whether you have been thanked for the difficult work that the men and women of your agency have been doing since September 11—the long hours and the sacrifices they have been making. But I want to commend you for that.

Mr. MUELLER. Thank you, sir—

Mr. BACHUS. I also—

Mr. MUELLER. —on behalf of the men and women of the FBI who do the real work—thank you.

Mr. BACHUS. Thank you.

I also want to commend you for the tremendous progress that you have made in the war against terrorism. Just this last week you have arrested one of the logistical and financial masterminds behind the 9/11 attacks in Pakistan. You have broken up an Al Qaeda cell here in the United States.

So you have accomplished a lot in just the past two weeks to ensure that those who mean to do us harm cannot do us harm. And you know and I know it is going to be a difficult battle.

Mr. MUELLER. Could I comment just briefly on that?

Mr. BACHUS. Absolutely.

Mr. MUELLER. And say that much of the credit goes to our counterparts—our sister agencies, as well as the Pakistani authorities, who were much involved in this.

So I thank you for your expression of appreciation, but it would be wrong of me to sit here and accept it without indicating that much of the credit—a great deal of the credit goes to, you know, other agencies both here and overseas.

Mr. BACHUS. Thank you.

And I think your efforts and those of other agencies demonstrate the absolute commitment that President Bush and this administration has to hunting down those who caused September the 11th and the aftermath and their absolute commitment—unwavering commitment to bringing them to justice. And I thank you for your—you and the men and women of the FBI for your efforts.

At this time, I am going to yield to Congressman Leach the remainder of my time and then his five minutes.

Mr. LEACH. Thank you, Mr. Chairman. I will be very brief with respect for the time issue.

I have just one principal question, Mr. Director. Last fall, the FBI testified that Internet gambling was a potentially grave source of difficulty for money laundering and also for other crimes, such as identity theft, a very significant issue.

And I am wondering if you can update us because we may be bringing a bill before the floor in the near future on this subject—if this is still your position that Internet gambling poses criminal difficulties for the United States.

Mr. MUELLER. It is still our position. We have a number of investigations ongoing into Internet gambling. And I am sure the committee is aware of the difficulty that we have in addressing Internet gambling with its capability of operating almost wholly overseas, but having an impact and effect within the United States. It is still a substantial problem and we look forward to working with you on that bill.

Mr. LEACH. Good. Well, I appreciate that very much.

And I yield back my time.

Mr. BACHUS. Thank you.

The gentlelady from New York?

Mrs. MALONEY OF NEW YORK. Thank you, Mr. Chairman.

And I likewise welcome you and compliment you on the collective efforts that you have had with other agencies in cracking down on the Al Qaeda and cracking down on terrorism.

I would like to offer my condolences for the FBI agent who lost his life while assisting others to safety on September 11.

Mr. MUELLER. Thank you.

Mrs. MALONEY OF NEW YORK. And a number of my constituents mentioned to me that along with the police and fire, FBI agents led them out of the buildings to safety. So I thank you for all that you have done and what you are doing.

And I am sure you will agree that you face a monumental task in cutting off the financing of terrorism in the scope of the world economy. The amount of money it takes to run a terrorist operation is minuscule. The attacks on my city, New York, the Pentagon and Flight 93—it is reported that the combined cost of these efforts were less than a half-a-million dollars.

And we all know how difficult it is to distinguish from legitimate financial transactions and conventional strategies—the difficulty we had with the hawala and other ways that they are moving the money.

My question really is one of an international scope. It is difficult for us to do this unilaterally. We cannot just do it with our own financial institutions cracking down on shell banks and determining who the owners of these accounts are. How are the financial regulators in other countries participating? And how are the law enforcement on an international basis—are our allies coming forward and helping you? Are they undertaking the efforts to implement the PATRIOT Act to stop terrorists from using financial institutions? Or are European and other countries around the

world resisting efforts to adopt and enforce PATRIOT Act like money laundry protections?

So what is the cooperation we are getting internationally?

Mr. MUELLER. Well, let me—if you will grant me a moment, I want to thank you for mentioning the efforts of Lenny Hatton—

Mrs. MALONEY OF NEW YORK. Yes.

Mr. MUELLER. —who is the FBI agent we lost in New York when the World Trade Center towers fell. As you are probably aware, Lenny was on his way to work—

Mrs. MALONEY OF NEW YORK. Yes.

Mr. MUELLER. —that day. And decided to—that was part of his duties as an FBI agent to do what he could. And he went over to the scene and we have the report of one individual who was deposited on the sidewalk by another individual and he turns around and says, ″Where are you going?″ as that individual goes back into the building. And that individual who went back in is Lenny Hatton. And he was a family man—a volunteer fireman—a former Marine and long-time FBI agent who lost his life on that day. And thank you very much for mentioning his sacrifice. He is an example to all of us in the Bureau of the commitment to public service.

Going to the issue of what kind of cooperation we are receiving internationally, I think I probably should—I know you have individuals from the Treasury Department coming this afternoon. I probably should defer to them in terms of the discussions that they have had with their counterparts overseas.

From the law enforcement perspective, we are getting, I think, successful help—cooperation from a number of important companies—or countries, I should say.

I know last fall I went to the Middle East and one of the countries that was of critical importance to us is the United Arab Emirates—UAE—because the financing of the terrorists came through the UAE. And I had discussions with the head of the National Bank and with our counterparts in law enforcement. And on the day before I was there, they had passed legislation to give them the powers that they had previously lacked to address financing of terrorists and to help choke off the funds that are coming through the UAE that might be used by terrorists.

I think throughout the world there are examples where we do have legislative bodies, along with executives that have made steps to choke off terrorist financing. But there are also other areas where we think more could be done.

I would probably leave the specifics to my brothers and sisters in the Treasury Department who are more familiar with the overall state of play internationally through their discussions with their counterparts.

Mrs. MALONEY OF NEW YORK. Thank you.

And before I ask my final question, I do want to express my deep sadness at the attack in Tel Aviv this morning where a suicide bomber killed five people and injured 53 others. And this follows the killing of a Israeli police officer by a suicide bomber yesterday. And it is a stark reminder of how innocent lives are being targeted and people are being murdered around the world and of the importance of the hearing that we are having today and the importance of the work that you are doing every day in the FBI.

I would like to ask about money laundering for traditional crimes, such as drugs. And regrettably New York City was a center for money laundering prior to 9/11. And what effect has the PATRIOT Act had in the traditional or the usual crimes that have used money laundered money, such as drugs? Have you seen a difference in the crack down or your ability to move in this are because of this law?

Mr. MUELLER. Yes. We have in a number of areas. Just let me mention a couple of them.

As you are undoubtedly aware, the PATRIOT Act expanded the number of money laundering predicates. And by expanding those predicates, it gives us the ability to bring money laundering charges where the underlying activity had previously not been a SUA but currently is. So that has been helpful in our development of cases.

One of the areas which I think we are assisted in many different types of cases is the provision that allows subpoenas for overseas bank records. As a former prosecutor, in working with agents in the past one of the large difficulties we had was getting information from certain offshore banks who operated both offshore and bank secrecy countries. But sold their services within the United States. And so that provision is helpful across the board.

The provision that provides immunity from civil liability for banks who provide and voluntarily disclose to us information they have of illegal activity is helpful in opening up the information from the banking employees who may see something, but in the past were concerned that other the bank or themselves would be prosecuted for privacy violations. And that provision of immunity from civil liability has been helpful.

And lastly, as you crack down on one area of money laundering, other areas crop up and the expansion of 18 USC 1960 to include money transmitting businesses has given us a capability that we, prior the PATRIOT Act did not have and has enabled us to conduct successful investigations in that arena.

Mrs. MALONEY OF NEW YORK. Thank you very much for your fine work.

Mr. MUELLER. Thank you, ma'am.

The CHAIRMAN. The gentlelady from New York?

Mrs. KELLY. Thank you, Mr. Chairman.

And, Mr. Mueller, I really appreciate you are being with us this morning.

Mr. LaFalce, I want to thank you for pointing out that the—one of the people arrested in Buffalo had lost that money, $89,000 I believe you said, in the casino in Canada, because if that is actually proved to be an Al Qaeda cell, that takes us right into this situation of a question of money laundering. $89,000 is a lot of money for normal people to have. And, from what I understand, most of those people did not even have jobs. So, perhaps that was an issue there that could be looked at in terms of possible money laundering.

I would like to focus, though, on another issue and that is the hawalas that you mentioned in your testimony. Can you describe what steps the FBI has taken to combat hawalas and what progress you have made? I have been concerned about this issue

for a long time and I wonder if you can share us—with us, any information on what you are doing to combat hawalas?

Mr. LAFALCE. Would the gentlelady add to her question by asking if there are any hawalas in Western New York in particular?

Mrs. KELLY. Well, I would be interested to add to the question asking is there any in all of the New York state since we heard two different directions.

Mr. MUELLER. Well, let me say that there are three areas in which we have—we are addressing hawalas. As you are aware in the wake of the PATRIOT Act, FinCEN, the treasury operation, is in the process of registering all of what we call money service businesses of which a hawala would be classified one. And we are supporting the FinCEN in trying to get a thorough and exhaustive listing of such businesses.

Secondly—

Mrs. KELLY. Excuse me, sir, but may I just ask you, Dennis Lormel came before my subcommittee and testified that you were going to also put together some sort of a centralized database, are you working in conjunction, then, with FinCEN on this?

Mr. MUELLER. We are working—

Mrs. KELLY. Is that how it is working?

Mr. MUELLER. —We are working with FinCEN on this.

Mrs. KELLY. Okay. Thank you. I am sorry. Please go on.

Mr. MUELLER. Yes, no, we are working with FinCEN on this. And, we are supportive of FinCEN's efforts. We also are sponsoring a conference in October with a number of federal agencies, but also with our counterparts from overseas, the Pakistanis, Indians, some other countries where hawalas are a predominant mechanism of exchanging cash.

So, it is an effort on our part and Treasury's part to bring together those within the banking community and the United States, the regulators within the United States and law enforcement entities within the United States and the intelligence community within the United States, along with our counterparts overseas so that we can share our experiences and our expertise and also learn from others.

Lastly, the task force, Dennis Lormel's task force, has been and maybe this is that to which you are averting, assisting our field offices in identifying hawala like or type businesses so that in addition to what FinCEN is doing we also have reached out to our various field offices with a description explanation of what we are looking for and our tasking our 56 field offices to provide the information that then would be fed into FinCEN to identify that type of money remitter or hawala type of money exchange operation.

Mrs. KELLY. Thank you. I would hope that we can be successful with that. I have one more question and that regards identify theft. The people who use credit cards are protected because from most credit card agencies will pay fraudulent use. You will pay $50 yourself if it is your credit card and beyond that the credit card agencies pick it up. They lose money. What protections can the FBI provide for people, or are there protections there if a person gives a credit card number, unknowingly, to an international criminal site? Is the FBI looking at how the websites are used with the fraudulent use of possible acceptance of what would be—I am getting all

inside out here? I think you know what I mean. If you have a credit card, you are giving the credit card because you, in good faith, think this is an actual website and in fact it is a fraudulent website and they are stealing your identity through that credit card. Are you—do you have things in place, are you moving in place—things in place, to protect our American consumers who are utilizing those credit cards so that they do not experience an increase in identity theft that is then used by terrorism?

Mr. MUELLER. Well, separating a second from terrorism, we are, in conjunction with Customs and with the Secret Service, investigating every incidence we have where we believe that type of activity relating to the provision of a credit card number to a website that is a false or specious website takes place.

The tracing or the investigating of a credit numbers that are the result of hacking, for instance, where there may be batches of credit card numbers are also being addressed by the FBI. We have a new what is called cyber—a division where we pulled together a variety of pieces that have been spread throughout the FBI within the cyber division and part of the mandate of the cyber division is to look at not only the various scams that you have out there relating to the internet and that you address, but also where you have hackers who have hacked into a business and pulled, whether it be Social Security numbers or credit card numbers and then use those to product illegal profits. We are also looking at those, particularly in that new division.

When it comes to any credit card number, Social Security number, anything associated with terrorism is given special attention. And, it is given special attention by Douglas—or the review group. It is given special attention by the CIA, and other components of the intelligence community. And, so that where we have an indication that a credit card number or a telephone number or a Social Security number, or a license number is associated in any way with a person who might be a terrorist it is given special attention in a variety of ways, different from, for better or for worse, different from that which is given to your ordinary consumer in the United States.

Mrs. KELLY. Thank you very much.

The CHAIRMAN. Thank you.

The gentleman from Texas, Mr. Bentsen?

Mr. BENTSEN. Thank you, Mr. Chairman.

And, Director Mueller, I apologize for being absent during your testimony, but I was speaking to the American Cancer Society out on the mall. And, so they have a large group of survivors that are out there.

I did want to ask you about a couple of things that have been reported in the press over the last few months. One had to do with international cooperation. But, I think, based upon your comments earlier, I will reserve those for the later panel if your response is going to be similar that really that is something for Treasury.

But, in particular I am concerned about what sort of cooperation we are getting from our friends in Saudi Arabia and other parts of that area. I would like to follow up, though, on Ms. Kelly's comments with respect to hawalas and how the agency is responding to that sort of money transferring. And, as I understand those

types of organizations and I may have this wrong, it is not really—it is not a money processes or money wiring, it is sort of fronting cash for forward delivery of—or future delivery of goods that may or may not occur and so it is a pretty good set up for a laundering operation. And, my question is, associated with that, there have been a number of stories in the press about gold and diamonds and a non-currency assets that are now being used by Al Qaeda to move money around, which is another form of doing it.

Have you all figured out a way to confront that in how they convert, how you can track the conversion of gold or diamonds into cash? Or is that looking for a needle in a haystack? And, the other question has to do with the enhanced SAR requirements, which I realize, again, is a Treasury responsibility, but, in my home state, as you know, we have had a lot of problems with money wiring and money laundering in the drug business, and the success of Attorneys General in Texas who have regulated it at the state level have had problems because it is, you know, you come it at $9,999 or $8,000 or $4,000 to get under the $10,000 cap. And, what they have tried to do at the state level is to really go and follow some of these small money-transferring shops.

Are you now trying to do that with respect to potential transfer of funds for terrorist activities?

Mr. MUELLER. Let me talk briefly about the transfer of gold and the like. In fact, Chairman Oxley I think asked the question much along the same lines alluding to reports in the press about transferring the gold. And, what I explained was that whenever you see in the press a story that—about the use of gold or diamonds, we will have seen it, us or the CIA or one of our sister agencies. Indeed, it may have come to the attention of us from the sources and somehow found its way into the press. But, in each occasion where that has, to my knowledge, that has happened, we have focused on that report and followed up, both to determine the credibility of the person or persons from which it came, but also to determine whether or not the assertions, the allegations were true to the extent that we could do that with overseas assets. And, that would be more in the CIA's bailiwick than ours. But, the intelligence community as a whole has looked at those circumstances seriously and has followed up.

Turning to the second issue with regard to the SAR requirement—

Mr. BENTSEN. Before you answer that, though, are you able to—to the extent that that is occurring, is there a way to track that, or is really needle in a haystack stuff? I mean it is—

Mr. MUELLER. If you transport gold from place A to place B, the extent of your investigation really is to find somebody who was participant or aware of that transaction. There are no records so to speak. You may have reports and there may be people you can go back to to get reports, or ultimately at one end of it you may be able to find where the gold has been transformed into some other financial mechanism. But, it is not the same type of investigation that you do when you have wires or pieces of paper and the like. And, so, it is a different type of investigation. But, it is done to the extent that we can do it.

As I mentioned before, unfortunately most of, if not all, of this type of activity would occur overseas. And, so, we have to, in large part, rely on our counterparts to assist us in any investigation that is done overseas, intelligence gathering that is done overseas because, while we have legates in 44 countries, we do not have the assets to do the type of investigation we would have to do in the United States when we get report.

Mr. BENTSEN. Okay.

Mr. MUELLER. With regard to the SAR requirements, and we are all familiar with, and have been for a number of years, with a number of entities or individuals who will utilize a mechanism to transmit money, always $9,500, $9,600, so it is under the $10,000 limit. And, what we have become increasingly successful at is denoting patterns. Often we need the help of private industry to do that. But, with the computer capabilities in this day and age you can run programs that will identify such patterns. And, in a number of occasions we have had success in identifying those patterns and prosecuting individuals for money laundering even though not one of the transmissions will have been over $10,000.

Mr. BENTSEN. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Rogers?

Mr. ROGERS. Thank you, Mr. Chairman.

Director, I want to just take a minute and thank you and the men and women of the FBI.

I have had the good occasion to meet with some of your agents overseas, as well as talking to agents around the country. They are working incredibly long hours, but they have very clear sense of purpose. And, it made me very proud to know that at least one point in my history, I carried that badge from the work that they are doing. And, I am glad you brought it up in your remarks because this is very important. It is very easy to find to fault with the bureau and highlight those isolated cases where bad things tend to happen. And, I am glad that the bureau is handling those and I think they are doing it in a judicious matter.

But, part of the problem with information sharing was a culture—was not specifically a cultural event of the FBI. It was also the policies put into place by past congresses and past administrations on how the FBI was to operate and share information. I am glad you brought that to light. It is extremely important to understand that the bureau has stepped up to the plate and is changing what cultural problems they have, as well as with the issues in the PATRIOT Act, changing the way that we are allowed now, by law, to communicate with other branches of the intelligence folks and because the FBI is the most public of all the intelligence gathering agencies, you tend to take the black eye for lots of the problems. And, I just want to commend you and those folks.

And, I just wanted to give you a couple figures that you did not mention in your details. I happened to go to the financial review group and saw the great work of multi-agencies coming together under the leadership of the FBI and in a very short period seized about $34 million of Al Qaeda assets, $112 million belonging to about 200 different individuals and entities that were being blocked through really a global effort, but again, led by the FBI.

And, if we have any marked success in disrupting and interfering terrorist operations in the United States and abroad, it was the fact that you shut down their financial operations in a hurry. And, I do not think the FBI gets enough credit for that.

I want to applaud you and the agents who are doing great work out there. Thank you, please, from all of—from the policymakers to the folks who are out in the field doing great work. I hope you will take that message to them that we are very proud of the work they are doing all across the country, and thank you for it.

I did have two quick questions; I am checking my time there. There are a couple of states who have—now offer the ability to incorporate businesses in a form that keeps the corporate structure totally away from IRS and U.S. law enforcement. One of those states is now advertising heavily to this service that keeps, certainly, the stiff arm away from law enforcement ability to look at those records. And I just hope you can talk a little bit about what that does and what kind of haven that represents to people who are specifically trying to hide cash for the purposes of any criminal enterprise, be it organized crime or terrorism?

Mr. MUELLER. Let me start by thanking you for acknowledging the work of the agents. I greatly appreciate that, and for mentioning those figures. I will be quick to say that yes we have put—and I think we make a substantial contribution to those figures, but I cannot leave without saying that it also is in conjunction with our counterparts at Treasury and the other agencies in which we all are participating.

Turning to the corporate structures let me ask one question if I might. Well, I am trying to see what familiarity we have with those laws that apparently are in two states. This is the first I have heard about there being some provisions that will keep from law enforcement, corporate structures.

I can tell you that if we do not have access to corporate structures then it is exceptionally difficult for us to trace funds without knowing the corporate structures, particularly if you have a subsidiary of a parent and money is shifted back and forth between a subsidiary and a parent without knowing and understanding that corporate structure, we would be blind. And, it is something that, now that I am alerted to it, that we would—I would look at those particular statutes in those states and see what can be done. Thank you for bringing it to my attention.

Mr. ROGERS. Thank you, director. I would like to follow up on that issue if I may in writing, as well as the other question I have. I see my time is short. Again, I just want to thank you and the bureau for stepping up to the plate. You have made the changes because of the PATRIOT Act. The way you changed the analytical capability of the FBI in such a short period. That is extremely impressive. I have been very impressed with it. And, America needs to know that not only are you tackling the very difficult issues of terrorism, you are still arresting child pornography rings. You are arresting public officials who are violating the public trust. You are bringing to justice organized criminals all across this great nation. And, if I have to fault anything for the FBI, the bureau has the worst PR operation I have ever seen of any organization. You are doing incredible things out there and America needs to hear about

it, because people are quick to condemn without knowing the whole total story. And, again, thank you and thanks to the agents and men and women of the bureau.

Mr. MUELLER. Thank you, sir.

Mr. BACHUS. Thank you, Mr. Rogers.

I would like to associate myself with those remarks as well.

At this time I would recognize the gentlelady from California, Ms. Waters.

Ms. WATERS. Thank you. Good morning. Mr. Chairman, I would like to thank you for holding this hearing. While I was not a supporter of the USA PATRIOT Act for any number of reasons, I have spent a lot of time working on drug money laundering and money laundering since I have been here in this House. And, have, for the most part been disappointed with the lack of real movement as it relates to money laundering and drug money laundering in particular.

Mr. Director, given all that you have described here today about the changes that you have made and the new emphasis that you are putting on money laundering and looking at terrorist funding, allow me to ask you whether or not you have paid any particular attention to the proceeds that come from the growth of the poppies in Afghanistan? I find it very interesting that we have little or no discussion about the drugs that are being produced in Afghanistan despite the fact we have a big presence there.

We are there. We are protecting Mr. Karzi. We seem to know what the drug lords are doing. As a matter of fact, our servicemen appear to be at great risk as they continue to be fired on and there are attempts at bombing them even right in Kabul, let alone the work that they continue to do in Tora Bora and other places. But, we know that the drugs are being grown. We know that. We see the poppy fields.

I maintain that one source of funding for terrorism could certainly be from the production of the poppy seed and who harvests it? Who has followed the money line as it relates to drugs? And, what do you know about it, because I would suspect that that may be a source of funding for terrorism. I understand that those fields are controlled by a combination of drug lords, Taliban, Al Qaeda, et cetera, that is number one.

Number two, the Saudis, for example, if you do not have great exports from certain places like Afghanistan and maybe even Pakistan to some degree, and money is not being produced there because of obvious products and goods and services, then the question is where does the money come from? For example, the Saudis are our friends. We have a great relationship with them because of oil and other things, but they fund, obviously, the madras' of the schools in Pakistan that produce people who make up the Al Qaeda network eventually. We know that, and you know that. What else is funded by the Saudis, and how do we trace the money that the Saudis use to do other kinds of things? I do not know about their deposits in American banks. We talk a lot about foreign banks, but one of the things we discovered as we looked at money laundering is that it is not the hawalas and a lot of these places we would like to think about that are responsible for laundering money and providing maybe money for terrorists, I do not know. But, a lot of the

money that we may be concerned about is sitting right here in our own banks. What do you know about private banking and concentration accounts?

We did find, right in this committee and other places, that one of the largest financial institutions in America managed the drug money out of Mexico and provided a private banker for a convicted killer, who happened to be the brother of the president at one time in Mexico, and the private banker managed all of their assets, bought their houses and their boats and helped to wire transfer their money offshore. So, are we looking everywhere and missing what could be happening right under our own nose, right here in the United States? So, that is kind of three questions in one, the first being the drug money from the growth of the poppies in Afghanistan, where is that money going? Who is tracing and tracking and is that some of the money that has been used to sponsor terrorist activities, that is the first question.

Mr. MUELLER. I think without a question of a doubt that to the extent that there is money that is coming out of the growth of the poppies and the crop in Afghanistan, certainly in the past it had supported the Taliban and supported Al Qaeda when Al Qaeda was resident in Afghanistan. I think it is far more difficult, both because of the policies of the Karzi regime, the fact that there is an American presence there, the fact that we are looking, and by we—and, I do not want to speak for my counterparts, DEA and others, but I am aware that this has not gone unnoticed. There are other areas, or another agencies that are looking at that particular problem. I think it is far more difficult for that crop—the proceeds of any crop that is coming out of there to find its way into the terrorist network. But, that is not to say that it is not happening.

I think it was substantial in the past, particularly with the Taliban running the country and Al Qaeda having such a large presence. We at the bureau at the FBI are alert to any sign in any of our investigations, whether we are doing it by ourselves or as a part of OCDETF or with the DEA in another capacity, or in investigations, international investigations, with our counterparts overseas that relate to narcotics, are sensitive to and are alert to any indications that monies are coming from drugs, whether it is coming from Afghanistan and the poppy fields there or the Columbian cartels or the Mexican transporters. And, the DEA has a substantial undertaking to determine whether or not any of the funding from narcotics trafficking groups across the world is going in to—to fund terrorism.

There have been certain instances where that is the case, but I cannot say that they were related to the poppy growth in Afghanistan. It came from narcotics traffickers in other countries.

As to your second question with regard to Saudi Arabia and funding by Saudi Arabia, there has been discussion and I would ask you to ask my counterparts at Treasury. I am sure you will ask the question of them, but there has been concern about NGO's, non-governmental organizations, and charities, whether they be supported by individuals from Saudi Arabia or elsewhere in the Middle East, being used as conduits for money to terrorists and it is often difficult to separate out those funds that are going to legitimate charitable causes and those funds who are ending up in the

coffers of terrorists. But, the FBI, as well as the CIA and the Treasury Department have made, I think, strides, substantial strides in addressing that concern, but that is a concern, it continues to be a concern.

And, I know there was a third question, but I cannot remember what it is at this point.

Ms. WATERS. Well, the third question is what do you know about private banking and concentration accounts in our major banks in the United States that tend to hide money of dictators and others from foreign countries that could be used also to fund terrorist activities?

Mr. MUELLER. I think the one thing I would say is that—actually I will say two things. I believe that the provisions of the PATRIOT Act will be helpful in assisting us in uncovering those instances where our banks are being used by individuals from overseas or elsewhere to launder monies or hide monies. That aspect of the PATRIOT Act that provided immunity to financial institutions, both the institutions and the individuals from civil liability from voluntarily disclosing to the United States suspicious activity, I think will be helpful.

The expanded SAR provisions I think will be helpful. And, consequently, I believe, while we have not solved all the problems, the publicity in the last few years of some of our major institutions being embarrassed by the fact that they were a recipient and conduit for individuals overseas who were parking their ill-gotten gains here, that is important. The provisions of the PATRIOT Act are important. And, I actually saw yesterday in the—it was in USA Today a poll of individuals who are in the financial business and it indicated it was in response to a question, which was as follows: Will the USA PATRIOT Act, signed into law by President Bush, prevent terrorists access to the U.S. financial system? And, 69 percent of these financial professionals said yes it would. So, this is a report from the financial professionals in the business themselves who say that that which you would pass in the PATRIOT Act will go a ways to preventing access by terrorists to the U.S. financial system.

And, I see here it was a survey of over 2,000 financial professionals around the United States. So, I do think that the provisions of the PATRIOT Act will go a ways, a far ways to preventing the use of our financial systems by terrorists, as well as by others as those financial systems have been used in the past.

Ms. WATERS. Mr. Chairman, if I may—

Mr. BACHUS. Actually you have used—

Ms. WATERS. Is time up?

Mr. BACHUS. Twelve minutes and 10 seconds.

Ms. WATERS. All right. Thank you very much.

Mr. BACHUS. Thank you.

Director Mueller, let me ask you two questions. First of all, what challenges will be posed or removed in the effort to combat dirty or terror money laundering by the formation of the Department of Homeland Security?

Mr. MUELLER. I certainly do not think our efforts will in any way be diminished. I believe that they actually will be enhanced by the Department of Homeland Security. And, let me explain why.

I think it is important, as I have indicated in other forum, that we have an analytical capability that is closely tied to our investigations throughout the country, whether it be intelligence investigations or criminal investigations, to be able to take in the information we gather, analyze it and then disseminate it and disseminate to the CIA, and likewise for the CIA, analyzing that which comes in from overseas and then disseminating it. But, it is important that we have, and particularly in the FBI, build up our analytical capability, our intelligence capability in ways we had not before.

Now, the Department of Homeland Security is also going to have an intelligence capability and they are going to look at that which is provided from our 11,500 agents within the United States or the CIA, how many agents they have overseas and look at it from the perspective of what does this information say about the vulnerabilities of our infrastructure, including the financial infrastructure. And, so the focus of their intelligence capability will be looking at the vulnerabilities of our infrastructure and matching it to that which we at the FBI or the CIA or NSA or other of the intelligence community have discerned in the analysis of their investigations. So, I think they bring, the Department of Homeland Security will bring a different facet to the effort that is a necessary facet that will augment that which we and the other entities, whether it be Treasury, CIA, NSA or the FBI are doing currently.

Mr. BACHUS. Thank you. In that regard, and I read an article in the Wall Street Journal, you were talking about the being able to communicate between the agencies and between your field offices. I read an article in the Wall Street Journal that described at the time that you took over as director what was considered an inadequate ability to communicate and technology, you did not have the system in place to adequately communicate between the field offices and headquarters. Has the bureau examined what the Treasury Department does, their Treasury Enforcement Communication System, which is considered sort of the gold standard for communicating back and force as a model for maybe rebuilding the bureau's system?

Mr. MUELLER. I would have to check on that. I know we have looked at many of the systems in the federal government, not just in law enforcement, but I would have to check and determine whether we have. I am confident that some persons within the bureau has, but I am not certain when or who.

Mr. BACHUS. Are you addressing that problem of your ability to link and transfer data?

Mr. MUELLER. Yes. We absolutely are. We have got a multiphased program into place. We put in the first phase, which was upgrading our desktop computers, putting in the LANs and the WANs that are necessary to provide the type of communication that we would like to see. But, we still got a long ways to go. And, we need additional software applications. We need greater bandwidth. We have a—still have problems in and including photo files and that kind of thing because of bandwidth. We are moving to address that as expeditiously as we can. Congress has certainly given us the money. And, we are moving to shore up our technology.

Mr. BACHUS. Thank you. One final question, when our committee marked up the terrorist financing portion of the PATRIOT Act I actually authored and included a provision giving Customs the right to search outbound mail. And, I know the bureau in the past was very supportive of those efforts. It was included in the House version. And, as you know, the Customs has the right to—unlimited right, basically, to search inbound mail. But, it has very restricted rights to search mail going out of the country. And, with all the revelations about actually bundling of cash and mailing it out of the country, you actually see websites that are used by people who sell drugs or, you know, marijuana in the United States, that they say "use the postal service." It is safe and it is not searched.

In the Conference Committee that provision was pulled from the PATRIOT Act. So, still there is a very limited right or ability for Customs to search outbound mail. I have been listening to, you know, my fellow members that have asked you all to really step up the effort on money laundering and do things you are not doing. The Congress' failure to give you that right to search outbound mail, is that an important tool in the fight against money laundering?

Mr. MUELLER. I will have to say at the outset it sounds like something that I as a prosecutor and investigator would believe is an important tool. But, again, I do not speak solely. I would have to look and see whether this particular piece of legislation is within the department.

Mr. BACHUS. All right. And, I know that is Customs' primary responsibility, but then, you know, you all work with Customs closely—

Mr. MUELLER. Yes.

Mr. BACHUS. —on, you know, seeing what is moving in the outbound mail. I would like you maybe to respond in writing once you have sort of—

Mr. MUELLER. Sure.

Mr. BACHUS. —run the traps on that.

Mr. MUELLER. Sure.

Mr. BACHUS. Because it is a concern to me that it has been something that has been asked for since at least 1996 and it was a priority of Customs and it still is not the law. The Customs still does not have the ability to search outbound mail.

Mr. MUELLER. I will follow up on that.

Mr. BACHUS. The gentleman from Washington?

What we are doing is we are going for—there are votes on the floor.

Mr. MUELLER. I understand.

Mr. BACHUS. But, you have a 12:30 commitment and I have just told the members to get back and as soon as the gentleman from Washington questions you, I anticipate discharging you.

Mr. MUELLER. Thank you, sir.

Mr. INSLEE. Thank you, Mr. Mueller. Thank you for all your team. They are doing an exceptional job under very trying circumstances. And, I hope you will pass that on from all of us on the committee.

I wanted to ask you about the harvest, if you will, of intelligence from the PATRIOT Act and other work that you have been doing pertaining to the attack on September 11. We have seen that very clearly there were various nations associated with the attack of September 11. We know, obviously, Saudi Arabians were, I think 17 out of 19 were Saudi nationals.

Mr. MUELLER. Fifteen were.

Mr. INSLEE. We know—I am sorry?

Mr. MUELLER. Fifteen were.

Mr. INSLEE. Thank you. I believe an Egyptian.

Mr. MUELLER. There was one Egyptian, two from the UAE and one from Lebanon.

Mr. INSLEE. We know that Afghanistan was clearly involved in their training, at least their beginning training process. We know that the terrorists—a cell developed in Germany. I am told that there is some evidence that there was some association with England. And, obviously, there was training in the United States.

Do you have substantive credible evidence that has led you to believe that Iraq was involved in training or operationally in some fashion on the attack of September 11?

Mr. MUELLER. I hesitate to answer that because any answer probably would be—have to be given in closed session. But, by really declining to open it or answer it in open session, I do not want to give any substance to the belief that there may be such evidence out there. That particular question as to Iraq's relationship to the events of September 11 I think and believe have been spoken to by others in the intelligence community and the military and I would be hesitant to speak. Yes, as Director of the FBI, I have got some quantum of knowledge on the investigation, but there are others out there who have—I look at it from different perspective. And, so I am really reluctant to answer that question.

Mr. INSLEE. Well, we are now grappling with the issue of what type of threat Iraq poses and it looks like Al Qaeda has been at war with our country since the early 1990's, maybe we did not fully understand that, but it is clear that they were. And, they turn to Afghanistan for a place to train very clearly. They turn to Germany for a place to do their work on their cell. They turn to Saudi Arabia, Egypt and the United Arab Emirates for personnel to do this.

And, from the information that I have available, it did not turn, at least in a way that we have knowledge about, significantly to Iraq. And, I guess what have you concluded from that, if anything, in regard to if Iraq does present a imminent danger to the security of the United States why did this international organization that has been at war with us since 1990 do everything all around the world that we have discovered and it is now public information, but not in Iraq? What conclusions or thoughts should we draw from that? I mean they went to Afghanistan, they went to Saudi Arabia, they went to Egypt, they hit the Germany but not Iraq and we are trying to grapple with this issue of how imminent this threat is. Could you give any—shed light in that regard?

Mr. MUELLER. Well, I can shed light to the extent that the results of our investigation and the investigation of our counterparts in Germany or Pakistan or like have disclosed exactly what you say, that the plot was put together in Germany, Afghanistan, Ma-

laysia, other countries overseas and executed in the United States. I am reluctant to speculate as to—well, number one, let me put it this way. I guess I am reluctant to discuss in open session the specifics of your question for two reasons, one, I do not believe that such a discussion should be in open session, but secondly, the discussion should be held in the context of what intelligence is known by other agencies other than the FBI.

Mr. INSLEE. Well, I have sat in the closed sessions. And, I think it is a very important issue for us to consider when we decide what our Iraq strategy should be.

Let me turn, if I can, to your resource issues. If we do start an invasion of Iraq in the near future, some have suggested that this would have Saddam decide to use it or lose it. Anything he had he would have no restraints to use. Right now he has a survival instinct and therefore has not used some of the weapons that he has. Some have suggested that once those restraints are removed he would be a more dangerous character, at least for a short period of time, as far as them having an incentive to give his chemical and biological weapons to terrorists, which to date does not appear to be the case. That would lead me to conclude you will have additional responsibilities to guard against that on a domestic basis.

First off, do you believe you will have additional duties to guard against that? And, if so, what are your resources to do that and will they, to some degree, diminish your activities now trying to hunt down the Al Qaeda cells that may be in existence.

Mr. MUELLER. It is hard for me to speculate as to what will happen a week, two weeks down the road with regard to Iraq. I believe that whether it be the threat from Iraq or from any other country where we see an enhancement of that threat, we would enhance our capabilities of addressing that threat, which would mean being much more sensitive to operatives that might be in our country or coming into our country, would be utilizing our counter-intelligence tools to identify those who might seek to do us harm within the United States. And, we would be on an enhanced state of readiness and alert and would mobilize what resources we have to address that threat, regardless of which country—from which country it comes.

I will also tell you though that our number one priority is counter-terrorism and to the extent that I do not have agents assigned on any given day to that priority, if there is a threat in a particular town or a particular city or a particular region of the country, I will have no hesitancy in transferring for a period of time agents from whatever else they are doing to address that threat. And, since September 11 we have had occasion to do that on any number of places within the United States. And, in the future, to the extent that there is a threat presented anyplace in the United States and I have inadequate resources in that particular city, town or region, we will put the resources on it to address that and make certain that we do everything we possibly can to prevent another terrorist attack.

Mr. INSLEE. Well, I would like to help you in that regard because I think it is clear you are going to have some additional worries and you are going to need some additional resources and you will not be able to do this job against Al Qaeda unless you get some

additional resources. And, there is a concern of some of us that in diluting your concentration on Al Qaeda and not giving you any more FBI agents, I have not heard anyone suggest we are going to give you more agents next month, to deal with this additional front, we have concerns and we would like to help you with that, if indeed that occurs.

And, I want to thank you for your testimony.

And, thanks for the chair. Thank you.

Mr. MUELLER. The only thing I would add—

Mr. BACHUS. Thank you.

Mr. MUELLER. —is we are looking forward to—we have put in a request for additional agents and we are looking forward to receiving the 2003 budget because that will augment our capability to address Al Qaeda.

Mr. INSLEE. Thank you.

Mr. MUELLER. Thank you.

Mr. BACHUS. Thank you, Director Mueller. You know, in that regard, I would also say, you know, there has been some concern expressed, particularly by some rural bankers because the FBI has had to deploy people away from investigating bank robberies except the most violent ones. And, there is concern expressed for that. So, if you will continue to make us aware of your funding needs in that regard.

I want to again express to you our thanks for all the efforts that you and the men and women of the FBI are making to combat money laundering and disrupting the financial operations of the terrorists. We are going to discharge you. We thank you for your testimony.

The committee will recess until 2:00, at which time we will hear from representatives of the Treasury and the State Department. The hearing is adjourned until that time. Thank you.

Mr. MUELLER. Thank you very much.

[Recess.]

The CHAIRMAN. The committee will reconvene and we are pleased to present the second panel of our discussion over the implementation of the USA PATRIOT Act. We are pleased to welcome the Honorable Kenneth Dam, Deputy Secretary, Department of the Treasury, and the Honorable Alan Larson, Undersecretary, Economic and Agricultural affairs at the State Department.

Gentlemen, thank you for your solid work in this area and we are pleased to recognize Mr. Dam.

Let's get that microphone on or get it a little closer to you. Should be a button there.

Mr. DAM. Button? Oh yes, I see.

The CHAIRMAN. You will be pleased—

Mr. DAM. Technologically—

The CHAIRMAN. The FBI director had the same problem, so you are in good company.

STATEMENT OF HON. KENNETH DAM, DEPUTY SECRETARY, DEPARTMENT OF TREASURY

Mr. DAM. Chairman Oxley and members of the committee, thanks for inviting me to testify here today on the implementation of the USA PATRIOT Act. Rather than read my prepared, I would

like to ask you to please enter it in the record and I will summarize that.

But before turning to the latest rules and regulations that we have issued under that act, I wanted to report briefly on progress we are making in the financial war on terrorism in general. Since September 11, the United States and other countries have frozen more than $112 million in terrorist-related assets. More importantly, the actual amount of money blocked understates the full effect of the blocking action in that our blocking actions have effectively cut the flow of terrorist money through funding pipelines. For example, we disrupted Al-Baraka's worldwide network, that by some estimates was channeling $15 million to $20 million a year through Al Qaeda. Another example, we froze the assets of the Holy Land Foundation for relief and development, which is a principal U.S. fund raiser for Hamas, raised over $13 million in 2000.

Now, we have obtained strong international cooperation in this effort, I am pleased to say, and I will leave it to Under Secretary Larson to have the opportunity to explain these efforts in some detail. I do wish to say, however, that all but a small handful of countries have pledged support for our efforts, and over 160 countries have blocking orders in force. The hundred of accounts with more than $70 million have been blocked abroad, and the foreign law enforcement agencies have acted swiftly to shut down terrorist financing networks. The United States has often led these efforts, but there have been important independent and shared initiatives.

Let me just site three examples. On March 11 of this year, the United States and Saudi Arabia jointly referred to the U.N. sanctions committee, two branches of a particular charity. On April 19, the G7 jointly designated nine individuals in one entity. And on just this past September 6, the United Nations and Saudi Arabia jointly referred to the U.N. sanctions committee a man named Javidon, who is an associate of Osama bin Laden and a supporter of Al Qaeda terror. These efforts have been bolstered by actions from the European Union, which has issued three lists of designated terrorist and terrorists groups for blocking.

Now, as I say that is a very, very short summary and I am sure Under Secretary Larson will have more to say. So, I would like to turn to the implementation of the PATRIOT Act itself, excuse me. And, let me just summarize some of our major accomplishments over the last 12 months, actually 11 months since the passage of the statute.

Together with the federal functional regulators, we have issued customer identification and verification regulations. We have developed a proposed rule which seeks to minimize risks presented by correspondent banking and private banking accounts. We have expanded our basic money laundering program requirement to the major financial services sectors including insurance and unregistered investment companies, such as Hedge Funds. And we have developed rules to permit and facilitate the sharing of information between law enforcement and financial institutions as well as among financial institutions themselves.

Now, I want to underline that each of these accomplishments animated from the very legislation that this committee was instrumental in drafting. And I have addressed these implementation ef-

forts and detail my written testimony, and I will be pleased to take any questions you have on them.

So in summary, we have made substantial progress in implementing the USA PATRIOT Act. The Act is making a difference, and I think that people recognize it is making a difference.

Just yesterday, the USA Today reported the results of a survey of over 2,000 financial professionals. Sixty-nine percent of those agreed that the PATRIOT Act will prevent terrorist access to the U.S. financial system, and I think they are right on that. We believe that the act is making it increasing difficult for terrorists to use the U.S. financial system. We are disrupting their ability to plan, operate and execute attacks, and we are forcing them to resort to substitute methods such as bulk cash smuggling to finance their operations.

Let me say that bulk cash smuggling is costly. It takes time. It is uncertain. Smuggling exposes the cash. There are instruments for possible detection and seizure by the authorities, and indeed those who are trying to pass them as well. For example, since September 11, our Customs Service seized over $9 million cash being smuggled out of the United States to Middle Eastern destinations, or destinations with some other Middle Eastern connection.

By making bulk cash smuggling a crime, the USA PATRIOT Act helped make these increased seizures possible. Smuggling exposes the careers, as I just said, to a possible capture. This summer, Customs, the United States Secret Service and FBI agents apprehended and subsequently indicted Jordanian-born Omar Shishani in Detroit for smuggling $12 million in forged cashier's checks into the United States.

The detention and arrest of Shishani is highly significant, as they resulted from the Customs Services cross indexing of various databases, including information obtained by the U.S military in Afghanistan. That information was entered into customs watch list, and when cross checked against in bound flight manifests, they identified Shishani. This is a good example of how the type of information sharing that our security now depends on is being implemented and made effective.

Of course we have a lot more work to do. I pledge to you that we will continue our efforts with the same intensity and professionalism that I believe have characterized this first 11 months. That as we complete our tasks in the months ahead, are preparing final implementing rules, I believe firmly that our job will just have begun. Time and experience will allow recent reflection on the decisions we are making today, incumbent upon Treasury to make adjustments to these rules, when it is necessary, to ensure that they continue to achieve our goals.

To that end, I am pleased to announce the creation of a new task force within the Treasury. The specific mandate of the task force would be to work with other financial regulators, the regulated community, law enforcement and customers and members of the financial community to improve the regulations that we have already implemented.

As we learn more about what works in the war on terrorist financing, we can find ways to calibrate our existing regulations both to better disrupt terrorist financing—and this is important—and to

do so in a way that imposes the least cost on the regulated community.

Let me say, Mr. Chairman, that we look forward to working with you and with the other members of the committee and with the staffs on this task force project as well. Thank you very much.

[The prepared statement of Kenneth Dam can be found on page 55 in the appendix.]

The CHAIRMAN. Excuse me.

Thank you, Mr. Dam, we appreciate it.

Mr. Larson?

STATEMENT OF HON. ALAN LARSON, UNDER SECRETARY, ECONOMIC AND AGRICULTURAL AFFAIRS, DEPARTMENT OF STATE

Mr. LARSON. Mr. Chairman and distinguished members of the committee, thank you for inviting me to be here. Like Secretary Dam, I would like to submit my written statement for the record and, with your permission, give a quick summary.

The CHAIRMAN. Without objection both full statements will be part of the record.

Mr. LARSON. Mr. Chairman, we are engaged in a sustained campaign against terrorists and terrorist organizations that have global reach. We would like to thank the committee and the Congress and for its support in this effort, and in particular, for passing the USA PATRIOT Act, which provides important new tools for waging this campaign.

Since our enemy does have global reach, and is supported by a global network, we need to have a global strategy and we need to have international partners who can help us carry it out. The State Department's particular responsibility in this inner-agency effort has been to lead in the effort of developing the plans for eliciting that cooperation and that support from other countries

The international dimension of our strategy includes the following principal elements: one, establishing the norms and obligations, primarily through the United Nations Security Council Resolutions and through international conventions; two, putting the issue of terrorism at the very top of our agenda with every country in the world; three, working with other countries, in cooperation with the Treasury, to block the assets of terrorists and terrorist organizations; four, placing the issue of terrorist finance at the heart of the work plans of various international organizations; five, strengthening law enforcement cooperation across borders; and six, extending training and technical assistance.

The PATRIOT Act has been a useful tool, and I would like to give you four examples. First, under the PATRIOT Act, the secretary of state has put 39 organizations on their terrorism exclusion list. Since the enactment of the PATRIOT Act, which gave the State Department for the first time access to data from the National Crime Information Center, we have been able to incorporate approximately eight million NCIC records into the visa look-out database. Third, pursuant to authorities under the PATRIOT Act, the Secretary of State has established a money laundering watch list which identifies over 400 individuals world-wide who are known or are suspected of money laundering. And this list is

checked by consular officers and other federal officials before the issuance of visa for admission to the United States. And fourth, the State Department has consulted closely with the Justice Department in the first use of the correspondent bank account provision of the USA PATRIOT Act. And in this action, the government obtained assets of some $1.7 million.

As Secretary Dam stressed, while much has been accomplished, there is a great deal that remains to be done. As formal financial systems are purged of terrorist finance, the terrorists naturally resort to other, more costly, but still serviceable, mechanisms for moving resources. We are working hard with other countries to develop the mechanisms that will help ensure that Hezbollah systems or other informal financial systems are not misused. And to try to ensure that funds donated for worthy charitable purposes, do not end up being diverted to terrorist ends.

As we move forward, the importance of technical assistance in training is likely to grow. We are likely to need to develop improved training programs, establish clear bench marks, exchange information on best practices and ensure that countries that are committed to the fight against the financing of terrorism get the help they need to carry out their obligations.

President Bush has reminded us that the war against terrorism will be long and difficult and will require patience and persistence. The financial dimension of this war is no different. We have made considerable progress, but we really need to stick with it. We appreciate very much the strong support of the Congress and of this committee, and we look forward to trying to answer your questions.

[The prepared statement of Alan Larson can be found on page 70 in the appendix.]

The CHAIRMAN. Thank you, Mr. Larson.

Let me begin with Mr. Dam. It was reported earlier this year that Treasury was working on a bilateral and multilateral basis with the Persian Gulf states to address some of the use of Islamic charitable organizations as a conduit for terrorist financing. Could you bring us up to date on the status of that effort and what kind of cooperation we have gotten from some of the leading Gulf States like the Saudis or UAE?

Mr. DAM. We have been, Mr. Chairman, talking quite a lot to governments from that region. There was a conference that touched on that issue in the Middle East that was also dealing with hawala-type questions. I myself have had at least one conversation dealing directly with this question.

Meanwhile, we have been doing a lot of homework ourselves because the whole question of charities is quite complicated. The fact of the matter is that charities do a lot of good work, do a lot of good work in Middle East-Persian Gulf area because they help support hospitals, orphanages, a lot of things that are quite important. They provide a social safety net, in fact.

And in Islam, charity is just as important as in the United States. And as in the United States, there are a lot of sensitivity about interfering with charity, so terrorists have strategically, I believe personally, decided to use charities for that very reason, because they are complex to deal with.

And so we are working hard and consulting on a regular basis with other countries about how to go about this. As you know, in the United States there are some constitutional problems about interfering with charities so it is a delicate question and we are pushing ahead on it.

The CHAIRMAN. Thank you.

As you know, the U.S. Customs Service is the lead agency on Operation Greenquest—

Mr. DAM. Correct.

The CHAIRMAN. —which the FBI director referred to us this morning, and, the multi-agency task force established after September 11 to dismantle the terrorist financing networks. How will the proposed transfer of Customs to the new Homeland Security Department affect that effort if at all?

Mr. DAM. My understanding is that it will continue, Mr. Chairman. I have not information to the contrary, and I certainly hope it will because I think they have made a lot of progress and they bring to bear a lot of people with expertise who otherwise might now be working together.

The CHAIRMAN. And how do you see the new Homeland Security Department assuming the lead—I assume they would take the lead in the war on terrorist financing, in particular. And indeed, are there any particular potential problems that relate to interconnection between the Treasury and the Financial Crimes Enforcement Network, Office of Foreign Asset Control? Could you give us some idea about how the overall plan would work?

Mr. DAM. Well, as you know Homeland Security is not in existence this present time, but it is my understanding, and perhaps you have some information to the contrary, that it is contemplated the Treasury would continue to lead the effort.

Obviously customs is a very important part of the whole enterprise. Secret Service also plays a role. And they will be in the Department of Homeland Security, but the Treasury is the department that has the relationship with the financial community. And ultimately, we are dependent on the financial community for their efforts and their cooperation in carrying out this financial war on our behalf.

There are plenty of things we can do directly, but a lot of things have to be done with the cooperation of the private sector. And since then is in regular relations with all financial institutions, and will soon be on a regular basis with all financial institutions and will soon be on a regular basis in electronic contact with them. Similarly, OLFAC has a long history in this area working with the financial community, carrying out blocking orders and so forth.

So however it may be organized, I don't think there will be any difference in the focus that is placed on this area, and I don't see any reasons for difficulties of cooperation, collaboration. We have learned a lot about how to cooperate in the last months since September 11.

The CHAIRMAN. Well, as you commented, the need under the PATRIOT Act was to have this very active private-public partnership. In your view, how is that working with the financial institutions? What kind of feedback are they getting in terms of information

that you have been able to acquire? And is it indeed a two-way street that we had envisioned in the PATRIOT Act?

Mr. DAM. I believe so, Mr. Chairman. I had a meeting just this week with all of the different sectors of the financial community that might be impacted by the PATRIOT Act and by the regulations. They were uniformly quite complimentary about the work that had been done by the regulators and the lawyers and the other specialists within the Treasury Department.

We have had a lot of contact. They have come in to tell us about their problems. We have issued regulations in draft form to get their comments. We have had a lot of comments. Sometime in addition to draft proposed regulations, we put out interim final regulations for one last chance.

And as I indicated today in my testimony, we plan to be in steady contact with them to make changes as are necessary, either to relieve unnecessary burdens or to make them more effective.

Moreover, the PATRIOT Act itself provides for the exchange of information with the financial community, so that they know who they should be on the look out for and provides for them to cooperate among themselves with a regulatory safe harbor, so that they can freely pass information among the various individual institutions.

So I don't have any information at all to suggest that that is not working very well. Now, to be sure some firms are concerned about the burden. Some are concerned about whether they really should be covered.

And for example, in the regulations we have just issued with regard to the insurance industry, we have made the determination that those portions of the insurance industry that should have to do certain things are primarily the life insurance industry. The casualty insurance industry, the title insurance industry, the health insurance industry, really do not, so far as we now say, present a problem with regard to terrorist finance and money laundering because of the nature of their policies. Should they, however, adopt new products which have the characteristics that you find, say, in life insurance where it can store value then transfer it somewhere else, we would change our mind on that.

And we discussed that. We discussed that this week with the industry to be sure. And I think the life insurance industry, which is definitely impacted, understands that and accepts that responsibility. And I think the casualty and property sector of the insurance industry understands what we are saying and of course they are happy to know that they won't be faced with the same burden as the life insurance portion of the industry.

So my point is we are trying to adopt a strong but nuanced approach, so we are doing what is necessary and appropriate, but no overreaching it. I don't think we are overreaching, but we will stay in contact to make sure that there is no unintended overreach or unintended burden here.

The CHAIRMAN. Mr. Larson, one of the troubling loopholes in the international regime for cracking down on money laundering and on terrorist financing is the lack of meaningful regulation of money transfer businesses or hawala issues. And that is obviously something that is rather endemic, particularly in the Middle East. What

is the administration doing to encourage these countries to adopt procedure for registering and monitoring these kinds of activities?

Mr. LARSON. Mr. Chairman, we are working very hard on what is admittedly a very tough problem. I think the starting point is in the Financial Action Task Force, which Treasury and State participate in. We are working with other countries to develop a best practices approach and to exchange information.

We have conducted technical assistance programs with countries where hawalas are prominent; to help identify loopholes, identify problem areas. And we are sponsoring a conference in the region so that we can help countries, first of all, to identify where the difficulties are and what measures could be put into place to bring regulation to these types of informal systems.

I think another angle on this is that these systems are a substitute for the formal system, and the fact that they are in existence is in part an indication of certain inadequacies in the formal system. And I think there is the opportunity to try to improve regular systems of remittances. One of the projects that Secretary Dam and I are working on in the Mexican contacts is to lower the context of remittances for people who are working in this country. And I think some of the things that have been learned in that exercise could be helpful in creating alternatives to the hawala for the law-abiding people and the lawful purposes that make up the bulk of the transactions in those systems.

The CHAIRMAN. The committee went to Europe in April, and one of the issues that we were discussing at that time was the whole issue of money laundering. And we picked up some concerns among our European allies, specifically in Great Britain and in Germany that in some cases, the U.S. has often failed to provide intelligence and other investigative information on which they could support court orders authorizing the blocking of assets in those countries. I assume you have probably heard some of those same complaints.

What are we doing to try to address some of those issues?

Mr. LARSON. Mr. Chairman, again, Treasury and State are working very hard on this. I think the starting point is that we do try to present the best possible evidentiary record when we are asking other countries to join us in an action to freeze assets. In many cases, that involves trying to declassify certain types of information, or to try to draw from classified sources of information, an unclassified summary that we can share with countries.

I think our agencies have worked very, very hard on that effort. I would just quickly interject that one of the difficulties here is that there are difference evidentiary standards in some of these other countries, and that is one of the issues that we face.

What is interesting to me is that, not withstanding these difficulties, the Europeans have joined us in designating virtually all of the individuals in organizations that we have brought forward. So I think while there have been discussions and there has been some public discussion of this issue, it has not stopped us from moving forward.

Mr. DAM. If I could add a point on that, Mr. Chairman, the committee very wisely, and the Congress, very wisely put in the PATRIOT Act a provision which allows us to sustain blocking orders in any court challenge based on classified information presented in

an ex parte way in the chambers of the judge, so that we don't have to, in order to carry out a blocking order, give away classified information. It is very valuable.

I would encourage our European colleagues to consider such legislation themselves, because frankly, if one approaches terrorism as just a law enforcement matter where you are only going to act after the fact against terrorist and terrorist financiers, we are not going to be able to make the kind of progress we need.

And the general council of the U.S. Treasury was just in the United Kingdom this last week discussing this kind of issue with the U.K. authority. He also met with the Wolfsberg Group, which is a group of banks that operate internationally. Many of them banks have located in other countries, not incorporated in the United States, to discuss these kinds of issues, because if we have high evidentiary standards, which after we met, before you can do anything, then I think we have a bit of a problem. So we are working to find common ground here.

The CHAIRMAN. The gentleman from New York, Mr. Grucci?

Mr. GRUCCI. Mr. Chairman, I have no questions at this time.

The CHAIRMAN. The gentleman from North Carolina?

Mr. WATT. Thank you Mr. Chairman. I don't have any questions either. I just want to express my thanks to the chairman for convening this hearing. And my apologies to the witnesses; I was trying to get here at 2 o'clock to hear your testimony, but unfortunately got waylaid just as I walking out the door, and so I wasn't able to get here in time, but I will certainly review the testimony.

I think it is very important to do this follow up about the effectiveness of legislation that has been passed, and the follow up that the FBI and the Department of Treasury and the Department of State are doing to implement the new law. So it is an extremely important and timely issue. I had hoped to ask some questions to the director of the FBI about the way he sees the balance playing out between individual rights and privacy rights and this new PATRIOT Act, but unfortunately he ran out of time and we got called for vote, so I didn't get to ask him any questions either, but I think it has been an extremely helpful and informative hearing. And I appreciate the chairman convening it.

I yield back.

The CHAIRMAN. I want to thank my friend from North Carolina who was a participant in the European trip and many of these issues were surfaced there and obviously very important.

Gentleman from Texas have any questions?

Mr. BENTSEN. Thank you, Mr. Chairman. I do have a couple of questions I would like to ask if I could.

Secretary Dam, there was an article in the Washington Post, a front page article of June 18th that I asked my staff to get for me because I remember reading it. And it raised a number of concerns, one being that there were various turf battles going on between Treasury and Justice on the implementation of the PATRIOT Act. In fact, you were quoted in the article as saying that, "It isn't working like clock work." And I would like to get an update from if the concerns that you apparently had have been addressed.

The other thing is raised were concerns that not all of the 160 plus countries that we were trying to work with were being as co-

operative as we might hope they would be. In particular, you noted at the time, problems in South-East Asia. There were issues with respect to Saudi Arabia. And I would be curious whether or not this article is old news at this point, and most of these issues have been addressed. Or are these still concerns that we have?

And then I have another follow up area I would like to discuss with you.

Mr. DAM. Well, thank you for that question. I am glad to address those issues, and perhaps Under Secretary Larson might want to say something about the international situation as well.

In terms of problems within the administration, obviously there were growing things. We had not done this kind of thing until immediately after September 11, and so there were some learning steps, some learning pains that we had to face. Also, we got some important authority under the PATRIOT Act that we were able then to exchange information more freely between the classified parts of the government and the rest of the government, which had not been possible before for legislative reasons that had a history that was right at the time that doesn't fit the current circumstances.

So we had to learn how to work together. And my impression is that the number of complaints about this have fallen very steadily. And in fact, I haven't heard a complaint along these lines in some weeks. Now that doesn't mean there are not still glitches, problems, and so forth, but I think that we are working out the kinks.

With regard to other countries, I don't think there are very many countries, which out of conviction on policy, don't want to do what they need to do in the terrorist finance area, but the fact of the matter is that they have had no experience at all. We have had the Office of Foreign Asset Control, I believe, as my popular history tells me that we have had it ever since World War II when were dealing with the Nazis. That is not exactly right historically, but we have had lots and lots of experience.

But there are other countries who have never done anything like this before. They didn't have statutes. They certainly didn't have regulations. And if they had statutes and if they had regulations, they didn't have trained personnel. So we have put a lot of emphasis on technical assistance to help them bring themselves up to date, and there is still a lot to be done in that arena.

As for South-East Asia, I think since the time of that article, there has been a startling amount of news about the operations of Al Qaeda and of sister organizations, terrorist organizations, in South-East Asia. In fact, it is in the news virtually every day. It was an important set of articles just this week about further police actions in Singapore, I believe. I read the big article in The Post, perhaps this morning, about Indonesia. So I think there is a great new focus in South-East Asia and countries on this problem.

Mr. BENTSEN. And you don't feel that you are getting the department, or the State Department for that matter, is getting a pushback from any countries that are being non-cooperative?

Mr. DAM. I wouldn't say we are getting any overly pushback or, perhaps, any pushback at all. But the fact of the matter is things, the wheels of justice, the wheels of prevention even, sometimes grind slowly when it goes against the cultural attitudes or the bu-

reaucratic cabinets or, as I try to indicate, the plain capacity of the government to take the action that is needed.

And that is not specific to any part of the world. That is a general problem, particularly in countries which do not have well developed banking regulatory authorities or just the plain experience to do what is required.

Mr. BENTSEN. With the chairman's indulgence, and Mr. Larson may want to comment, as well, in the past—and I can't remember which acronym it is; there are too many to keep up with. But I don't know if it is FATF or which one. But in the past, Treasury—or maybe through FinCEN—has maintained a list of nations which we consider, for a variety of reasons, either not having the sophisticated banking laws or perhaps intentionally not having sufficient banking laws for money laundering purposes. In the past, I guess semi-annually, that list is reviewed. Nations either graduate; some nations may well end up on the list who weren't there before.

Has there been a change in that list? Have countries been added? Or are you proposing to add countries as a result of the PATRIOT Act and as a result of this new emphasis on money laundering related specifically to Al Qaeda?

And second to that, has the Treasury entertained, to the extent you can tell us, using some of the tools provided for in the PATRIOT Act in order to pressure those nations?

Mr. DAM. Well, let me answer it in a general way and then Mr. Secretary Larson may want to fill in any gaps.

Under the FATF, as you suggested, there is a process for designating countries that are non-cooperating in the war against money laundering. And there have been a number of countries that have been so cited by this process of these 29 countries in FATF acting collectively. And many countries have taken this seriously and gotten themselves out from under that problem.

There are still some countries that have not yet come into cooperative compliance. But, in many cases, they very much want to and they are just trying to figure out how to do it. And in some cases they have legislative problems. Some cases they may have some capacity problems. And the list, I think, is shrinking, not growing.

They have also, now—the FATF has—this is Financial Action Task Force, for those who are not familiar with the acronym. The FATF has also gotten eight new proposals—recommendations, they call them—for issues having to do with terrorism. So that is in addition to the 40 recommendations having to do with money laundering.

And the time hasn't run out yet for countries to comply there. There is a meeting, I believe, in October of the FATF where things will begin to come to a head.

And, by the way, Mr. Chairman, one of those recommendations has to do with charities. And Treasury is preparing a paper specifically on that issue for consideration at this international conference sponsored by the FATF.

So that is where we stand there.

Now, perhaps I haven't answered all of your question.

Mr. BENTSEN. Well, if I understand you correctly—again, with the chairman's indulgence—that there are eight new—are you saying there are eight new potential members of that list?

Mr. DAM. Right.

Mr. BENTSEN. Or is it eight new issues that you are—

Mr. DAM. Eight new recommendations.

Mr. BENTSEN. —recommendations that you are looking at?

Have you found an occasion with the new tools provided for in the PATRIOT Act that have been discussed for a number of years—somewhat controversial—to utilize those tools, with respect to any of the nations who are on that list today?

Mr. DAM. Well, one of the most important tools is Section 311, which calls for designating jurisdictions or firms and so forth as a primary money laundering concern.

We are looking at that very carefully. Frankly, it is a very powerful weapon, but it may be one of those weapons that is best kept in the closet or behind your back, flourishing it, because we are ultimately interested not in imposing what could be used as a sanction on a country, but getting them into compliance. And most of the countries certainly want to get into compliance. And all of them claim they want to get into compliance with the FATF recommendations to bring it home to that question.

So we may well chose to invoke those powers in an appropriate case. But at this point, we have not yet used that tool, which even though not applied, remains a very, very useful and powerful tool.

Mr. BENTSEN. Could I ask this one brief final question because it sort of goes to a question the chairman asked?

Yesterday or the day before there was a story that Treasury is now looking at unregulated hedge funds as a potential source of money laundering. Is that because it fits the profile? Or do you have some reason to believe that hedge funds are being used as a money laundering tool?

Mr. DAM. Well, yes, we have just issued a regulation which would impose the regulatory scheme to a certain extent on hedge funds. Actually all they have to do specifically is to file and identify themselves. But they are still subject to the regulation.

Now, there have been a few new stories about the possibility that hedge funds are being used for this purpose. And I have even been visited by several people from the banking communities suggesting this possibility. We have been trying to be very careful. This would apply only to hedge funds where they allow withdrawals within a two-year period. Most hedge funds you can't just go in and out when you want to.

And so I am not sure what proportion the hedge fund industry would even be involved.

But especially because they are unregulated, they don't have any particular regulator in the United States, although the SEC is now asking them some questions. They are a potential problem. And we are trying to address that problem in a deliberate way.

But potentially, a particular hedge fund could be a source of problems.

Mr. BENTSEN. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. The gentleman's time has expired.

The gentleman from Connecticut, Mr. Shays?

Mr. SHAYS. Thank you, Mr. Chairman. And I appreciate the opportunity to ask three questions.

I have a question relating to Section 326 of the PATRIOT Act which directs the, you know, the Treasury Department to submit a report to Congress containing recommendations about the most effective way to require foreign nationals to provide U.S. financial institutions with accurate identity information, compared to that required to be provided by U.S. nationals.

Under the statute, the report should have been submitted last April and is, therefore, now five months overdue. Can you give us a sense of when this report is going to be coming in?

Mr. DAM. Let me just have a moment. I could tell you about 326 more generally. And perhaps somebody will be able to provide that information to you. I will tell you where we stand on the report.

The fact of the matter is that we have issued proposed regulations in this area. And we have gotten a lot of comments; and getting a lot of comments on this area.

Now, I do have here some information on the report, itself.

I am told that the report is in draft form. But we are still trying to address some of the questions. And we will be happy to discuss the issues with you, but we have not yet completed the report.

Mr. SHAYS. Have you begun the report?

Mr. DAM. It is already in a draft form—

Mr. SHAYS. Okay.

Mr. DAM. —and could be submitted. But we would like to be able to take a position and provide more information on the—

Mr. SHAYS. Why don't you give us a date as to when—

Mr. DAM. —specific questions. For example, one of the kinds of questions is, ″How do financial firms check Social Security numbers, which is the leading form of taxpayer ID?″ And we have been working with the Social Security Administration to create a system, which we believe is close to being operational, in which banks would be able to check with Social Security to see if the number is a real number and corresponds to the name of the customer before them.

Mr. SHAYS. Just because I know we have a vote and you don't want to wait until after we get back and you want to finish up, when can we expect the report?

Mr. DAM. Let me say, obviously, as soon as we possibly can. Let me just, for a moment, consult to see—

Mr. SHAYS. I think we need to have some kind of outer limit as to what is—

Mr. DAM. Just one moment.

Mr. SHAYS. And this is particularly relevant given that these false identifications, you know, some of the September 11 terrorists used false identification documents to open accounts in the United States. And there is reason to want this done soon.

Mr. DAM. Yes. I am informed that you shall have it in 30 days.

Let me just say we are well aware of the fact that we are not asking the banks because we really can't ask them to certify that this person is who he says he is or she is who she says she is. But they can take reasonable steps. And, in fact, most of them are already doing so.

In fact, many banks in certain countries require more than anything we are contemplating. For example, in some countries, you

must provide a photo to go into the bank's records. So if there is any question that arises later, you can go back to the photo.

So all we are asking them to take is reasonable measures, which most of them are already taking, to identify the customer.

Mr. SHAYS. We have two success stories, I think, that I would like you to make reference to. We have been helping the Colombians establish a database on shipments of commodities that is part of the financial intelligence unit, like the FinCEN. And now I understand Warner and Schumer have introduced legislation aimed at increasing our understanding of the contents of the containers that arrive in U.S. ports.

And so I would like your reaction to the idea that an international end-to-end tracking system for container and similar shipments with information about bills of lading and letters of credit and about the shipping and receiving could help interrupt terrorist financing and a host of other crimes.

Is this something that you all can speak to?

Mr. DAM. I can't speak to it with great authority. This is a project of Customs, who has been working very hard on it. We have good collaboration on this very subject with Canada. We have been talking to some of the other major ports of the world and the countries in which they are located. And I can give you something on how—

Mr. SHAYS. Is the sense, though, that—

Mr. DAM. —far along we are. But I believe it can make a major contribution.

Mr. SHAYS. Right, and that we could adapt it with other countries, as well?

Mr. DAM. Absolutely. That is the whole point: that it works best when there is that kind of cooperation.

It does lead to certain questions, for example, in the European Union, which would like to bring all of their countries in at the same time and all of their ports in at the same time. But I think it is important to push ahead as quickly as possible.

And I think Secretary Larson would like to say something on the subject.

Mr. LARSON. If I could, just very briefly, add to this. Precisely because we think we need to get as many countries involved in this as possible, the United States made this an initiative in the G8. And we got endorsement by all the countries of the G8 in this transport security initiative that would do the things that you are suggesting.

We have also placed it on the agenda of the U.S.-European Union dialogue, so as to assuage some of the concerns that Secretary Dam mentioned. And I think we are really making good traction on this. It is something that countries, once they learn about it, see could both improve security, but also efficiency.

Mr. SHAYS. Yes.

Could I deal with one other question? And that deals with some success with the Secret Service in counterfeiting, based on tools in the PATRIOT Act. Is that something that either of you could address?

Mr. DAM. Yes, sir, I can address it in a general way, and then, perhaps, even more specifically.

The PATRIOT Act recognized that we are in a new generation of technology in which a lot of the counterfeits use high-speed copiers or very high-resolution copiers. And there was a problem with the previous statute, which referred to ″stones″ and a lot of the practice required the use of the negative and so forth, as evidence, in order to prosecute counterfeiting.

Today, the PATRIOT Act recognizes that the counterfeiting law extends to counterfeits made by analog, digital or electronic images. That is a major step forward, because that is how the really good counterfeiting stuff is done today. So it addresses it very squarely.

It also deals with the question of what kind of evidence is required. And so I think it gives us the tools we need to keep up with the technology. The law had, frankly, fallen behind.

The CHAIRMAN. The gentleman's time has expired.

The chair would note we have votes on the floor. I think they will be the last votes of the day.

So we want to thank both of you gentlemen for excellent testimony.

The chair would also indicate that there may be some members, including myself, who would like to submit questions for the record and in writing. And we would appreciate your prompt response.

With that, the committee stands adjourned.

[Whereupon, at 2:58 p.m., the subcommittee was adjourned.]

A P P E N D I X

September 19, 2002

Opening Statement

Chairman Michael G. Oxley
House Committee on Financial Services

"Terrorist Financing:
A Progress Report on Implementation of the USA PATRIOT Act"
September 19, 2002

Director Mueller, the Committee welcomes you and later on will welcome Treasury Deputy Secretary Dam and Under Secretary of State Larson. Disrupting terrorist's financing is an issue of utmost importance and we appreciate your being here today.

A year ago last Wednesday our nation suffered its worst-ever attack. The President and Congress immediately began work on a number of fronts, including an effort to strangle the money supply that fuels international terrorists.

The President expanded the government's ability to block and freeze assets and transactions of terrorists and terror organizations. One month after the attacks, this Committee passed the most far-reaching anti-money laundering legislation in more than two decades aimed at giving the government even more tools to disrupt terror financing and to stop the laundering of money from other illegal activities. The USA PATRIOT Act, was signed into law by President Bush October 26, and it's a source of great pride for this Committee.

Mr. Director, as you well know, that effort was only the beginning of the job. Some of the first arrests with the new powers laid out in the Act came just three days after the signing, in Boston and in Minnesota and in Ohio. But the legislation laid out a strict timetable under which the Treasury Department was to promulgate regulations spelling out the way financial institutions and a broad array of other businesses in this country were to carry out their new duties. It was a Herculean task, and we have closely monitored the process.

Now, with the issuance yesterday of three final sets of regulations and two proposed regulations, the regulatory work on these new tools to stop dirty money is largely done. I think we can now all step back, applaud the hard work Treasury has performed in drafting the regulations and FBI and others have done in applying them.

Looking forward, we must ask if there are other holes we must plug? Did we ensure that the extra burdens we placed on business are rewarded with the sure knowledge that more dirty and terror money is being stopped? Have the terrorists and traffickers regrouped to move their assets into other channels, and can we devise new ways to stop it?

I think the answer to all of those questions is yes, Mr. Director. The Administration has seized more than $34 million, and worldwide, more than $112 million has been seized. However, a United Nations report that will be released today says that the terrorists still have access to sizeable chunks of money, and reports have indicated that they have transformed cash into commodities, from heroin to gold, and are moving and using it in that form to fund their efforts. Mr. Director, this is good news. It means the PATRIOT Act is working, squeezing bad money out of the system and into forms that are harder to move and easier to interdict.

Mr. Director, we look forward to your report on the FBI's successes at stopping or interrupting terrorist financing mechanisms, and we are interested to know if you have identified any new tools you need, or changes you believe are necessary in the Act to make it more effective.

I also hope Deputy Secretary Dam will fill us in on the Secret Service's successes on stopping counterfeiting of U.S. currency, using the new tools on that front from the PATRIOT Act, and on whether passage of the bill by the gentleman from New York, Mr. King, that would authorize the Bureau of Engraving and Printing to print currency for other countries, would help strengthen their economies and help squeeze out terrorism. That language also was part of the House anti-money-laundering legislation, but fell out in conference.

Mr. Director, we thank you for your time.

STATEMENT OF THE HONORABLE WM. LACY CLAY before the
FINANCIAL SERVICES COMMITTEE
"TERRORIST FINANCING: A PROGRESS REPORT ON
IMPLEMENTATION OF THE USA PATRIOT ACT"
September 19, 2002

Good morning, Mr. Chairman, members of the Committee, and witnesses.

President Bush signed the USA Patriot Act into law on October 26, 2001. This law provided new tools to combat terrorist financing and international money laundering. The country sorely needed new laws in place to protect itself from the networks of financing terrorism that existed throughout financial systems. The intent was to additionally give new authority to share information and better coordinate efforts within the intelligence community and the financial services industry. The Act required that all financial institutions have anti-money laundering programs in place by April 2002.

The Patriot Act authorizes the Secretary of the Treasury to impose measures on countries, institutions, individuals and transactions with business related to money laundering concerns. It places additional responsibilities on various private entities of commerce as well as financial businesses. This act touches a broad spectrum of the business community of this country and of the world it trades with.

This hearing will examine where we have come in our attempts to combat terrorism through their financial networks. Are we on the right track? Are we moving fast enough? Are we achieving the desired cooperation of our governmental agencies and of our business community? We hope to answer many of these questions today.

Mr. Chairman, I ask unanimous consent to place my statement into the record.

Congressman Felix J. Grucci, Jr.
PATRIOT Act Implementation Hearing
Opening Statement
September 19, 2002

Thank you Mr. Chairman.

First of all I would like to thank Chairman Oxley for holding this critical hearing so that we can continue to monitor the progress of the PATRIOT Act legislation that we worked so hard to pass last year. I would also like to thank our witnesses, Mr. Mueller, Mr. Dam and Mr. Larson for taking the time out of their busy schedules to be with us today.

When we first came together as a committee last year our goal was to pass legislation, The Financial Anti-Terrorism Act of 2001, that would enhance the ability of law enforcement agencies to identify and detect terrorist related transactions and attack the financing infrastructure of these organizations. We also aimed to enhance cooperation between the government and private institutions in their abilities to detect and disrupt terrorist funding; as well as prevent terrorists from accessing the U.S. financial system through foreign countries and institutions. This important measure, eventually became part of the PATRIOT Act.

I am curious to learn more about the secure website that the Treasury is currently pilot-testing to allow financial institutions to file Suspicious Activity Reports (SAR's) and Currency Transaction Reports (CTR's) electronically, via real-time, to expedite the reporting process and make information more readily available to law enforcement.

I am also interested in learning about identity fraud and proposals and regulations to better identify legitimate identities. It is my understanding that the September 11th hijackers had opened various bank accounts under multiple identities.

I hope to learn from our witnesses, if this legislation has served it's purpose and if the proposed regulations and pilot programs, which came as a result of the PATRIOT Act are effective to date. I would also like to know if we need to be doing more, in terms of enacting additional legislation to assist you in your day to day activities to protect our nation and to prevent further terrorist activity.

Last of all, in light of recent activity with Iraq and the United Nations, I would like to know if our witnesses believe that foreign countries have been cooperating with U.S. officials to the fullest extent, in order to dismantle the funding mechanisms of worldwide terror networks.

Once again, thank you for appearing today. I look forward to working closely with all of you.

Thank you.

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Statement of Congressman Steve Israel
Committee on Financial Services
Hearing Entitled:
"Terrorist Financing: A Progress Report on Implementation of the USA PATRIOT Act"
September 19, 2002, 10:00 a.m.

Mister Chairman, thank you so much for holding this extremely important hearing and thank you to Director Mueller, Deputy Secretary Dam and Under Secretary Larson for joining us.

Almost one year ago, on October 3, 2001, only three weeks after the attacks, we had our first hearing on money laundering. I said then that we must develop a plan that balances security, regulation and freedom. We must do everything we can to fight terrorism, but we must also ensure that we protect our liberties.

And so far, I think that we have protected our freedom. Financial institutions and governments around the world have assisted our investigators in tracking down those who would help al Qaeda. We have seized their assets and severely degraded Osama bin Laden's ability to plan more acts of terrorism.

Last year at our hearing, we had just learned of the *hawalas*, or informal money transfer systems around the world that facilitate money laundering. I look forward to hearing from our witnesses about how we have dealt with this problem.

I also continue to be extremely concerned about terrorists' use of charitable organizations to fund their efforts. There has been a lot of talk about how our law enforcement agencies shut down different Islamic charitable organizations, but how has that impacted financing?

Mr. Chairman, you may remember that we considered an amendment of mine last year on this issue. You were good enough to accept it, but it was dropped in conference. At the time, I was assured that Treasury would be studying this issue anyway. I look forward to hearing an update from Deputy Secretary Dam on this issue.

Mr. Chairman, since last year we have considered many items in this Committee: Rent-To-Own, Regulatory Relief, Housing, Corporate Responsibility. But we must all remember that *this* issue, like no other issue in our jurisdiction means, quite literally, life and death. We must continue to conduct vigorous oversight over the new statute, not just this year, but continuing right through the life of the law.

The American people were proud of us in Congress after September 11th. They gave us the benefit of the doubt on passing the *USA PATRIOT Act*. They expect us to watch very carefully how it is implemented. I hope that this is the first of many oversight hearings we conduct with these and other witnesses.

Statement of Congresswoman Stephanie Tubbs Jones, 11th District, Ohio
Hearing on USA PATRIOT Act/Terrorist Financing
Thursday, September 19, 2002

Mr. Chairman, Ranking Member LaFalce, Colleagues, and Guests;

No one here will forget the glorious September day that was suddenly transformed into a scene of unfathomable chaos as thousands of lives were violently taken from us right before our eyes. Our government responded quickly and righteously to this horror. Military forces mobilized to root out the base elements of terrorist organizations in Central Asia, Congress and the President passed sweeping legislation to weaken the ability of terrorists seeking to commit further atrocities on our homeland, and a new wave of international cooperation evolved with the singular goal of fighting terrorism throughout the world.

But just as certain as the need to act swiftly after September 11th was apparent, the need to act wisely as we continue what will be a long fight against terrorism is equally apparent. Our fight against terrorism is being made, and will continue to be made on many fronts--diplomatically, militarily, and financially. No one doubts the destabilizing effect that cutting off their funding will have on the ability of terrorists to commit their heinous activities here and abroad. But as we move forward in our efforts to stop terrorism in its early stages, we must never forget the fundamental principles our nation is founded upon. There is truth in the old maxim "Desperate times call for desperate measures," but we should never allow our vision of defense and protection to become myopic and ignore the tenets of freedom we fought so hard to attain.

The purpose of these hearings, to evaluate the progress we have made with regard to cutting off terrorist financing, are an example of how our government has acted wisely since September 11th. By ensuring cooperative and comprehensive reviews of these new laws between members of the Executive and Legislative branches will ensure that the steps we take to combat terrorism will be aggressive yet responsible.

I am honored and humbled to sit among these distinguished guests and colleagues as we consider how to balance our cherished liberties with maintaining a keen sense of vigilance against future threats. Though our paths may sometimes take different routes, we certainly have the same high road in sight. I am confident that these hearings will speed our union on that high road.

Director Mueller, Deputy Secretary Dam, Under Secretary Larson, I thank you for your appearance here today.

Mr. Chairman, I thank you for my time.

Testimony of
Kenneth W. Dam
Deputy Secretary
Department of the Treasury

"Terrorist Financing: A Progress Report on Implementation of the USA PATRIOT Act"

Financial Services Committee
United States House of Representatives
September 19, 2002

Chairman Oxley, Congressman LaFalce, and distinguished members of the Committee, thank you for inviting me to testify about the implementation of the USA PATRIOT Act. In many ways, the PATRIOT Act and the regulations that we have promulgated to implement it are central to the war on terrorism. I applaud the Committee for its work in passing the Act. I look forward to continuing to work with the Committee as we further implement the Act.

Before reviewing the work we have done to implement the Act, I wish to update the Committee on the progress we are making on the financial front of the war on terrorism. Along with my testimony, I am submitting a document entitled, "Contributions by the Department of the Treasury to the Financial War on Terrorism." This document is available on our website at http://www.treas.gov/press/releases/reports/2002910184556291211.pdf.

The President has emphasized that the financial front of the war on terror is critically important to America's success in fighting terrorism. The President has directed the Secretary of the Treasury and the Department, in coordination with other departments of the federal government and with other nations, to fight this front. As Deputy Secretary of the Treasury, I ensure that the Secretary's initiatives are implemented across all the components of the Department. I also help lead National Security Council deputies committee meetings in setting strategic priorities for the financial front. Our Under Secretary for Enforcement, Jimmy Gurulé,

leads our enforcement bureaus including the United States Customs Service, the United States Secret Service, the Financial Crimes Enforcement Network (FinCEN), and the Office of Foreign Assets Control (OFAC) as in fighting terrorist financing. In addition, Under Secretary Gurulé oversees a particularly important Treasury initiative, Operation Green Quest – an interagency task force that draws upon expertise in the Customs Service, the United States Secret Service, the IRS Criminal Investigations Division, the Department of Justice, the FBI, and other agencies to investigate terrorist financing. Our Under Secretary for International Affairs, John Taylor, works, along with the State Department and the Department of Justice, to build and maintain the international coalition against terrorist financing. Our Under Secretary for Domestic Finance, Peter Fisher, works to help implement the USA PATRIOT Act, and to help protect our nation's critical financial infrastructure. And, of course, we have many, many employees who are working hard and, in some cases, putting their lives at risk to fight the financing of terror. In all of these efforts, we work closely with the State Department, the Department of Justice, and other departments. This is a team effort and our success depends on it.

ACHIEVEMENTS IN FINANCIAL ASPECTS OF U.S. ANTI-TERRORISM INITIATIVES

Our goal is straightforward. We seek to prevent terrorist attacks by: (1) disrupting terrorist finances; and (2) following financial trails to disrupt terrorists themselves.

Our first actions after the tragedy of September 11 were to identify known terrorists and terrorist entities, freeze their assets in the US, and work with our allies to extend those freezes world wide. Since September 11th, the United States and other countries have frozen more than $112 million in terrorist-related assets. More importantly, the actual amount of money blocked understates the full effect of the blocking action in that our blacking actions have effectively cut

the flow of terrorist money through funding pipelines. For example, we disrupted Al-Barakaat's worldwide network that, by some estimates, was channeling $15 to $20 million dollars a year to al Qaida. As another example, we froze the assets of the Holy Land Foundation for Relief and Development, which, as the principal U.S. fundraiser for Hamas, raised over $13 million in 2000. Where warranted, we have also unblocked funds. $350 million in Afghan government assets that were frozen in connection with the Taliban sanctions, mostly before September 11, have now been unfrozen for use by the legitimate Afghanistan government.

We have obtained strong international cooperation in this effort. All but a small handful of countries have pledged support for our efforts, over 160 countries have blocking orders in force, hundreds of accounts worth more than $70 million have been blocked abroad, and foreign law enforcement agencies have acted swiftly to shut down terrorist financing networks. The United States has often led these efforts, but there have also been important independent and shared initiatives. To cite just three examples: on March 11, 2002, the United States and Saudi Arabia jointly referred to the U.N. Sanctions Committee two branches of a charity; on April 19, 2002, the G7 jointly designated nine individuals and one entity; and, on September 6, 2002, the United States and Saudi Arabia jointly referred to the U.N. Sanctions Committee Wa'el Hamza Julaidan, an associate of Usama bin Laden and a supporter of al Qaida terror. These efforts have been bolstered by actions from the European Union, which has issued three lists of designated terrorists and terrorist groups for blocking.

In addition to these efforts, we work with countries daily to get more information about their efforts and to ensure that their cooperation is as deep as it is broad. In many cases, we provide technical assistance to countries to help them develop the legal and enforcement infrastructure they need to find and freeze terrorist assets.

We have also had success pursuing international cooperation through multilateral forums including the U.N., the G7, the G20, the Financial Action Task Force (FATF), the Egmont Group, and the international financial institutions. In particular, Treasury continues to play a strong leadership role in FATF, a 31-member organization dedicated to the international fight against money laundering. In late October 2001, the United States hosted an Extraordinary FATF Plenary session, at which FATF adopted eight Special Recommendations on Terrorist Financing. These recommendations quickly became the international standard on how countries can take steps to avoid having their financial systems abused by terrorist financiers. Many non-FATF members have committed to implement these recommendations, as well. Over 80 non-FATF members have already submitted reports to FATF assessing their compliance with these recommendations. We are continuing our work within FATF to ensure that member countries fully implement the recommendations.

We are cleaning up the financial environment generally. Hardly a week passes without news that a foreign government or bank has taken an important new step to crack down on money laundering or terrorist financing. For example, according to foreign press accounts, Thailand recently announced plans "to reduce the minimum value of transactions subject to scrutiny" by its anti-money laundering office. As another example, the foreign press recently reported that Qatar National Bank provided its entire staff with a four-day course on fighting money laundering and terrorist financing. There are scores of similar examples involving countries around the globe.

Governments are also taking steps to prevent charities from being abused by terrorists. In the United States, we have designated or blocked the assets of several U.S. and foreign charities including the Holy Land Foundation, the Afghan Support Committee, and the Pakistan and

Afghan offices of the Revival of Islamic Heritage Society. We have also blocked the financial accounts of the Benevolence International Foundation and the Global Relief Foundation pending on-going investigation of these organizations. Kuwait and Saudi Arabia have each reportedly established new supervisory authorities to better regulate charities. This work is very important. Charity is an important component of many religions, including Islam, and few acts are as reprehensible as misusing charities for terrorist purposes. We seek to ensure a regulatory climate in which donors can give to charities without fear that their donations will be misused to support terrorism.

In addition to preventing terrorists from abusing our formal financial systems, governments are taking important steps to prevent terrorists from abusing informal financial systems, including hawala (a centuries-old, trust-based method of moving money that generates little paper trail). FATF's Eight Special Recommendations require member countries to impose anti-money laundering rules on informal financial systems, including hawala dealers. As of December 31, 2001, the United States required money service businesses to register, maintain certain records, and report suspicious activity. In May 2002, the United Arab Emirates hosted an international conference where several countries agreed to improve the regulation of hawalas by, among other things, implementing the FATF Recommendations against hawalas and designating a supervising authority to enforce the rules.

These efforts are paying off. We know that al Qaida and other terrorist organizations are suffering financially as a result of our actions. We also know that potential donors are being deterred from giving money to organizations where they suspect that the money might wind up in the hands of terrorists.

Under leadership from the President, the Congress, and this Committee, we are making it increasingly difficult for terrorists to use the mainstream financial system. As a result, we believe that terrorists increasingly will attempt to finance their operations by smuggling bulk cash or other instruments. But smuggling is costly. It takes time. It is uncertain. Smuggling exposes the cash or other instruments to possible detection and seizure by the authorities. Indeed, since September 11, our Customs Service has seized over $9 million in cash being smuggled out of the United States to Middle Eastern destinations or with some other Middle Eastern connection. By making bulk cash smuggling a crime, the USA PATRIOT Act helped make these increased seizures possible.

Smuggling also exposes couriers to possible capture. This summer, Customs, United States Secret Service, and FBI agents apprehended and subsequently indicted Jordanian-born Omar Shishani in Detroit for smuggling $12 million in forged cashier's checks into the United States. The detention and arrest of Shishani are highly significant as they resulted from the Customs Service's cross-indexing of various databases, including information obtained by the U.S. military in Afghanistan. That information was entered into Customs' "watch list," which, when cross-checked against inbound flight manifests, identified Shishani.

While we have had important successes, I must tell you that we have much to do. Although we believe we have had a considerable impact on al Qaida's finances, we also believe that al Qaida's financial needs are greatly reduced. They no longer bear the expenses of supporting the Taliban government or of running training camps, for example. As I have cautioned before, we have no reason to believe that al Qaida does not have the financing it needs to conduct additional attacks.

Implementation of the USA PATRIOT Act

I wish to turn now to an update on Treasury's implementation of the money laundering and anti-terrorism provisions of Title III of the USA PATRIOT Act. We have devoted ourselves at the highest levels of Treasury to carrying out the tasks that this Committee and Congress have placed on our shoulders to improve and fortify our anti-money laundering and anti-terrorist financing regime. The provisions of the Act, and now our regulations, take aim at areas in which our financial services sector may be vulnerable to abuse. As the principal architect of these new regulations, Treasury is mindful of the need to craft rules that achieve the goals of the Act without unduly burdening legitimate business activities or our citizens' privacy.

Any discussion of Treasury's implementation of the USA PATRIOT Act would be incomplete without recognition of the assistance provided by the Federal banking agencies, the Securities and Exchange Commission, the Commodity Futures Trading Commission, and the Department of Justice. These agencies have lent their time and expertise for the common goal of protecting our financial system through intelligent regulations. Active participation by the financial services industry that will operate under our regulations, has also been essential.

Our major accomplishments over the past eleven months include:

- Together with the Federal functional regulators, issuing customer identification and verification regulations.
- Developing a proposed rule to that seeks to minimize risks presented by correspondent banking and private banking accounts.
- Expanding our basic anti-money laundering program requirement to the major financial services sectors, including insurance and unregistered investment companies, such as hedge funds.
- Developing rules to permit and facilitate the sharing of information between law enforcement and financial institutions, as well as among financial institutions themselves.

Of course, each of these accomplishments emanated from the very legislation that this Committee was instrumental in drafting.

1. Ensuring Appropriate Customer Identification and Verification of Identification.

In July, Treasury and the Federal functional regulators, jointly issued proposed rules requiring certain financial institutions to develop identification and verification procedures that enable them to form a reasonable belief as to the identity of the customer. The proposed rules apply to banking institutions, securities brokers and dealers, mutual funds, futures commission merchants, and futures introducing brokers. Just as this Committee envisioned, the proposed rules seek to make mandatory what many financial institutions are already doing—obtaining basic identifying information from customers at the time of account opening. However, the rules also maintain sufficient flexibility so as to accommodate advancing technology and the wide range of channels through which financial services are offered by these institutions, including opening accounts via the Internet. Obtaining certain information is mandatory, but the manner in which that information is obtained and verified is appropriately left to the discretion and judgment of each particular financial institution. We are continuing our work on drafting similar regulations for the remaining types of financial institutions that maintain accounts for customers.

From the outset, we recognized the potential benefits to a financial institution's identification program if it were able to reliably confirm that the customer's name matched the social security number provided at the time of account opening. The most reliable source for this information is, of course, the Social Security Administration. This spring, we reached an agreement in principle with the Social Security Administration to permit financial institutions to verify with the Social Security Administration the authenticity of the social security numbers provided by account holders. We are continuing to work out the logistical details and hope to

have this service available in the near future. However, I caution that verifying the authenticity of a social security number does not ensure that the person who provided the information is in fact that person.

2. Eliminating Risks Associated with Correspondent Banking Activities of Foreign Banks and other Foreign Financial Institutions.

Several important provisions of the USA PATRIOT Act took aim at systematically eliminating the risks that can exist when U.S. financial institutions offer correspondent accounts to foreign banks and other foreign financial institutions. Given their breadth and international focus, these provisions are some of the more significant ones in the Act.

One month after the Act became law, we issued interim guidance to financial institutions describing how they were to comply with two key provisions —the prohibition on maintaining correspondent accounts for foreign shell banks (section 313) as well as the recordkeeping provisions for foreign banks having correspondent accounts (section 319(b)). A proposed rule followed shortly thereafter. Having thoroughly reviewed public comments received and analyzed the issues presented, this week we issued a final rule implementing both provisions.

In the final rule, we have defined "correspondent account" to reflect the objectives of different provisions of the Act, as well as comments received from the private sector. With respect to the shell bank prohibition, for example, we have construed the term "correspondent account" broadly to reflect the intent of Congress to cut off unregulated "brass plate banks" from the U.S. financial system. Similarly, we determined that a broad definition of "correspondent account" was appropriate for the recordkeeping provisions of section 319(b). These recordkeeping provisions apply to correspondent accounts maintained by any foreign bank, regardless of the jurisdiction in which the foreign bank is licensed. Obtaining the basic information required by this section from all foreign banks, namely, the names of the owners of

the foreign bank and the name of a U.S. agent for service of process, serves a valuable law enforcement purpose and will assist U.S. banks and securities brokers with their anti-money laundering efforts. Further, section 319(b) also contains an important provision authorizing both the Secretary of the Treasury and the Attorney General to serve administrative subpoenas on any foreign banks with correspondent accounts in the United States. Any limitation on the definition of a correspondent account in this section would unduly limit this subpoena power.

Treasury has also issued a proposed rule that aggressively implements section 312 of the Act, a provision that takes aim at a wide array of money laundering risks associated with correspondent accounts maintained for foreign financial institutions in the United States. Additionally, both the statute and Treasury's proposed rule seek to curb potential abuses in connection with private banking accounts for foreign persons by requiring due diligence, including obtaining information on the true ownership and source of funds placed in such accounts. Recent events have demonstrated the risks posed by well-intentioned financial service professionals seeking to court and maintain wealthy foreign clients. This rule is designed to minimize those risks. Treasury's rule also includes important safeguards to prevent the proceeds of foreign official corruption from finding a home in the U.S. financial system.

After issuing this proposed rule, Treasury received extensive comments from the affected industries. While many of the issues raised will take time to analyze, the statute became effective on July 23. Accordingly, on that date we issued an interim rule that effectively tolled the application of this provision pending our issuance of a final rule for most financial institutions. However, because of the importance of this provision in protecting the financial system, we required certain financial institutions, such as banks and securities and futures

brokers, to begin conducting the type of due diligence that will eventually be incorporated into the final rule.

3. Expanding the Anti-Money Laundering Regime to All Facets of the U.S. Financial System.

A basic tenet of our anti-money laundering regime is that tainted funds will follow the path of least resistance to enter the legitimate financial system. Therefore, a comprehensive approach to minimizing money laundering and terrorist financing risks within the United States necessarily involves extending controls to the full range of financial services industries that may be susceptible to abuse. Section 352 of the Act embodies this approach by directing Treasury to expand the basic anti-money laundering program requirement to all financial institutions presenting risks of money laundering by virtue of the products or services offered. The challenge is to take the broad statutory mandate and translate that into rules applicable to each of the diverse industries defined as financial institutions under the Bank Secrecy Act.

In April, Treasury, with the assistance of the SEC, the CFTC, their respective self-regulatory organizations, and the banking regulators, issued regulations requiring firms in the major financial sectors to establish an anti-money laundering program. In addition to the banks, which already had an anti-money laundering program requirement, we covered securities brokers and dealers, futures commission merchants and introducing brokers, mutual funds, money services businesses, and operators of credit card systems. Separate rules applicable to each financial industry were drafted to ensure that the programs would be appropriately tailored to the risks posed by their operations. With the pledge that we would work diligently to complete our task, the Secretary exercised his discretion and allocated additional time for us to study the remaining industry sectors and craft regulations.

Since that time, we have regarded the business operations of the remaining financial industries in order to take banking oriented regulations and modify them to apply to these other industries. Members of the remaining financial industries have never been subject to comprehensive federal regulation of their relationships with customers, let alone anti-money laundering regulation. Additionally, the remaining categories of financial industries encompass a broad range of businesses, from sole proprietorships to large corporations, further complicating the process of drafting a regulation that does not impose an unreasonable regulatory burden. Following months of meetings with industry groups and representatives, we have virtually completed our research and are working now on the task of drafting the regulations.

This week we issued proposed rules that would require firms in certain segments of the insurance industry and certain investment companies (namely, those not registered with the Securities and Exchange Commission) to establish anti-money laundering programs. These two rules reflect the complexities of our task. For the insurance industry, after tapping the expertise of the state insurance regulators and both domestic and international law enforcement officials, we tailored the rule to those areas of the industry where the products offered are susceptible to money laundering abuse and instances of money laundering have been documented. This is primarily the life and annuity products. Also, while the insurance agent must play a vital role in any comprehensive anti-money laundering program, we expressly left the obligation on the insurance company to set up and assure implementation of the program. Upon the establishment of an effective program, the insurance company can delegate responsibilities to the agents as appropriate. With respect to investment companies, such as hedge funds, that are not registered with the SEC, with the expert guidance and assistance of the SEC and the CFTC, we specifically targeted collective investment vehicles with characteristics that make them susceptible to money

laundering. Those vehicles investing in securities, commodity futures, or real estates fall within the rule. Furthermore, to facilitate effective regulation, we are proposing to require investment companies covered by the rule to file a notice with FinCEN identifying themselves, their principal investments, and contact information. Such a notice is crucial given that many such vehicles often have offshore operations despite their marketing to U.S. investors.

Another important component of an effective anti-money laundering regime is ensuring that financial institutions report suspicious activity to FinCEN promptly. With the able assistance of the SEC and the Federal Reserve, we have successfully completed a final suspicious activity reporting rule for securities brokers and dealers, ensuring that firms in this critical financial sector has a mechanism in place for reporting suspicious activities. Similarly, we are working with the CFTC to complete a proposed rule that would require the futures industry to file suspicious activity reports, and we are working with the SEC on a rule requiring mutual funds to file suspicious activity reports. And, although not required by the Act, this week we issued a final rule requiring casinos to file suspicious activity reports. Beyond these financial institutions, we are considering whether reporting obligations should be imposed on additional financial sectors such as the insurance industry. As we gain more experience with the various financial sectors, we will be able to make an informed judgment as to the efficacy of imposing reporting requirements.

4. Facilitating the Sharing of Critical Information Relating to Money Laundering and Terrorist Financing.

Early in the implementation process, I emphasized that one of the principles that guides Treasury's implementation of Title III is honoring a central purpose of the Act to enhance coordination and information flow. To that end, this week we have issued a final rule pursuant to section 314(a) seeking to establish FinCEN as an information conduit between law

enforcement and financial institutions to facilitate the sharing and dissemination of information relating to suspected terrorists and money launderers. The system builds upon FinCEN's ongoing relationships with law enforcement, the regulators, and the financial community. We have also pledged to work going forward to provide the financial sector with additional information, such as typologies of money laundering or terrorist financing schemes and updates on the latest criminal trends.

Since March of this year, Treasury has authorized certain financial institutions to share information among themselves concerning those suspected of terrorism or money laundering pursuant to section 314(b) of the Act. Our final rule issued this week retains the central features of the prior rule, but we have expanded the scope of financial institutions eligible to share information under this provision. Also, as required by the statute, financial institutions must provide FinCEN with a yearly notice that they will be taking advantage of this provision to share information.

Further facilitating the sharing of information is FinCEN's establishment of a highly secure network to permit, among other things, the filing of required Bank Secrecy Act reports via the Internet. This system will instantaneously place important reports into the databases used by law enforcement. FinCEN has completed a successful beta test in which twenty major financial institutions volunteered to file their BSA reports using this system. Beginning October 1, once minor adjustments to the system are made, FinCEN will begin offering this optional filing method to financial institutions generally.

* * *

In summary, we have made substantial progress in implementing the USA PATRIOT Act. The Act is making a difference. Just yesterday, USA Today reported the results of a survey

of over 2,000 financial professionals. 69% of them agreed that the PATRIOT Act will prevent terrorist access to the U.S. financial system. They are right. We believe that the Act is making it increasingly difficult for terrorists to use the U.S. financial system. We are disrupting their ability to plan, operate, and execute attacks. And we are forcing them to resort to methods, such as bulk cash smuggling, that expose them to a greater risk of detection and capture.

Of course, we still have much more work to do. We will continue our efforts with the same intensity that has characterized the first eleven months. Yet as we complete our tasks in the months ahead of preparing final rules implementing these important provisions, I firmly believe that our job will have just begun. Time and experience will allow reasoned reflection on the decisions we are making today. It is incumbent upon Treasury to make adjustments to these rules when it is necessary to ensure that they continue to achieve our goals.

To that end, I am pleased to announce the creation of a new task force within Treasury, the Treasury USA PATRIOT Act Task Force. The specific mandate the task force will be to work with other financial regulators, the regulated community, law enforcement, and consumers to improve the regulations that we have already implemented. As we learn more about what works in the war on terrorist financing, we can find ways to calibrate our existing regulations both to better disrupt terrorist financing and to do so in a way that imposes the least cost on the regulated community. We look forward to working with the Committee on this project as well.

The International Dimension of Combating the Financing of Terrorism

Statement of Alan Larson
Under Secretary of State for Economic, Business and Agricultural Affairs

September 19, 2002

Chairman Oxley, Mr. LaFalce and distinguished members of the Committee: thank you for the opportunity to testify on the international dimensions of the fight against terrorist finance.

The United States is engaged in a long-term war against terrorists and terrorist organizations with global reach. I thank you for giving us the USA Patriot Act that provides additional tools for waging this war. This fight requires actions on several fronts. A critical front is the effort to disrupt the financial networks that sustain these organizations and finance their operations.

Since our enemy has global reach and is supported by a global network, we need a global strategy. The State Department has been a close partner with Treasury, our law enforcement agencies, including the Department of Justice, and our intelligence agencies as the Administration formulated and implemented a comprehensive strategy to disrupt, dismantle and shut down the financial networks that support terrorism.

The intelligence agencies, with support from other agencies including the State Department, have led the Administration's efforts to understand the system of financial backers, facilitators and intermediaries that play a role in this shadowy financial world. The Treasury Department, working with other agencies, leads the process by which we examine the actions, including but by no means limited to asset freezes and seizures, by which we can disrupt these networks. The State Department has led the interagency process through which we develop the strategies and activities to win support and cooperation from other countries. All these activities operate under the direction of a policy- level committee established under the framework of the National Security Council and chaired by the Department of the Treasury.

The International Dimension of our Strategy

My testimony will focus on the international dimension of our strategy, which includes the following main elements:

1. Establishing norms and obligations: The Administration has established a clear set of international norms, expectations and obligations, primarily through United Nations Security Council Resolutions and international conventions.

2. Raising the profile of the issue: The Administration has put fighting terrorism, including the financing of terrorism, at the top of the agenda in our relationships with other countries, international organizations and institutions like the G7/G8.
3. Blocking assets: The Administration has worked with other countries to block the assets of terrorists and terrorist organizations.
4. Financial Action Task Force (FATF), the OAS, APEC and the OSCE: Treasury and State have broadened the scope of FATF, the world's leading organization to combat money laundering, to include in its mandate action against the financing of terrorism. The Administration is working with international organizations to insert the issue of terrorist finance into their work plans in ways that complement the FATF's leadership in setting standards on this issue.
5. Law enforcement: We are working on many fronts to strengthen law enforcement cooperation on issues related to terrorist finance.
6. Technical assistance: We are extending training and technical assistance to other countries that have the will, but not always the capacity, to act against terrorist finance.

As I will detail, we have made considerable progress during the past year in winning practical support from other countries and international organizations. We have frozen significant amounts of terrorist funds. Today, it is much harder today for terrorists to raise and move money. Many who formerly provided financial support for terrorism seem to have backed away. Some facilitators have been arrested or captured. The international banking system no longer is a system that terrorists can safely use.

As I also will discuss, there is much more to be done. As formal financial systems are purged of terrorist finance, terrorists naturally are inclined to resort to other, more costly, but still serviceable mechanisms for moving resources. We are working with other countries to ensure that funds donated for worthy charitable purposes are not diverted to evil terrorist practices. In some countries we have not yet succeeded in discrediting prominent personalities who espouse popular causes while secretly fostering terrorist activity.

President Bush repeatedly has reminded us that the war against terrorism will be long and difficult and will require patience and persistence. The financial dimension of this war is no different. We have had some well-publicized successes, as well as other successes that, for the moment, are best not discussed. We have degraded, but by no means destroyed, the ability of terrorist groups to raise and move financial resources. We must stick with it.

Major Activities and Achievements of the Past Year

The United Nations has played a key role in our global strategy. Ambassador Negroponte moved quickly in the UN Security Council to establish a broad framework of commitments among countries. The Security Council has adopted two resolutions, both

of which create obligations that are binding upon Member States in accordance with Chapter VII of the UN Charter. UN Security Council Resolution (UNSCR) 1390 is targeted at Usama bin Laden, members of al Qaida and the Taliban. UNSCR 1373 is aimed at worldwide terrorism in general.

Resolutions are good but implementation is vital. That is why we are working closely with the UN Counter-terrorism committee, which was established by UNSCR 1373, to review the measures taken under the resolution and to assist in the coordination of technical assistance provided to states to help them meet their commitments under the Resolution. We also are working closely with the UN Sanctions Committee established by UNSCR 1267. (UNSCR 1267 was adopted on October 15, 1999, and targeted the Taliban by freezing its funds and other financial resources and those of any entity owned or controlled by it.) The 1267 Sanctions Committee is currently working to implement the sanctions imposed by UNSCRs 1267 and 1390 on the Taliban, Usama bin Laden, the Al Qaida organization, and those linked or associated with them. In this Committee, we consolidate the names of all individuals and entities whose assets UN member states are required to freeze pursuant to resolutions 1267 and 1390.

The 1267 sanctions committee is a very useful mechanism for internationalizing financial or asset freezes against the Taliban, Usama bin Laden, Al Qaida and those linked or associated with them, because all UN member states are obliged to enforce the UNSCR freezes. The names of targeted individuals and entities are submitted to the 1267 sanctions committee for inclusion in the committee's consolidated list. Once the names are on that list, all member states are required to take action against them.

We also have urged other countries to become signatories as soon as possible to the twelve UN conventions and protocols related to terrorism, especially the International Convention for the Suppression of the Financing of Terrorism. Before September 11, 2001, only two countires had become parties to all twelve instruments. Today sixteen countries, including the United States, are a party to each of the twelve conventions and protocols. Forty-four (44) countries have become a party to the Convention on the Suppression of the Financing of Terrorism.

During the past year President Bush, Secretary Powell and Secretary O'Neill have put the fight against terrorism, including the financial dimension of that fight, at the top of each of our international relationships. For example:

- The European Union has worked with us to ensure that nearly every terrorist individual and entity designated by the United States has also been designated by the European Union. Recently the EU took action against the al-Aqsa Martyrs Brigade, a group that has taken responsibility for a number of cowardly suicide bombings in Israel. The Dutch Government recently took rapid and effective action against the financial assets of the "New Peoples Army" and its leader Jose Sison, the group and leader known to be responsible for the killing of American citizens in the Philippines. On August 29, the Government of Italy joined the United States in submitting to the

United Nations the names of twenty-five individuals and companies linked to al-Qaida, so that their assets would be frozen worldwide.

- The G7/G8 has served as an informal task force of like-minded countries on combating terrorist finance. In June, G8 Foreign Ministers endorsed a revised set of recommendations on counter terrorism. (Section 5 addressed the financing of terrorism.) The G8's endorsement included a commitment to full implementation of UNSCR 1373 and the FATF special recommendations on terrorist financing. The G8 also committed to practical measures, such as removing legal obstacles to effective common action, moving beyond freezing to forfeiture of terrorist assets, facilitating the traceability of terrorist funds and ensuring that mutual legal assistance is not refused on the ground of bank secrecy. In April the G7 countries jointly submitted a list of ten names to the UN so that the assets of those individuals would be frozen worldwide.

- Recently we joined with the governments of Kyrgyzstan, Afghanistan and China in submitting the Eastern Turkestan Islamic Movement to the United Nations for inclusion on its list of terrorist individuals and organizations associated with al-Qaida, an important step toward greater cooperation on terrorist financing in Central Asia.

I would like to underscore the efforts we have made with friendly countries in the Near East. Drawing on the counsel of our Ambassadors and embassies in the field, we have worked closely to get effective actions to close down funding for terrorists. For example:

- The United Arab Emirates, Bahrain, Egypt and Qatar have passed anti-money laundering legislation.
- All member countries of the Gulf Cooperation Council have increased oversight of their banking systems.
- Kuwait and Saudi Arabia have worked with us to devise ways to prevent the misuse and abuse of charities for terrorist purposes. Both countries are setting up government entities to oversee charities.
- Earlier this month Saudi Arabia joined the United States in submitting to the United Nations the name of a Saudi supporter of al-Qaida, so that his assets would be frozen worldwide.

We also are working through a number of multilateral institutions to promote concerted action on terrorist finance. For example:

- FATF, a group of 29 countries devoted to combating money laundering, has adopted eight special recommendations on combating terrorist finance. FATF is monitoring compliance with its recommendations, has invited members as well as non-members to respond to a questionnaire on these recommendations and, in coordination with the UN Counter-terrorism Committee, is assessing these countries' needs for technical assistance.
- In the Organization of American States, we have secured adoption of the Inter-American Convention against Terrorism. This Convention requires, among other

things, that each signatory State establish a legal and regulatory regime to combat the financing of terrorism. Parties also agreed to improve controls at banks and other financial institutions and to establish financial intelligence units.

- In the Asia-Pacific region, we are working with multilateral entities such as the Asia Pacific Economic Cooperation (APEC) group, ASEAN, the ASEAN Regional Forum and the Asia Pacific Group on Money Laundering to establish regulatory regimes consistent with its member countries' obligations under UNSC Resolution 1373. The goals are to set up Financial Intelligence Units, advance implementation of FATF's eight recommendations to combat terrorist finance, set new norms to prevent abuse of alternative remittance systems, and train officials and bankers to effectively implement these initiatives. APEC Finance Ministers meeting in early September adopted an ambitious anti-terrorist finance action plan. It includes tackling head-on the difficult issue of regulating hawalas and other alternative remittance systems. The President will raise cooperation on halting terrorist financing when he meets with 20 Asia Pacific Leaders in Mexico in late October.
- The Organization for Security and Cooperation in Europe (OSCE) has incorporated terrorism finance into its work plan and agenda as well. OSCE specifically focused on this issue at its February Global Forum in Hong Kong, its May meeting in Prague and its June meeting in Lisbon. The OSCE agreed that it would urge its members to implement the eight FATF special recommendations on terrorist financing, and reports good success in this effort. Progress by member and non-member states will be the focus of the October FATF plenary in Paris in October.

The Department of State has taken a major role in implementing the USA PATRIOT Act, which includes a wide variety of provisions designed to combat terrorism and money laundering and to enhance border security. For example,

- The Act authorizes the Secretary of State, in consultation with the Attorney General, to designate an organization as a terrorist organization for immigration purposes, if it meets the Act's criteria. Individuals associated with any organization so designated are inadmissible to the U.S.

- Such designated organizations are kept on the so-called "terrorist exclusion list" or TEL list. The TEL list is a critical tool for U.S. law enforcement agencies as they seek to bolster homeland security. We have already identified 39 organizations under this authority and will continue to expand the list as we identify and confirm additional entities that give support to terrorists.

- Since enactment of the USA PATRIOT Act, which for the first time provided the State Department with access to data from the National Crime Information Center (NCIC), the Department has incorporated approximately 8 million NCIC records into the visa lookout database, a number which continues to grow as additional information is received.

- The Secretary of State has also established pursuant to his authorities under the USA Patriot Act a money-laundering watch list, which identifies individuals worldwide

who are known or suspected of money laundering. This list is readily accessible and is checked by a consular or other Federal official before the issuance of a visa or admission to the United States.

With respect to the subject of today's hearing – the financing of terrorism – we also are cooperating with other agencies of the U.S. government and with many states on law enforcement issues related to terrorist finance. The Secretary of the Treasury and the Attorney General each has the authority for implementing many provisions in Title III of the USA Patriot Act that are designed to combat money laundering and the financing of terrorism. As the Act requires, the Department of State has consulted closely with the Secretary of the Treasury and the Attorney General, as appropriate, in implementing the Act, and works closely with those agencies to implement the Act's provisions. For example:

- The State Department consulted closely with the Justice Department in its first use of the correspondent bank account provisions of the USA PATRIOT Act to obtain assets in Belize of almost $1.7 million in proceeds of crimes related to money laundering and mail and wire fraud. Since then, the Department has consulted with the Justice Department in other uses of the correspondent bank account provisions.

Some countries that want to help in our efforts to combat terrorist financing lack the capacity to do so. Therefore, we have worked hard to build-up their capacity to do so through a variety of efforts.

- Through our technical assistance and capacity-building programs, we have identified and continue to find important vulnerabilities to terrorist financing, such as the lack of capacity in other countries to prohibit financial transactions with terrorist entities. We are working with our partners to redress these vulnerabilities. We are also integrating the lessons learned into training programs for relevant US agencies. I won't go into details since, for operational and investigative reasons, most of the details about vulnerabilities remain sensitive.

- These training and technical assistance programs are critical to the success of our efforts to combat terrorism financing worldwide, since many countries have the will to assist but lack the means or experience to do so.

- Our success in this arena cannot be measured solely through the number of assets or accounts frozen, but also must include the results of a range of efforts we have made and are making in combating terrorist financing. These include our intelligence efforts, our diplomacy both bilateral and multilateral, and our efforts to give technical and other help and support to other countries.

Moving to the Next Level

In the year ahead we will need to continue to implement the international strategies outlined above. We will also need to intensify our efforts in certain areas. In this regard,

I would like to highlight three areas: informal financial networks; charities and technical assistance.

As we close down access for terrorists to formal financial systems, we will need to strengthen our ability to monitor, disrupt and shut down less formal networks. We understand the threat posed by informal value transfer systems. Often these transactions are traditional and are intertwined with legitimate commerce, like wage remittances, through systems such as hawala. But such techniques of transferring value lend themselves to use in smuggling, corruption and narcotics trafficking, money laundering and, now, terrorist financing.

While there is no easy answer to the threat posed by informal value transfer systems, we are taking steps. Our embassies and consulates are reporting with details on these systems and discussing with foreign governments ways to address the problem. In cooperation with the U.S. Customs Service we are considering training and technical assistance programs that might be appropriate.

As noted earlier, the United States has taken action against charities that have allowed funds to be diverted to terrorist purposes. A number of governments are taking steps to exercise greater surveillance of charities. We will continue to block the assets and work with our allies to block the assets of charities that divert funds to terrorist purposes, especially when it is clear that there is witting complicity on the part of the charities' leaders.

At the same time, it is important that our work on charities not leave the impression that we are indifferent to the plight of poor people that legitimate Islamic charities assist. Americans citizens are the most generous supporters of charities in the world and we therefore respect organizations that raise funds here in the United States and in other countries for charitable purposes. What is important is to ensure that there is effective oversight on how such funds are used. Further work on this subject is a top priority.

As we move forward with refined strategies, it is likely that the role of technical assistance and training will grow. Coordination is always a challenge, even within a single government, and it becomes even more of a challenge when several countries or organizations are involved. In the past year the United States, rightly in my view, put the greatest priority on moving quickly. In the next year I believe we will need to do more to develop improved training programs, establish clear benchmarks, exchange information on best practices and ensure that countries committed to the fight against the financing of terrorism get the help they need.

Mr. Chairman, you can see from this short summary that cutting off terrorist financing is an immensely complicated process. We welcome the strong support of the Congress as we confront this challenge.

Statement for the Record of

Robert S. Mueller, III
Director
Federal Bureau of Investigation

before the

Committee on Financial Services
United States House of Representatives

September 19, 2002

Introduction

Good morning, Chairman Oxley, Congressman LaFalce, and members of the Committee. I appreciate this opportunity to discuss the work of the Terrorism Financial Review Group and our use of the provisions contained in Title III of the USA PATRIOT Act, also known as the International Money Laundering and Anti-Terrorist Financing Act of 2001.

I would like to thank the members of this Committee, and this Congress, for your prompt and comprehensive response to the terrorist threat we face. I would also like to thank the Treasury Department and Secretary O'Neil for their crucial assistance in this endeavor. The USA PATRIOT Act provided law enforcement powerful tools to carry out our mission. As we use these tools in an aggressive and responsible manner, the Act will significantly help us achieve our overarching goal - to prevent future acts of terrorism.

As you know, civilized countries face grave threats from terrorists. As the President stated, the war on terrorism is a long-term battle. It will not be won overnight nor without the extraordinary cooperation and coordination among law enforcement and intelligence agencies around the globe. Terrorism knows no borders. The threat is not limited to any one region of the world. Creating an alliance between law enforcement and

intelligence agencies is the key to dismantling terrorist organizations and eliminating the threat they pose.

Terrorists do not play by the rules of a civilized society. Fighting the war on terrorism requires new and formidable tools and a multi-agency approach. After 9/11, more than one-half of our Agents were assigned to identify the hijackers and their international sponsors and, with other agencies, prevent the next attack. Today, the number of FBI Agents assigned to combating terrorism is twice the number of our pre-9/11 commitment. We will apply to prevention whatever level of resources is necessary to address this threat. In addition, 9/11 has triggered a wide range of organizational and operational changes within the FBI.

The Terrorism Financial Review Group (TFRG)

To illustrate how these anti-money laundering provisions aid our efforts, it is necessary to understand how the FBI has been re-structured to address terrorist financing matters. Identifying and tracking the financial structure supporting terrorist groups is critical to dismantling the organization and preventing future attacks. As in ordinary criminal investigations, "following the money" identifies, links, and develops evidence against those involved in criminal activity . In the early stages of the investigation into the events of September 11, it was financial evidence that quickly established links between the hijackers and identified co-conspirators.

It was also in the early stages of the 9/11 investigation that the FBI and DOJ identified a critical need for a more comprehensive, centralized approach to terrorist financial matters. In response, we established an interagency Terrorism Financial Review Group (TFRG) operating out of FBI Headquarters. By bringing together vast databases and the expertise of numerous federal agencies, the TFRG focuses a powerful array of resources on the financial tentacles of terrorist organizations.

After September 11th, the FBI and CIA quickly combined their resources to investigate terrorist funding mechanisms, including the exchange of personnel between the TFRG and the CIA Counterterrorism Center (CTC). In addition, at my request, the CIA generously agreed to detail a number of its analysts to the FBI Counterterrorism Division to help develop more effective analytical processes. I firmly believe the relationship

and information sharing with the CIA is at an unparalleled level and will continue to pay dividends in our common mission. Information sharing has also been facilitated by PATRIOT Act provisions that permit the FBI to disclose foreign intelligence information, including information obtained through FISA, to intelligence agencies.

The TFRG was formed with a two-fold mission. First, it was designed to conduct a comprehensive financial analysis of the 19 hijackers to link them together and to identify their financial support structure within the United States and abroad. Second, it was designed as a template for preventive and predictive terrorist financial investigations. The mission of the TFRG has since evolved into a broader effort to identify, investigate, prosecute, disrupt, and dismantle all terrorist-related financial and fund-raising activities.

The TFRG has taken a leadership role in coordinating the financial investigative effort, and it is a comprehensive one. To accomplish this mission, it has implemented initiatives to address all aspects of terrorist financing. For instance, it:

- conducts full financial analyses of terrorist suspects and their global financial support structures;
- coordinates liaison and outreach efforts to exploit financial resources of private, government and foreign entities;
- uses FBI and Legat expertise and relationships to develop financial information from foreign law enforcement and private agencies;
- works jointly with the law enforcement, regulatory, and intelligence communities;
- develops predictive models and mines data to proactively identify terrorist suspects, and;
- provides the financial component to classified counterterrorism investigations in support of the FBI's counterterrorism

responsibilities.

The TFRG has conducted an aggressive international outreach program to share information regarding terrorist financing methods with the financial community and law enforcement, and has built upon long-established relationships with the financial services community in the United States and abroad. The international outreach initiative is coordinated through the network of FBI Legal Attache Offices located in 44 key cities worldwide, providing coverage for more than 200 countries and territories.

A significant focus of the TFRG is prediction and prevention. It has developed numerous data mining projects to provide further predictive abilities and maximize the use of both public and private database information. These efforts are complemented by the centralized terrorist financial database which the TFRG developed. This information is used to identify terrorist cells operating in the United States and abroad to prevent further terrorist acts. Indeed, the TFRG meets regularly with representatives from the banking community and the financial services industry to share information and to refine methods to detect and identify potential terrorists around the world.

The TFRG created and updates a financial control list which contains names and identifying data for individuals under investigation for potential links to terrorist organizations. These lists are regularly shared with domestic and international law enforcement and intelligence agencies, and with the Federal Reserve Board (FRB), which disseminates the lists to financial institutions so they can flag suspicious financial activity.

As a participant on the National Security Council's Policy Coordinating Committee (PCC) on terrorist finance, the TFRG leads the effort to target Non-Governmental Organizations believed to provide financial support to known Foreign Terrorist Organizations and affiliated terrorist cells. The PCC coordinates the development and implementation of policies to combat terrorist financing and provides analysis on these issues. Numerous FBI Field Offices have open investigations into organizations that may be funneling money to Foreign Terrorist Organizations and the TFRG has acted as a clearinghouse for these cases, gathering and summarizing

data.

The TFRG regularly shares information with the Joint Terrorist Tracking Task Forces, Customs' Operation Green Quest (TFRG provides daily downloads from its RAID database to Green Quest), and FinCEN. Further, the TFRG is working with FinCEN to explore new ways to data mine the Suspicious Activity Report (SAR), Currency Transaction Report (CTR), and Currency and Monetary Instrument Report (CMIR) databases.

Based on its international investigative abilities, and its close association with the Intelligence Community, the TFRG is in a unique position to coordinate anti-terrorism financial investigations and to ensure those investigations are coordinated with the goals and objectives of our Counterterrorism program.

Use of the USA PATRIOT Act

Terrorist financing methods range from the highly sophisticated to the most basic. Traditionally, their efforts have been aided considerably by the use of correspondent bank accounts, private banking accounts, offshore shell banks, bulk cash smuggling, identity theft, credit card fraud, and other criminal operations. Informal Value Transfer Systems, such as "Hawalas," also present problems for law enforcement. They permit terrorists a means of transferring funds that is difficult to detect and trace. These informal systems are particularly prevalent in mostly "cash" societies such as Pakistan, Afghanistan, and the Phillippines. However, provisions of the USA PATRIOT Act will significantly erode the effectiveness of such methods. The Act establishes stricter rules for correspondent bank accounts, requires securities brokers and dealers to file SARs, and certain cash businesses to register with FinCEN and file SARs for a wider range of financial transactions.

The Act contains many other provisions I believe will considerably aid our efforts to address terrorist financing. These include the authority to seize terrorist assets, and the addition of terrorism and other offenses to the list of racketeering offenses. The Act also enables prosecutors to seize money subject to forfeiture in a foreign bank account by authorizing the seizure of a foreign bank's funds held in a U.S. correspondent account.

Other important provisions expand the ability to prosecute unlicensed money transmitters, allow law enforcement faster access to reports of currency transactions in excess of $10,000, and provide authority for the service of administrative subpoenas on foreign banks concerning records of foreign transactions. This latter provision allows law enforcement to obtain critical information in an investigation on a more timely basis than was possible before. In counterterrorism investigations, of course, speed is of the essence because prevention is the goal.

Section 362 of the PATRIOT Act mandates that FinCEN establish a highly secure network to 1) allow financial institutions to file SARs and CTRs on-line, and 2) "provide financial institutions with alerts and other information regarding suspicious activities that warrant immediate and enhanced scrutiny." FinCEN has developed the PATRIOT Act Communication System (PACS) to meet this mandate and is implementing the system. This will be a valuable tool for law enforcement, but it will require the full cooperation of private financial institutions. The TFRG has worked with financial institutions, and has provided to them information to help detect patterns of activity possibly associated with terrorist activity. I am confident that the PACS will help considerably in these efforts.

While I am optimistic the PATRIOT Act will help, it is too early to judge its full effect. We continue to digest its provisions, develop guidelines and protocols for its appropriate use, and educate investigators and prosecutors. In addition, many of its provisions require the Department of the Treasury to issue new regulations -- regulations which it is still working expeditiously to promulgate.

Additional Legislative Needs

The Committee indicated an interest in recommendations the FBI has regarding additional legislative measures to advance the financial war against terrorism. In September 2001, the Department of Justice submitted the proposed "Money Laundering Act of 2001" to Congress. The FBI concurs with the recommendations made by the DOJ, which is in the best position to address these issues, and would also urge you to consider them. I would like to summarize these recommendations and proposals.

The foremost problem we face regarding the recovery of criminal proceeds in terrorism cases, as well as those involving corporate fraud, is the inability to freeze assets pending trial. In both criminal and civil cases, with a limited exception, pre-trial restraining orders are limited to property directly traceable to the offense. Post-conviction, the court can enter an order permitting the confiscation of an amount of money equal to what the defendant obtained by committing the offense, but by that time the money we hope to recover - and return to the victims - is often gone.

These strict tracing requirements serve little purpose. Many common law countries permit the pre-trial restraint of property that will be subject to forfeiture without requiring strict tracing of the funds to the underlying crime. It is important to the success of our efforts against the economic underpinnings of crime that we be able to do the same. Simply put, if the property can be confiscated after the conviction, it should be frozen prior to a conviction. Thus, the criminal forfeiture laws should be amended to allow the pre-trial restraint of all forfeiture assets without requiring strict tracing to the offense, and the civil forfeiture laws should be amended to treat all electronic funds - as well as diamonds, gold and other precious metals - as fungible property for the period of the applicable statute of limitations.

We also need to address the clandestine movement of cash that represents the proceeds of crime or that will be used to finance a future criminal or terrorist act. Section 371 of the PATRIOT Act created a new offense of bulk cash smuggling that makes it illegal to knowingly conceal more than $10,000 in currency and attempt to transport it into or out of the United States with the intent to evade currency reporting requirements. However, it is not an offense for a money courier to transport bulk currency in a vehicle inside the country, even if the funds represent criminal proceeds. Moreover, terrorists engage in what amounts to "reverse" money laundering, in which they transport large quantities of cash that is not derived from any illegal source but which is intended to be used to finance a terrorist act or to commit another crime. The DOJ proposed to make it illegal to transport more than $10,000 in currency concealed in a vehicle traveling in interstate commerce, knowing that the currency was derived from some kind of criminal activity or knowing that the currency was intended to be used to promote such activity. I support this, too.

The DOJ noted gaps in our ability to seize proceeds resulting from foreign crimes as well as our ability to restrain the funds, even temporarily, of criminals arrested in the United States. Under current law, only a limited number of foreign crimes are specified unlawful activities. This enables foreign criminals to launder the proceeds of many foreign crimes in the United States without providing us the ability to prosecute and seize those funds for forfeiture. We similarly lack authority to temporarily restrain funds in a U.S. bank account of an international terrorist arrested in the United States to determine whether such funds were connected to illegal activity.

Conclusion

The PATRIOT Act is an important and necessary fix and its passage was a remarkable achievement. The Act will make --and has made-- a difference. It enhances the ability of law enforcement and intelligence agencies to achieve our common goal of preventing acts of terrorism, without compromising the civil liberties and Constitutional protections enjoyed by our citizens. The PATRIOT Act is a shining example of this Committee's devotion to that endeavor and I thank you for your support.

I am proud to lead the premier law enforcement agency in the world . We take great pride in what we do, and the quality of the work performed by the men and women of the FBI is remarkable. Of course, there is always room for improvement and we welcome your guidance.

Thank you for this opportunity to appear today. I look forward to working together in the war against terrorism. I welcome any questions you have.

THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON

January 14, 2003

The Honorable Michael G. Oxley
Chairman
Committee on Financial Services
United States House of Representatives
Washington, D.C. 20515

Dear Chairman Oxley:

I am pleased to submit the following responses for the record following my September 19, 2002, testimony before the House Committee on Financial Services concerning the implementation of the USA PATRIOT Act ("the Act"). I look forward to continuing to work with the Committee on these and other issues.

1. Do you intend to mandate the collection of Social Security numbers (SSNs) as part of any rules yet to be proposed or issued under the USA PATRIOT Act?

Treasury proposed rules for certain financial institutions, pursuant to section 326 of the Act. Those proposed rules would establish an affirmative legal obligation for certain financial institutions to collect a taxpayer identification number for all U.S. citizens establishing a new account. For individuals, this may often, but not necessarily, be a SSN.

The collection of SSNs is already the norm among financial institutions. The reasons vary, but are often tied to an Internal Revenue Code requirement mandating that financial institutions report to the IRS any interest, dividends, or similar income derived from an account. In addition, financial institutions often find it useful to assign a unique identifier to a particular customer. For example, credit bureaus routinely use the SSN as an identifying number. Similarly, law enforcement bureaus often use SSNs as an identifier, adding to the utility of collecting the SSNs.

We are in the midst of deliberations that will result in the promulgation of a final rule for section 326 and are, therefore, precluded from providing information at this time regarding the final rule to be issued. We would, of course, be pleased to brief your staff regarding the final rule, once it is issued.

2. If you intend to do so, please explain why, and discuss your consideration of impacts on commerce, including Internet commerce, effectiveness in confirming identity and preventing identity theft, particularly on the Internet, and availability of alternative methods of identity verification.

Before we promulgated the proposed rule under section 326, we examined the use of taxpayer identification numbers, including SSNs, and concluded that a proposal for financial institutions to collect taxpayer identification numbers was reasonable because it

could help the institutions to identify the customer and these institutions already routinely collect this information. Because SSNs or some other taxpayer identification number are already routinely collected, a requirement that financial institutions collect a taxpayer identification number would have a negligible effect on commerce.

We have consistently made clear that a SSN matching an individual's name, by itself, is only one of many ways that can be employed to establish a customer's identity. Furthermore, since many people change their names, through marriage or otherwise, the lack of a name and number match does not necessarily mean that customers are someone other than who they claim to be. Similarly, SSNs are often illegally acquired by criminals to perpetrate illegal activity. A match is not necessarily conclusive as to the verification of an identity.

The proposed section 326 regulation reflects this fact and underscores that there are many ways to verify identity. The rule will not detract from existing methods employed by financial institutions to verify identification. At many smaller financial institutions and securities brokers, the teller or broker will have direct, personal knowledge of the institution's customers that can be relied upon when attempting to determine identity. At larger institutions, and institutions that engage in the remote provision of financial services, personal knowledge of a customer is typically unavailable. These institutions generally rely on automated methods of identity verification, which are based on a customer's personal data. Such data could include address, occupation, date of birth, etc. All such data, including a SSN, can be used to verify an identity.

Finally, we believe that the collection of SSNs under the proposed 326 regulation would not have an adverse impact on the incidence of identity theft through the misuse of SSNs. As we noted above, financial institutions already collect SSN information for other purposes. Therefore, the proposed 326 regulation is expected to impose neither an unnecessary or greater burden on financial institutions nor will the proposal result in an increase in the likelihood of misuse. Indeed, the proposed regulation may help prevent identity theft by imposing limitations on the universe of persons at financial institutions who would have access to the SSN information, and by building in a series of checks, in addition to a SSN and name match to confirm an individual's identity.

3. You testified that the Treasury is "continuing to work out the logistical details" of letting financial institutions verify the authenticity of SSNs with the Social Security Administration. Please expand on this point, and provide an estimate of when an agreement may be reached.

The logistical issues surrounding the ability of financial institutions to verify the authenticity of SSNs with the Social Security Administration relate primarily to billing and software development issues. Tens of thousands of financial institutions would be likely to use a system that could confirm whether a particular given SSN and name actually match. One model would be to establish a fee-based system whereby institutions pay for each query of the Social Security Administration database. Each institution would be billed for its actual use of the match system. Smaller institutions would not be

charged the same flat fee as larger institutions and would thus be encouraged to use the match system. Administrative and overhead costs to oversee this billing process would be incurred.

The financial services industry has expressed interest in establishing a private sector billing entity to provide this service. This billing entity would be funded by the financial institutions that choose to use the service and would be established collectively by the financial institutions. We are currently considering this issue both internally and in conjunction with the Social Security Administration.

A second logistical issue involves the need for new software to be created. A verification system using SSNs must enable a match between a name and a SSN to occur in a highly secure manner, while limiting that connectivity to only authorized financial institutions. New software will have to be developed to ensure that each financial institution is able to interface with the matching system while simultaneously ensuring proper limits and access to the SSN verification system.

We are working with the Social Security Administration to address these important issues. We do not know how long this process will take because resolution of these issues is likely also to require the active participation of the financial services sector. However, we will keep you advised of our progress.

Sincerely,

Kenneth W. Dam

cc: The Honorable Barney Frank

Contributions by the Department of the Treasury to the Financial War on Terrorism

Fact Sheet

United States Treasury Department

September 2002

"This morning, a major thrust of our war on terrorism began with the stroke of a pen. Today, we have launched a strike on the financial foundation of the global terror network... we will direct every resource at our command to win the war against terrorists: every means of diplomacy, every tool of intelligence, every instrument of law enforcement, every financial influence. We will starve the terrorists of funding, turn them against each other, rout them out of their safe hiding places and bring them to justice."

President George W. Bush
September 24, 2001
Announcing Executive Order 13224

"If you have any involvement in the financing of the al Qaida organization, you have two choices: cooperate in this fight, or we will freeze your U.S. assets; we will punish you for providing the resources that make these evil acts possible. We will succeed in starving the terrorists of funding and shutting down the institutions that support or facilitate terrorism."

Treasury Secretary Paul O'Neill
September 24, 2001

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3. **USA PATRIOT ACT**
This legislation, signed into law by President Bush on October 26, 2001 contained new tools to enhance our ability to combat the financing of terrorism and money laundering.

4. **Charities**
Charities across the nation do important work, making a difference in the lives of millions of people. Americans and others around the world donate hundreds of billions to charity, with humanitarian intent. They deserve to know that protections are in place to assure that their contributions do good work. Unfortunately, some charities have been abused by those who finance terror, through schemes to siphon money away from humanitarian purposes and funnel it to terrorism.

5. **Hawalas**
The word "hawala," meaning "trust" refers to informal money or value transfer systems or networks outside the formal financial sector. Hawala provides a fast and cost-effective method for worldwide remittance of money or value, particularly for persons who may not have access to the financial sector. Due to the lack of transparency in hawala and other alternative remittance systems, there is substantial potential for abuse.

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Domestic law enforcement agencies – many within the U.S. Treasury – have mobilized to identify terrorists networks and starve terrorists of money.

EXECUTIVE SUMMARY

One year ago, terrorists struck our nation with unforeseen guile and unprecedented consequences – unprecedented consequence for Americans and our way of life. In turn we have taken unprecedented actions to dismantle terrorist networks. Under the leadership of President Bush, Americans have rallied to the war on terror, and we have struck back on every front: military, political, and financial, even as we have strengthened our homeland defenses against future attacks.

The Department of the Treasury - in coordination with the Departments of Justice and State - leads an interagency effort to disrupt and dismantle terrorist financing.[1] No less than the military campaign, the financial war has required careful planning, domestic and international coalition-building, and decisive execution. And as with the military campaign, we have achieved results.

As a necessary first step in leading the financial war against terrorism, we have developed and published a comprehensive strategy to identify, disrupt and dismantle terrorist financing networks. This strategy is three-fold. First, we are applying technology, intelligence, investigation, and regulations to locate and freeze the assets of terrorists, wherever they may hide. New powers granted by the President and Congress have enabled us to scour the world financial system for suspicious activities with greater precision than ever before.

Second, we are attacking terrorist financial infrastructures – their formal and underground methods for transferring funds across borders and between cells, whether through banks, businesses, hawalas, subverted charities, or innumerable other means. Our approach is to deny terrorists access to the world's formal financial infrastructure and use the money trail to locate and apprehend terrorists.

Third, we are using diplomatic resources and regional and multilateral engagements to ensure international cooperation, collaboration and capability in dismantling terrorist financing networks.

The war on terrorist financing is an immense undertaking. The openness of our modern financial system, which allows savers and investors to fuel economic growth, also creates opportunities for terrorist parasites to hide in the shadows. Our challenge in this front of the war is to protect the freedom and flexibility the world's financial systems while driving our enemies into the sunlight, where we and our allies can sweep them up. We have enjoyed success, but much more remains to be done.

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[1] This fact sheet highlights the Treasury Department's efforts against terrorist financing over the past twelve months since September 11, 2001. This is not intended to document all United States Government activity on the financial front on the war on terrorism. The activities of other areas within the U.S. government – specifically the intelligence community, the military community, the diplomatic community and the non-Treasury law enforcement community - are not detailed here.

The United States took six principal steps in the fall of 2001 to pursue financial underwriters of terrorism:

1. President Bush signed Executive Order 13224 giving the United States greater power to freeze terrorist-related assets;
2. The United States won the adoption of UN Security Council Resolutions 1373 and 1390, which require member nations to join in the effort to disrupt terrorist financing;
3. We are implementing the USA PATRIOT Act to broaden and deepen information sharing and the regulatory net for our financial system;
4. We are engaging multilateral institutions such as the Financial Action Task Force and the international financial institutions (IFIs) to focus on terrorist financing;
5. We established Operation Green Quest – an inter-agency task force which has augmented existing counter-terrorist efforts by bringing the full scope of the government's financial expertise to bear against systems, individuals, and organizations that serve as sources of terrorist funding; and
6. We are sharing information across the federal government, with the private sector, and among our allies to crack down on terrorist financiers.

The President's Executive Order 13224 explicitly targets terrorist financing and casts a global net over the fundraisers, donors, transfer agents and bankers of terror. It subjects managers and fiduciaries of nongovernmental organizations, foreign financial institutions and donors to economic sanctions if they support terrorism.

The UN Security Council Resolutions amplify the effect of the President's Executive Order. The resolutions -- 1373 and 1390 -- direct member states to criminalize terrorist financing and to adopt regulatory regimes intended to detect, deter and freeze terrorist funds. The UN actions have been critical to winning support for our campaign, and they have been essential tools for building the international coalition against terrorist financing.

International alliances against terrorism are crucial, because the overwhelming bulk of terrorist assets, cash flows, and evidence lie outside our borders. We are working strategically with allies around the world to address regional threats: we have recently submitted names to the UN jointly with Italy, Saudi Arabia, China, and central Asian states. To augment our allies' good intentions and capabilities, we are providing technical assistance to many Persian Gulf, African, South American and Southeast Asian countries. Our assistance allows them to accomplish their goals for neutralizing those who support terror.

We are reaching out to other international organizations, such as the Financial Action Task Force (FATF), an international body created to fight money laundering, to impact terrorist financing. FATF adopted eight principles of conduct specifically directed at terrorist financing – eight special recommendations that all member nations have endorsed and moved to implement. The US Treasury Department has also prompted the G-7, the G-20, the IMF and the World Bank to take actions, enlisting their member nations in the comprehensive program against terror.

Domestically, the enactment of the USA Patriot Act has provided several tools for the financial front of the war. The Patriot Act imposes responsibilities for opening and monitoring bank accounts, permits information sharing within the government and among financial institutions,

bars transactions with shell banks, requires information from foreign financial institutions, protects sensitive evidence from disclosure, and expands the industry sectors subject to rigorous anti-money laundering and terrorist financing compliance programs. The Patriot Act also encourages partnerships between the government and the private sector. Treasury and the FBI have reached out to the financial services sector in order to develop effective screening mechanisms for suspect transactions.

Over the past year, we have seen successes in the financial war on terrorism.

For example, we exposed and dismantled the al Barakaat financial network. Al Barakaat's worldwide network and its owners were channeling several million dollars a year to and from al Qaida. Last November, Treasury agents shut down eight al Barakaat offices in the United States, and took possession of evidence that will be investigated for further leads in the terrorist money trail. Millions of dollars have moved through these U.S. offices of al Barakaat. At its core, it was a conglomerate operating in 40 countries around the world with business ventures in telecommunications, construction, and currency exchange. They were a source of funding and money transfers for bin Laden. Our allies around the world are joining us in cutting al Barakaat out of the world financial system. Dubai, UAE is the home base of al Barakaat. The UAE blocked the accounts of al Barakaat, paralyzing the nerve center of the operation.

Another success is our action against the Holy Land Foundation for Relief and Development. Holy Land headquartered in Richardson, Texas, raises millions of dollars annually that is used by Hamas. In 2000, Holy Land raised over $13 million. Holy Land supports Hamas activities through direct fund transfers to its offices in the West Bank and Gaza. Holy Land funds are used by Hamas to support schools that serve Hamas ends by encouraging children to become suicide bombers and to recruit suicide bombers by offering support to their families. Our action blocked their current accounts and prohibits U.S. persons from doing business with Holy Land in the future, thereby stopping the flow of millions of dollars every year from the U.S. to Hamas.

Our war on terror is working – both here in the U.S. and overseas. We are harvesting information, and we are putting it to good use. We are seeing progress. We have frozen dollars and the assets of organizations, stopping acts of terror before they can occur, and forcing terrorist backers to riskier, more vulnerable positions.

Our efforts are having real-world effects. Al-Qaida and other terrorist organizations are suffering financially as a result of our actions. Potential donors are being more cautious about giving money to organizations where they fear that the money might wind up in the hands of terrorists. In addition, greater regulatory scrutiny in financial systems around the world is further marginalizing those who would support terrorist groups and activities.

The war on terrorism is only beginning, and it is certain to demand constant vigilance. In the year since that terrible day, we have hit them hard. Our goal is to bankrupt their institutions and beggar their bombers. This war - the financial war against terrorism - won't be easy and much more remains to be done. We are off to a good start but it is a long obstacle filled road ahead. We will not relent.

EXECUTIVE ORDER 13224

"We will starve terrorists of funding, turn them against each other, rout them out of their safe hiding places, and bring them to justice."

President George W. Bush
September 24, 2001

On September 24, President Bush issued executive order 13224, authorizing the blocking of the assets of terrorists and those who assist them.

The Order expands the Treasury Department's power to target the support structure of terrorist organizations, freeze the assets subject to U.S. jurisdiction and block the transactions of terrorists and those that support them, and deny them access to U.S. markets.

Disrupting the Financial Infrastructure of Terrorism

The Executive Order -

- Targets all individuals and institutions linked to global terrorism.
- Allows the U.S. to freeze assets subject to U.S. jurisdiction and prohibit transactions by U.S. persons with any person or institution designated pursuant to the Executive Order based on their association with terrorists or terrorist organizations.
- Names specific individuals and organizations whose assets and transactions are to be blocked.
- Punishes financial institutions at home and abroad that continue to provide resources and/or services to terrorist organizations.

Authorities Broadened

New Executive order actions and authorities:

The Executive Order blocks the US assets and transactions of specified terrorists, terrorist organizations, and terrorist supporters and authorizes the imposition of blocking orders on additional domestic or foreign institutions that support terrorism. It also directs federal agencies to work with other nations to cut off funding and shut down the institutions that support or facilitate terrorism.

The new Executive order broadens existing authority in three principal ways:

- It expands the coverage of existing Executive orders from terrorism in the Middle East to global terrorism;
- The Order expands the class of targeted groups to include all those who provide financial or material support to, or who are "associated with," designated terrorist groups; and
- Establishes our ability to block the U.S. assets of, and deny access to U.S. markets to, those foreign banks that refuse to freeze terrorist assets

Blocking Terrorist Assets

- The Order prohibits U.S. transactions with designated terrorist organizations, leaders, support networks, donors, and corporate and charitable fronts.
- Terrorist groups from around the world are designated under the Order, including organizations that are related to the al-Qaida network.
- Terrorist leaders and operatives are listed; including Usama bin Laden and his chief lieutenants along with many of the entities that act as a support network for al-Qaida, including charities and front organizations. .
- The Order authorizes the Secretary of State and the Secretary of the Treasury to make additional terrorist designations.
    - The Treasury's Office of Foreign Assets Control (OFAC) plays a key role in implementing and administering the Order, including by working with financial institutions to ensure that they implement blocking orders and maintaining a current list of designated entities on its website. (http://www.ustreas.gov/offices/enforcement/ofac)

Results

236 individuals, entities and organizations are currently designated under the Executive Order as supporters of terrorism. This includes 112 individuals ranging from organizational leaders such as Usama bin Laden and his key lieutenants to terrorist operatives, financiers, and intermediaries around the globe. All 34 U.S. designated Foreign Terrorist Organizations are listed under the order as are 15 other terrorist organizations such as the Continuity IRA and the East Turkistan Islamic Movement. 74 other companies, charitable organizations, or entities who support and/or finance terrorism are also listed under the Order. Working bilaterally and through the United Nations and other multilateral institutions, we have spread the effort to freeze terrorist assets across the globe. Over 165 countries and jurisdictions have issued blocking orders against the assets of terrorists. Since September 11th, 2001, $112 million in terrorist assets have been frozen worldwide in over 500 accounts. $34 million of those assets are frozen in the United States, $78 million overseas.

While the money frozen in bank accounts is one measure of the impact of the blocking orders, it's not the most important one. Each of the accounts frozen has the potential to be a pipeline for far more money than what was in the account on the day it was frozen. In addition to closing off these identified pipelines, blocking actions have a deterrent effect leading those who would assist the financing of terrorism to avoid use of the traditional financial system. Finally, following the money assists worldwide law enforcement, intelligence and military communities to identify, capture, arrest and neutralize terrorists.

The Executive Order applies to all global terrorists. The list of designees includes 74 terrorists or supporters of terrorism not part of the al-Qaida network such as Shining Path, the REAL IRA, the Tamil Tigers, Hamas, ETA, and Hizballah, among others.

Just as the United States needed new government powers to enable the financial war on terrorism to begin, other nations around the globe examined their laws and sought new legislation to enable them to engage in the financial front of the war on terrorism. Since September 11, over 80 countries and jurisdictions have implemented, passed, or drafted legislation strengthening their abilities to combat the financing of terrorism.

USA PATRIOT ACT

On October 26, 2001, the President signed into law the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act of 2001. Contained within this comprehensive package is a wide array of provisions designed to enhance our ability to combat terrorism, the financing of terrorism, and money laundering.

I. Provisions Bolstering our Anti-Money Laundering/Anti-Terrorist Financing Regulatory Regime.

- The USA PATRIOT Act contains sweeping revisions to our anti-money laundering and anti-terrorist financing regime that dramatically enhanced Treasury's ability to combat the financing of terrorism and money laundering. These provisions reflect the important principles of (1) enhancing transparency in financial transactions; (2) protecting the international gateways to the U.S. financial system; and (3) increasing the vigilance of all our financial institutions that are themselves the gatekeepers of the financial system.

- Over the past year we have:

  - Issued a series of proposed and interim regulations targeting money laundering and terrorist financing risks associated with correspondent accounts maintained by foreign financial institutions.

  - Issued jointly with the federal financial regulators proposed rules requiring banks, securities brokers, futures commission merchants, and mutual funds to establish basic customer identification and verification procedures.

  - Issued regulations requiring key financial sector industries to implement anti-money laundering programs designed to prevent the services they offer from being used to facilitate money laundering or the financing of terrorism.

II. Provisions Enhancing the Ability to Share Critical Information.

- The USA PATRIOT Act permits and facilitates greater information sharing among law enforcement and the intelligence community.

- Treasury has issued regulations implementing another provision of the Act designed to improve two other key channels of communication regarding terrorism and money laundering between the government and financial institutions; and among the financial institutions themselves.

- Treasury's FinCEN has developed a new, highly-secure web site through which financial institutions will be able to file Bank Secrecy Act information electronically. The same

system will also permit FinCEN, as well as financial regulators and law enforcement, to send alerts or other communications directly to financial institutions in a secure environment. The Patriot Act Communication System ("PACS") has the capability of providing an instantaneous communication link between FinCEN and all financial institutions and will better enable us to fight terrorism and financial crime.

III. Provisions Providing the Additional Tools Necessary to Block and Freeze Terrorist Assets.

- The USA PATRIOT ACT also makes several amendments to International Emergency Economic Powers Act (IEEPA), which enhances our ability to freeze terrorist assets. In the financial war on terrorism, this blocking and freezing power has been an essential weapon in our arsenal. Among others things, the amendments clarify the authority (1) to freeze assets during an investigation, and (2) to use classified information to support a blocking order without having to reveal that information to anyone other than a reviewing court.

Results

The USA PATRIOT ACT was enacted with the assistance of the federal banking regulators, the Securities and Exchange Commission, the Commodity Futures Trading Commission, and the Department of Justice. Since the USA PATRIOT ACT was enacted, the Treasury Department has worked with these agencies to issue over dozen regulations covering a wide array of financial institutions and transactions.

CHARITIES

Unfortunately, some charities have been abused by those who finance terror, through schemes to siphon money away from humanitarian purposes and to funnel it to terrorism. Charities across the world do important work, making a difference in the lives of millions of people, and the sanctity of charitable giving is a critical component of many cultures. In 2000, for example, Americans donated $133 billion dollars to charity with humanitarian intent. Donors around the world deserve to know that protections are in place to assure that their contributions are being channeled to the good purposes intended.

The President's Executive Order

Under the authority of EO13224, the US has designated ten foreign charitable organizations as having ties to al-Qaida or other terrorist groups and has shut down two prominent US –based charities with alleged ties to Usama bin Laden and the Taliban. In addition, the US government has frozen the assets of the largest US –based Islamic charity which acted as a funding vehicle for HAMAS. $6.3 million in US charitable funds have been frozen to date and an additional $5.2 million have been frozen or seized in other countries.

Outreach to Safeguard Charitable Organizations from Abuse by Terrorists

US Treasury officials have met with charitable sector watchdog and accreditation organizations to raise their awareness of the threat posed by terrorist financing including the *Better Business Bureau Wise Giving Alliance* and the *International Committee on Fundraising Organizations.*

Our goal is to guard charities against abuse without chilling legitimate charitable works. Our strategic approach, as set forth in the recently published 2002 National Money Laundering Strategy, involves domestic and international efforts to ensure that there is proper oversight of charitable activities as well as transparency in the administration and functioning of the charities. It also involves greater coordination with the private sector to develop partnerships that include mechanisms for self-policing by the charitable and non-governmental organization sectors.

International Coalition-building

We are seeking to increase the transparency and oversight of charities through multilateral efforts. The Financial Action Task Force (FATF) adopted a recommendation committing all member nations to ensure that non-profit organizations cannot be misused by financiers of terrorism. The US submitted a paper to the FATF in June 2002 discussing our approach to combating such abuse. Going forward, we will work with FATF to promote international best practices on how to protect charities from abuse or infiltration by terrorists and their supporters.

We are working bilaterally and regionally with countries in the Persian Gulf to develop best practices for ensuring the accountability of charitable organizations, and we have urged international watchdog groups to expand their work to ensure transparency in charitable operations. The vast majority of donors give to charity for humanitarian, altruistic reasons. It is an egregious abuse of their altruism to allow any of these funds to be diverted to terrorism.

Results

The United States has secured commitments from international financial groups – such as FATF – to develop best practices to increase oversight of charities.

The United States has designated ten foreign charitable organizations as having ties to al-Qaida and other terrorist groups and has shut down two prominent US –based charities with alleged ties to Usama bin Laden and the Taliban. In addition, the US government has frozen the assets of the largest US –based Islamic charity which acted as a funding vehicle for Hamas. $6.3 million in US charitable funds have been frozen to date and an additional $5.2 million have been frozen or seized in other countries.

Charities Abused by Terrorist Groups Shut Down by the United States

On January 9, 2002, the United States designated the Afghan Support Committee (ASC), a purported charity, as an al-Qaida supporting entity. The ASC operated by soliciting donations from local charities in Arab countries, in addition to fundraising efforts conducted at its headquarters in Jalalabad, Afghanistan, and subsequently in Pakistan. The ASC falsely asserted that the funds collected were destined for widows and orphans. In fact, the financial chief of the ASC served as a key leader of organized fundraising for Usama bin Laden. Rather than providing support for widows and orphans, funds collected by the ASC were turned over to al-Qaida operatives. With our blocking action on January 9, 2002, we publicly identified the scheme being used by ASC and disrupted this flow of funds to al-Qaida.

Also on January 9, 2002, we designated the Pakistani and Afghan offices of the Revival of Islamic Heritage Society (RIHS). The RIHS is an example of an entity whose charitable intentions were subverted by terrorist financiers. The RIHS was a Kuwaiti-based charity with offices in Pakistan and Afghanistan. The Peshawar, Pakistan office director for RIHS also served as the ASC manager in Peshawar. The RIHS Peshawar office defrauded donors to fund terrorism. In order to obtain additional funds from the Kuwait RIHS headquarters, the RIHS Peshawar office padded the number of orphans it claimed to care for by providing names of orphans that did not exist or who had died. Funds sent for the purpose of caring for the non-existent or dead orphans were instead diverted to al-Qaida terrorists. In this instance, we have no evidence that this financing was done with the knowledge of RIHS headquarters in Kuwait.

On March 11, 2002, the United States and Saudi Arabia jointly designated the Somali and Bosnian offices of the Saudi-based Al-Haramain organization. Al-Haramain is a Saudi Arabian-based charity with offices in many countries. Prior to designation, we compiled evidence showing clear links demonstrating that the Somali and Bosnian branch offices were supporting al-Qaida. For example, we uncovered a history of ties between Al-Haramain Somalia and al-Qaida, the designated organization Al-Itihaad al-Islamiya (AIAI), and other associated entities and individuals. Over the past few years, Al-Haramain Somalia has provided a means of funneling money to AIAI by disguising funds allegedly intended to be used for orphanage projects or the construction of Islamic schools and mosques. The organization has also employed AIAI members. Al-Haramain Somalia has continued to provide financial support to AIAI even after AIAI was designated as a terrorist organization by the United States and the United

Nations. In late-December 2001, Al-Haramain Somalia was facilitating the travel of AIAI members in Somalia to Saudi Arabia. The joint action by the United States and Saudi Arabia exposed these operations.

On December 4, 2001, we blocked the assets of the Holy Land Foundation for Relief and Development, which describes itself as the largest Islamic charity in the United States. It operates as a U.S. fundraising arm of the Palestinian terrorist organization Hamas. The Holy Land Foundation for Relief and Development, headquartered in Richardson, Texas, raises millions of dollars annually that is used by HAMAS. In 2000, Holy Land raised over $13 million. Holy Land supports Hamas activities through direct fund transfers to its offices in the West Bank and Gaza. Holy Land Foundation funds are used by HAMAS to support schools that serve Hamas ends by encouraging children to become suicide bombers and to recruit suicide bombers by offering support to their families.

On December 14, 2001, OFAC utilized this authority to block suspect assets and records during the pendency of an investigation in the case of Global Relief Foundation and Benevolence International Foundation, two charities with locations in the United States.

We have also designated as terrorist supporters the Al Rashid Trust and the Wafa Humanitarian Organization both Pakistan based al Qaida financier organizations. Wafa was a militant supporter of the Taliban. Documents found in Wafa's offices in Afghanistan revealed that the charity was intimately involved in assassination plots against U.S. citizens as well as the distribution of "how to" manuals on chemical and biological warfare.

HAWALAS

The word "hawala," meaning "trust" refers to a fast and cost-effective method for worldwide remittance of money or value, particularly for persons who may be outside the reach of the traditional financial sector. In some nations hawala is illegal; in others the activity is considered a part of the "gray" economy. It is therefore difficult to measure accurately the total volume of financial activity associated with the system; however, it is estimated that the figures are in the tens of billions of dollars, at a minimum. Officials in Pakistan, for example, estimate that more than $7 billion flow into the nation through hawala channels each year.

The very features which make hawala attractive to legitimate customers -- efficiency, anonymity, and lack of a paper trail -- also make the system attractive for the transfer of illicit funds. As noted in a recent report of the Asia Pacific Group (APG) on Money Laundering, the terrorist events of September 2001 have brought into focus the ease with which alternative remittance and underground banking systems may be utilized to conceal and transfer illicit funds. Not surprisingly, concerns in this area have led many nations to reexamine their regulatory policies and practices in regard to hawala and other alternative remittance systems.

Actions

The USA PATRIOT ACT requires hawalas to register as "money services business" or "MSBs" which subjects them to money laundering regulations including the requirement that they file Suspicious Activity Reports (SARs).

The USA PATRIOT ACT makes it a crime for the money transfer business owner to move funds he knows are the proceeds of a crime or are intended to be used in unlawful activity.

The new U.S. regulatory requirements are echoed in the principals set forth in the Special Recommendations on Terrorist Financing, issued in October 2001, by the Financial Action Task Force (FATF) on Money Laundering. The FATF has called upon all countries to:

> "take measures to ensure that persons or legal entities, including agents, that provide a service for the transmission of money or value, including transmission through an informal money or value transfer system or network, should be licensed or registered and subject to all the FATF Recommendations that apply to banks and non-bank financial institutions. Each country should ensure that persons or legal entities that carry out this service illegally are subject to administrative, civil or criminal sanctions."

Results

The operations of several hawalas implicated in terrorist financing have been disrupted. US experts have worked with officials in other nations on proposed licensing and/or registration regimes for hawaladars, to ensure greater transparency and record-keeping in their transactions.

Using criminal authorities stemming in part from the PATRIOT Act, U.S. law enforcement has charged individuals who are illegally operating money remitting businesses.

Under the provisions of the PATRIOT Act, well over 10,000 money service businesses have registered with the federal government and are now required to report suspicious activities. This provides law enforcement with an additional window into financial transactions previously unregulated by the federal government.

FATF adopted eight special recommendations to impose anti-money laundering rules on all alternative systems used for transferring value, including hawala. Members, as well as many non-member nations are currently working to implement new legal and regulatory measures in accordance with the FATF recommendation.

At a conference on hawala in the UAE in May 2002, a number of governments agreed to adopt the FATF recommendation and shortly thereafter the UAE government announced it would soon impose a licensing requirement on hawalas. Participants at the UAE meeting drafted and agreed upon the Abu Dhabi Declaration on Hawala which set forth the following principles:

- Countries should adopt the 40 Recommendations of the Financial Action Task Force (FATF) on Money Laundering and the 8 Special Recommendations on Terrorist Financing in relation to remitters, including Hawalas and other alternative remittance providers.

- Countries should designate competent supervisory authorities to monitor and enforce the application of these recommendations to Hawalas and other alternative remittance providers.

- Regulations should be effective but not overly restrictive.

- The continued success in strengthening the international financial system and combating money laundering and terrorist financing requires the close support and unwavering commitment of the international community.

- The international community should work individually and collectively to regulate the Hawala System for legitimate commerce and to prevent its exploitation or misuse by criminals and others.

INTERNATIONAL EFFORTS

UN

On September 28, 2001, the UN adopted UNSCR 1373, requiring all member states to prevent and suppress the financing of terrorist acts.

- The UN also required all member states to submit reports on the steps they have taken to implement this resolution. As of June 27, 2002, 164 states had completed their reports. The UN is now reviewing those reports with the intent of identifying gaps that member nations need to fill in order to comply with UNSCR 1373.

The UN adopted UNSCR 1390 on January 16, 2002, which modifies and continues the international sanctions against the Taliban, Usama bin Laden, and al-Qaida as set forth by UNSCR 1267 (1999) and 1333 (2000). Together these resolutions obligate all UN member states to "Freeze without delay the funds and other financial assets or economic resources" of those entities and individuals designated by the UN. Currently, 288 individuals and entities are on this list (135 al-Qaida linked and 153 Taliban linked).

G7

G7 Finance Ministers and Central Bank Governors issued an Action Plan to Combat the Financing of Terrorism on October 6, 2001. Under the plan, the G7 countries:

- Committed to ratifying the UN convention on the Suppression of Terrorism
- Called on the Financial Action Task Force (FATF) to hold an extraordinary session and play a vital role in fighting the financing of terrorism
- Encouraged all countries to develop financial intelligence units (FIUs) and share information more extensively

Financial Action Task Force (FATF)

On October 31, 2001, at the United States' initiative, the 31-member FATF issued eight special recommendations on terrorist financing, to be adopted by all member nations:

- Ratify the UN International Convention for the Suppression of the Financing of Terrorism and implement relevant UN Resolutions against terrorist financing.
- Require financial institutions to report suspicious transactions linked to terrorism.
- Criminalize the financing of terrorism, terrorist acts and terrorist organizations.
- Freeze and confiscate terrorist assets.
- Provide the widest possible assistance to other countries' laws enforcement and regulatory authorities for terrorist financing investigations.
- Impose anti-money laundering requirements on alternative remittance systems.
- Require financial institutions to include accurate and meaningful originator information in money transfers.
- Ensure that non-profit organizations cannot be misused to finance terrorism.

Many non-FATF members have committed to complying with the Eight Recommendations and over 80 non-FATF members have already submitted repots to FATF assessing their compliance with these recommendations.

FATF will build on its successful record in persuading jurisdictions to adopt anti-money laundering rules to strengthen global protection against terrorist finance. As part of this effort, FATF has established a terrorist financing working group devoted specifically to developing and strengthening FATF's efforts in this field. Among other things, it has begun a process to identify nations that will need assistance to come into compliance with the Eight Recommendations.

G20

G20 Finance Ministers and Central Bank Governors issued an Action Plan on Terrorist Financing on November 17, 2001. Under the plan, G20 countries agreed to:

- Implement UN measures to combat terrorist financing, including blocking terrorist access to the financial system
- Establish FIUs and enhance information sharing

Provide technical assistance to countries that need help in combating terrorist financing and called on the International Financial Institutions to provide technical assistance in this area.

International Financial Institutions

In response to calls by the International Monetary and Financial Committee and the Development Committee, the IMF and World Bank each developed and are implementing action plans which call for intensified work on anti-money laundering and the combat against the financing of terrorism (AML/CTF). The action plans call for joint Fund and Bank action:

- Expand Fund/Bank involvement in anti-money laundering work to include efforts aimed at countering terrorism financing
- Expands Fund/Bank anti-money laundering work to cover legal and institutional framework issues in addition to financial supervisory issues
- Agreeing with the Financial Action Task Force on a converged global standard on AML/CTF
- Increases technical assistance to enable members to strengthen their AML/CTF regimes in accord with agreed international standards
- Conducting a joint Fund/Bank study of informal funds transfer systems.

Under its Action Plan, the World Bank is also integrating AML/CTF issues in the Bank's country assistance strategies.

Under its action plan, the Fund is accelerating its Offshore Financial Center assessment program, and has circulated a voluntary questionnaire on AML/CFT in the context of the IMF's Article IV consultations with its members. As part of its Article IV consultation, the US provided detailed responses to the AML/CFT questionnaire.

In addition, the IMF early this year invited its member countries to submit reports on steps that they have taken to combat the financing of terrorism. As of the final week in August 2002, over 150 countries out of a total IMF membership of 184 had submitted reports.

Egmont Group

The Egmont Group is an international organization of 69 financial intelligence units (FIUs) from various countries around the world. Each serves as an international financial network, fostering improved communication among FIUs in sharing information and training.

The FIUs in each nation received financial information from financial institutions pursuant to each government's particular anti-money laundering laws, analyzes and processes these disclosures, and disseminates the information domestically to appropriate government authorities and internationally to other FIUs in support of national and international law enforcement operations.

Since September 11, the Egmont Group has taken steps to use its unique intelligence gathering and sharing capabilities to support the US in its global war on terrorism. On October 31, 2001, FinCEN (the US FIU) hosted a special Egmont Group meeting that focused on the FIUs' role in the fight against terrorism. The FIUs agreed to:

- Work to eliminate impediments to information exchange
- Make terrorist financing a form of suspicious activity to be reported by all financial sectors to their respective FIUs
- Undertake joint studies of particular money laundering vulnerabilities, especially when they may have some bearing on counterterrorism, such as hawala
- Create sanitized cases for training purposes

After September 11, the Egmont Group reached out to nations across the globe to increase the information sharing that is vital to pursuing a global war on terrorism. In June 2002, 11 new FIUs were admitted to the Egmont group, increasing its size to 69 members.

Approximately ten additional FIUs are being considered for admission to the Egmont Group. Egmont is planning several training sessions to continuously improve the analytical capabilities of FIU staff around the world.

Technical Assistance and Diplomatic Outreach

Nations wanting to safeguard their financial systems from abuse by terrorists have sought the expertise of the US government. We have met with officials from over 111 nations, reviewing systems and providing input to increase transparency of financial transactions and better enable financial institutions and regulators to identify suspicious activities. We have in cooperation with other federal agencies presented training programs to countries that are crucial to the war on terrorism that focus on the creation of an effective legislative framework to combat terrorism. These programs are on-going. We have also conducted, in cooperation with other federal agencies, reviews of priority countries' laws and enforcement mechanisms against terrorism and

made recommendations for changes and reform and proposed follow up technical assistance to facilitate recommended changes and reforms. These reviews are also on-going.

After September 11th, Treasury created the Office of International Enforcement Affairs (OIEA) to coordinate and focus Treasury law enforcement bureau's international training and technical assistance work to complement and support US government priorities in international law enforcement and anti-terrorist fundraising efforts. As part of this effort, Treasury is using the International Law Enforcement Academies around the world, including in the newly constituted Costa Rica facility, to better train law enforcement in the field of terrorist financing.

Since September 11th, 2001, Treasury's Office of Technical Assistance has deployed dozens of technical assistance missions around the world to combat financial crimes and terrorist financing. In several instances, in addition to offering TA, these teams have received vital tactical information on terrorist activities and terrorist finance and have insured that this information was placed in the hands of the appropriate authorities. In addition, the Office of Foreign Assets Control, the Office of Comptroller of Currency, and FinCEN have traveled abroad to provide needed training and assistance to members of the regulatory community in other countries to strengthen their capacity to detect, monitor, and uncover terrorist financing.

Results:

To date, $112 million in the assets of terrorists and their supporters has been frozen worldwide and the international pipeline of terrorists funds has been constricted. Over 165 countries have issued blocking orders against the assets of terrorists and over 80 countries have implemented or are in the process of drafting new laws to combat terrorist financing.

G7 Finance Ministers and Central Bank Governors announced the first joint G7 designation and blocking action on April 20, 2002.

G7 Finance Ministers and Central Bank Governors on June 15, 2002 urged the IMF and the World Bank to begin conducting integrated and comprehensive assessments of standards to combat money laundering and financing of terrorism.

- IMF and World Bank Executive Boards on July 26 and August 6, respectively, endorsed proposals to begin 12-month pilot programs to comprehensively assess their members anti-money laundering and terrorist financing regimes and performance. Such assessments are expected to commence shortly.

- An August 8, 2002, IMF document titled, 'IMF Advances Efforts to Combat Money Laundering and Terrorist Finance' (available on the IMF web site at: www.imf.org) provides details on the program endorsed by the Executive Board.

Since 9/11, the international financial institutions have increased focus on terrorist financing and anti-money laundering in their work. The IMF in its assessment of offshore financial centers

evaluates financial supervision and regulation, and helps members identify gaps. In 2002, 8 such assessments are already completed and another 15 or so are scheduled or underway.

IMF and World Bank reviews and assessments of their members' performance and strategy now generally incorporate focus on issues relating to terrorism financing and anti-money laundering. IMF Article IV consultations with members now encompass such reviews. In line with its action plan, the World Bank's country assistance strategies increase focus on the member's framework and regime to combat money laundering and the financing of terrorism.

As of December 1999, the UN has called on all member states to sign its Convention for the Suppression of the Financing of Terrorism. Since September 11, 71 nations, including the United States, have done so, bringing the total number of signatories to 131. By so doing, the countries pledge to make the financing of terrorism a criminal act in their jurisdictions and to cooperate with other signatories in combating it.

In addition to the important UN action, joint designations are becoming more frequent:

- On March 11, 2002, the United States and Saudi Arabia jointly designated two branches of a charity.
- On April 19, 2002, the G7 jointly designated nine individuals and one entity.
- The European Union has issued three lists of designated terrorists and terrorist groups for blocking.
- On August 29, 2002, the United States and Italy blocked the assets of twenty-five individuals and entities because of their support for and connections to terrorism.
- On September 6th, the United States and Saudi Arabia jointly designated Wa'el Hamza Julaidan, an associate of Usama bin Laden and a supporter of al-Qaida terror.
- On September 9th, the United Nations added to its list of terrorists and terrorist supporters associated with Usama bin Laden and his al-Qaida network the Eastern Turkistan Islamic Movement (ETIM).

International Law Enforcement Cooperation

One of the chief benefits of the financial war on terrorism and following the money is to identify and locate terrorists. There has been unprecedented law enforcement cooperation around the world as countries ferret out terrorist operatives and support networks. As information sharing and cooperation continue to improve, law enforcement will continue to encircle and unveil terrorist cells.

Results:

- International law enforcement cooperation has resulted in over 2400 arrests in 95 countries.
- Arrests have led to the prevention of terrorist attacks in places like Singapore, Morocco and Germany and have uncovered al-Qaida cells and support networks in countries such as Italy, Germany, and Spain.
- A working arrangement between the United States and Switzerland signed on September 4, 2002, will result in the assignment of Swiss and U.S. federal agents to respective terrorism

and terrorist financing task forces to accelerate and amplify work together on cases of common concern.

- Soon after September 11th, the Bahamas provided critical financial information through its FIU to FinCEN that allowed the revelation of a financing network that supported terrorist groups and stretched around the world.
- INTERPOL's website serves as a clearinghouse for foreign law enforcement for the lists of those subject to freezing actions.

DOMESTIC LAW ENFORCEMENT EFFORTS

Green Quest

Treasury's Operation Green Quest augments existing counter-terrorist efforts by bringing the full scope of the government's financial expertise to bear against systems, individuals, and organizations that serve as sources of terrorist funding. The initiative is targeting current terrorist funding sources and identifying possible future funding sources. Underground financial systems, illicit charities, and corrupt financial institutions are among the entities scrutinized as possible facilitators of terrorist funds.

The initiative also targets cash smuggling, trademark violations, trade fraud, credit card fraud, drug trafficking, cigarette smuggling, and other activities that may fund terrorists. Operation Green Quest uses the full array of law enforcement techniques to pursue its objectives, including undercover operations, electronic surveillance, outbound currency operations, and the exploitation of intelligence, financial data, trade data, and confidential source data. Green Quest draws on the resources and expertise of the Treasury and Justice Departments and many other federal agencies.

The investigators with the Customs Service, the IRS, the FBI the Secret Service are globally recognized as among the best and brightest financial investigators in the world. They are second to none. The same talent pool and expertise that brought down Al Capone is now be dedicated to investigating Usama bin Ladin and his terrorist network.

Operation Green Quest (OGQ) was established on October 25, 2001.

Customs

After September 11, the US Customs Service undertook an enhanced inbound/outbound bulk currency initiative directed at countries with known terrorist financing links. Customs inspectors at the nation's 301 ports of entry have made 369 seizures of smuggled currency and monetary instruments.

The cash smuggling provisions of the USA PATRIOT Act increased penalties against those who bring in more than $10,000 in cash or monetary instruments with the intent of avoiding a reporting requirement.

Cadres of Customs dogs are specifically trained to alert to the scent of dyes and inks in currency.

Results

OGQs investigations have resulted in over 40 arrests, 27 indictments and the seizure of over $16 million in bulk cash, (over $9 million with Middle East connection) and are pursuing several hundred leads into potential terrorist financing networks. (For the year ending September 11, 2001 Operation Oasis seizures outbound to Middle and Far East countries totaled $5.216 million.

Post-9/11 seizures outbound to the same countries total $16.1 million. Thus, there has been a threefold increase).

The increased scrutiny on terrorist financing has proved fruitful to law enforcement. We are seeing an increase in seizures made the U.S. Customs Service. The following are a few of the seizures made to date[2]:

- Customs inspectors seized $624,691 in smuggled cash hidden in plastic bags that were professionally sewn into the lining of a comforter. The money-laced comforter was in a suitcase bound for the Middle East aboard a commercial flight.
- Customs inspectors seized smuggled negotiable checks totaling $1.06 million that was hidden in a parcel bound for the Middle East.
- Customs inspectors seized a smuggled certificate of deposit worth $297,000 that was concealed in a parcel bound for Central America and which had originated in Asia.
- Recently Customs, United States Secret Service, and FBI agents apprehended – and the Justice Department subsequently indicted -- Jordanian-born Omar Shishani in Detroit for smuggling $12 million in forged cashier's checks into the United States. The Justice Department's detention and arrest of Shishani resulted directly from the Customs Service's cross-indexing of various databases, including information obtained by the U.S. military in Afghanistan. That information was entered into Custom's "watch list," which, when cross-checked against inbound flight manifests, identified Shishani.

In addition to preventing the cash from reaching its desired destination, these seizures have provided leads for new investigations into money laundering, terrorist finance and other criminal activity. The currency initiative has also resulted in the arrests of several individuals, including the first to be successfully prosecuted under the new bulk cash smuggling provisions of the USA PATRIOT Act.

[2] The Treasury Department has not determined that these seizures are related to terrorism.