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COMBATING INTERNATIONAL TERRORIST FINANCING

JOINT HEARING

BEFORE THE

SUBCOMMITTEE ON
DOMESTIC AND INTERNATIONAL
MONETARY POLICY, TRADE AND TECHNOLOGY

AND THE

SUBCOMMITTEE ON
OVERSIGHT AND INVESTIGATIONS

OF THE

COMMITTEE ON FINANCIAL SERVICES

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COMBATING INTERNATIONAL TERRORIST FINANCING

Thursday, September 30, 2004

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DOMESTIC AND
INTERNATIONAL MONETARY POLICY AND
SUBCOMMITTEE ON OVERSIGHT AND
INVESTIGATIONS
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittees met, pursuant to call, at 10:04 a.m., in Room 2128, Rayburn House Office Building, Hon. Peter T. King [chairman of the Subcommittee on Domestic and International Monetary Policy] presiding.

Present for the Subcommittee on Domestic and International Monetary Policy: Representatives King, Kelly, Biggert, Paul, Maloney, Gutierrez and Inslee.

Present for the Subcommittee on Oversight and Investigations: Kelly, Paul, Gutierrez, and Inslee.

Chairman KING. [Presiding.] Good morning. This joint hearing of the Subcommittee on Domestic and International Monetary Policy, Trade and Technology, and the Subcommittee on Oversight will come to order. Without objection, all opening statements will be made a part of the record.

The Subcommittee on Domestic and International Monetary Policy and the Subcommittee on Oversight chaired by my colleague from New York, Mrs. Kelly, meet jointly today to receive testimony from Treasury and State regarding their efforts in the global fight against terrorist financing.

We are fortunate to have the Honorable Juan Zarate, Assistant Secretary for Terrorist Financing from Treasury, and the Honorable Tony Wayne, with whom I shared a plane ride back once from Northern Ireland, very pleasant, Assistant Secretary for Economic and Business Affairs at the State Department here with us today.

Mrs. Maloney and I have agreed to have our opening statements made part of the record.

I will ask Mrs. Kelly if she would like to make an opening statement.

Mrs. KELLY. Thank you very much.

I would like to thank my colleague from New York, Chairman King, for co-chairing this important hearing on our government's efforts to combat international terrorist financing.

Earlier this summer, the Financial Services Committee held a hearing on the findings of the 9/11 Commission report and the com-

mission staff's monograph on terrorist financing. After reviewing both reports, it is clear that we have made much progress in our international efforts to weed out terrorist financing money since 9/11 and the passage of the USA PATRIOT Act.

Today, though, the Administration continues to work with its foreign counterparts to enhance cross-border information sharing arrangements and to promote stronger anti-terrorist financing regimes in specific countries. In fact, the Administration is currently working within the FATF, the Financial Action Task Force. This is an intergovernmental agency policy body composed of 33 member countries and territories to develop best practice standards for combating terrorist finance.

At the same time, the number of financial intelligence units qualifying for membership in the Egmont Group, an international forum for coordinating global anti-terrorist financing and anti-money-laundering efforts, has grown from 58 in 2001 to 94 today. Finally, the FATF standards are now a permanent part of the financial sector assessment program reviews undertaken by the International Monetary Fund.

While the impact of all of these efforts is currently being felt across the world, we must continuously improve our ability to work with the international community to weed out terrorist financing and shut down new and emerging threats. In order to strengthen our government's hand, there are several areas that I would like to explore today, including a Treasury-led certification program and a secondary ban under the USA PATRIOT Act.

Yesterday, the Financial Services Committee passed legislation to implement recommendations of the 9/11 Commission report to ensure that we are protecting the American people. The legislation is a comprehensive response to the monograph on terrorist financing. However, I do believe there are several areas that Congress must explore to encourage cooperation from foreign governments and financial institutions.

The creation of a Treasury-led certification program would acknowledge the vitally important international aspect of our fight against terror finance and ensure that countries are cooperating in these efforts. Under such a proposal, the Treasury Department would be required to report annually to Congress any countries of concern that are not cooperating in anti-terrorist financing efforts and impose sanctions that would withhold some of their bilateral assistance. As the 9/11 Commission staff's monograph on terrorist financing suggests, terror networks rely on a variety of methods for moving and generating financial sustenance, which do not respect national borders.

We have seen that there are countries which do not share our determination and our vigilance to crack these funding systems, who create sanctuaries for terrorists who route their financial lifelines. A certification program would send a clear message to the world that would have to be heeded, because if you do not cooperate in the war against terror, you would lose some of the bilateral assistance that you may receive from the United States.

The other area that I would like to explore today is the potential secondary ban under the USA PATRIOT Act. Under Section 311 of the PATRIOT Act, the government is authorized to impose special

measures against countries or financial institutions that are found to be of primary money-laundering concern. Section 311 provides a useful lever when dealing with other nations, but we have found that perhaps there are limits to its usefulness that might be removed to great benefit.

It has become evident that if a banking institution does not have a notable correspondent banking relationship with American banks, Section 311 may not necessarily create a powerful incentive, and the kind that we had hoped to have. As such, careful consideration should be given to the concept of a secondary boycott under the PATRIOT Act. Under such a proposal, countries or financial institutions that continue to knowingly deal with entities that we have designated to be of primary money-laundering concern would be subject to the same sanctions.

Not only are the entities which are designated to be of primary money-laundering concern subject to section 311, but so are other entities that would continue to deal with them. In other words, it would be a secondary boycott after the primary boycott. This change to current law would strengthen and lengthen our reach with Section 311, and substantively reinforce the motivation which led to our passage and enactment of the original provision in 2001.

The American people expect nothing less than the highest level of cooperation from foreign government and financial institutions. I look forward to hearing the view of this panel on these and other issues today. I thank the witnesses for their testimony.

[The prepared statement of Hon. Sue W. Kelly can be found on page 35 in the appendix.]

Chairman KING. The gentleman from Illinois.

Mr. GUTIERREZ. Thank you, Chairman King and Chairwoman Kelly for calling this hearing to discuss the international aspects of the 9/11 legislation we marked up yesterday. I believe that the 9/11 legislation we passed out of committee is a significant step in our continuing effort to fight terrorist financing and money laundering.

I want to particularly thank Chairwoman Kelly for our longstanding partnership on these issues, and in particular for her assistance and cosponsorship of a provision that was accepted in yesterday's legislation that will strengthen bank examinations by providing a 1-year cooling-off period for bank examiners before they can work for the bank they supervised.

I look forward to the testimony of the witnesses here today, and yield back the balance of my time.

Chairman KING. The gentlelady from Illinois, the Vice Chair of the subcommittee, Mrs. Biggert.

Mrs. BIGGERT. Thank you, Mr. Chairman. I would, in the interest of time, submit my statement for the record.

Chairman KING. Without objection.

I am pleased today to welcome our two witnesses. I would first ask Assistant Secretary Zarate if he would proceed.

Without objection, your written statements will be made a part of the record, and you will be each recognized for a 5-minute summary of your testimony. Thank you.

STATEMENT OF HON. JUAN ZARATE, ASSISTANT SECRETARY FOR TERRORIST FINANCING, DEPARTMENT OF TREASURY

Mr. ZARATE. Thank you, Chairman King, Chairman Kelly. Thank you very much, distinguished members of both subcommittees. Thank you for inviting me here today to talk about our very important efforts, our international efforts to combat terrorist financing. I am honored to be testifying alongside Assistant Secretary Wayne, who has been and continues to be an important partner in our international efforts.

As we all know quite clearly, the terrorist threat we face is not simply an American problem born on September 11. From Madrid to Mombassa, Casablanca to Jakarta, and most recently in Beslan and Moscow, the horrific inhumanity of terrorism knows no bounds of territory, religion or race. The international nature of terrorism is acutely apparent when looking at the global terrorist financing networks that have been used to support al Qaeda and other like-minded terrorist groups.

Whether it is donors in the Gulf or charities in Europe, businesses in East Asia or extortion in South America, terrorist groups have used and continue to use the full spectrum of methods to raise money. Terrorist supporters and facilitators continue to rely on a variety of methods to move money, especially now with the use of couriers. As we have done collectively since September 11, we must attack the sources of funding, follow the financial footprints of terrorist groups and build safeguards in the financial sector worldwide to prevent, deter, and dismantle the terrorist infrastructure.

Under the President's leadership, we have forged international cooperation to deal comprehensively with the issue of terrorist financing in, frankly, an unprecedented manner. In our efforts to fight terrorist financing in both the short and long term, we have developed international standards to combat terrorist financing, enhanced greater global capacity, broadened and deepened our own regulatory system, built international systems to share information about suspect networks. We have frozen and seized terrorist-related assets, arrested and isolated key financial intermediaries and donors, and generally improved the international safeguards around the financial system.

The designations of terrorist financiers under the President's Executive Order have not only resulted in the freezing and seizing of over $200 million worldwide, but have served as a catalyst internationally to dealing with concrete issues of concern like the abuse of charities. Though our work on designations, and most recently in using Section 311 to label foreign banks as primary money-laundering concerns, garners much of the public attention, it is perhaps the quiet, long-term structural changes that we have ushered internationally that will have the greatest impact in this ongoing fight.

The Treasury, along with the State Department and others, has helped promote the implementation and enforcement of effective international standards of financial transparency and accountability. This is important because we must do everything to empower foreign governments and the private sector to prevent tainted money from entering the financial system and to make it riskier for terrorists to raise and move money.

This work is perhaps seen most visibly in our leadership in the Financial Action Task Force and work with the other international bodies like the IMF and World Bank. The FATF, which as you know is the international standard-setting body for anti-money-laundering and now counterterrorist financing, has laid out what is required of countries to deal with the changing face of threats to our financial system.

Thanks to these efforts, countries have begun to regulate informal banking systems like hawalas, include originator information on cross-border wire transfers, freeze and seize terrorist-related funds, overtly criminalize terrorist financing, and increase vigilance over the nonprofit sector.

There are many examples of progress on all of these fronts around the world. Countries such as those in the Gulf Cooperative Council have taken steps to begin regulation and oversight of charities and donations abroad. Islamic states have moved forward on regulating and harmonizing accounting and oversight principles for Islamic banking. Countries such as the United Arab Emirates have begun the process of regulating alternative remittance systems.

These efforts will be expanded this fall with the establishment of two new FATF-style regional bodies, one in Central Asia and one in the Middle East and North Africa. A major achievement this past year, as Chairwoman Kelly mentioned, was the finalization of the agreement with the IMF and World Bank to make permanent the adoption and use of the FATF standards as part of the Financial Sector Assessment Program. What this means is that the entire world will now be judged against those standards as part of the regular and intensive reviews by those institutions.

As a result of all of these efforts, we have made it harder, costlier and riskier for al Qaeda and other like-minded terrorist groups to raise and move money around the world. We are constricting their financial breathing space and tightening the noose around their network every day.

Our engagement on terrorist financing and money-laundering issues worldwide has really and in real terms framed and clarified the global mission, and that is to disrupt and deter criminal financial activity that threatens our national and international security.

This is now the axiom of the international community and it is so because the U.S. government, largely due to Treasury and State Department efforts, has helped to shape the way the international community thinks about these issues.

I thank this committee and Congress for your continued support on these important issues. I look forward to discussing those with you today and working further with you on these matters.

Thank you.

[The prepared statement of Hon. Juan Zarate can be found on page 51 in the appendix.]

Chairman KING. Thank you, Secretary Zarate.

Assistant Secretary Wayne?

STATEMENT OF HON. E. ANTHONY WAYNE, ASSISTANT SECRETARY FOR ECONOMIC AND BUSINESS AFFAIRS, DEPARTMENT OF STATE

Mr. WAYNE. Thank you very much, Mr. Chairman and Madam Chairman and distinguished members. It is a great pleasure to be here with you today, and it is a pleasure to be here with Juan Zarate, who has been an essential partner ever since the fall of 2001, working our way through and learning how to take on and tackle these serious problems of terrorist financing.

The Department of State, as many others, very much commends the recommendations of the 9/11 Commission, as taking forward in important ways our discussions of how to tackle terrorist financing. We also particularly think that the staff monograph on terrorist financing has some very valuable insights that we can draw from.

My written testimony goes through in greater detail what we have accomplished since 9/11 and the very complicated work agenda ahead of us. I would like to focus a little bit on what the Treasury Department and we and others are now facing as we look at where we go from here. What are some of the tradeoffs? What are some of the challenges that we look at ahead?

Clearly, the most obvious objective is to cut off the flow of funds to terrorists. The 9/11 Commission report pointed out we were not talking about large amounts of money here. But still, if we can reduce that amount of money and make it harder to use, it means it is likely the smaller the scope of activities that terrorists can plan, the number of attacks they can carry out.

When we publicly freeze funds, we are also, in naming the name of terrorists and their financiers, alerting unwitting donors of what they might be contributing to or what they might be being solicited about. And, we are dissuading other donors who might be tempted to support some of these groups, from actually going ahead and doing that, because the think they will have the chance of being caught and being named.

When we designate either nationally or at the U.N. or bilaterally with others, we have made it more difficult for terrorists to use the financial system. But as we have made it more difficult for them to use that banking system, they have been shifting to other, less reliable and more cumbersome methods, such as cash couriers.

Now, this means that we need to adapt, too, and we have been adapting and shifting our priorities, both nationally and internationally, as they start using more cash couriers, as they look at these alternative remittance systems known in the Middle East as hawalas; as they look to use NGOs and charities more effectively. We need to draw on a variety of tools that we have available to face these new challenges.

This includes technical assistance. In the case of cash couriers, perhaps now to better train customs officials. It means that we need better and different kinds of law enforcement cooperation. It means we need strengthened and more defined international norms and standards. Now, that is a lot of what FATF is dealing with now, as Juan Zarate mentioned. But we need to keep working, both to understand the challenge and to develop the international consensus on the ways to tackle these problems.

Another important objective, which the 9/11 Commission points out, is that if you can follow the money, you can get to the terrorists. So we know that this is important to do, and you can do it in designating. Sometimes in designating, you are alerting financial institutions to actually look for and find leads, and they can report that back. But in other cases, we are going to decide it is not best to do something publicly, because you want to avoid alerting the terrorists that you are on their trail.

It is often not just a simple either-or decision here. You are looking at what is the right mix of tools that we want to use in this particular case. In addition to designating and having law enforcement investigations and actions, and collecting more intelligence, we have other things we might want to do. We look at this on a case-by-case basis in our interagency consultations.

Sometimes, we might want to send a U.S. government official and a delegation to a country to privately address what the problems are and what they need to do. Sometimes, we will want to give them a targeted assistance program because we may discover they do not know how to track the money in their banking system. And sometimes, we will look at non-public cooperation between intelligence or law enforcement.

So with this array of tools, we really have a way of going after these problems. That array of tools is possible because we brought together in our own system, as we have learned over the past several years, so many U.S. government agencies that have really broken those barriers down that used to exist between agencies.

So when we get together, we do not just have the State Department and the Treasury there. We have Justice, Homeland Security, Defense, and the law enforcement and intelligence agencies really trying to put into practice the same things that the 9/11 Commission stressed as very important, breaking down those walls and sharing information.

One of the lessons, a very important lesson that I have drawn in my experience in this time is that you really need to choreograph all the agencies effectively. As we have worked this through and looked at it overall, we have come up with a system where the NSC is pulling everybody together and choreographing what we are doing in terrorist finance, as they have done in other cross-cutting national security issues.

When we do decide to do something publicly, there is another set of issues that come up that we need to weigh. Here, the State Department does have some important value-added in the process. First, we need to make an effective public case. We need to make sure that when we go forward with something, other governments are going to say "yes, we agree with you." Especially if we go to the U.N., where we have to share this in a declassified way with people. It has to be persuasive.

That often involves very hard tradeoffs, as we are thinking about it. As you know, when we are looking at all source information about a terrorist or a supporter, it is often highly classified. We have to make important tradeoffs because there are good reasons that that information is classified. So as we are going through the pros and cons and the best way to go forward, we try to bring our

expertise to bear in the State Department as what will persuade other governments.

We try to use our diplomatic channels to quietly talk with other governments and explain to them what is needed, and then after we have decided to go forward, to get other governments to join us in designating and to support that designation process. Now, each case, of course, that we deal with is unique. We usually mix several of the different tools together as we go forward.

We will use different channels of communication. Often, the State Department and the Treasury Department will send the same message via their channels. This is the same with other agencies, but we do it in a very well coordinated and precise way as we go forward.

We also try to draw on the expertise of our embassies all around the world. We have asked that in every embassy there is a Terrorist Finance Coordinating Officer. It is often the number two person in the embassy, the Deputy Chief of Mission, that can bring together all the different elements of that embassy and give us the best understanding of how we can influence a government: what is going on politically and economically and culturally that we need to know and factor in when we are trying to build cooperation on these issues.

We have found there is no off-the-shelf answer to this. It is something that we look at case by case and wrestle through intellectually back here, too, but we get that real value-added of people who know the country as we are doing this.

We also from the State Department work very hard to lead the effort to mobilize the international cooperation that we have, not just bilaterally, but working regionally and multilaterally, whether it is at the U.N. or other places. I was just over last week, and Juan has been several other places, but I was just in Brussels. We put together an interagency team from Treasury and with OFAC coming along, with the Justice Department, with FBI and with my colleagues from the counterterrorism part of the State Department.

We met with over 100 experts from all over the European Union to really talk through the challenges that we face in terrorist financing, and they face, too. And then the day after, we had a more restricted and more classified discussion with the European Union on what we could do to make our cooperation better. We came up with some really interesting ideas.

Chairman KING. Secretary Wayne, sorry to interrupt. Can you sum up?

Mr. WAYNE. I am sorry. I am almost at the end.

Chairman KING. Okay. Thank you.

Mr. WAYNE. Only this much left. I just wanted to say, we did this in part because we know they have different legal systems than we do. They have different rules and regulations, and we need to find those common ways forward that people grappling with these issues can do when they agree on the common purpose and good will get together to work these things out.

In all of this, in fact as we go forward, as the 9/11 Commission says, in every area, and that is certainly true in terrorist finance, we need strong international cooperation. We have to engage with our allies, with our friends, and with others, and improve that co-

operation. We have been doing a good job of it. We have to keep doing it. With your support, we look forward to keeping doing that.

I will just add, that I think that is very important also, as you talk to your colleagues in parliaments and other places around the world, it can help us immensely for you to pass the message, too, about how important it is to get this right.

Thank you very much.

[The prepared statement of Hon. E. Anthony Wayne can be found on page 37 in the appendix.]

Chairman KING. Thank you both very much for your testimony.

I would like to follow up on something that Secretary Wayne said, but actually address the question to both of you. That is on the choreography involved with the Treasury Department, State Department, Justice Department, Homeland Security, and make the analogy to the intelligence community, where partly as a result of the 9/11 Commission, a consensus is developing that there should be one type or another of a national intelligence director.

We can debate about the exact terms, but there seems to be a consensus that there needs to be greater coordination and centralization.

Do you think the current system that you have, this choreography that you have, is efficient to work? Or can you consider the appointment of a czar just for the purpose of cracking down or coordinating the effort against terrorist financing?

Mr. WAYNE. Let me take the first crack at this. We have learned and adapted since 9/11 and tried to improve. I think we have significantly improved the way we work together with other agencies, the way we share information, and the way we talk through on a case-by-case basis the range of different options that we have available.

We have come up with a system where the National Security Council pulls all the agencies together. The grouping is currently chaired by Fran Townsend, who is also the Homeland Security Adviser. She also chairs the Counterterrorism Security Group, which does the broader counterterrorism work. I know Juan participates there. I do not participate in that group. Mr. Townsend or her deputy chair our PCC, depending on sometimes everybody is not available.

We really have worked it out so we get together in a small group of people with all the right clearances and talk through what are the big issues, what are the big targets, what are the right ways to go about it. It works. It is working very well.

Chairman KING. Secretary Zarate?

Mr. ZARATE. Chairman, just to add to what Secretary Wayne has indicated. I think the NSC is in essence serving in the role of the czar, if you will, the coordinator, the master coordinator of these efforts.

Chairman KING. In effect, that is Fran Townsend, right?

Mr. ZARATE. That is right. I think that is an important development for two reasons. One, the campaign against terrorist financing is one part of the larger campaign against terrorism. To divide the two in any real or substantive or bureaucratic way I think does damage to the notion that attacking terrorist financing is part of a strategic approach to dealing with the larger issue of terrorism.

The other potential problem with creating some new figure or new bureaucracy to deal with these things is the issue of terrorist financing is ultimately a cross-cutting issue from a disciplinary standpoint. It is a regulatory issue. It is an administrative function issue. It is a law enforcement issue. It deals with intelligence. It is a diplomatic issue. So it is the full range of national powers and influences and expertise that is really implicated in terms of the effort against terrorist financing.

So I think the way it is constructed now, the way it has worked has worked well. I think the 9/11 Commission and the monograph really signaled that.

Chairman KING. So if I could ask a question which again is more of a value judgment on your part, can you describe generally and specifically to the extent you can the level of intensity of cooperation you are getting from other governments? I mean, are they doing this because they have to, because they really want to? How serious do they see this issue in other governments? Are they just doing it to keep us happy?

Mr. WAYNE. Let me start off again. I know Juan will add on this, because we each sort of go to different parts of the world at different times, but we do it in a very coordinated way so we get to work with the same group of countries.

In general, the vast, vast majority of governments want to cooperate. There are a big chunk of governments that do not have the capability to cooperate. We find this particularly in developing countries around the world. Also, there is a difference between wanting to cooperate and having an effective inter-ministerial, or we would call it interagency system that works.

Not surprisingly, in many countries around the world ministries do not talk to each other very often about things that they consider their prerogative. There is a lot of breaking down of barriers that has to go on as it went on in the United States. So what we have been doing in our effort over the past several years, and it varies from country to country, it is hard to really categorize it, it means working very hard with each of our partners.

There are a number of countries where there is no question that they are quite like-minded. We together dwell on trying to figure out the right way to go about it. That was a reflection of what I was doing last week with my colleagues in the European Union. We had 100 people, prosecutors, designators, policy people, who are really trying in their own capitals to grapple with this issue and working on it.

In other places, we have found people very eager to work together. One of the examples, in fact, we shared with the Europeans last week was the results of some training we had done in Latin America with a country that had not had the ability to really track money laundering or terrorist financing. We explained how as we trained people up and they had then used that to find a terrorist financing network. Again, a country with limited capabilities, but with the will to take it on, and it had made a big difference.

Juan?

Mr. ZARATE. Chairman King, just to add briefly to what Secretary Wayne indicated. I think generally my impression and the impression of Treasury officials who have traveled around the

world and who meet with their foreign counterparts all the time, including this weekend with the IMF and World Bank meetings where the Secretary and other Treasury officials will be meeting with quite a few finance ministers and central bank governors from around the world, there is the political will to deal with this issue, largely because in particular from the finance ministry perspective, the lack of security and the threat of terrorism affects very tangibly economic development and the security of the world economy, not to mention the physical security and national security of many countries around the world.

So I think that is there, and countries have taken very important steps to put legal structures in place, regulatory structures in place. The challenge that we face, and Secretary Wayne mentioned this in his opening statement, is to get to the point where countries are able to enforce their laws effectively to the point where they are able to take action that we need them to take effectively and efficiently. That, I think, is the greatest challenge for us.

I just returned from Saudi Arabia and the United Arab Emirates, where the change in attitude since 9/11 I think has been dramatic. The level of activity on the issues related to terrorist financing and financial flows is dramatic. The level of cooperation has grown immensely over the past three years.

Chairman KING. My friend from Illinois.

Mr. GUTIERREZ. Thank you very much, Chairman King.

Assistant Secretary Juan Zarate and Anthony Wayne, thank you for coming this morning. I want to thank you for your commitment and your hard work. I can tell every time you come to testify that you are very committed to this, your enthusiasm for your job. I can tell you are two people that wake up in the morning happy to go to work. That is a good thing. I am really excited that you are there doing that work.

Let me ask you just a quick couple of questions. How would the certification program affect Treasury's work in convincing other countries to adopt anti-money-laundering and anti-terrorism standards as recommended by the FATF?

Mr. ZARATE. Congressman, it is hard to speculate, but I think it could complicate it. That is in part because the system we have in place in terms of using the FATF to set the standards, using the FATF non-cooperative country and territory list process to encourage cooperation with the FATF. And then perhaps most importantly now, the work with the IFIs, the IMF and the World Bank, to establish the assessment process, to get countries into compliance, is incredibly important.

I think we are at the stage now, and from Treasury's perspective, and I know Tony is of the same mind, we want to and need to keep a country's feet to the fire on all of this, and that is why we spend so much time dealing with our foreign counterparts. That being said, there are better ways of doing that, and subtle ways of doing that which tend to be much more cooperative, and in the end hopefully achieve better results.

I think we have seen that. We have seen that with countries like Russia, for example, in the NCCT process; countries like Egypt and Israel. The NCCT process is the process by which countries have been designated by the international community, by the FATF, for

noncompliance with anti-money-laundering standards. So the multilateral approach, the cooperative approach has largely been effective. I think that is something that we need to still utilize.

Mr. GUTIERREZ. The World Bank and the IMF annual meetings are this week. What action items are on the agenda in this particular area?

Mr. ZARATE. One of the things that we mentioned here is the growing concern that we have with respect to the use of cash couriers. Terrorist financing is always on the agenda at these meetings, and through the Secretary, the Deputy Secretary and other Treasury officials, I have a number of meetings set up as well, deal with very specific issues that we want and need countries to address. It is one of the great values of having these meetings here in Washington, in that we can meet with the 180 or so finance ministers and central bank governors from around the world to address these issues.

So it is always front and center. It is front and center with the G-7 finance ministers and the G-7 Group has been frankly a political driver on this issue, and they will continue to look at this issue. In the last meeting, the G-7 finance ministers called for not just the G-7 countries, but the rest of the world to start concentrating on the cash courier issue, which frankly has led to some very important developments.

First and foremost is the establishment of international standards with respect to how to deal with this issue, which had previously never been set. We anticipate that that standard will be approved by the FATF in October at the plenary in just a couple of weeks. That also sets forth the possibility for establishing best practices, red flags, greater communication, information sharing.

So all of those things fall into place once there is a political commitment by important countries to set that agenda item forth. That is what has happened in the past. We will continue to reiterate that issue and others at these meetings.

Mr. GUTIERREZ. A quick follow-up question. So as we have shut down their financing, their networks and their banks and done these things, the cash couriers, have we caught any of them? Are we having any success in that particular area?

Mr. ZARATE. Congressman, I can tell you that there has been some success. I cannot speak in this forum about particulars, but that is certainly the case. That is an issue that we raised with our Saudi counterparts, with our Emirate counterparts on our recent trip. I know it is something that Tony and others have raised with our E.U. counterparts. There is a growing concern.

Congressman, I do not want to overstate it, because it certainly is the case that terrorist supporters still use traditional means or more formal means of moving money. I think we have a tendency to overstate the trend. What I indicated in my opening statement is that all means are still being used to raise funds, and certainly we see the collection of vehicles to move money around the world still being used. But it is certainly much harder and much riskier, and I think we are a victim of our own success in the sense that terrorists are now using couriers instead of banks to move money around the world.

Mr. GUTIERREZ. Thank you, Secretary Wayne and Secretary Zarate, once again for coming and for the zeal and enthusiasm you bring to your work.

Thank you, Chairman King.

Chairman KING. I thank the gentleman.

Now, the Chair of the Oversight Subcommittee, Mrs. Kelly.

Mrs. KELLY. Thank you.

There was a report in The Wall Street Journal yesterday about an agreement that the Federal Reserve struck with the ABN-Amro bank stemming from indications that the bank was not following our anti-money-laundering laws. It did not ensure that the customers were not foreign shell banks and did not make the due diligence requirements with regard to some of the correspondent accounts.

According to the article, a money laundering expert who reviewed the agreement between the Fed and the ABN-Amro said it was clear from the language of the agreement that when it came to money laundering, ABN-Amro "had no program. They had just blown off the whole business of serious money laundering controls."

I understand this is a case primarily involving the Fed, but Treasury clearly holds the responsibility for administering our anti-money-laundering laws. As you know, some members of this committee are concerned that our current anti-money-laundering system needs to be strengthened.

So for the benefit of the committee, Mr. Zarate, could you please detail Treasury's involvement with this situation and tell me when did Treasury become aware of the problem, and specifically when did FinCEN become aware of the problem?

Mr. ZARATE. Chairman Kelly, this is a matter currently before FinCEN, the Financial Crimes Enforcement Network. It is under investigation, so it would be inappropriate for me to comment specifically about the case.

Mrs. KELLY. You could not even tell me when FinCEN found out?

Mr. ZARATE. Chairman Kelly, that I can get for you, certainly. I do not have that here with me now, but we can certainly get back to you with the date that we became aware of it. But Chairman Kelly, this points to the larger issue that you have been concerned about, that this committee has been concerned about, and frankly the Secretary and the Deputy Secretary have been concerned about, which is ensuring that our regulatory community is looking very diligently and adroitly at the issue of anti-money-laundering and anti-terrorist financing controls.

This is particularly important post-PATRIOT Act, where there are additional requirements. The regulatory structure has been broadened and deepened, not just for the banks, but also for non-bank financial institutions. This is incredibly important.

Chairman Kelly, as you know, we are in the process of finalizing agreements with the regulatory bodies for the banking sector to ensure that FinCEN is getting appropriate information with respect to substantial violations related to anti-money-laundering controls. I think what we are seeing, Chairman Kelly, is a very real commitment on the part of the regulators to start looking at these issues carefully. I think this is one example of that, and we will continue to work with the regulators very closely on this issue.

Mrs. KELLY. Thank you, but there is a subsequent article in today's Wall Street Journal that indicates that the Fed action came only after the Justice Department asked the Fed to step in. It seems as though the Fed actually noticed problems back in 2002, but did not take any substantive action until the Justice Department took action. Is that true?

Mr. ZARATE. Chairman Kelly, I would have to go back and check to see what the sequence is. Certainly, I cannot speak for the Fed, but we are working very closely with the Federal Reserve now on this issue. We are working very closely with the Justice Department as well, and FinCEN is reviewing the matter with alacrity and with utter seriousness.

Mrs. KELLY. Perhaps you would report back to the committee to let us know.

I would like to ask another question. You will recall this year, Mr. Zarate, that earlier the UBS was fined by the Federal Reserve and disciplined by the Swiss banking regulators for failing to comply with certain contracts that were executed between the Swiss bank in its Swiss headquarters and the Federal Reserve for the distribution of U.S. bank notes outside the United States. That is true, right?

Mr. ZARATE. Correct, Madam Chair.

Mrs. KELLY. It is still under investigation by this committee. At the time the Federal Reserve fine was levied, the public notice indicated that the law enforcement investigations were under way. It would appear that any such law enforcement investigations would need to refer to alleged violations of regulations issued by the Treasury Department's OFAC.

So here is my question. Can you confirm whether or not OFAC was investigating UBS for actions associated with its conduct of the ECI business for the Federal Reserve?

Mr. ZARATE. Treasury and OFAC, Madam Chair, are working with the Department of Justice to investigate this matter. Our jurisdiction, as you know, would lie in the activities of U.S. persons involved in the violation of OFAC-related regulations. So that is a matter that we are looking at, and the Department of Justice is looking at as well.

Mrs. KELLY. Is that still under investigation?

Mr. ZARATE. It is still under investigation, Madam Chair.

Mrs. KELLY. I wonder if you would be willing to brief our committee about that as soon as that investigation is finished and you are able to talk about it.

Mr. ZARATE. I would be more than happy to brief, Madam Chair, as appropriate.

Mrs. KELLY. I would like to turn to you, Mr. Wayne, and ask you a question. You mentioned that you were, I believe it was you, that you went to Saudi Arabia, or was it Mr. Zarate? What is the news from Saudi Arabia? Because in January of 2003, the United Nations asked that every nation have within 3 months a plan that would be in place to combat terrorist financing. To this date, there are over 100 nations from the United Nations that still have not complied with their own mandate that they get this done.

So I would like to know about Saudi Arabia, because they announced with this great fanfare that they were setting this office

up, but they really have not, at least the last time I heard, which was fairly recently. They have not assigned anybody to the office. There was nobody on the payroll to follow what Saudi Arabia was doing to follow the terrorist money. What is the news from Saudi Arabia?

Mr. ZARATE. Madam Chair, with respect to the United Nations reports, that is an issue of concern to the State Department and to us. I was actually just up in New York meeting with Ambassador Munoz from the 1267 Committee to talk in part about the need to have greater international compliance and reporting.

The news from Saudi Arabia, Madam Chair, is generally positive. I will tell you that with respect to the establishment of the financial intelligence unit, they have started to move toward establishing that office. I met the Deputy Director of the FIU who is being assigned. We were given details with respect to how many people would be working in the office, from which departments. We met with the Ministry of Interior to ensure that the FIU was treated as a serious part and a partner of their terrorist financing efforts. So that is an important and interesting development.

With respect to the charities reforms, certainly your concern is our concern as well in that the consolidation of the charities and the way the charities move money abroad is of central concern to us. We have pushed the Saudi government very hard and very clearly to establish that committee and that board to ensure that Saudi money is going to intended good purposes around the world.

As it now stands, the Saudis have stopped the flow of money abroad through official charitable channels, meaning all of the committees that they have established for a variety of purposes to send money to crisis regions, has stopped. That being said, we want to see this Charity Commission stood up. We want to see it active.

We also want the Saudis, and we said quite clearly to them again on this trip, see a way of dealing clearly with groups like IIRO and WAMY, which are multinational charitable organizations that are operating out of Saudi Arabia.

So that is front and center on our agenda. We will continue to raise those issues.

Mrs. KELLY. Mr. Zarate, I have one more question. When will the MOUs between Treasury and the banking regulators be finished?

Mr. ZARATE. Madam Chair, I am hoping that those will be completed very soon. By "very soon," I will signal by the end of the week.

Mrs. KELLY. Stuart Levey testified that they would be done in September. So hopefully they will be done and we will be able to be informed by the Treasury that we have those things in place. Is that correct?

Mr. ZARATE. Chairman Kelly, we are going to try to stick to Under Secretary Levey's commitment and we will certainly let you know.

Mrs. KELLY. Thank you very much.

Chairman KING. The Vice Chair of the subcommittee, the gentlelady from Illinois.

Mrs. BIGGERT. Thank you, Mr. Chairman, and thank you, Madam Chairman, to both of you for holding this hearing.

My question is for both of you gentlemen. Yesterday, Chairman King and I introduced an amendment in committee on the 9/11 Implementation Act. It was approved. Our amendment was to ensure that the Treasury Department's role as the lead federal agency in international financial matters is clear, even as the State Department is really seeking I think expansion of its diplomatic capabilities. The text was to ensure that the Secretary of the Treasury is the lead U.S. representative and negotiator to international financial institutions and multilateral financial policymaking bodies.

It was our feeling that we must keep our Treasury experts, and in collaboration with the State Department experts, on the frontlines in our dealings with international financial bodies, abroad as well as at home, and that we have consistent financial leadership and a consistent financial message.

Now, having said that, both or your testimonies goes into unprecedented cooperation amongst our government agencies. It appears very much that the two of you collaborate very much. Are we going to have problems? This is out of committee now and it will go to the floor. Are we going to have problems in this area as far as turf wars or do you envision that this is the way that it should be, and that we will keep everybody working together, and this will help to improve the collaboration?

Mr. ZARATE. I think the cooperation to date has been very good, very strong on these efforts. I think what has proven important, and I think Tony would agree with me, is that having Treasury channels of communication, finance ministry to finance ministry, Treasury to central banks, and Treasury to the international financial institutions and various regional bodies, is extremely helpful, in part because those ministries and those bodies tend to be more technical; tend to be focused on the implementation of the important steps that we have been talking about. There is a certain degree of credibility that exists within that world, within the world of the finance ministries, that helps in terms of implementing the standards and the efforts that we want to protect the international financial system.

So I would dare say that there has never been a doubt that Treasury is important internationally. I think the State Department has used us well, and as well we have relied on the State Department and the great work that they do around the world. I do not expect that to change.

One word of caution when talking about potential codification of coordination. There does come a point when coordination does become a buzz word for inaction or calcification of bureaucracy. I think we need to be careful not to over-establish bodies and interagency bureaucracies to coordinate functions, because that ruins in fact part of the flexibility that we have had that has been part of our success to date.

Mrs. BIGGERT. Thank you.

Mr. WAYNE. I would just add that, in fact I think the coordination is unprecedented; that it is reflected in a broader degree of coordination because the Treasury Department is now a full member of the National Security Council. What that means is not just on terrorist financing, but when we are dealing with any country around the world, whether we are dealing with Afghanistan or Iraq

or Africa, you have the Treasury Department right there with the State Department and Defense, and chaired by the National Security Council, bringing this all together.

That has created an atmosphere that has made it much easier for us to coordinate on these specific issues. We do not send a message out on terrorist financing that is not cleared by the Treasury Department. They do not send a message out that we have not talked about, to get the message consistent. Because otherwise, we are undermining ourselves, if we are sending different messages. We recognize that we each have different channels that are very important.

It is clear that the Treasury Department and the Secretary of Treasury has the lead with the international financial institutions. That works out extremely well.

Mrs. BIGGERT. Thank you. I commend you.

Mr. Zarate, regarding the recent security threats announced at the end of July, I note that there were two categories of financial institutions that were identified. One was the private U.S. firms and the other was the international financial institutions. What role did the U.S. Treasury Department through the executive directors that sit on the boards at the IMF and the World Bank, work with those international financial institutions to respond to the security alerts?

Mr. ZARATE. We have a very important office within Treasury that deals with critical infrastructure protection led by Assistant Secretary Wayne Abernathy. Wayne and others in his shop deal very closely with the Department of Homeland Security, as well as with our EDs to ensure the safety and security of the financial institutions, to ensure that all the measures are being taken to ensure their physical security, as well as the critical infrastructure security of these institutions.

I will say that Wayne and his people within Treasury were seminal partners in terms of helping to bridge the divide with the financial institutions as the information came out. I will say, and I have said this to the private sector, the threat warnings to the financial institutions makes very tangible the fact that these institutions are literally on the front line in the war against terrorism and terrorist financing.

It is important for us to do our best to inform them and to keep them as safe as possible, because they are important parts of the economic security of our country and of the world.

Mrs. BIGGERT. Thank you.

I yield back, Madam Chairman.

Mrs. KELLY. [Presiding.] Thank you very much.

Mr. Paul?

Mr. PAUL. Thank you, Madam Chairman.

A while back in our history, we had a lot more respect for the Fourth Amendment than we do today. I see that we have had a gradual erosion of that principle that our persons, our papers and the effects are to be secure. Then there was another blow to that principle with legislation following 9/11 out of the legitimate fears that this country experienced.

Yesterday, there was a court ruling dealing with the privacy issue. A federal court ruled that wholesale or blanket searching of

records of customers on the Internet and on telephone records violated the Fourth Amendment, although we in the Congress said such searches were perfectly all right. So there is a contest going on now. Those in the courts who still believe a little bit in the Fourth Amendment and those in the Congress who seem not to care too much.

Mr. Wayne, you mentioned, and this is a statement I agree with, that if you follow the money, you get to the terrorists. That sounds like a pretty good idea. But I have problems with following the money of 200 million Americans while the terrorists are getting lost in the maze, and this is more or less what the 9/11 Commission said. They said that there was too much material that was never looked at. Even if the new regulations had been in effect, it would not have helped catch the al Qaeda, which is the real issue today, how can we prevent what happened.

They said they did not even use the banking system enough that they would have been detected. So there is a question about the impracticality of following everybody's money and then there is also the constitutional question about whether or not we should be doing it. You do not write the laws. You are trying to enforce them. There is a bit of a discussion going on between the courts and the Congress right now.

But my question is this. Do you think, under today's circumstances that you are very much involved in, in trying to protect our country, do you think it is necessary for us in the Congress to give up a little bit of our freedoms, to sacrifice liberty, to be more casual about the privacy issue in order to be more secure? Is this a legitimate sacrifice?

Mr. ZARATE. Congressman, I leave that balancing act to Congress and to you. Our job, as you indicated, is to implement the law and to enforce it to the best of our ability, to safeguard the U.S. economy, the American people, and our financial system. You have raised a number of issues. I cannot speak to the case that you referred to. I am not familiar with it and I leave it to the Department of Justice to react to it.

I would like to mention, though, with respect to the 9/11 Commission and the monograph, two points. First, I think what has changed since 9/11 is a greater awareness in the financial community, not just the banking community, but also the non-bank financial institutions, with respect to potential activity related to terrorism. There is greater awareness.

We have provided more guidance, and frankly we have used the powers you provide in section 314(a) to get more specific information out to the financial community in real time, which has led to very important leads in the money laundering and terrorist financing field.

Mr. PAUL. May I ask you a question along those lines? How much would you be handicapped if you were always required to get the proper search warrant, rather than being able to look at the records rather casually? Would that put a big handicap into your ability to do the job you are trying to do?

Mr. ZARATE. Congressman, if you are talking about requiring a search warrant, for example, before the filing of a suspicious activity report or before sending out lead information to the private sec-

tor via section 314(a), it would be a major handicap. And it would affect greatly the work of law enforcement, not just in tracking domestically potential terrorists and terrorist financiers, but also internationally.

Part of the challenge, and I think this is one of the conclusions from the 9/11 Commission, is that prior to 9/11 we were not doing a good job of sharing information, of putting the dots together. And I think the more that we restrict our ability to share information, the more we are at risk of not putting those dots together.

I would like to just indicate one of the issues raised by the 9/11 monograph was an issue with respect to our blocking of assets. As Secretary Wayne mentioned, designation of individuals and the freezing of assets in a preventive way is an incredibly important tool and an important part of what we do. In each instance in which that authority has been used and challenged in court, the U.S. government and the Treasury Department have won in court, at the District Court level and as well at the appellate court level.

So I want to mention that for the record because there is often a discussion of civil rights in the context of what we do. And I wanted to indicate that the Congress has appropriately given us powers that fall within the constructs of the Constitution and are exercised, frankly, judiciously within the law.

Mrs. KELLY. Thank you, Mr. Paul.

Mr. Inslee?

Mr. INSLEE. Thank you very much.

I wanted to ask you about some information I received, to see if it is accurate or not. I was looking at a letter contained in a piece called Money Laundering Alert by Samuel Bodman. And that revealed that OFAC as of May 2004 had an average of 21.43 employees dedicated to enforcing Cuba country problems, that is broadly speaking; an average of 16 employees to track Iraqi terrorists and locate the missing assets of Saddam Hussein; and 16 to monitor al Qaeda.

Are those numbers accurate, roughly accurate, grossly distorted?

Mr. ZARATE. Congressman, there has been a bit of a distortion, I think, in the media with respect to the numbers and the commitment within OFAC and within Treasury to deal with terrorist financing.

The majority of the assets within OFAC analytically have been used to track terrorist financing, not just al Qaeda, but other like-minded terrorist groups around the world like Jemaah Islamiyah, North African groups, et cetera. So that has been part of our effort.

We have also worked and been an important part, along with our State Department colleagues, in finding and repatriating Iraqi assets around the world. Ambassador Joe Saloom from Tony's office has been an important part of that, and we have repatriated over $2.7 billion to the Iraqi people, due in large part to the work of folks at OFAC.

Congressman Inslee, I do want to note, and I think it is a bit unfair to OFAC and to the Treasury Department when some of these media articles come out. OFAC is the enforcement-sanction body of the U.S. government. It enforces 29 different sanctions that are important to the U.S. government for a variety of purposes. Cuba is one of those, but we also have others, Zimbabwe, Syria, others that

are of import to us. That is a part of our national security. It is part of our mandate and it is important for us to do that work as well.

Mr. INSLEE. I appreciate all that work, but the ratio of the Americans killed by al Qaeda to the Americans killed by Fidel in the last 10 years is 2,900 to 1. The ratio of your inspectors chasing Fidel and people going down to Cuba is about 1.3 to 1. Those ratios to me and my constituents make no sense whatsoever, given the emergent nature we are in, where Osama bin Laden is on the loose, and you are not chasing him with the assets that we are paying you to chase him with.

You are out there fooling around with what is going on with tourists going to Cuba, rather than chasing the guy that killed 3,000 Americans. I am just telling you from one district of this country, and I only have one district I represent, that is a gross mis-application of resources.

Now, it seems to me, I understand you have statutory obligations, but it seems to me in the nature of the threat we face today, you would have a ratio of about 3,000 to 1 chasing down al Qaeda assets, rather than people who want to go play ping-pong in Cuba. Now, tell me why my assessment is not accurate?

Mr. ZARATE. Chairman, first of all I would hope that——

Mr. INSLEE. I am not the Chairman. I am just a minor member of the committee.

Mr. ZARATE. Excuse me, Congressman. With respect to the numbers, I would hope that you and others would certainly go back to your constituents with the real numbers and the real fact that we are devoting not just within OFAC, but within FinCEN, within our office, within the State Department and other parts of the U.S. government, considerable resources and an overabundance of resources to do precisely what you and everyone else wants to do.

Mr. INSLEE. Could I stop you just for a second, because I want to make sure that I understand your answer. The best numbers that I have seen are from this May 4 letter that said there are 21.43 employees dedicated to enforcing Cuba sanctions and 16 to monitoring al Qaeda. Now, if those numbers are not accurate, could you give me the numbers, please? Could you give me the number of people chasing Cuban tourists to the number chasing Osama bin Laden's money? Could you give me some numbers?

Mr. ZARATE. Congressman, I would be very happy to get you the exact numbers. Those numbers fluctuate in large part because we switch and rotate analysts to deal with emerging issues, for example emerging terrorist financing concerns in East Asia or North Africa. But we would be very happy to get that back to you.

Congressman, I do want to indicate, though, that with respect to the Cuba program, the bulk of those resources are used to license individuals who want to go down to travel, to do business in Cuba. So a part of the function is not as you construe a function of tracking Castro's assets, but in fact providing a service to the American people to allow the kind of interchange that Congress and the Administration wants and needs us to do. So I think that construal is a bit unfair.

Mr. INSLEE. Let me just give you two comments. One, I will not be satisfied, and more importantly I do not think my constituents

will be satisfied, until the ratio of those numbers are about nine to one at least, number one. And number two, you could help us by removing some of the necessity, by removing some of these travel restrictions to Cuba, so instead of hiring people in bureaucracies to push paper to go to Cuba, we can change our policy and we can direct the national resources of this country to protecting people from getting killed by al Qaeda.

I am just telling you that is a much higher priority at this moment in our national life. I encourage you to think about that issue, and the next time we talk maybe you will have a better ratio and I will feel a little more secure.

Thank you.

Mrs. KELLY. Thank you, Mr. Inslee.

Gentlemen, I understand from the reading and the research we have done that privacy laws of various countries seem to prevent some of them from scanning records to find out whether or not shell companies are there and whether or not those companies are hiding Saddam's assets. I would like to ask both of you what progress we have made in our ability to scan for shell companies and to overcome the obstacles and to help other countries do this as well.

You can take it, whichever want to pick that up.

Mr. ZARATE. Chairman Kelly, we have had quite a bit of progress on this front. As you are aware, we have designated well over 200 Iraqi parastatals, as well as front companies that were used by Saddam as part of his economic web around the world, in some instances to try to procure weapons systems; in some cases to try to move and hide money. So we have had a good deal of success.

One of those companies, Al-Wasel and Babel, we designated and it has been shut down, according to the United Arab Emirates, part of the reason I wanted to visit to make sure that had happened. So that has been important. That has been an incredibly helpful step.

What we are still struggling with, as you have indicated, are instances where certain countries have not been as cooperative or as forthcoming, and we have tried to deal with that on a bilateral basis diplomatically and otherwise to try to get access to information and to get action out of these countries.

Mrs. KELLY. Mr. Wayne, do you have anything to add to that?

Mr. WAYNE. Only that this issue and other privacy issues do come up as we are working through a number of the terrorist financing questions. Of course, it is most easy to make progress on this when we can get a consensus galvanized unfortunately by something very serious and sad that happened, or even the new possibilities in the case of Iraq where we are able to have a United Nations consensus that yes, we should be tracking down Saddam's assets, which thus allowed committed countries around the world to cooperate with us in this effort.

Similarly, just to take it on the side of al Qaeda, we have in the U.N. the 1267 Committee list which commits people to act on al Qaeda-related groups or Taliban-related groups. When you get into the other terrorist groups, you have to work on a bilateral or a regional basis to build consensus, and sometimes you run into these privacy issues.

For example, as we are were talking with the European experts last week and others, they were talking of some of this tradeoff in their own legal system, not on the shell companies so much, but on what is the basis on which you should freeze money. Should it be at a standard that we and some other countries have of a preventive basis of good reason to believe? Or do you need the same level of going to a criminal prosecution?

That is, in part, why we needed to get people in those cases together to talk this through, because we are working from different standards. That is not precisely on your shell company issue, but it is an issue that cuts across some of the most difficult issues we face.

Mrs. KELLY. Obviously, the origin of my question is the Oil-for-Food. The GAO report indicated that in May that there was some difficulty here with regard to the foreign companies's laws. I am hopeful that you are working to try to break that apart. We need, if anything, to talk about a serious and sad situation. The Oil-for-Food scam is a serious and sad situation, especially for those poor people in Iraq. I feel very strongly that our government needs to help other countries focus on the problems that we have.

I also wanted to ask you another question, and that is that the IMF and the World Bank, we know that they are providing technical assistance to member countries to strengthen the financial regulatory and supervisory frameworks. I would like to know what type of technical assistance is being provided, and are you going to provide any follow-up for it?

Mr. ZARATE. Chairman Kelly, the IMF and World Bank certainly are a part of that process of providing technical assistance, but there are also other bodies providing technical assistance largely, frankly, on a bilateral basis and in some cases a regional or multilateral basis. For example, the Group of 8 countries has a group called the Counterterrorism Assessment Group which is charged with doing precisely this, to provide technical assistance in the area of terrorist financing, as well as other counterterrorism areas.

Specifically with respect to the IMF and the World Bank, those institutions provide technical expertise with respect to the types of financial controls that should be in place in the banking system, the types of regulations and controls that should be in place in nonbank financial institutions, and frankly now with the marriage with the FATF standards, how best to put into practice the FATF standards that are required of all countries around the world.

So it is putting in place the systems that make sense and using the technical expertise that both of those bodies are building up.

Mrs. KELLY. Mr. Zarate, beyond the Group of 8, who else is involved in this?

Mr. ZARATE. I will leave part of this to Tony, because certainly the United Nations is a part of this. The 1373 Committee has a part of its mandate to marry both those in need of assistance with those countries willing to provide assistance. They have been trying their best to do that.

I will allow Tony to editorialize as to whether or not it has been effective. But in any event, there have been multiple attempts to do this. The FATF itself has done quite a bit in terms of assess-

ments and providing some technical expertise to countries around the world.

Mrs. KELLY. Thank you.

Mr. Wayne?

Mr. WAYNE. I will just add that within the U.S. government we have also made a concerted effort to have a coordinated approach to the kind of technical assistance we provide in this area. It comes from a wide range of departments, not just the State Department and the Treasury Department. We bring about 20 offices together on a regular basis to coordinate and plan where we are providing that technical assistance.

In addition, as Juan Zarate has said, we coordinate bilaterally very closely with the United Kingdom, with France, with Australia, with Spain. In the G-8, as he said, we have put together now a comparative listing of where we are all giving assistance. Just last week at the E.U., they asked to start coordinating because they are starting a new program which they did not have before to effectively provide technical assistance in the area of terrorist financing with us and others.

We have also worked in APEC and in the OAS to start this, but in a number of areas it is a nascent process. Overall, there is no question that the need is greater than the current provision of technical assistance. Part of that is money and part of it is finding the right kind of specialist to go out to these places and actually train people.

So we are working at expanding this circle and getting the circle talking and communicating with itself, and within that circle, but there is no question that there is more to do.

Mrs. KELLY. I want to go back to that question. Do you intend to stay with this and follow up with regard to making sure the IMF and the World Bank are in fact doing it? Forgive me for being slightly cynical, but when we have the United Nations promulgating rules and regulations for themselves, and then nobody living up to what they said; with 100 nations that have not even put anything in place; haven't even reported back to the United Nations, I am a little cynical about the fact that this work is actually going to get done. I think it may need a follow-up. Will you do that?

Mr. ZARATE. Chairman Kelly, absolutely. We work very closely on a daily basis. There are very skilled folks in the office of international affairs and the people in our office work very closely with the IMF and the World Bank, and we know that the institutions are not only committed to it from a political perspective, but have started to build the technical expertise to actually do this, which is important. We work closely with those experts. We know them personally. We talk to them on a daily basis, so that is important.

I would like to mention, Chairman Kelly, that in terms of dealing with other countries, and this goes to your Iraq question as well, we follow up very aggressively. The Director of my office, Danny Glaser, just came back from Syria and Jordan to deal with some very serious concerns we have, in particular with the Commercial Bank of Syria which was given the section 311 designation. He is the head of our U.S. delegation to the FATF and has done a phenomenal job.

We are also looking at creative ways of enlisting the private sector in terms of building capacity. We have something called the Buddy Bank Initiative, where we are working on a pilot basis to try to enlist the more developed banks to help lesser developed countries and banks to build up the capacity in their private sector to deal with these issues.

So we are dealing aggressively with all of these issues. We are trying to think creatively, and we are trying to use all of the powers and resources at our disposal.

Mrs. KELLY. Thank you very much.

Ms. Biggert, did you have another question?

Mrs. BIGGERT. Just a very brief question. Can you identify the next main areas for attention within the FATF in light of the attention that the G-7 is devoting to informal value transfer networks? And does this create a tension within G-8's other initiative to lower costs and make more accessible remittance worldwide?

Mr. ZARATE. That is a very good question. With respect to next challenges, I think in part dealing with the courier issue is very important. As we have seen, many countries around the world have not necessarily thought about this issue, have not created systems internally to coordinate their customs service with their intelligence services with their banking regulators. So that is very important and will be a focus of the FATF in October, and will be a focus of the FATF-style regional bodies around the world.

I think the larger issue for all of us, and I think this is why the arrangement with the IMF and the World Bank is so important, is the implementation and enforcement of all of these standards. With respect to alternative remittance systems and money remitters, that means bringing to the light of day a sector that frankly has been unregulated to date, and making sure that there is transparency and accountability, and that we do so in a way that balances precisely the concerns that you have mentioned, which is not driving these services underground, ensuring that they are accessible services to populations, especially expatriate populations.

Frankly the effort to bring those populations into the formal financial sector is part and parcel of our efforts to deal with the issue of unregulated money flows throughout the world. So you have hit on something very important to us. It is something we are working on very closely with some regional banks, as well as countries around the world. That is certainly an important priority for us moving forward.

Mr. WAYNE. If I could just add, Congresswoman, you have hit on a very important point here because I think we all remember that one of the recommendations of the 9/11 Commission was that we need to focus on creating jobs and prosperity and possibilities for young people around the world.

Remittances are a very legitimate source of sending money home from workers who are overseas. So you have to make that both legitimate and inexpensive for people to do. That is one of the challenges. That is why there are several different approaches to this going on around the world. The United Arab Emirates has taken one approach, which is to have a light kind of licensing system for hawaladars in their area, but one that brings them into the formal system. In Pakistan, they have taken another approach which is

basically to make the banks cheaper and to have everything go through the banks.

Part of this is experimenting, and we are watching what works best, but they both recognize that it is legitimate to send the money back home. In fact, as you correctly pointed out in the G-8, they pointed out how important it is to get remittances going home to countries and creating jobs and into that capital that can be invested and help new businesses back home. So we are trying to balance this as we go forward. We are trying to keep in mind, as we create the Millennium Challenge Account and other development effects, that this work is really part of our battle against terrorism; that development is a pillar of our national security strategy.

Mrs. BIGGERT. Thank you very much.

I yield back.

Mrs. KELLY. Thank you.

Mr. Inslee, do you have another question?

Mr. INSLEE. Thank you very much.

I wanted to follow up on what we were talking about earlier about trying to figure out where this policy originated regarding use of resources in Cuba relative to al Qaeda. I just tumbled on something kind of interesting. In 2003, this is according to a report released to the Senate Committee on Finance, that OFAC at a cost of $3 million had an average of 21 full-time employees working on Cuba sanctions, triple the number of employees it had in the program at the beginning of 2002.

In the same report, OFAC revealed that it employed no Arabic interpreters and that it had only two employees who spoke Arabic "at a level of moderate proficiency." This is apparently the response in October 2003, President Bush began an initiative to further strengthen the enforcement of the Cuba travel ban by instructing the Department of Homeland Security to "increase inspections of travelers and shipments to and from Cuba."

Shortly after that, the DHS issued a press release saying that it will "step up enforcement of travel restrictions to Cuba that are already in place, using intelligence and investigative resources to identify travelers or businesses engaged in activities that circumvent the embargo."

From that, it appears to me that the President of the United States is the one responsible for making a decision that instead of putting additional resources into the hunt for al Qaeda and its money, he has taken the resources that could have gone there and put it in this effort in Cuba. Is that generally an accurate assessment on who is responsible for this prioritization?

Mr. ZARATE. Congressman, the President and this Administration, and in particular the Secretary, have committed to and have been committed to doing everything possible to disrupt and dismantle the financial infrastructure of al Qaeda and other like-minded terrorist groups. We have done that. I think the 9/11 Commission report signals that, and we have done a very good job.

I think focusing on the numbers in the way that you are tends to distort the level of commitment that exists within the U.S. government to this effort. Again as I mentioned, OFAC is just one part, a very important part, but just one part of our effort to attack

terrorist financing. The analysts do phenomenal work, but their work is complementary to the work being done by the intelligence services, by law enforcement, by our diplomats, by our policymakers, by others at FinCEN.

So to take that in isolation and to use that as a representation of the level of commitment of this Administration or of the Secretary of the Treasury to combating terrorist financing is both wrong and misleading.

Mr. INSLEE. I appreciate what you had to say, but I do not think you answered my question. I wanted to ask who is responsible for making this decision. As best as I can tell, it is the President of the United States who directed you to increase your spending involving Cuba sanctions and Cuba tourism policies. Instead of taking the money that went into that Cuba effort, and shifting it to the hunt for al Qaeda, the President decided to put it into Cuba.

Now, if it was not the President who decided to do that, who did it? Could you give me a name? Who made this decision?

Mr. ZARATE. Congressman, the President established the Commission for Assistance to Establish a Free Cuba, which was an interagency commission led by the State Department to establish policies to promote both in the short term and the long term the ability to bring peace and prosperity and freedom to the Cuban people. The reality is that we can walk and chew gum at the same time.

As I mentioned, we have 29 sanctions programs that we administer. Forty percent of our resources are devoted to terrorist financing within OFAC. Again, OFAC just being one office within the Treasury Department, within the whole of the U.S. government. Thirty-five percent of our OFAC resources are devoted to country programs; 20 percent are devoted to our drug trafficking program which has been incredibly important and effective in dealing with the Cali cartel in Colombia, most recently with a very important designation on that.

Mr. INSLEE. Let me ask you, what I assume you are saying is that we have maxed out. We have all the resources we could possibly use to hunt down al Qaeda. I have a very difficult time believing that because between 1994 and 2003, OFAC brought 4,301 civil penalty enforcement actions regarding Cuba, and 2 regarding terrorism.

Now, I guess I should ask you specifically, are you telling me that you could not use effectively additional resources to try to cut off the funds from going to terrorist activities, including al Qaeda? Is that what you are telling me? You could not use another person effectively?

Mr. ZARATE. Congressman, I cannot speak to what happened in the prior Administration, but what I can tell you is that this Administration has made the combating of terrorist financing a priority. The Secretary of the Treasury and the Secretary of State have made it a priority and we have done everything possible.

We can always use more resources to do everything we are doing, whether it is implementing effectively and responsibly the Cuba sanction program, the Burmese sanction program, the Syrian sanction program, the Zimbabwe sanction program, or the drug traf-

ficking program. We do that as efficiently and effectively and judiciously as possible.

Mrs. KELLY. Thank you, Mr. Inslee. I am sorry.

Mr. INSLEE. Thank you, Madam Chair.

Mrs. KELLY. The Chair notes that some members may have additional questions for the panel which they may wish to submit in writing. So without objection, the hearing record will remain open for 30 days for members to submit written questions to these witnesses and to place their responses in the record.

We are very grateful for the testimony that you both provided here today. We also hear your concerns and we also applaud you for the steps that you have taken to cooperate for all of us to experience a world that is becoming more and more free from terrorist activities. So we thank you very much.

With that, this hearing is adjourned.

[Whereupon, at 11:28 a.m., the subcommittees were adjourned.]

A P P E N D I X

September 30, 2004

OPENING STATEMENT
CONGRESSMAN PETER T. KING
before the
HOUSE COMMITTEE ON FINANCIAL SERVICES

"Combating International Terrorist Financing"

September 30, 2004

The Subcommittee on Domestic and International Monetary Policy, and Subcommittee on Oversight, Chaired by my colleague from New York, Mrs. Kelly, meet jointly today to receive testimony from the Departments of Treasury and State regarding their efforts in the global fight against terrorist financing.

We are fortunate to have the Honorable Juan Zuarate, Assistant Secretary for Terrorist Financing for the Treasury Department, and the Honorable Tony Wayne, Assistant Secretary for Economic and Business Affairs for the Department of State here with us today.

Since the attacks of 9/11, the United States has worked aggressively to obstruct terrorist fundraising and money laundering efforts. This hearing builds upon the continued interest exhibited by this Committee overseeing the efficient and shared use of enhanced money laundering tools exerted by various executive agencies.

Tools such as enhanced reporting requirements by banks, expanding the scope of forfeiture law, imposing new due diligence standards upon financial institutions managing large private accounts for foreign individuals, and measures for tracking and interrupting the flow of criminal funds through off-shore secrecy havens are examples of new authority granted by the USA PATRIOT Act.

In addition, the Bush Administration signed an Executive Order shortly after the 9/11 attacks allowing the freezing of terrorist assets. These efforts led to the freezing or seizing of roughly $200 million in terrorist-related assets worldwide, and designation of 383 individuals and entities as terrorists or facilitators of terrorism.

Internationally, the U.S. continues to work with the Financial Action Task Force (FATF) to garner foreign support in the fight against terrorist financing. Although a difficult task, the U.S. continues to advocate for regulatory changes in foreign countries allowing for increased transparency of financial transactions to determine the true identity of various bank accounts.

In addition, the Administration has worked to enhance information sharing arrangements and stronger anti-terrorist financing initiatives with various countries. I look forward to hearing testimony on these efforts and what can be done to build upon them.

Yesterday, as you know, the full Committee passed its section of the 9/11 legislation package put forward by the House leadership to respond to the recommendations of the 9/11 Commission.

Among the numerous tools provide to combat terrorist financing, the legislation requires the Treasury Department to develop a national money laundering strategy, boost the

authority of the Financial Crimes Enforcement Network, and directs the Secretary of the Treasury to establish an international terrorist finance coordinating council.
I believe these are important tools needed to help stem the flow of terrorist financing, and I look forward to your comments on these measures.

We still have a long road ahead us when persuading other countries to adopt and enforce new anti-money laundering regulations, but that should not discourage our efforts or cause us to loose sight on the need for international transparency.

I hope you will continue your vigilant efforts to work with the international community, and help combat efforts to finance terrorism.

With that, I yield to the Chairwoman and colleague from New York, Mrs. Kelly.

Opening Statement
U.S. Representative Judy Biggert (R-IL-13th)
Before the Financial Services Domestic and International Monetary Policy and Oversight and Investigations Subcommittees
"Combating International Terrorist Financing"
Thursday, September 30, 2004

Thank you, Mr. Chairman, for holding this important hearing, and for giving us the opportunity to hear from these key witnesses this morning.

In hearings throughout the past weeks, we have heard a great deal about our country's stepped-up efforts to fight the money-laundering efforts of terrorist groups. Today we reach beyond our country's boundaries, where rogue individuals and groups can and do take advantage of weak financial laws, regulations and enforcement authorities of other nations to raise and move funds for terrorist activities.

The 9/11 Commission recognized our country's success in tracking and freezing terrorist finances after September 11, 2001, and that was certainly welcome news. But the sad truth remains that we are only as strong and successful as our weakest link. Our weakest link may be a country, or several countries, with antiquated financial systems, a weak economy, or inadequate oversight and enforcement of the money that flows within their boundaries.

Through diplomatic and other means, we must encourage other nations to join the United States and our existing partner nations in our fight against money laundering and terrorist financing.

Without their cooperation, our efforts can never be 100 percent safe and sure. Our joint challenge is to ensure that they establish strong and consistent policies and standards that enable them to protect their nation, economy, businesses, and citizens from terrorist activity.

No country's efforts can be confined to its own borders. With strong and consistent oversight of financial systems at home, these countries, like the United States, must step into the global scene and

become active in a world-wide coalition to fight terrorism by tracking and freezing terrorist assets.

The United States is recognized as the world's economic leader and a leader in the war on terror. Much of our success is due to the outstanding efforts of our diplomatic and financial experts that work at home and abroad to identify, track and freeze terrorist finances. The 9/11 Commission testified before this Committee that there must be experts, such as those that we will hear from today, at the forefront of our efforts to continue to counter terrorist financing.

The Department of the Treasury houses the financial experts that have led our country in its successful efforts to counter terrorist financing at home and abroad. Abroad, Treasury's financial experts are the lead negotiators in discussions about financial matters, including anti-terrorist financing, with multilateral financial institutions, such as the IMF, World Bank and FATF. The Department of State also plays a role in our anti-terrorist financing efforts with regional, bi-lateral, and multilateral international bodies, such as the United Nations.

Yesterday, this Committee approved the Biggert-King amendment, which makes changes to Title IV of H.R. 10, the 9/11 Commission Implementation Act. Our amendment seeks to ensure that the Treasury Department's role as the lead Federal agency in international financial matters is clear, even as the State Department seeks to expand and enhance its multilateral diplomatic capabilities. The text of Title IV also was amended to ensure that the Secretary of the Treasury is the lead U.S. representative and negotiator to international financial institutions and multilateral financial policy making bodies.

We must keep our Treasury experts, in collaboration with our State Department experts, on the front lines in our dealings with international financial bodies, especially when those bodies are making decisions with regard to anti-terrorist financing.

Our amendment would ensure that – abroad as well as at home -- the U.S. has consistent financial leadership, a consistent financial message and endorses consistent financial policies.

While we have been successful, to date, and are continuing to be vigilant in our anti-money laundering and anti-terrorist financing efforts, I hope that our witnesses can shed light on our progress to impel other nations to do the same.

Specifically, I look forward to hearing from our witnesses about:

First, how the United States is reaching out to other nations and international bodies to bolster the financial systems and financial oversight of those countries whose systems are weak;

Second, how the United States is garnering the support and cooperation of all nations, especially those that tend to breed terrorists, to track and freeze terrorist funding and to ultimately cut-off the life line of terrorism, which is money.

I thank the chairman, and I yield back.

Statement of Chairwoman Sue Kelly
Joint Hearing
Subcommittee on Domestic and International Monetary Policy, Trade and Technology
Subcommittee on Oversight and Investigations
"Combating International Terrorist Financing"
September 30, 2004

Good morning. I would like to thank my colleague from New York, Subcommittee Chairman King, for co-chairing this important hearing on our government's efforts to combat international terrorist financing.

Earlier this summer, the Financial Services Committee held a hearing on the findings of the 9/11 Commission Report and the commission staff's Monograph on Terrorist Financing. After reviewing both reports, it is clear that we have made much progress in our international efforts to weed out terrorist financing money since 9/11 and passage of the USA PATIOT Act.

Today, the Administration continues to work with its foreign counterparts to enhance cross-border information-sharing arrangements and to promote stronger anti-terrorist financing regimes in specific countries. In fact, the Administration is currently working within the Financial Action Task Force (FATF) – an intergovernmental policymaking body comprised of 33 member countries and territories – to develop "best practice" standards for combating terror finance. At the same time, the number of Financial Intelligence Units (FIUs) qualifying for membership in the Egmont Group – an international forum for coordinating global anti-terrorist financing and anti-money laundering efforts – has grown from 58 in 2001 to 94 today. Finally, the FATF standards are now a permanent part of the Financial Sector Assessment Program (FSAP) reviews undertaken by the International Monetary Fund (IMF).

While the impact of these efforts is currently being felt across the world, we must continuously improve our ability to work with the international community to weed out terrorist financing and shut down new and emerging threats. In order to strengthen our government's hand, there are several areas that I would like to explore today, including a Treasury-led certification program and a "secondary ban" under the USA PATRIOT Act.

Yesterday, the Financial Services Committee passed legislation to implement recommendations of the 9/11 Commission Report to ensure that we are protecting the American people. The legislation is a comprehensive response to the Monograph on Terrorist Financing; however, I do believe there are several areas that Congress must explore to encourage cooperation from foreign governments and financial institutions.

The creation of a Treasury-led certification program would acknowledge the vitally important international aspect of our fight against terror finance and ensure that countries are cooperating in these efforts.

Under such a proposal, the Treasury Department would be required to report annually to Congress any countries of concern that are not cooperating in anti-terrorist financing efforts and impose sanctions that could withhold some of the their bilateral assistance.

As the 9/11 Commission staff's Monograph on Terrorist Financing suggests, terror networks rely on a variety of methods for moving and generating financial sustenance, which do not respect national borders. And, we have seen that there are countries which do not share our determination and our vigilance to crack these funding systems create sanctuaries for terrorists to route their financial lifelines.

A certification program would send a clear message to world that must be heeded: if you don't cooperate in the war against terror, you will lose some of the bilateral assistance you may receive from the United States.

The other area that I would like to explore today is a potential "secondary ban" under the USA PATIROT Act.

Under Section 311 of the PATRIOT Act, the government is authorized to impose "special measures" against countries or financial institutions that are found to be of "primary money laundering concern." Section 311 provides a useful lever when dealing with other nations. But, we have found that perhaps there are limits to its usefulness that might be removed to great benefit.

It has become evident that if a banking institution does not have a notable correspondent banking relationship with American banks, Section 311 may not necessarily create the powerful incentives we hoped to have. As such, careful consideration should be given to the concept of a "secondary boycott" under PATRIOT Act.

Under such a proposal, countries or financial institutions that continue to knowingly deal with entities we have designated to be of "primary money laundering concern" will be subject to the same sanctions. Not only are the entities, which are designated to be of primary money laundering concern, subject to Section 311 – but so are other entities which continue to deal with them.

This change to current law would lengthen our reach with Section 311, and substantively reinforce the motivation which led to our passage and enactment of the original provision in 2001.

The American people expect nothing less than the highest level of cooperation from foreign government and financial institutions. I look forward to hearing their views on these and other issues today, and I thank the witnesses for their testimony.

Testimony by Assistant Secretary of State
for Economic and Business Affairs
E. Anthony Wayne
Before the House Financial Services Subcommittees on Oversight and Investigations and Domestic and International Monetary, Policy, Trade and Technology
"Combating International Terrorist Financing"
Washington, DC
September 30, 2004

Madam Chairman, Mr. Chairman, and distinguished Members of the Subcommittees:

Thank you for this opportunity to discuss the Department of State's views on the terrorist finance elements of the 9/11 Commission report. First, my Department commends the Commission for its solid recommendations, which advance our deliberations on how best to use financial tools to foil terrorists' attempts to kill, maim and intimidate Americans and other innocent people. I would also like to underscore the critical worth of the staff monograph on terrorist financing, which focuses on how the United States government has organized itself to optimize the use of a range of tools to fight terrorism.

The Commission report and the staff monograph note that our efforts to combat terrorist finance serve many objectives and employ many tools. My goal today is to sketch for you the role of the Department of State plays in the interagency process that aims to strike the right balance of priorities and use the right mix of tools in each case.

Tracking Terrorist Finances

The 9/11 Commission report presents a comprehensive and balanced assessment of the Administration's efforts to frustrate and reduce terrorist financing in the wake of the 9/11 attacks. The report specifically highlights two major policy tools utilized by the Administration: freezing the assets of terrorist financiers; and using information about terrorist financiers to disrupt the terrorist networks themselves.

We concur with the Commission's recommendation that "vigorous efforts to track terrorist financing must remain front and center in U.S. counterterrorism efforts." We are pleased that the Commission recognized that this front in the Global War on Terrorism is central to our efforts. We also agree that operational law enforcement and intelligence cooperation on terrorist financing must be a priority, and can help disrupt the operations of terrorist organizations.

Since terrorists largely operate internationally, a key component of the fight is to build international cooperation. To achieve this goal, our approach has been to draw as appropriate on a wide range of flexible policy tools, including:

(1) Bilateral and multilateral diplomacy;
(2) Law enforcement and intelligence cooperation;
(3) Public designations of terrorists and their supporters for asset-freeze actions;
(4) Technical assistance; and
(5) Concerted international action through multilateral organizations and groups, notably the Financial Action Task Force on Money Laundering (FATF).

Effective diplomacy is a key element in winning the political commitment from which cooperation in other areas flows. Our diplomats are the overseas eyes, ears and voices of the U.S. government in dealing with foreign governments and financial institutions on terrorism finance. In this sense, diplomats serve an even more crucial role in the many countries where we have no resident legal or Department of Treasury attaché. With enhanced cooperation, intelligence and law enforcement officers are able to follow the money trail. With international cooperation on asset-freeze designations (as well as travel bans and arms embargoes under UN resolutions), we force terrorists into less reliable and more costly means of moving money. Designations also chill support for terrorism - it is one thing to write a check or transfer money to terrorists when no one is looking; it is quite another to realize that such actions can bring unwanted official attention and lead to prosecution. Public identification of charitable groups that funnel some of their donations off to support terrorists has also proven a powerful tool to discourage further donations and to encourage other governments to monitor more effectively the activities of non-governmental organizations.

Since 9/11 we have ramped up our efforts and made substantial progress. We also acknowledge that much remains to be done. Since September 11, 2001, we have:

- Developed a broad and strong international coalition against terrorist financing;
- Ordered the freezing of the U.S. assets of almost 400 individuals and entities linked to terrorism;
- Submitted and supported the submission by other countries, including Saudi Arabia and several of our European partners, of 287 al-Qa'ida-linked names to the UN 1267 Sanctions Committee (also known as the Al Qa'ida/Taliban Committee) for sanctions, including asset-freezing thereby requiring all countries to act against these names;
- Acted against supporters of Jemaah Islamiyah, the Asian terrorist group linked to the Bali disco bombing, among other attacks (50 countries banded together in this submission to the UN 1267 Committee); designated for asset freeze charities funding HAMAS; and taken action against Saudi terrorism financiers and financial support networks;
- Frozen approximately $142 million and seized approximately $65 million in assets located internationally, including in the United States;
- Through our embassies, formally approached every government internationally to freeze the assets of each and every name we designate;
- Supported changing national laws, regulations and regulatory institutions around the world to better combat terrorist finance and money laundering; including working with the European Union, APEC, the Organization of American States and the Financial Action Task Force and their Members to strengthen their counter-terrorism finance regimes; and
- Made it harder for terrorists and their supporters to use both formal and informal financial systems.

Effective U.S. Government Coordination

Key to our success in tackling terrorism finance is effective U.S. interagency coordination. A Policy Coordination Committee (PCC), established under the auspices of the National Security Council, ensures that these activities are well coordinated. This strong interagency teamwork involves the intelligence agencies and the law enforcement community, led by the FBI, as well as State, Treasury, Homeland Security, Justice, Defense collectively pursuing an understanding of the system of financial backers, facilitators and intermediaries that play a role in this shadowy financial world. As appropriate, PCC members also draw on the expertise of financial regulators. The overarching lesson I draw from my experience since 9/11 is the importance of overall direction of the terrorist finance effort by a body that can direct all of the USG participants in the process to find the right blend of instruments to use on a case-by-case basis. The NSC is ideally placed to play this coordinating role against terrorist finance, as it has traditionally done in other national security areas.

Treasury develops and coordinates financial packages that support public designations of terrorists and terrorism supporters for asset freeze action. It leads our outreach to FATF and the international financial institutions. Justice leads the investigation and prosecution in a coordinated campaign against terrorist sources of financing. And, State initiates asset-freeze designations of terrorist groups and shepherds the interagency process through which we develop and sustain the international relationships, strategies and activities to win vital international support for and cooperation with our efforts. These efforts include the provision of training and technical assistance in coordination with Justice, Treasury, Homeland Security and the financial regulatory agencies. The U.S. Government's task has been to identify, track and pursue terrorist financing targets and to work with the international community to take measures to thwart the ability of terrorists to raise and channel the funds they need to survive and carry out their heinous acts.

Our diplomatic posts around the world are essential partners in implementing this global strategy. They have each designated an official, generally the Deputy Chief of Mission, as the Terrorism Finance Coordination Officer (TFCO). These officers chair interagency meetings at posts on a regular basis, not only to evaluate the activities of their host governments but also to develop and propose individual strategies on most effectively getting at specific targets in their regions. The increased level of

interagency cooperation we in Washington are seeing on this front is generating new embassy initiatives focused sharply on terrorist finance. The ability of diplomats at our embassies to develop high-level and immediate contacts with host officials in these efforts has built broad responsiveness around the world to various targeting actions.

U.S. Asset Freezing (E.O. 13224) Actions

A key weapon in the effort to disrupt terrorist financing has been the President's Executive Order (E.O.) 13224, which was signed on September 23, 2001, just 12 days after 9/11. That order provided the basic structure and authorities for an unprecedented effort to identify and freeze the assets of individuals and entities associated with terrorism. Under that order, the Administration has frozen the assets of almost 400 individuals and entities on 60 separate occasions. The agencies cooperating in this effort are in daily contact, examining and evaluating new names and targets for possible asset freeze. However, our scope is not just limited to freezing assets. We consider other actions as well, including developing diplomatic initiatives with other governments to conduct audits, exchange information on records, law enforcement and intelligence efforts; and shaping new regulatory initiatives. While designating names is the action that is most publicly visible, it is by no means the only action or the most important in seeking to disrupt the financing of terrorism.

Foreign Terrorist Organizations

A second tool the Secretary of State has in the war on terrorist finance is the designation of Foreign Terrorist Organizations (FTO). The Congress gave the Secretary this authority in 1996, and 38 organizations are currently designated as FTOs. In addition to asset freezing, this authority allows the Secretary to ban entry into the U.S. of members of these groups, and if members are in the U.S., to remove them. Support for an FTO is punishable by up to 20 years in prison. The identification of groups under this authority is one of the steps most widely recognized by the American public in the war on terrorist finance.

United Nations Actions

Even before 9/ 11, the UN Security Council (UNSC) had taken action to address the threat of terrorism. It had adopted resolutions 1267 and 1333,

which collectively imposed sanctions against the Taliban, al-Qaida, Usama bin Laden and those associated with them. Following 9/ 11, the UNSC stepped up its counter-terrorism efforts by adopting Resolutions 1373 and 1390. Resolution 1373 requires all States to prevent and suppress the financing of terrorist acts and to freeze the assets of terrorists and their supporters. It also imposes bans on travel and arms sales to these individuals. Resolution 1390 (strengthened by Resolutions 1455 and 1526) continued sanctions, including asset freezes, against Usama bin Laden, the Taliban, al-Qaida and those associated with them. The UN 1267 Sanctions Committee maintains and updates a list of individuals and entities subject to these sanctions, which all States are obligated to apply.

Through these actions, the UNSC has sent a clear and strong message underscoring the global commitment against terrorists and their supporters and giving international force and legitimacy to asset freezes and other sanctions. This is extremely important, because: (1) most of the assets making their way to terrorists are not under U.S. control; and (2) when the 1267 Sanctions Committee designates individuals or entities associated with al-Qaida, all 191 UN Member States are obligated to implement against those persons the applicable sanctions, which include asset freezes. The 1267 Sanctions Committee has added a total of 285 al-Qaida-linked names to its consolidated list since 9/11.

In those cases where the United States Government decides to propose listing of a terrorist and/or his financier on the 1267 Committee list, State plays a key role in recommending how best to gain the broadest international support. First, we need to be sure that we can make an effective public case. This is much more difficult and time-consuming than it sounds – but is crucial to the success of this approach. Often, strong cases are based heavily on classified information, and we must weigh competing priorities. If we go the UN to propose a designation and the unclassified information standing alone is weak, others will not support us. On the other hand, there are often compelling reasons not to declassify further information. The Department and our embassies help the interagency team strike the right balance by providing advice and insights on what it will require for a designation to gain international approval. Once a designation proposal is decided, the Department seeks international support in the form of potential co-designators and support from other members of the UN Sanctions Committee. When a new name goes onto the UN list, we bring it to the

attention of every government in the world to ensure that they are able to take effective and quick action against the designee.

Improving National Laws, Regulations and Standards

In addition to advances on the UN front, we have witnessed considerable progress on the part of countries around the world to equip themselves with the instruments they need to clamp down on domestic terrorist financing. Since 9/11, about 90 countries in every region of the world have either adopted new laws or regulations to fight terrorist financing or are in the process of doing so. This is an ongoing process with many countries refining their laws and regulations to assure they have all of the tools needed to be effective.

To ensure that these new laws and regulations are effective, the United States has worked very closely with the FATF, a multinational organization whose 33 members are devoted to combating money laundering. In 2003, FATF revised its 40 Recommendations to combat money laundering to include terrorist financing provisions. These Recommendations along with the complementary Eight Special Recommendations on Terrorist Financing, adopted in 2001, provide a framework for countries to establish a comprehensive regime to fight money laundering and terrorist financing. The two guiding principles the FATF has identified as critical to fighting terrorist finance are cooperation with the UN (respecting, ratifying and implementing anti-terrorist treaties and resolutions) and identifying, defining and criminalizing terrorist financial activity. FATF is monitoring compliance with its recommendations in coordination with the IMF and the World Bank. In addition, FATF works with FATF-Style Regional Bodies (FSRBs) so that its reach is much farther than the 33 FATF members. FATF is also working cooperatively with the UN Counter-Terrorism Committee (CTC) and the G-8-initiated Counter-terrorism Action Group (CTAG) to complete assessments of designated countries' needs for technical assistance to improve local ability to combat terrorist financing.

We have seen substantial progress in securing countries' commitment to strengthen their anti-money laundering laws and regulations, which is inextricably linked to counter-terrorist finance. In large part due to FATF's

focus and efforts on terrorist financing, for instance, the Indonesian Parliament passed important amendments to its anti-money laundering law on September 16, 2003 - amendments that will improve the country's ability to take actions against terrorist financing. Similarly, it was FATF's efforts that led the Philippines to pass legislation in March 2003 that will significantly increase that country's ability to carry out meaningful anti-terrorist financing measures. FATF advises on whether such regulations and legislation meet international standards and are effective instruments to combat money laundering and terrorist financing.

In addition to providing countries with the guidance they need to develop effective regimes, FATF also places pressure on difficult countries via its Non-Cooperating Countries and Territories (NCCT) program, which provides for blacklisting countries that are non-cooperative with respect to anti-money laundering practices. FATF's NCCT program creates an incentive for states to vigorously address their legal and regulatory environments to allow appropriate action against money laundering. Nigeria and the Philippines, for instance, in December 2002 and February 2003 respectively, took meaningful legislative steps to strengthen their respective anti-money laundering laws to avoid imposition of FATF countermeasures. The Philippine Anti-Money Laundering Council has since filed 62 cases: 31 for money laundering, 23 for civil forfeiture, and five freeze orders, and several applications for bank inquiry. FATF will be reviewing the progress the Philippines have made shortly. Ukraine likewise passed legislation in January 2003 that removed the threat of immediate FATF sanctions and ultimately led to its removal from the NCCT list in February 2004. Ukraine joined the Egmont Group of financial intelligence units in June 2004.

As we, together with others in the international community, began to look into how terrorist groups raised and moved their funds, the fact that much of this took place outside regular banking systems quickly became apparent. As a result, international efforts underway to set standards for tackling terrorist financing are also addressing how to prevent charities and not-for-profit organizations from being abused by those with malicious intentions and also how to help keep cash couriers and alternative remittance systems, such as "hawala," from being used to finance terrorism. The FATF, which has already addressed some of these issues through its Special Recommendations on Terrorist Financing, is now working to develop guidelines and standards on cash couriers, wire transfers and regulation of charities and non-governmental organizations. Setting new standards and

norms in these areas is key to making our international efforts more effective.

Capacity Building

On the technical assistance front, the Terrorist Finance Working Group (TFWG), chaired by the State Department, has provided over $11.5 million in Foreign Assistance funding to provide technical assistance and training to develop and reinforce counter-terrorist financing/anti-money laundering regimes of frontline states. To date, over 20 U.S. Government offices and agencies participating in the TFWG, which include the Justice, Treasury and Homeland Security Departments, have provided assistance to 18 countries on five different continents. These comprehensive training and technical assistance programs include legislative drafting, financial regulatory training, financial intelligence unit development, law enforcement training, and prosecutorial/judicial development.

We have provided several countries in the Gulf and South Asia with different types of training related to sound counter-terrorist finance practices, including the detection of trade-based money laundering (moving money for criminal purposes by manipulation of trade documents), customs training, anti-terrorist finance techniques and case studies for bank examiners, and general financial investigative skills for law enforcement/counter-terrorist officials. Our international partners have welcomed this type of training, and we plan to provide it to other vulnerable jurisdictions in other regions.

U.S. efforts to assist Indonesia with the 2002 Bali bombing and 2003 J.W. Marriott Hotel attack demonstrate the seriousness of our counter-terrorism strategy, including our terrorist finance efforts. As the result of their hard work and U.S. and Australian assistance, Indonesian authorities have arrested over 80 Jemaah Islamiyah (JI) members associated with the Bali bombings and convicted 33 of them. Close law enforcement cooperation among the United States, Indonesia, Australia, and other Southeast Asian states has also led to an aggressive campaign against JI on all fronts including its financing. In the wake of the Bali bombings, the international community moved to "name and shame" JI with a record 48 countries - including all of ASEAN and all of the EU - supporting Australia and the United States in the UN terrorist designation of JI. Indonesia has made significant progress in reinforcing its counter-terrorism measures

through stringent legislation, robust law enforcement investigations and prosecutions, and a more transparent financial system to combat money laundering and terrorist financing. Clearly, this effort must continue, led by the Indonesians but with the support of the U.S. and others. During my recent trip to the Philippines, Singapore and Malaysia, I was pleased to see all three governments focusing on specific steps to improve their ability to combat terrorist finance as well.

Burden sharing with our key coalition partners is an emerging success story. For instance, the governments of Australia, New Zealand and the United Kingdom, as well as the EU, and the Asian Development Bank, have significant technical assistance initiatives underway in countries such as the Philippines, Indonesia, Pakistan, Malaysia and Egypt. Just last week, we discussed with the EU possibilities for cooperation in provision of technical assistance to priority countries.

Areas of Focused Cooperation

The Administration is actively involved in combating terrorist financing through partnerships we have established across the globe. In particular, I would like to specifically highlight for you our recent cooperative efforts with Saudi Arabia and the EU.

Saudi Arabia has been one important focus of our efforts. An interagency team of experts travels regularly to Saudi Arabia to work with their counterparts to identify and block suspect accounts and assess technical assistance needs. Our terrorism finance cooperation with Saudi Arabia is real-time, ongoing, and fully embedded into our day-to-day counter-terrorism operations. We have jointly designated, with the Saudis, over a dozen Saudi-related entities and multiple individuals under E.O. 13224.

Demonstrating its commitment to address systemic factors contributing to the flow of funds to terrorists, Saudi Arabia has recently promulgated a number of laws that hold charities accountable for their actions and the funding of projects outside the Kingdom. Saudi Arabia has made important changes to its banking and charity systems to help strangle the funds that support al-Qaida. As part of a State-led interagency assistance program, Federal banking regulators have provided specialized anti-money laundering and counter terrorist financing training to their Saudi counterparts. Saudi Arabia's new banking regulations place strict controls

on accounts held by charities. Saudi Arabia has also ordered an end to the collection of donations at mosques and instructed retail establishments to remove charity collection boxes from their premises, steps that are extremely challenging for the Saudi government, but which it has ordered because it understands that terrorists are more likely to use funds collected anonymously and without an audit trail then those that move through regular banking channels.

Saudi Arabia is working with us closely in the context of the new Joint Task Force on Terrorist Financing, led on the U.S. side by the FBI. As part of the State-led interagency counterterrorist financing assistance program, experts from the FBI and IRS have completed the first part of a training model designed to strengthen the financial investigative capabilities of the Saudi security forces, with more advanced courses to follow. That being said, this remains a work in progress. We have reason to believe that the new task force on terrorist financing will be effective but we will need to see results. We believe the Saudi Arabian Government is implementing its new charity regulations, but there too, we will need to see results. The recent FATF mutual assessment of Saudi Arabia found that the Kingdom has taken essential steps - closer bank supervision, tighter banking laws, enhanced oversight - critical to curbing terrorist financing and money-laundering. We find this to be encouraging news. There is more to do, and we will continue to press ahead with our efforts with the Saudi Arabian Government.

We also have a "good news" story to tell regarding our cooperation with the EU on combating terrorist financing. The EU has designated for asset freezing almost all the names designated by the United States under E.O. 13224, in addition, of course, to all the al-Qa'ida-related names listed on the UN's consolidated list. We have also reinvigorated our productive dialogue with the EU, based on the June 26, 2004, U.S.-EU Summit Declaration, which outlines a realistic roadmap on moving ahead toward implementing effective measures to crack down on terrorist financing across Europe and beyond. At the heart of this declaration is a joint commitment to support the work of the FATF on all terrorism financing issues, including by ensuring that EU and national legal frameworks are fully adapted to the FATF's Eight Special Recommendations on terrorist financing. I have just returned from Brussels, where I led an interagency team to share U.S. best practices and lessons learned in the fight against terrorism finance with over a hundred experts from almost all EU countries. We agreed that our

prosecutors and experts needed to exchange their practical experiences to identify ways to more effectively tackle such issues as front organizations and the pros and cons of pursuing administrative or judicial actions against terrorist financiers. We will continue to work with these officials to move ahead on fulfilling the commitments in the U.S.-EU Summit Declaration. Together, we will work to: put in place even more effective laws and processes to freeze assets and block transactions; strengthen measures to regulate alternative remittance systems such as hawala and bulk cash couriers; ensure effective implementation of legislation criminalizing the financial support of designated names; encourage appropriate enforcement agencies to analyze accounts of designated entities for law enforcement and intelligence leads, and identify best practices for guarding against misuse of charities and NGOs.

This was an ambitious, far-reaching agenda – and fortunately the Netherlands, which holds the EU Presidency for the remainder of 2004, is committed to pushing ahead with reforms that will enable all EU member states to improve their ability to combat terrorism. The EU's Counter Terrorism Coordinator, Gijs DeVries, is adding focus and drive to this effort. We are encouraged by the EU's energy on this issue, and we will continue to work with it to improve the effectiveness of our partnership.

Designations and Asset Freezes: Only Part of the Picture

The 9/11 Commission report provides a critique of the public designation of terrorist financiers and organizations for asset freeze, noting that while it is "part of the fight," it is not the "primary weapon." The report goes on to criticize multilateral freezing mechanisms because they require waiting periods that eliminate the element of surprise. It also notes that worldwide asset freezes have been easily circumvented.

We recognize that there are shortcomings in the international designations and asset freeze process; but this cooperative process has helped us develop and deepen a set of invaluable long-term relationships with our interagency and international partners in the three years since 9/11. Through this collaborative international effort, we have built cooperation and the political will necessary to fight terrorism, both through designations and asset freezes, as well as through operational law enforcement actions. As described above, U.S. Government agencies meet regularly to identify, track and pursue terrorist financing targets and to determine, on a case-by-

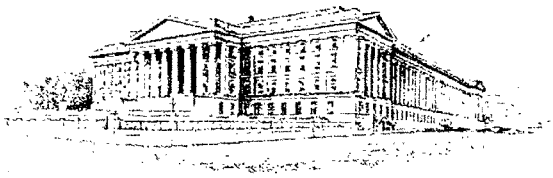
case basis, which type of action is most appropriate. Designation for asset freezing does not come at the expense of taking appropriate law enforcement action. On the contrary, the two approaches frequently complement each other. There are cases where operational law enforcement action can be initiated quickly to trace, prosecute and shut down terrorists. In other cases, for instance where long-term investigations are under way, the better option may be to designate for asset freezing in order to stop the flow of money that might be used to carry out terrorist activity until law enforcement actions can be taken.

As noted above, we have used multilateral asset freezes, together with technical assistance and the FATF multilateral standard setting process, as valuable devices to isolate terrorist financiers, drive them out of the formal financial system, and unite the international community through collective action. In these cases, designations are preventative, making it harder for terrorists and their supporters to operate. We continue to work together with our international partners to strengthen the multilateral designation process. By carefully working with our allies, we seek to build international consensus, thereby preventing unwanted delays in the process. We urge all foreign governments to fulfill their UN obligations to freeze assets without delay. In cases where an individual or entity assumes a new name, we initiate action to designate the alias, thwarting their efforts to simply continue "business as usual" under a new name. As noted by the 9/11 Commission, these actions prevent open fundraising, diminish support to illicit charities, and act as an element of diplomacy to demonstrate international resolve.

In the fight against global terrorism, the Administration must continue to use vigorously all of the tools at its disposal - including designations/asset freezing, law enforcement/intelligence cooperation, and the establishment and enforcement of international norms and standards. Given that the money that gets into the hands of terrorists flows around the world, the only way we will be successful in drying up their financial resources is through continued, active U.S. engagement with allies, friends, and other countries around the globe. We *must* continue to broaden and deepen our efforts worldwide. These efforts have paid off – and they will continue to do so.

The Department of State plays a pivotal role in, and adds great value to, this broadening and deepening of international cooperation. Officers in our embassies and in Washington bring their experience to bear in judging

the best approach to a specific terrorist or group in a specific country or region. Their political, economic and cultural expertise allows them to weigh the pros and cons of various approaches given the other political and economic dynamics of the countries whose help we are enlisting in the war against terrorism. There are no "off-the-shelf" answers in this field. Each case is different; the State Department is uniquely placed to help weigh options and craft tailor-made strategies to produce effective action.



DEPARTMENT OF THE TREASURY
OFFICE OF PUBLIC AFFAIRS

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September 30, 2004

Contact: Molly Millerwise
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Testimony of
Juan Carlos Zarate, Assistant Secretary
Terrorist Financing and Financial Crimes
U.S. Department of the Treasury

Before the House Financial Services Subcommittees on
Domestic and International Monetary Policy, Trade and Technology
And
Oversight and Investigations

Chairman Kelly, Chairman King, and Distinguished Members of the Subcommittees, thank you for inviting me to testify before you today about our international efforts to combat terrorist financing as well as our reaction to the 9/11 Report and monograph and the resulting proposed legislation. I am pleased that my first time testifying as Assistant Secretary for the Office of Terrorist Financing and Financial Crimes is on these important subjects, and I am honored to be testifying alongside Assistant Secretary of State Tony Wayne, who has been and continues to be an important and close partner in our international efforts.

We learned on September 11th and have seen since then in the terrorist atrocities perpetrated in Russia; the commercial center attacks in Bali, Istanbul and Casablanca; and the railway bombings in Madrid that terrorism is a global problem that affects all jurisdictions and must be dealt with on an international level. This is acutely apparent in the terrorist financing arena because the movement of money in the 21st century knows no borders. Under the President's leadership, we have forged a critical international coalition to deal comprehensively with the issue of terrorist financing in an unprecedented manner. In our efforts to fight terrorist financing in the short and long term, we have developed international standards to fight terrorist financing, built greater global capacity, broadened and deepened our own regulatory system, built international systems to share information about suspect networks, frozen and seized terrorist-

related assets, arrested and isolated key financial intermediaries and donors, and improved the international safeguards around the financial system.

The President has made it clear that we must use every available tool in waging a comprehensive campaign against terrorism, and we at Treasury, along with our inter-agency partners, have done precisely that since September 11th. The 9/11 Commission Report and the terrorist financing monograph clearly validate the efforts we have undertaken in this regard. We have used all elements of national power and a global coalition to disrupt and dismantle terrorist financing networks. This has resulted in making it harder, costlier, and riskier for al Qaida and like-minded terrorist groups to raise and move money around the world.

The global terrorism we are fighting and that we most need to affect operates through complex networks. In this context, a terrorist act, no matter how basic and inexpensive, is usually supported by a sophisticated financial and operational infrastructure. Terrorist organizations such as al Qaida and Hamas require a financial and operational infrastructure. They must pay for the security of "safe havens," financial support for the families of "martyrs," recruitment, indoctrination, logistical support, training, and the forging of terrorist alliances. In addition, terrorist groups must raise and use money to develop weapons and plans intended to do maximum and perhaps cataclysmic harm to the United States. In short, the maintenance of a global terrorist network intending horrific damage to the United States requires the raising, movement and use of significant funds. Thus, attacking, isolating, and deterring the sources of terrorist financing, such as deep-pocket donors, are critical elements in our short and long-term efforts to combat terrorism.

In addition, we have used the money trail to find the financial footprints of the terrorists. As we have seen, terrorists and their supporters leave identifiable and traceable footprints in the global financial systems, and these footprints must be pursued forward to identify future perpetrators and facilitators. These trails must also be traced backwards to identify and dismantle supporting entities and individuals. As we have done since September 11th, we must attack the sources of funding, follow the money trail, and build safeguards in the financial sectors worldwide to prevent, deter, and dismantle the terrorist infrastructure.

The international components of our work have been critical to our success and will remain so as we must maintain political will and focus and ensure implementation and enforcement of anti-terrorist financing efforts. The United States has helped promote effective international standards of financial transparency and accountability; sanctioned non-compliant behavior by non-cooperative states and coordinated effective technical assistance to weak but willing states; frozen and seized terrorist-related and other criminal assets; investigated and prosecuted crimes by law enforcement; directing intelligence operations either at a financier, a financial node, or a facilitator; and using diplomatic suasion to convince other governments to take significant steps.

Treasury is well-positioned to deal with both government and private participants in the international financial sector. Treasury officials have traveled abroad extensively since September 11th to engage our partners in international organizations, ministries and central banks, as well as financial professionals in private industry trade associations and institutions, on the subject of terrorist financing. We are in daily contact with foreign financial officials and are

engaged in bilateral and multilateral activities regarding international standard setting, cooperation and action against terrorist activities and financing. We are promoting technical assistance and training abroad, in conjunction with the State Department and our inter-agency colleagues, to ensure that our international partners have the requisite capacity to regulate vulnerable industries, enforce laws, and share financial information. In this regard, the embassies around the world – often the vanguards and face of America abroad – have served us extremely well and effectively.

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

Identifying, Disrupting and Dismantling Terrorist and Criminal Organizations

Depriving terrorists of funding remains both an ongoing priority and an effective tool in the war on terrorism. Ever since the President took initial action in freezing terrorist finances through the issuance of Executive Order 13224, the U.S. Government (USG) has led an international coalition to disrupt, dismantle, and destroy the sources and pipelines from and through which terrorists receive money.

Under Executive Order 13224, we have designated a total of 387 individuals and entities, as well as frozen and seized over $200 million of terrorist-related funds worldwide. The impact of these actions goes beyond the amount of money frozen. Public designation and asset blockings choke off terrorist cash flows by cutting off access to the U.S. and other financial systems and also provide access to further intelligence. Designations under E.O. 13224, executed by Treasury's Office of Foreign Assets Control (OFAC), in the past year include the following:

- Eleven additional branches of the Al Haramain Islamic Foundation – a charity that had been exploited by al Qaida -- and two key leaders of the organization

- Shaykh Abd Al-Zindani – a significant al Qaida and Hamas fundraiser/facilitator based in Yemen;

- Three Bosnian charities (Taibah International, Al Haramain & Al Masjed al Aqsa, and Al Furqan) with significant ties to al Qaida;

- Assad Ahmad Barakat and two of his companies – a key fundraiser and liaison for Hizballah in the tri-border area of South America (currently serving a sentence in a Paraguay prison for tax evasion);
- Several individuals associated with the al Qaida-linked Salafist Group for Preaching and Combat (GSPC), including Saifi Amarri (the leader of a cell that captured and held several foreign tourists hostage in Algeria);
- Abu Ghaith – al Qaida spokesperson;
- Dawood Ibrahim – an al Qaida facilitator now living in Pakistan;
- Al Akhtar Trust International – a Pakistan-based charity providing financial and logistical support to al Qaida;
- Abu Musa'ab Al-Zarqawi and members of his German cell; and
- 11 leaders of Jemaah Islamiyah.

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

Important financial networks – such as those of al Barakaat and parts of the Al Haramain Islamic Foundation – have been identified and shut down at home and abroad. The UAE and Somalia-based al Barakaat network had been used to funnel potentially millions of dollars annually to al Qaida and its affiliates.

The United States has also taken significant actions against non-al Qaida linked terrorist organizations such as HAMAS and the Basque terrorist group, ETA. On December 4, 2001, President Bush issued an order to freeze the assets of a U.S.-based foundation – The Holy Land Foundation for Relief and Development – along with two other HAMAS financiers, Beit al Mal and the Al Aqsa Islamic Bank. Six leaders of Hamas and six charities in Europe and the Middle East that support Hamas were subsequently designated in May and August 2003. In partnership with our EU allies, the U.S. designated 31 ETA operatives and one organization that support ETA.

We have made it harder for al Qaida to raise and move money around the world by cutting off known channels of funding and freezing assets. In the last year, almost seventy individuals and entities were designated by both the USG and UN. UN-member states are obligated to freeze the assets of individuals and entities related to Usama bin Laden, al-Qaida, and/or the Taliban, which are added to the UN Security Council's 1267 Sanctions List. This last year has seen the most significant involvement of foreign governments in submitting names to the United Nations 1267 Sanctions Committee (al Qaida/Taliban Committee) for listing – an important sign of success in our efforts to engage international support for these actions and this approach.

As Under Secretary Levey and others have stated, those of us engaged in the financial war against terrorism should, in every instance, wield whatever tool is best able to advance the overall mission to stop terrorism. In this respect, the value of designations is often misunderstood, and in some cases, underestimated. The 9/11 Commission states that "public designation of terrorist financiers and organizations is still part of the fight, but it is not the primary weapon. Designations are instead a form of diplomacy, as governments join together to identify named individuals and groups as terrorists. They also prevent open fundraising."

While the Treasury agrees with the first quoted sentence, I think in this particular passage, the 9/11 Commission does not give enough credit to the power of public designations. In addition to being a form of diplomacy and stopping open fundraising, if used properly, designations can be valuable by:

(1) shutting down the pipeline through which designated parties raise and move money;
(2) informing third parties, who may be unwittingly financing terrorist activity, of their association with supporters of terrorism;
(3) deterring non-designated parties, who might otherwise be willing to finance terrorist activity; and
(4) forcing terrorists to use potentially more costly, less efficient and/or less reliable means of financing.

These benefits of designation cannot be measured by simply totaling the amount of terrorist-related assets frozen. As Under Secretary Levey has noted, terrorist-related accounts are not pools of water awaiting discovery as much as they are rivers, with funds constantly flowing in and out. By freezing accounts, we dam that river, thus not only capturing whatever water happens to be in the river at that moment but, more importantly, also ensuring that this individual or organization can never in the future act as a conduit of funds to terrorists. Indeed, if fully implemented, a designation isolates supporters of terrorism from the formal financial system, incapacitating them or driving them to more expensive, more cumbersome, and riskier channels.

Another powerful tool in our international efforts is Section 311 of the USA PATRIOT Act ("Patriot Act"). In this Section, Congress provided the Secretary of the Treasury with the authority to impose certain restrictions on financial institutions or jurisdictions adjudged "primary money laundering concerns," or prevent them from accessing the U.S. financial system altogether. This past May, the Treasury Department designated the Commercial Bank of Syria (CBS) under Section 311, based on concerns relating to financial transparency and problems we observed with that institution, including terrorist financing. The Bank will either take effective steps to address our concerns, or we will cut it off from our financial system.

In August, the Treasury Department designated two more foreign banks – First Merchant Bank of the "Turkish Republic of Northern Cyprus" ("TRNC") and Infobank of Belarus – pursuant to Section 311. Actions of this type spur jurisdictions and institutions to introduce reforms and create greater financial transparency. The mere possibility of a Section 311 designation has caused nations to make changes to their legal and regulatory regimes that enhance the global anti-money laundering and anti-terrorist financing infrastructure. We are continuing to seek out

appropriate opportunities to utilize these new powers aggressively, but judiciously, to protect the U.S financial system, punish jurisdictions and institutions complicit in money laundering, and encourage compliance with international standards of transparency and accountability.

Treasury will continue to apply these authorities and others in the development of terrorist financing targeting strategies for priority regions and terrorist organizations, in addition to supporting the targeting strategies against narco-traffickers through the OCDETF Drug Fusion Center. In using these authorities, we act together with the international community whenever possible, but unilaterally whenever necessary and appropriate to protect our financial system from identifiable high risk targets. We are particularly focused on identifying opportunities to apply Section 311 against those foreign banks that either facilitate money laundering or ignore their responsibilities as gatekeepers to the international financial system.

Multi-lateral Efforts

Working together with the international community, we have taken steps to develop and ensure global compliance with international standards against terrorist financing and money laundering. This is important because the development of such standards and practices around the world creates a hurdle over which terrorists and criminals must climb before entering into the financial system. Treasury works toward this goal with the State Department and others to assess countries objectively against international standards, provide capacity-building assistance for key countries in need, and isolate those countries and institutions that facilitate terrorist financing.

The U.S. government is engaged in numerous international fora, including the United Nations, the European Union, G7, G8, G20, the Financial Action Task Force (FATF) and several FATF-style regional bodies, the Egmont Group, and the international financial institutions to combat terrorist financing in a global, systematic way. We have worked with these international bodies and regional organizations such as Asia-Pacific Economic Cooperation Forum (APEC), Western Hemisphere Finance Ministers (WHFM), ASEAN Regional Forum (ARF), the OAS, the OSCE, and the Manila Framework Group to further coordinate international efforts to stop the financing of terrorism and to ensure that countries take concrete actions. Treasury participates in each of these bodies, and through them seeks to ensure that all jurisdictions throughout the world are working to meet international AML/CFT standards, and that the international community stays focused on emerging AML/CFT concerns.

Financial Action Task Force (FATF)

Of the international organizations with which Treasury leads U.S. government engagement, FATF is the most preeminent and most important in terms of setting international anti-money laundering and counter-terrorist financing standards against which jurisdictions are measured. In response to mounting concern over money laundering, the FATF was established in 1989 by a G-7 Summit in Paris. Recognizing the threat posed to the global financial system and to financial institutions, the G-7 Heads of State and President of the European Commission convened the Task Force from the G-7 member States, the European Commission, and eight other countries.

A. *FATF's Anti-Money Laundering Focus and Origins*

FATF was given the responsibility of examining money laundering techniques and trends, reviewing the actions of individual jurisdictions and by the international community, and setting out measures that still needed to be taken to combat money laundering. In April 1990, less than one year after its creation, the FATF issued a report containing a set of Forty Recommendations. These Recommendations were the first internationally accepted, comprehensive plan of action to fight money laundering. They provided a set of counter-measures against money laundering covering the criminal justice system and law enforcement, the financial system and its regulation, and international cooperation.

During 1991 and 1992, the FATF expanded its membership from the original 16 to 28 members. In 2000, FATF's membership increased to 31, and in 2003 increased again to its current 33. In addition to promoting anti-money laundering standards worldwide, FATF member countries committed themselves to the discipline of multilateral monitoring and peer review. A self-assessment exercise and the mutual evaluation procedure are the primary instruments by which the FATF monitors progress made by member governments in implementing the FATF Recommendations.

The fundamental mechanism by which FATF monitors the implementation of the Forty Recommendations within its membership is the mutual evaluation process. Each member country is examined in turn by the FATF on the basis of an on-site visit conducted by a team of three or four selected experts in the legal, financial and law enforcement fields from other member governments. The purpose of the visit is to draw up a report assessing the extent to which the evaluated country has moved forward in implementing an effective system to counter money laundering and to highlight areas in which further progress may still be required. Since the development of the mutual evaluation process, FATF has completed two rounds of mutual evaluations of its member countries and jurisdictions. A third round is slated to begin by the end of 2004. Summary versions of these mutual evaluations are contained in public FATF reports.

One example of the effectiveness of FATF's mutual evaluation process is progress seen in Saudi Arabia. The FATF mutual evaluation represented one of the first times that Saudi Arabia exposed itself to intrusive scrutiny by the international community of its internal legal and regulatory systems. In advance of the mutual evaluation, Saudi Arabia enacted significant legislative and regulatory reforms, resulting in significant improvements in it's AML/CFT regime.

Another important component of FATF's work is the NCCT initiative. In the late 1990's FATF engaged in a major undertaking to identify non-cooperative countries and territories (NCCTs) in the fight against money laundering. Specifically, this meant the development of a process to seek out critical weaknesses in anti-money laundering systems which served as obstacles to international co-operation in this area. The goal of this process was to reduce the vulnerability of the financial system to money laundering by ensuring that all financial centers adopted and implemented measures for the prevention, detection and punishment of money laundering according to FATF's internationally recognized standards.

In June 2000, FATF identified 15 jurisdictions as NCCTs, due to critical deficiencies in their anti-money laundering systems and/or demonstrated unwillingness to co-operate in anti-money laundering efforts. Over the ensuing years, certain countries were added to the list, while many were de-listed. Countries placed on the NCCT list have included Lebanon, Israel, Egypt, Indonesia, Philippines, Liechtenstein, Cayman Islands, Bahamas, and Panama. As a result of the NCCT process many of the identified NCCTs made significant and rapid progress in remedying their deficiencies due to international pressure as well as bi-lateral assistance. One very important example is Russia, which was once on the NCCT list and is now an actual FATF member. Russia was one of the first countries listed in the NCCT initiative because of serious deficiencies in its anti-money laundering system. Among other things, Russia lacked adequate regulations and supervision of its financial institutions, it lacked a suspicious transaction reporting system and an operational FIU. As a result of pressure from the international community, Russia took important steps to strengthen its system according to FATF's standards and to begin real enforcement of its anti-money laundering laws. This led to it's de-listing in 2003 and subsequent inclusion as a formal FATF member.

Over time, FATF-style regional bodies (FSRBs) have developed in various regions around the world in order to promote and implement FATF-principles and standards, including mutual evaluations, beyond FATF membership. Currently there are FSRBs in South America, the Caribbean, Africa, Europe, and Asia. Cooperation with the FSRBs forms a critical part of FATF's strategy to ensure that all countries in the world implement effective counter-measures against money laundering. To this end, the U.S. participates in all FSRB meetings as either an observer or official member. Treasury has also participated in several FSRB mutual evaluations, including the assessment of Russia.

The forthcoming creation of FATF-style regional bodies in Central Asia and the Middle East/North Africa this fall is a major achievement and will exposed and hold a range of new countries to the standards of the international community. Treasury has played an important role in the development of these new bodies, and we will participate in the official launching of the Central Asia FSRB in Moscow in early October and the Middle East/North African FSRB in late November.

FATF has also updated the Forty Recommendations to reflect the changes which have occurred in money laundering. With our counterparts in FATF, Treasury led the USG role in negotiating a revision to the FATF 40 Recommendations, enhancing international standards of transparency and accountability required to effectively combat money laundering and other financial crimes. In June 2003, the FATF issued the revised 40 Recommendations which now cover shell banks, politically-exposed persons, correspondent banking, wire transfers, bearer shares, the regulation of trusts, the regulation of trust and company service providers, and the regulation of lawyers and accountants. In essence, U.S. interests in seeing the improvement of the international anti-money laundering system to deal with new and evolving threats was met multilaterally through the FATF. These newly revised Recommendations were endorsed by the G-7 Finance Ministers in a public statement issued the same day that the revised Recommendations were adopted by FATF.

B. *FATF's Role in Countering the Financing of Terrorism*

The United States refocused FATF's mission after the September 11th attacks. We capitalized on FATF's expertise in money laundering to attack terrorist financing and convened the Special Plenary in Washington, D.C. in October 2001. The FATF immediately established the Eight Special Recommendations on Terrorist Financing. Since that time, we have worked within the FATF's Working Group on Terrorist Financing (WGTF), which Treasury co-chairs, to put these new standards into effect around the world. Consequently, the FATF has issued interpretive guidance on the Eight Special Recommendations, particularly with respect to: freezing terrorist-related assets; regulating and monitoring alternative remittance systems such as hawala; ensuring accurate and meaningful originator information on cross-border wire transfers, and protecting non-profit organizations from terrorist abuse. Most recently, the WGTF developed language for a ninth FATF Special Recommendation, which focuses on cash couriers. Given the increasing risks posed by cash couriers, FATF will call upon countries to have mandatory cross-border reporting requirements. Along with this new Special Recommendation, an Interpretive Note and Guidance Paper are expected to be adopted at the next FATF Plenary in October.

Thanks to these efforts, scores of countries are now called upon and have begun to regulate informal banking systems like hawalas; include originator information on cross-border wire transfers; freeze and seize terrorist-related funds; overtly criminalize terrorist financing; and increase vigilance over the non-profit sector. There are many examples of progress on all of these fronts around the world. Several countries, including members of the Gulf Cooperative Council, have taken steps to begin regulation and oversight of charities and donations abroad. Islamic States have also moved forward on regulating and harmonizing accounting, transparency, and oversight principles for Islamic banking. In addition, several countries, such as the United Arab Emirates and Pakistan, have begun the process of regulating alternative remittance systems.

Role of the International Financial Institutions (IFIs)

The international coalition against terrorist finance has been further strengthened by the active participation of the IMF and World Bank. Immediately following the 9/11 terrorist attacks on the United States, the President of the World Bank and the Managing Director of the Fund issued strong statements supporting the work of the international coalition against terrorism.

Nor did their support stop with words. The IFIs quickly moved to assess country compliance with major elements of the FATF 40 plus 8 Special Recommendations and provide technical assistance to members to improve their legal and regulatory frameworks. Subsequently, the Bank and Fund undertook a pilot program of collaboration with the Financial Action Task Force (FATF) to assess country compliance with the revised FATF 40 + 8 Recommendations. In March 2004, the IMF/World Bank Boards evaluated the results of the pilot program and agreed to make such anti-money laundering/combating the financing of terrorism (AML/CFT) assessments a regular part of their Financial Sector Assessment Program (FSAP) and Offshore Financial Center assessments, which provide comprehensive analyses of the strength of a jurisdiction's financial system.

This was a crucial step internationally because it institutionalizes the global fight against terrorist financing and money laundering, broadens the effort world wide, and helps increase and make efficient use of resources. The IMF and World Bank have conducted approximately 70 FSAPs or assessments to date, with over two dozen of those incorporating anti-money laundering and counter the financing of terrorism (AML/CFT) assessments. Going forward, the IFIs and the FATF and FATF-style regional bodies combined are expected to assess AML/CFT regimes in up to 40 countries or jurisdictions annually. This will help countries and jurisdictions identify priority deficiencies in their AML and CFT regimes and help focus technical assistance efforts.

Treasury will continue to encourage these and other international efforts aggressively – such as building counter-terrorism financing capacity worldwide – to counter the ever-evolving threats of terrorist financing and money laundering.

Technical Assistance

To facilitate the global development and implementation of effective counter-terrorist financing regimes, the U.S. Government, led by the State Department, is driving a coordinated and comprehensive process to deliver technical assistance to combat terrorist financing around the world. The interagency community has identified 24 countries as priorities for receiving terrorist financing technical assistance and training and is working bilaterally to deliver such assistance to these priority countries. The U.S. Government is also working together with its allies in the Counter-Terrorism Action Group (CTAG) and the FATF to coordinate bilateral and international technical assistance efforts to additional priority countries in the campaign against terrorist financing. As the FATF Working Group on Terrorist Financing completes terrorist financing needs assessments in these priority countries, FATF forwards these assessments to the CTAG for coordinated assistance by donor states.

Treasury expertise in a number of areas is critical in ensuring that countries have the capacity to address deficiencies that form part of global vulnerabilities: training financial investigators by the IRS; building regulatory capacity by the Office of the Comptroller of the Currency (OCC) and the Office of Thrift Supervision (OTS); helping establish financial intelligence units by Financial Crimes Enforcement Network (FinCEN); establishing effective sanctions regimes by the Office of Foreign Assets Control (OFAC); and drawing on the resources of the Office of Technical Assistance, with resident advisors abroad. All of these assets form an integral part of the resources that Treasury can bring to bear on improving financial transparency, accountability, and enforcement in financial sectors around the world.

Engagement with the European Union

Another recent example of multi-lateral work is cooperation between the United States and the European Union (EU) to combat the threat of terrorism. Treasury has worked closely with the State Department to ensure that such cooperation is continuous and productive – including in the work to persuade the European Union to deal aggressively to shut down known-conduits of terrorist financing and to declare Hamas a terrorist organization in its entirety.

Recently, on June 26, 2004, the United States and the EU renewed their commitment by signing the U.S.-EU Declaration on Combating Terrorism. The Declaration identifies a number of areas in the fight against terrorist financing where priority action is needed. As a first step towards reaching the identified goals, the EU just hosted a landmark counter-terrorist financing conference in Brussels the week of September 16th.

Assistant Secretary of State Tony Wayne led a U.S. delegation to participate in that conference, which was successful on a number of fronts, including securing commitments to hold workshops on: (i) effectively issuing and implementing terrorist financing designations; (ii) ensuring adequate investigatory follow-up and criminal prosecution of designated parties where feasible, and (iii) enhancing government oversight and investigatory capabilities with respect to non-profit organizations at risk of terrorist abuse. We look forward to advancing our collective efforts on each of these issues in the months ahead.

Establishment of Financial Intelligence Units

The United States is leading the global effort to increase information sharing on terrorist financing issues as well as financial transparency more broadly. The Financial Crimes Enforcement Network (FinCEN), the U.S. government's financial intelligence unit, has spurred a rapid expansion of financial intelligence units (FIUs) through its leadership in the Egmont Group. There are now over 90 FIUs operating around the world.

This network will only grow in importance as the FIUs continue to develop projects and conduits to detect and prevent terrorist financing and financial crimes. Through the Egmont Group, these FIUs have agreed to: (i) work to eliminate impediments to information exchange; (ii) make terrorist financing a form of suspicious activity to be reported by all financial sectors to their respective FIUs; (iii) undertake joint studies of particular money laundering vulnerabilities, especially when they may have some bearing on counterterrorism, such as hawala; and (iv) create sanitized cases for training purposes.

This network will also be a primary international vehicle to deal with emerging threats and financial criminal activity on a strategic basis – using the existing information exchange protocols as the basis to deal with these issues.

Bi-Lateral Efforts to Promote Counter Terrorist Financing Goals

We know that success in the war against terrorism is often contingent upon the political will and resources of other governments. Thus, we are committed to working directly with other nations to enhance their domestic capabilities as well as take joint action. We have worked closely with a number of key allies on a bilateral basis, with real results around the world such as asset freezes, arrests, and key institutional and legal changes.

While the USG is currently working with countries all over the globe, the following are two examples of recent joint efforts of some interest to the Congress:

Saudi Arabia

As I have testified previously before the House of Representatives, we have engaged the Saudi Arabian government aggressively on the need to take real actions to address the threat of terrorist financing. Our engagement, combined with the Saudi realization of the real al Qaida threat to the Kingdom, has produced important results and changes.

For example, we have worked with Saudi Arabia to ensure that key terrorist financiers and facilitators have had their assets frozen and/or have been arrested or otherwise addressed through the international community's concerted law enforcement efforts. Included in this category are Saudi millionaires Yasin al-Qadi and Wa'el Hamza Julaidan, as well as the terrorist financing facilitator known as Swift Sword. We need to do more to isolate potential financial supporters of al Qaida and other

We have jointly designated thirteen branches of the Al Haramain Islamic Foundation because of that organization's use of charity to support al Qaida and its regional activities. This engagement has resulted in a wholesale re-evaluation and restructuring of the charitable sector in Saudi Arabia. Because of this abuse of zakhat or charity within and outside of the Kingdom, the Saudi government has taken concrete steps to deal with this identified risk.

Saudi Arabia has issued comprehensive new restrictions on the financial activities of Saudi charities, including the following:

- Charitable accounts can only be opened in Saudi Riyals;
- Enhanced customer identification requirements apply to charitable accounts;
- Each charity must consolidate its banking activity in one principal account. Although sub-accounts are permitted for branches, they are restricted to receiving deposits – all withdrawals and transfers must be serviced through the main account;
- No cash disbursements are permitted from charitable accounts; payments are only allowed by check payable to the first beneficiary and must be deposited in a Saudi bank;
- No ATM or credit cards may be issued against a charitable account (all outstanding ATM and credit cards for such accounts have been canceled);
- No transfers from charitable accounts are permitted outside of Saudi Arabia.

Moreover, the Kingdom has banned cash contributions in local mosques and removed cash collection boxes for charities from shopping malls.

In some respects, these restrictions go further than those of any country in the world. We commend Saudi Arabia for taking these important steps and urge its officials to ensure that these new rules are rapidly implemented and enforced fully and vigorously. That being said, we will continue to work directly with the Saudi government on the concerns we have about the vulnerability of their charity – often sent to crisis regions – being abused by terrorists and will continue to press to see the implementation of the new structure within the Kingdom.

Beyond these actions, the U.S. Government has created a close agent-to-agent working relationship with the Saudis to deal with terrorist financing specifically. The Joint Terrorist

Financing Task Force, based in Riyadh, began operations last fall. Through this Task Force, investigators from the FBI and from the IRS Criminal Investigation Division (IRS-CID) have gained unprecedented access to Saudi accounts, witnesses, and other information. The Task Force agents both provide and receive investigative lead information on various terrorist financing matters. In addition, U.S. agents seek assistance from Saudi investigators in following terrorist financing, and in using that information to identify or attack terrorist cells and operations. Information received by the U.S. agents is passed through FBI's Terrorist Financing Operations Section in Washington to the interagency Joint Terrorist Task Forces (JTTFs) nationwide.

Consistent attention and frank discussion with our Saudi partners has been an important part of our campaign to de-legitimize and disrupt terrorist support and financing in the Persian Gulf. This is why I, along with others in the U.S. government, spend a considerable amount of time focusing with Saudi Arabia, often in the Kingdom, on particular areas of concern. This constructive engagement which has produced real results must and will continue.

Russia

We have consistently worked with the Russian government to deal with the threat of terrorism, and the recent terrorist attacks in Russia, seen most graphically and inhumanely in the hostage tragedy in Beslan, further highlight the need to work with the Russian government to deal effectively with global terrorist threats.

As called for by President Bush and President Putin in August 2003, the U.S. Department of the Treasury and the Russian Ministry of Finance have established a joint initiative aimed at combating terrorist financing. In November 2003, Treasury Under Secretary Taylor and the First Deputy Finance Minister Zubkov delivered a Joint Report to President Bush and President Putin containing a plan of action. Since then, significant progress has been made in moving this agenda forward, including important steps toward the creation o a regional body dedicated to ensuring that Eurasian countries, in particular the Central Asian republics, adopt and implement AML/CFT regimes that meet international standards;

In May 2004, I held a follow-up meeting in Moscow with the Head of the Federal Financial Monitoring Service Zubkov to assess progress and identify potential further joint activities, including:

- Creating direct bilateral information exchange mechanisms based within the U.S. Treasury Department and Russia's Federal Financial Monitoring Service, with relevant support from the authorized agencies of both countries, on corrupt foreign banks, terrorism financing flows to Islamic extremists in Southern Asia, Central Asia and the Caucasus; and currency counterfeiting connected to money laundering or terrorism financing.
- Continuing the successful collaboration between our FIUs and encourage the more aggressive use of the Egmont Group as a vehicle for FIU cooperation.

These are mere examples of the ongoing engagement the Treasury, in coordination with the State Department and others in the government, has with partners around the world.

Next Steps and Challenges

Despite the considerable progress that we have achieved, largely through enhanced inter-agency and international communication, cooperation and collaboration, several ongoing and important challenges remain in the campaign against terrorist financing and money laundering. We have identified priorities to advance our long-term and short-term goals.

We are facilitating compliance with existing international standards through terrorist financing technical assistance to priority countries, both bilaterally and through a coordinated international effort. Internationally, we anticipate completing technical needs assessments of priority countries through the FATF within the next few months. Thereafter, we will work with the State Department in coordinating the delivery of appropriate assistance to these countries through the CTAG. Bilaterally, we will continue to work with the State Department and the interagency community to ensure that those countries targeted for bilateral assistance receive such assistance as planned.

We are also launching a number of initiatives to reduce the threat of terrorist financing through non-profit organizations (NPOs). For example, on April 28, 2004, Treasury hosted an Initial Outreach Event with representatives from the U.S. charitable sector to discuss Treasury's Anti-Terrorist Financing Guidelines: Voluntary Best Practices for U.S.-Based Charities and related terrorist financing issues. Secretary Snow opened the event by underscoring the importance of developing a strong partnership between the philanthropic community and the government to promote and protect charitable giving. These remarks were followed by an in-depth discussion of the nature of the terrorist financing threat within the charitable sector, indicators of potential terrorist financing activity, steps that charities can take to protect themselves from terrorist abuse, and international initiatives currently underway to minimize the risk of terrorist abuse in the global charitable community. Moving forward, the participants agreed to work with Treasury in forming three sub-groups from across the charitable sector to address the following three challenges of particular concern: (i) improving the Treasury Guidelines to the charitable sector; (ii) developing more useful red flag indicators and typologies for the benefit of the charitable sector; and (iii) minimizing risks of terrorist abuse in delivering relief to high risk jurisdictions.

We are also engaging the Middle East as a priority in promoting greater transparency and understanding of regional financial systems and regional money laundering and terrorist financing threats. We are working with the World Bank, other supporting organizations and states, and the countries in the region to facilitate the development of a FATF-style regional body (FSRB) for the Middle East and North Africa. We have already participated in a number of progressive meetings with these parties and anticipate the launch of this organization by the end of 2004. In addition, we are participating in a number of ongoing training and outreach seminars with government officials in the region on anti-money laundering and counter-terrorist financing issues, including in the United Arab Emirates and in Lebanon. Finally, we are exploring the

continued study of terrorist financing and drug trafficking connections with countries in that region.

In addition to these efforts, we are enhancing the transparency of financial systems by working directly with the private sector whenever possible. In addition to our direct engagement with the charities sector as described above, we are working with the international banking sector to facilitate bank-to-bank training and assistance in understanding and complying with enhanced anti-money laundering and counter-terrorist financing obligations.

To exploit these existing and developing transparencies, we must also advance our short-term strategy by enhancing our ability to identify, disrupt and dismantle terrorist and criminal organizations. We are pursuing a number of priorities, both domestically and internationally, to advance this goal.

We are focusing our efforts on achieving greater European cooperation and support for our terrorist financing designations. We are capitalizing on our progress in improving and clarifying international standards for freezing terrorist-related assets under FATF Special Recommendation III by: (i) pursuing bilateral and multilateral efforts to reform the EU Clearinghouse process, and (ii) encouraging national implementation of UN member state obligations under United Nations' Security Council Resolution 1373.

These long-term and short-term initiatives are complementary and address the priority challenges that we face in the campaign against terrorist financing and money laundering. Moreover, these initiatives capitalize on the progress we have achieved to date, and on the relationships that we have forged in the inter-agency and international communities, as well as in the private sector, over the course of our sustained campaign.

The terrorist financing challenges we all face are considerable, but the progress we have achieved, both domestically and internationally, provides a solid basis from which to move forward. We greatly appreciate the support we have received from the Congress in granting us the authorities required to effectively combat terrorist financing and financial crime. We look forward to continued close cooperation with this Committee and the Congress in our ongoing and progressive efforts to effectively globalize our campaign. Thank you again for the opportunity to testify before you today on these matters of great importance. I will be happy to answer any questions that you may have concerning our efforts.

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