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COMBATING CHILD PORNOGRAPHY BY ELIMINATING PORNOGRAPHERS' ACCESS TO THE FINANCIAL PAYMENT SYSTEM

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

SECOND SESSION

ON DRAWING ATTENTION TO THE PROBLEM OF CHILD PORNOGRAPHY AND TO HIGHLIGHT WHAT FINANCIAL SERVICE COMPANIES CAN DO TO ELIMINATE IT FROM THE FINANCIAL PAYMENT SYSTEM

TUESDAY, SEPTEMBER 19, 2006

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COMBATING CHILD PORNOGRAPHY BY ELIMINATING PORNOGRAPHERS' ACCESS TO THE FINANCIAL PAYMENT SYSTEM

TUESDAY, SEPTEMBER 19, 2006

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met at 10:07 a.m., in room SD–538, Dirksen Senate Office Building, Hon. Richard Shelby, presiding.

OPENING STATEMENT OF CHAIRMAN RICHARD C. SHELBY

Chairman SHELBY. The Committee will come to order.

This morning, the Banking Committee will examine the exploding problem of child pornography on the Internet, and the roles the Congress, the executive branch and the financial services community can play in combating this global problem. We will hear from the Attorney General of the United States on the efforts of the Department of Justice to attack and stop this criminal activity. The Committee will also review the progress of the Financial Coalition Against Child Pornography since its recent launch in March of this year.

Child pornography has become a multibillion dollar industry worldwide because it is low-risk and highly profitable. The sad truth is that there is a large and growing demand for these disturbing images. Combine that demand with ease of access provided by the Internet and the ability to use credit cards and other payment methods and you get one of the fastest growing on-line businesses.

Unfortunately, our banks and credit card companies, which have been instrumental in the Internet commerce revolution, have become an unintentional part of the problem. Credit cards provide an easy and quick method of payment and are accepted worldwide. Purveyors of child pornography know this and they use the Internet and the credit card system to exploit and abuse innocent children for profit.

While this all began as a mostly concealed cottage industry, investigations today have unraveled complex international financial trails. Billions of dollars a year in illicit profits attract organized criminals who are highly adept at using sophisticated finance and money-laundering mechanisms such as shell and front companies which hide true identities and process payments internationally. As the Attorney General will soon discuss, an important key to combating this growing transnational cancer is to follow the money, the

same tactic we use in disrupting organized crime syndicates, narcotics traffickers, and terror networks.

If it were in the realm of possibility to eliminate the incomprehensible demand for this type of disturbing material, we would surely do it. But, unfortunately, that noble goal is well beyond any of our capabilities. It is, nonetheless, all of our responsibilities to do everything we can to protect our children by combining our efforts to combat this undeniable evil. The members of this Committee are committed to doing just that by going after the money.

One such measure involves organizing banks, credit card companies, Internet service providers, and alternate payment providers to work together to address this issue. The Financial Coalition Against Child Pornography is an initiative involving the National Center for Missing and Exploited Children and its international sister organization. These two groups are collaborating with several financial institutions and Internet industry leaders to eradicate the commercial viability of child pornography by the year 2008. So far, 25 companies have joined the Coalition. It is our hope that number will grow significantly in the very near future.

In my role as Chairman of the Senate Banking Committee, I have worked with the Center to bring together industry leaders to develop and implement a comprehensive strategy to attack the problem. We have the technology, resources and expertise—but the key is cooperation, coordination and perhaps most important, commitment in the financial services community.

I look forward to hearing from our witnesses as we discuss these issues in more detail.

This morning, we will hear first from The Honorable Alberto R. Gonzales, Attorney General of the United States. General Gonzales, who, since taking the helm at Justice, has made combating the scourge of child pornography one of the Department's highest priorities. The Attorney General has developed a new initiative, Project Safe Childhood, which will coordinate Federal, State, and local law enforcement efforts to prosecute child predators and rescue their victims. Under his leadership, the Justice Department has partnered with the National Center for Missing and Exploited Children and other organizations, to deploy their considerable resources against this threat.

Also, the Attorney General has worked with Congress to craft new laws to combat those who would harm children—particularly the recently enacted Adam Walsh Child Protection and Safety Act of 2006. Mr. Attorney General, I commend you for your efforts and we are very pleased that you are with us today.

Our second panel will include Mr. Ernie Allen, President and Chief Executive Officer of the National Center for Missing and Exploited Children.

Ms. Kim Mowder, Senior Vice President of Bank of America Merchant Services.

Mr. Mike DeNoma, Group Executive Director and CEO of Consumer Banking for Standard Chartered Bank.

Ms. Jodi Golinsky, Vice President and Regulatory and Public Policy Counsel for MasterCard Worldwide.

Mr. Mark MacCarthy, Senior Vice President for Public Policy, Visa U.S.A., Inc.

So, we are looking forward to a great panel.

Senator Bennett, do you have any comments?

STATEMENT OF SENATOR ROBERT F. BENNETT

Senator BENNETT. Thank you very much, Mr. Chairman. I appreciate your calling the hearing. It is very timely here for the Senator from Utah. I am going to read excerpts from a release that came out of the United States Attorney's Office in Salt Lake City that perhaps illustrates what it is we are dealing with.

A complaint unsealed Friday in Federal court charges a registered sex offender in Salt Lake City with enticing and coercing a minor child in Illinois to engage in sexually explicit conduct for the purpose of producing visual depictions of the conduct.

The defendant allegedly told the child he needed the pictures for modeling. And, on another occasion, offered the child a modeling contract. U.S. Attorney Brett Tolman, District of Utah, FBI special agent in charge Timothy Fuhrman of the Salt Lake Field Office and Utah attorney general Mark Shurtleff announced the arrest of Gerald Wheeler, 40, of Salt Lake City.

According to the complaint, a parent contacted law enforcement authorities in Naperville, Illinois, saying that his 13-year-old daughter had been receiving obscene, lewd, and sexual messages on her computer site. The messages include requests for the child to engage in various sexual acts, and the child was asked to fly to New York to engage in sexual conduct in exchange for a modeling contract.

Detectives were able to trace the IP address to an Internet café in Salt Lake City, Utah. According to the complaint, the owner of the cafe compared the log-in times to possible users at the cafe at 3:16 a.m. on August 15, 2006. Because the cafe is not a 24-hour facility, the owner confirmed that the only individual with access to the IP address at 3:15 a.m. would be the facility manager, Jerry. The owner also confirmed that he knew that the cell number Brian—that is the pseudonym used—had used to call the child belonged to a former employee of the facility who was close to Jerry. Jerry was identified as Gerald Wheeler. The owner of the cafe confirmed that a computer recovered from the basement of the cafe was used primarily by Wheeler prior to August 2006.

So here is an actual case, interstate, from Salt Lake City to Naperville, Illinois, that required intelligent cooperation with Federal authorities and local authorities that illustrates that this is not a matter that can be left to local police departments. It does require the attention of Federal authorities, and, Mr. Attorney General, along with the Chairman, I salute you for your attention to this.

When we get into the question period, Mr. Attorney General, I am going to take you back to the Reagan administration when your predecessor, Ed Meese, formed an Attorney General's Commission to deal with this, a Commission that made a number of recommendations. And, unfortunately, in the intervening time, very little has been done about these recommendations, and I am going to ask you if the Justice Department is considering appointing another Commission.

I am told and cannot verify that at least one of your predecessors told the U.S. Attorneys not to prosecute any pornography cases. I will not use names because I cannot verify that this actual order was given, but I think it is a very significant issue, and I applaud you for your attention to it, and you, Mr. Chairman, for holding this hearing.

Thank you.

Chairman SHELBY. Senator Stabenow.

STATEMENT OF SENATOR DEBBIE STABENOW

Senator STABENOW. Thank you, Mr. Chairman, for scheduling what is a very important hearing, and I also welcome Attorney General Gonzales. I think this is one of the most important topics that, frankly, we will deal with as it relates to people's lives, because what happens to children fundamentally can change their life forever. And it is incredibly important that we have a sense of urgency about this issue. So I am pleased that you are here, and I am very concerned about the information we are uncovering, as the Chairman and Senator Bennett have talked about.

First, the growth of the industry. Since 1988, the number of Internet pornography images has increased 1,500 percent—1,500 percent. That is astounding.

Second, the economics of the industry. Today, the market for child pornography is estimated to be about a $30 billion business that accounts for about 20 percent of the Internet pornography market.

And, last, and most disturbing, is where the Internet sites are being hosted, because, as we know, according to the National Criminal Intelligence Service, more than half of all the illegal sites are coming from here, coming from the United States. Half—more than half.

While I recognize that the internet has provided a distribution mechanism for illegal activity, we all agree it should be a tool to combat the illegal activity. we have the technology to trace money flows directly to child pornography predators, identify websites around the world, and we need to be having a sense of urgency as we move forward. We should also be able to stay ahead of the predators using the Internet as a vehicle for justice.

I know the coalition has targeted 2008, but as I review the numbers, it may not seem far away for us working on a daily basis, but for too many children that is a long ways away—2008. Whether we invest in high-tech computer-based tracking techniques, stiffer regulations, or increase education of front-line law enforcement personnel, I believe we need to move faster.

I have supported and will continue to support every effort I can to address issues concerning the Internet and exploitation of children. I am very proud to be one of the sponsors of the Internet Safety and Child Protection Act, which would tighten our laws regarding pornography purchases over the Internet. And I hope that we will see action on that bill.

Again, Mr. Chairman, thank you very much for holding this hearing. When it comes to child pornography and our children, we are talking about a very profound area of changing a child's life, and I hope that we will do everything together that we can to have

a sense of urgency about this issue, and I thank you again for your leadership.

Chairman SHELBY. Senator Allard.

STATEMENT OF SENATOR WAYNE ALLARD

Senator ALLARD. Mr. Chairman, I would like to join my colleagues in thanking you for holding this hearing and your leadership on this particular matter. I would also like to join them in welcoming Attorney General Gonzales here before the Committee; your leadership in combating child pornography is very much appreciated by many of us on this Committee.

I would also like to second Senator Bennett's comments that it is important that we put together a program that really yields results. Child pornography is one of the most appalling and horrific crimes imaginable. Unfortunately, technology has created some vulnerabilities. Child predators prey on unsuspecting children and teenagers over the Internet via social networking websites, web cams, and Internet access to cell phones.

A recent study discovered one in five young people ages 10 to 17 who use the Internet regularly received a sexual solicitation over the Internet within the previous year. However, less than 10 percent of sexual solicitations were reported to authorities.

According to a Mackenzie Worldwide report, child pornography is a $20 billion industry worldwide, much of which is funded by the Internet. The Internet has enabled child pornography to become a fast-growing industry. It has allowed thousands upon thousands of individuals worldwide access to child pornography by simply using their credit cards and other electronic payment methods.

I am pleased to see that Qwest Communications in Colorado has been proactive and is showing initiative to raise awareness and help combat the exploitation of young people over the Internet. Qwest has partnered with the National Center for Missing and Exploited Children to form a coalition to increase parental and guardian education through the Qwest Connected Family Online Classroom.

Again, I would like to thank Chairman Shelby for being the motivation that brought together some of the world's most prominent financial institutions, the Internet industry, and the International Centre for Missing and Exploited Children to form the Financial Coalition Against Child Pornography. The goal of the coalition is to eradicate commercial child pornography by 2008. In order to accomplish this, we need to eliminate the flow of money being used to exploit innocent victims.

I would like to thank the witnesses for being here today, and I look forward to all of your testimony. Thank you, Mr. Chairman.

Chairman SHELBY. Senator Sarbanes.

STATEMENT OF SENATOR PAUL S. SARBANES

Senator SARBANES. Well, Mr. Chairman, I first want to very strongly commend you for your work in this area and, in particular, for bringing together the National Center for Missing and Exploited Children, which has been under the very capable leadership of Mr. Allen here, and the leading participants in the payment system to fight the spread of child pornography over the Internet.

I think as all my colleagues know, Chairman Shelby convened a meeting of financial leaders to address this issue, and as he said in a letter which he sent to all of his colleagues in the Senate, and I quote him, "If people were purchasing heroin or cocaine and using their credit cards, we would be outraged and we would do something about it. This is worse."

So I want to join with others in recognizing your leading efforts in this area.

The exploitation and greed that characterizes the production and sale of child pornography are obvious and apparent. The sale of child pornography is a multi-billion-dollar-a-year industry worldwide. The human pain inflicted to produce these moneys is dreadful to contemplate.

The Internet child pornography industry exists largely because the use of credit cards and other online payment mechanisms makes it possible easily to buy and sell pornography, with potential secrecy, from anywhere in the world. Without access to the payment system, it is reasonable to believe that the Internet child pornography industry would certainly shrink, and perhaps die. That is why an essential way to identify and stop the criminals involved is to "follow the money." We can expect to find many of the common tools of money laundering along the way, including front companies, anonymous aggregators interposed between credit card merchant banks and their customers, misuse of correspondent banking relationships, all of which allow the child pornography industry to disguise its operations and to facilitate the international movement of funds derived from this criminal activity.

I am encouraged that leading members of the payment system, legitimate enterprises, amongst our most legitimate enterprises, have pledged under the initiative and leadership of Chairman Shelby to work to deal with these issues in connection with the fight against child pornography.

I am pleased to join with my colleagues in welcoming the Attorney General to the Committee this morning, and also, because I am not sure I will be able to stay the entire morning, Mr. Chairman, I want to welcome Mr. Allen, whose tireless work on behalf of at-risk children is well known, and the other members of the second panel. I look forward to hearing the testimony of today's witnesses.

Thank you.

Chairman SHELBY. Thank you.

Senator Enzi.

STATEMENT OF SENATOR MIKE ENZI

Senator ENZI. Thank you, Mr. Chairman, and I, too, want to thank you for holding this hearing and for your tireless efforts. I want to thank the Attorney General for being here and the other members of the panel. We need to do everything we can to stomp out this terrible blight on our children.

Each year, thousands of children are exploited by photographing them and making those images and videos available to child predators. We need to stop those terrible crimes, and I look forward to hearing from the witnesses, with the ideas about what can be done.

The sexual victimization of children is a tremendous problem in our Nation, and, unfortunately, the problem is probably more wide-

spread than most recognize. According to the National Center for Missing and Exploited Children, statistics show that one in five girls and one in ten boys are sexually exploited before they reach adulthood. Although these abuses are so prevalent, less than 35 percent of those child sexual assaults are even reported to authorities. The abused children who are the victims of child pornography are harmed both mentally and physically. Physically, they can be molested or face exposure to sexually transmitted diseases. Although the physical traumas are problematic, many child victims struggle with the mental abuse for far longer.

Victims of child pornography can often face depression, anger, and feelings of worthlessness and low self-esteem. These feelings follow them into adulthood and forever alter their lives. In addition, because emotional scars are not as visible as physical wounds, they often go untreated.

Child pornography is illegal in all 50 States and most countries. Although the growth of the Internet has been beneficial in many ways, bad actors are using this information-sharing tool to spread their filth. Unfortunately, the vastness of cyberspace often makes prosecution of these criminals difficult.

Congress has taken steps to combat child pornography, but our actions up to this point have not gone far enough. Earlier this year, the Senate passed and President Bush signed the Adam Walsh Child Protection and Safety Act of 2006. This legislation included provisions requiring producers of sexually explicit material and simulated sexually explicit material to keep records of every performer's name and date of birth.

While ensuring that performers are of legal age, Congress and President Bush took one more step to protect the innocent. In addition to this act, there are a number of other ideas being discussed in Congress and within the administration. The Department of Justice has sent proposals to the Hill to increase fines if an electronic communication service provider knowingly and willfully fails to report the presence of child pornography on their systems. In addition, Justice hopes to eliminate the practice of hiding terms in the website's code so that the pornography site will come up on a search of the Internet.

For example, some pornography website owners will place terms such as "Sesame Street" in the code. When someone searches on Google for children's shows, the pornography website will also come up on the list of possible websites.

Many of the proposals attack the problem of child pornography with increased regulation of the Internet. Those deserve serious consideration, but in addition to taking action on the Internet, there are many other ways we can prevent the exploitation of children.

Today we are here to examine the role of the financial industry on stopping child pornography and child pornographers. I am pleased Chairman Shelby scheduled this hearing to tackle this important issue before the Banking Committee. I also applaud the efforts of the Financial Coalition Against Child Pornography to wipe out commercial child pornography by 2008. They seek to do so by destroying the financial network of these criminals. The ambitious

goal will take coordination of law enforcement, private industry, States, and the Federal Government.

I am committed to providing these individuals with the resources they need to eliminate and eradicate child pornography. I look forward to learning about efforts that are currently underway and learning about what more can be done so we can provide the resources to help law enforcement deal with this problem. This hearing will help lay the groundwork for legislative action as we engage in the fight against child pornography.

Thank you again for holding this hearing and for our distinguished guests taking the time to testify.

Chairman SHELBY. Mr. Attorney General, we welcome you again—oh. Senator Bunning, that is right.

STATEMENT OF SENATOR JIM BUNNING

Senator BUNNING. Thank you, Mr. Chairman. I know I was a little late, but I appreciate being recognized.

Chairman SHELBY. He is recognized.

Senator BUNNING. First of all, I would like to congratulate Senator Shelby on all the work that he has done to bring the hideous incidents, many incidents to our attention. And I would like to welcome all of our witnesses today. I am especially glad to see that Attorney General Gonzales was able to join us. I would also like to extend a warm welcome to one of my fellow Kentuckians who is on the second panel, Ms. Kim Mowder with the Bank of America.

Mr. Chairman, I am pleased that the Committee will be hearing testimony today regarding how to combat child pornography through our financial institutions. I believe it is an issue that deserves our attention and consideration.

Like my colleagues here today, I believe that sexual predators are among the worst criminals in our society. My thoughts and prayers go out to the victims and the victims' families. It breaks my heart to hear stories in the news about children who have been exploited by predators on the Internet. I believe there is no punishment too severe for these criminals.

This past year, Congress has addressed several ways to combat such predators. Most of those ways, however, have focused on increasing Federal penalties and establishing a national registry. I believe it is time that we focused on the finances of the industry. It is basic business sense to do so. If we take away the money, then we can take away the incentives for those who want to profit from exploiting children.

I am glad the industry has taken a leading role in this, and I look forward to hearing about their plans. I would like to thank all of the witnesses for their testimony today. I look forward to hearing their thoughts on how we can best put an end—an end—to this industry.

Thank you, Mr. Chairman.

Chairman SHELBY. Thank you, Senator Bunning.

Mr. Attorney General, your written testimony will be made part of the hearing record in its entirety. We welcome you again. You proceed as you wish.

Attorney General GONZALES. I would like to make an opening statement, Mr. Chairman.

Chairman SHELBY. Absolutely.

STATEMENT OF ALBERTO R. GONZALES, ATTORNEY GENERAL OF THE UNITED STATES

Attorney General GONZALES. Mr. Chairman, Senator Sarbanes, and distinguished Members of the Committee, thank you——

Chairman SHELBY. Please bring the mike just a little closer. We have got a lot of people in this room.

Attorney General GONZALES. Thank you for having me here today to discuss a very important and vital issue: protecting our children from exploitation on the Internet.

As all of you know, none of us can underestimate the importance or the urgency of this threat against our kids. Every day pedophiles troll the Internet to see and sell images of child abuse. They also look for ways to contact our children over the Internet. They are hoping to make contact with the very young, the very innocent, to commit unthinkable acts and to potentially sell images of those crimes to other pedophiles.

It is unfortunate that one of the greatest inventions of our generation, the Internet, is providing the building ground for the heinous crimes. That is why parents and volunteers and law enforcement must make the Internet a battleground. We must fight every day because predators seek to hurt our kids every day.

As a father of two young boys, this issue is one that I take extremely seriously on both personal and professional levels. I know the same is true for Members of this Committee. We are all aware that society's ability to protect its children is a critical marker of that society. That is why protecting our children from sexual exploitation on the Internet is a high priority for the Department.

I know that the issue of child molestation, rape, and pornography can be difficult for people to focus on because it is simply so terrible. But we cannot turn away to preserve our comfort level. We must confront the brutal facts.

For example, virtually all images of child pornography depict the actual sexual abuse of real children. In other words, each image literally documents a crime scene. These are not just pornographic pictures or videos. They are images of graphic sexual and physical abuse—rape, sodomy, and forced oral sex—of innocent children, sometimes even babies.

The Internet has created a shocking field of competition to see who can produce the most unthinkable photos or videos of rape and molestation. In the perverse eyes of the pedophiles and predators, this means the younger, the better.

Now, working with Federal investigators and advocacy groups, I have seen just how horrific these images can be. I have seen a young toddler tied up with towels, desperately crying in pain, while she is brutally raped and sodomized by an adult man. I have seen videos of very young daughters forced to have intercourse and oral sex with their fathers and pictures of older men forcing naked young girls to have anal sex. Now, these are shocking images that cry out for the strongest law enforcement response possible.

Moreover, these disturbing images are only the beginning of a cycle of abuse. Once created, they become permanent records of the abuse they depict and can haunt the victims literally forever once

they are posted on the Internet. Unfortunately, advances in technology have also made it easier for offenders both to profit from these images and to distribute them to each other. Once images are posted on the Internet, it becomes very difficult to remove them from circulation. Even more disturbing is the fact that offenders rely on these images to develop a plan of action for targeting their next victims and then use the images to bring victims into submission.

The challenge we face in cyberspace was illustrated by a new national survey released in August of 2006, conducted by University of New Hampshire researchers for the National Center for Missing and Exploited Children. The study revealed that a full third of all kids ages 10 through 17 who use the Internet were exposed to unwanted sexual material. Much of it was extremely graphic.

As I mentioned, this battle against child exploitation is a top priority. Earlier this year, as the Chairman indicated, we launched a program called Project Safe Childhood that is helping to coordinate the good efforts of U.S. Attorney's Offices, law enforcement, and advocacy groups. Through Project Safe Childhood, we are constantly expanding our efforts to address the sexual exploitation of children on the Internet and the financial underpinnings of this exploitation. This program is helping law enforcement and community leaders develop a coordinated strategy to prevent, investigate, and prosecute sexual predators, abusers, and pornographers who target our children.

As we have looked at ways to improve the law enforcement response to the problem of online exploitation and abuse of children, one thing we have continually heard from State and local investigators and prosecutors is that many Internet service providers do not retain records for a sufficient period of time. Several months ago, I asked a working group within the Department to look at this issue, and we are working hard on ways to remedy this problem.

I see the initiative to protect our children as a strong, three-legged stool. One leg is the Federal contribution led by United States Attorneys around the country. Another is State and local law enforcement, including the outstanding work of the Internet Crimes Against Children Task Forces, which are funded by the Department's Office of Justice Programs. And the third is nongovernmental organizations like the Financial Coalition Against Child Pornography and the National Center for Missing and Exploited Children, without which we would not have a CyberTipline.

I want to note that the Financial Coalition would not exist without the leadership and vision of you, Mr. Chairman. You were the catalyst in bringing industry leaders together to address this serious problem.

Congress, of course, has also provided valuable support for our efforts by passing the Adam Walsh Child Protection and Safety Act earlier this year. The Adam Walsh Act, signed by the President, will help us keep our children safe by preventing these crimes and by enhancing penalties for these crimes across the board. But none of our efforts can stand alone. All must involve high levels of sharing and coordination. That is what Project Safe Childhood is all about.

One final note that I would like to share with the Committee today is that our fight against the proliferation of child sexual exploitation on the Internet does not stop at our borders. It demands a global strategy. This makes it imperative that we pay attention to the laws governing child sexual exploitation in other Nations. Many countries have astonishingly lenient punishments for child pornography offenses.

For instance, in several nations, the production of child pornography is punished with only a fine or imprisonment of less than 6 months or a year. Simple possession is punishable merely by a fine. And just as we need some States to strengthen their laws to punish child sex offenders, we must encourage foreign lawmakers to strengthen their laws as well, including those concerning the financial components of these crimes.

I am, of course, grateful, Mr. Chairman, that the Committee shares the Department's commitment to protecting our children. Again, I want to thank you for establishing the Financial Coalition Against Child Pornography. I also want to acknowledge Senator Santorum's work for authoring the provision in the Adam Walsh Act that authorized the Department's Project Safe Childhood initiative. Senators, all of you, your exemplary actions have truly shown the depth of your commitment to protecting our children from abuse that no human being should have to endure.

Mr. Chairman, thank you and the Committee for the opportunity to speak to you. I would be pleased to answer any questions the Committee may have.

Chairman SHELBY. Thank you, Attorney General Gonzales.

Picking up on something you just said a minute ago, it has been reported that in most of the world there are no statutes or laws on child pornography, and only a handful of countries actually have laws and harsh punishment for offenders. Mr. Attorney General, what kind of collaborative efforts are currently underway or contemplated between the Department of Justice and international governments and law enforcement officials? In other words, how can we, you as the Attorney General and we as legislators, create a uniform system that would help combat this commercial child pornography?

Attorney General GONZALES. An important part of my responsibility as Attorney General is to develop and solidify relationships with my foreign counterparts, because there are many crimes that know no borders, such as terrorism, such as the protection of intellectual property, and, of course, such as the protection of our children. And for that reason, whenever I travel it is always one of the items that is on my list to raise with my counterparts in terms of what are the efforts ongoing in that country and what can we do together to help deal with this issue, because I think it is becoming more and more of a problem in foreign countries as well, and my foreign counterparts, they understand. They can't successfully address this issue without the cooperation of the United States.

We are also working with the European Union. There is an organized effort within the European Union to focus on this issue to see what we can do together collectively as a group working with the United States and the member countries to address this issue.

Senator, in terms of what Members of Congress can do, I know that you have a lot of international travels, and I would certainly put this at the top of the list of items to raise with foreign legislators and foreign officials in terms of the importance of protecting our children, because we will not be able to protect our children here in America without the cooperation of other countries. This is a very important effort.

Chairman SHELBY. Thank you. Shell corporations. Law enforcement officials over the world over are concerned about the use of U.S. shell companies to hide or facilitate criminal activity, particularly money laundering. In a number of States, they can be registered by foreign citizens by way of the Internet in just minutes without any ownership information being supplied. Officials have often noted that some cases had to be because of insufficient information on what we call beneficial owners. Does the Justice Department have an opinion on whether having more information at the incorporation stage and periodic updates of that information thereafter would be beneficial in pursuing the fruits of crime like child pornography? Would this take an intervention of Congress to achieve the desired result? In other words, could we reach other States, amend laws, or what?

Attorney General GONZALES. Mr. Chairman, I don't know whether or not it would require the intervention of Congress. That is something that I would be happy to look at and get back to you. Obviously, the more information we have about those engaged in criminal activity, the easier it is for the law enforcement community to deal with it effectively. So I would be happy to look at that and get back to you.

Chairman SHELBY. That would be good.

Attorney General GONZALES. If I may, I was recently reminded that I should have—I neglected to mention this. Congress recently ratified the Cyber Crime Treaty, and that will help us with respect to our efforts with our overseas partners in fighting this problem.

Chairman SHELBY. Stored value cards, there are many ways to get money, I guess, and use it. This Committee has been interested in stored value cards for some time. There is no doubt that most people want to use these cards in a legitimate way, yet there are always some others who will make illicit use of them. Some of the cards' vulnerabilities stem from the ways they are obtained. Programs often accept applications online, by way of fax, or even through local check-cashing outlets, or even convenience stores, often without having any customer identification or suspicious activity reporting program in place. In fact, some issuers flaunt being anonymous.

What effect do you think such cards are having or could have on the ability of law enforcement to follow the money of child pornography purveyors as they quickly process payments? And will they be able to later identify online child porn?

Attorney General GONZALES. Mr. Chairman, they make it more difficult, quite frankly, in our efforts to prosecute child pornographers. I think one of the challenges that we will have to wrestle with, and I think we need to approach this with an open eye, and that is, we are dealing with a criminal element that is smart and they watch what we do. And so while I hope to see——

Chairman SHELBY. And international in scope, right?

Attorney General GONZALES. And international in scope. And so while I hope to see us make great success and great strides in eliminating commercial websites that promote child pornography by 2008 by following the money and going after these credit card transactions, I fully expect that these enterprisers will try to find other ways in which they can facilitate these transactions other than through credit card payments. And so they are smart. They are going to adjust to what we do. We are going to have to be smart and flexible and adjust in the way that we deal with this problem.

Chairman SHELBY. But, notwithstanding, this is a daunting challenge. We know that. But it is something that we cannot afford to lose. We have got to prevail, have we not, for our children?

Attorney General GONZALES. Mr. Chairman, this is a very important fight for the future of our country. It is a serious fight. The problem is enormous and it is immense, but we should not shy away from the challenge. We have an obligation to protect our children, and so I appreciate the effort of this Committee.

Chairman SHELBY. Thank you.

Senator Sarbanes.

Senator SARBANES. Well, thank you very much, Mr. Chairman.

Mr. Attorney General, I first want to follow up on the first question that Chairman Shelby put with respect to cooperative efforts in the international arena. As I understand it, the G8 law enforcement officials meet at least annually, I gather, as a group. Is that correct?

Attorney General GONZALES. That is correct, sir.

Senator SARBANES. Has this issue of the Internet pornography issue been raised at those meetings of the G8 leading law enforcement officials?

Attorney General GONZALES. It has been raised. Yes, sir. I have been in discussions with my G8 counterparts, and this is an issue that we have discussed. Yes, sir. And I believe it is an issue that has been discussed prior to my tenure as Attorney General, but I am not certain of that.

Senator SARBANES. But it is a matter that is high on the agenda of those meetings? Would that be fair to say?

Attorney General GONZALES. Sir, I believe everything that is on that agenda is a matter of priority for the member countries, and it is an issue that we have talked about. Yes, sir.

Senator SARBANES. Now, under Section 314(a)(1) of the PATRIOT Act, we have authorized law enforcement officials to, and I now quote the Act, "share with financial institutions information regarding persons engaged in or reasonably suspected, based on credible evidence, of engaging in terrorist acts or money laundering."

Now, presently, the regulations issued under that section, which are issued by the Treasury Department, largely involve financial institutions giving information to law enforcement. Should the rules be revised for situations such as the fight against child pornography so that enforcement agencies can assist the coalition that we have made reference to earlier more effectively by sharing information with cleared officials about possible dishonest aggregators

or shell companies? Is any thought being given to that? And what can be done?

Attorney General GONZALES. Senator, I have not given any thought to that in terms of looking at that regulation and the sharing of information. I think if it can be done, it is something that I think we should look at. If you are talking about taking information about individuals and now sharing it with a nongovernmental entity, there may be privacy issues that we would have to look at. But that is something that we would be happy to look at.

Senator SARBANES. Would you undertake to do so? I think it might be helpful in this effort.

Attorney General GONZALES. We will look at that, sir, and give you our views about it.

Senator SARBANES. All right. Several recent administrative actions against international banks involving failure properly to monitor correspondent accounts have been identified in the press as potentially involving the flow of funds derived from the sales of child pornography.

In your view, to what extent should international banks take stronger steps to guard their correspondent banking practices from abuse in this way? I mean, the bank itself in its own practices may have some effective safeguards, but there is a concern that the correspondent banking practices are not subjected to the same scrutiny and standards.

Attorney General GONZALES. Sir, I believe that Mr. Allen is going to talk about the importance of trying to have as many members of the Financial Coalition involved as possible. I think, as the Chairman indicated, we have over 20 members currently, and that represents, I believe, something like 87 percent of the U.S. payments. But obviously, we need to get 100 percent in. As you have identified, it is not just a question of U.S. banks. We also need to get banks outside of the United States involved.

Senator SARBANES. Well, in that regard, would additional international agreements relating specifically to Internet child pornography be helpful in furthering the effort to develop international cooperation?

Attorney General GONZALES. It may be helpful, Senator. Obviously, it depends on what those agreements say. But they could be helpful, yes, sir.

Senator SARBANES. Is there a special unit within the Department of Justice that focuses on this issue only?

Attorney General GONZALES. Sir, we have a special—within the Criminal Division we have a Child Exploitation and Obscenity Section which focuses on child pornography generally. Also, we have within the Criminal Division an International Law Section, and so when we are dealing with our foreign counterparts, we primarily deal with them through that International Law Section. But it is all under the penumbra of the Assistant Attorney General for the Criminal Division.

Senator SARBANES. And how much cooperation do you get from other agencies and departments of our Government, for example, the Department of the Treasury? After all, much of what I have referenced to, they are the first agency to work with these money-laundering questions.

Attorney General GONZALES. Sir, I would say that the cooperation that we have got from our sister agencies has been very, very good, not only Treasury but, of course, the Internal Revenue Service within Treasury, the Department of Homeland Security, in particular ICE. The Postal Service has been outstanding, as has the Secret Service. And so I would characterize the cooperation and commitment to this issue as being very strong.

Senator SARBANES. Is there a structure established within the executive branch of our Government to achieve this? Or is this done on some ad hoc basis? Or is there a regular monitoring, coordinating unit, interagency unit, that follows this matter?

Attorney General GONZALES. Sir, I do not believe that there is—I think you are kind of asking—I do not want to put words in your mouth, but is there sort of a task force that is kind of focused on this issue. None exists within the executive branch that focuses solely on child pornography.

We do have a formal mechanism to look at trafficking that is chaired out of the Secretary of State's office. But with respect to child pornography, I would say, sir, that what we have instead is an understanding of the scope of the problem throughout the administration and a commitment throughout the administration to work together to deal with this issue.

Senator SARBANES. Well, it might be worth considering whether establishing such a structure would be helpful, and I commend that to you for the Department to give some thought to it.

Attorney General GONZALES. Yes, Senator.

Senator SARBANES. Mr. Chairman, I see my time is up. Thank you.

Chairman SHELBY. Senator Bennett. Thank you, Senator Sarbanes.

Senator BENNETT. I want to follow up a little on what Senator Sarbanes was talking about. I do not want to imply that Salt Lake City is a hotbed of these kinds of problems by going again to a Utah case, but it demonstrates that the problems can occur anywhere.

During the last week of July of this year, a 5-year-old girl was kidnapped and murdered, and then after she was dead, her body was raped.

Now, the man who had admitted having committed this crime acknowledged that he was addicted to pornography and that the murder of this child—her name was Destiny Norton—and the subsequent act was his acting out of the pornographic fantasies to which he was addicted.

This says to me that law enforcement of other kinds of crimes—murder, in this case—should pay attention to pornography. And I go back to the creation of the Meese Commission, and it has been 20 years since we had the Meese Commission on Pornography, and I remember a great deal of ridicule that was heaped on the Meese Commission, in the media and elsewhere, of people saying, "Why is the Attorney General wasting his time on a victimless crime? And why should the Attorney General's Commission focus on this?"

Well, the addiction to pornography by the man's own admission was a major motive in this horrible crime that took the life of Destiny Norton. And it seems to me that is the answer to the question

of why law enforcement officials should pay attention to "a victimless crime," looking at these pictures on the Internet is not the kind of thing we should be spending the Justice Department's money on. As I say, the Meese Commission was ridiculed for the focus that it had on pornography.

My question to you, Mr. Attorney General, is: Isn't it time we revisited the creation of an Attorney General's Commission, an update, if you will of the kinds of things that the Meese Commission prophesied would happen, a careful review of what has happened over the last 20 years, and an analysis of whether or not Destiny Norton's fate was an isolated incident or represents part of a pattern that law enforcement officials have been ignoring?

Now, do you have enough discretionary money in the Office of Juvenile Justice and Delinquency Prevention to fund a new AG's Commission on this issue?

Attorney General GONZALES. I do not know whether or not, Senator, whether the funds are there, but that is something that we can easily look into and get back to you. Let me just say that we are doing a lot of—you talked about is it not now time to go back and look at the sources of this issue and look at what we ought to do to address it. That is ongoing and has been ongoing, and it is not just a function or commitment by the Federal Government, but obviously, organizations like the National Center for Missing and Exploited Children are very focused on this issue.

The recommendations of the Meese Commission, you have to remember also, you know, a long time ago, and the changes in technology have been unbelievable. I have not read the Meese Commission report lately. I am not sure they could have imagined the scope, the depth of the threat to our children that exists today.

Senator BENNETT. That is why I am asking you to consider creating a new one, because those data are significantly out of date, 20 years after the fact. I think you may get some of the same ridicule from some of the same sources that pooh-poohed the Meese Commission, but I would hope you would consider creating a new one and ignoring those kinds of attacks.

Attorney General GONZALES. Well, the only thing I would add, Senator, is that, you know, one of the recommendations of the Meese Commission was that we ought to have recordkeeping in terms of sexually explicit materials. And we now have, of course, 2257 and we just had for the first time a conviction, "Girls Gone Wild," there was a conviction for not keeping the appropriate records of minors used in the production of sexually explicit materials.

And so that was a recommendation of the Meese Commission, and, of course, since the recommendations of the Meese Commission, we have had Congress take action through the PROTECT Act, through the Adam Walsh Child Protection Act. And so I suspect if you look carefully at the Meese Commission, some of the recommendations are reflected in some of the protections given by Congress in these two very important pieces of legislation.

What I care about is protecting our kids. If it requires a task force, I am happy to look at that. I think we are doing a lot, quite frankly, working closely with our Federal counterparts, international counterparts, our State and local partners, nonprofit

groups around the country, parents who care very much about this issue. But if we need to do more, I am happy to look at it.

Senator BENNETT. I cannot speak for the Chairman, but he is in a position on the Appropriations Committee to help you out if money is a problem.

Thank you.

Chairman SHELBY. We hope money will never be a problem, Mr. Attorney General, when it comes to justice. You know that.

Attorney General GONZALES. Yes, sir.

Chairman SHELBY. Senator Stabenow.

Senator STABENOW. Thank you, Mr. Chairman.

Just to follow up with Senator Bennett in terms of funding, one of the questions that I had related to just keeping up with the demand, when we look at the National Center for Missing and Exploited Children that says that the CyberTipline in 2001 received 24,000 reports of child pornography, as you know, and that August of this year, the number had climbed to 375,000.

So, Mr. Attorney General, my first question would be just simply: How are you going to keep up with this, and, in fact, is this an issue just from an enforcement standpoint alone in which we need to be looking increased resources?

Attorney General GONZALES. I think that, as I indicated, the problem is enormous. It is immense. It presents some tremendous challenges for the Department—not only for the Department, but our State and local counterparts.

Do we need more resources? We need more resources, quite frankly, but we realize that we do not live or operate in an environment of limitless resources. There are other priorities that are important that have to be met as well, which means that we have to be smart in utilizing the resources that Congress gives to us. And I think that we have been smart by greater collaboration and coordination with State and local counterparts, by leveraging what we know through additional trainings with State and local counterparts.

I must tell you that, of course, the Adam Walsh Child Protection Act authorized additional prosecutors. I think that is something that should be seriously looked at, not only prosecutors within the U.S. Attorneys' Offices around the country, but additional prosecutors in the Child Exploitation and Obscenity Section. The Adam Walsh Child Protection Act also authorized funding for additional computer forensic experts. There is a serious backlog because we do not have enough computer forensic experts, and so there was an authorization for additional such experts for both the FBI and for ICE. I view it as a serious backlog, and I think that is something that Congress should be looking at.

I think also we have a serious need with respect to children who are victimized. Oftentimes there is no place to put them. The State and local facilities simply are not available, and so we have to put them in juvenile facilities, which is not the best place to put kids who have been victimized. And so one of the things that I think ought to be looked at is whether or not there should be additional grants so that we—grants for State and local entities that can provide additional shelters for kids.

So there are needs there. There is no question about it. But we have to be smart, and I look forward to working with the Congress to come up with the appropriate level of appropriations to meet these needs, these very important needs.

Senator STABENOW. I appreciate that. This is an area, in one way or another, that I have worked in my whole adult career and have tracked in Michigan what happens when we do not pay attention to children, to shutting these kinds of things down. In the past, it was different kinds of exploitation, but the truth is we are going to pay there the mental health system, the juvenile justice system, the lack of children being successful in school or successful adults because of the outrageous victimization of children. And so I would just encourage you to have a loud voice, because I believe you have people here who would like very much to respond to that.

If I might just go on, before my time runs out, to a couple of other different kinds of questions, one back to looking at the international front because, as I understand it, Russia's illegal sites may be growing even faster than the United States' and so what happens with our G8 partners becomes very, very important.

When we worked on the PATRIOT Act legislation together, I was proud to author amendments to put in the concentration accounts language, and at that time we had language relating to correspondent bank accounts. We did not end up passing that and putting it in the PATRIOT Act.

But I am wondering, as you have these discussions now, are there very specific things that you are hearing or tools that we should be addressing that would help you as you are working with our G8 counterparts to be able to do what you need to do?

Attorney General GONZALES. Senator, most of our discussions, quite candidly, relate to sharing of information, evidence that could be useful in prosecutions. And we have had some successes, some international takedowns involving sites around the world because of this kind of cooperation and collaboration.

In addition to information or evidence that would be useful in connection with a prosecution, my discussions have also centered upon legislation, what laws exist in those countries that would discourage the growth of Internet sites.

So those are the kinds of things we have focused on. I do not have any recollection about specific discussions about financial transactions, but we may very well have had them. I just do not recall them at this time.

But as I think Senator Sarbanes said, following the money is extremely critical, and having additional tools to do so would be most helpful.

Senator STABENOW. And, Mr. Chairman, I know my time is up. I would just comment again on The Internet Safety and Child Protection Act, and I just mention this only because this deals with the other side of victimization, which is the number of young people under the age of 18 that are getting on these sites. So we not only, as you so rightly indicated, have crimes being committed in full view while we are watching this, but we need to be addressing and passing legislation that requires verification of age so that 10-year-olds, 11-year-olds, 12-year-olds, who are now being able to get

on and see this and may become the next generation of pornographers and predators are not able to get on these sites.

Attorney General GONZALES. Senator, as the father of 14-year-old and 11-year-old boys, I very much appreciate your comments. Let me just take a moment, Senator, to say that parents have a responsibility here. This is not something that the Congress, as wonderful and as powerful as this Committee is, can deal with effectively. We have to get parents involved. We have to make them understand this really is a war.

Chairman SHELBY. You are absolutely right, Mr. Attorney General.

Senator STABENOW. The only thing I would say is that we can verify age, and so I agree with that as a parent totally, but we can work together to verify age.

Attorney General GONZALES. Yes, Senator.

Chairman SHELBY. Mr. Attorney General, I am going to say it again, you are absolutely right, because without the parents being involved, we are wasting our time and money.

Attorney General GONZALES. I am afraid to say that is true, Senator.

Chairman SHELBY. Senator Allard.

Senator ALLARD. Thank you, Mr. Chairman.

Attorney General GONZALES. I want to explore a little bit with you those things that may lead to the success of your effort and those things that may create obstacles.

My first question is: What do you think would be the greatest obstacle to success in your war against child pornography?

Attorney General GONZALES. We need information, Senator, and information helps us make cases. There is, understandably, reluctance about the Government having too much information about individuals and individual transactions. And obviously, we operate under a very strong Constitution. We respect and understand the civil liberties and the privacy rights of individuals. But we have got to find a way to harmonize this so that we can get access to information that would be helpful.

I talked in my remarks about the issue of data retention. When I travel around the country, every cop, every agent, every prosecutor, they understand and they support this notion that we need to figure out a way to have Internet service providers retain data for a sufficient period of time that would allow us to go back and retrieve it through a legal process in connection with an investigation of someone who is harming a child.

I believe Congress has recently received a letter signed by 49 State Attorneys General supporting this, asking the Congress to look at this. And if it is not part of the record, I would like to have it submitted. I am not sure if it is appropriate for me to do that, Mr. Chairman, but I think that it is an important letter that the Committee should have before them as they consider this issue. And it is the kind of issue where even the State Attorneys General, you know, they reluctantly concede this is a problem that is national scope, and they would normally like to deal with issues on a local level, the State level. But they understand that this is a national problem that requires Federal legislation.

Again, this is all related to the question of information. The more information we can have in a way that respects the privacy rights and the civil liberties of Americans, the more effective we can be in prosecuting these cases.

Senator ALLARD. Attorney General Gonzales, what part of your program do you think is most likely to be successful?

Attorney General GONZALES. I think that—two. I think education is important. Things like this hearing today are extremely important. When I go out and talk about this, it is important. When you go out and talk, it is important.

We think that people understand the scope of this problem, but so many people really do not. And so we need to educate people about the dangers that exist. I think we can be successful in that. The Ad Council has been very, very helpful working with NCMEC, with ads in the past. We are going to partner with the Ad Council and NCMEC for new ads next year again—all with the goal of trying to educate people about the scope of this problem.

Obviously, at the Department of Justice, what we do is prosecute. That is what we do. And I think that we have had some good successes to date. We are going to continue to push forward and to be aggressive in this area.

Just last week I was in South Carolina. I asked every United States Attorney to send a representative to the training center in South Carolina so they can be trained, spend 4 days there or 3 days there to learn about prosecuting obscenity cases.

In every district around the country, we have a Project Safe Childhood Coordinator in every U.S. Attorney district to develop a comprehensive, district-wide strategy. So we know what works, what is effective, what makes us most effective in prosecuting these kinds of cases. So we are going to do our part in prosecuting these cases. I think programs like the Financial Coalition are extremely important because it is another avenue of getting information to the law enforcement community. We are now able to have our own data base of the commercial websites that are promoting child pornography. That was not possible before the Financial Coalition, and so that has been very, very helpful.

Senator ALLARD. Mr. Chairman, the Congress has passed the Government Procedures and Results Act. It is now adopted on the administrative side as PART. And one of the toughest things, I think, to measure in the PART program is your educational effort. I agree with you, education is a vital part to accomplish it. But how are you going to measure success when we come in to using education that is measurable?

Attorney General GONZALES. Well, hopefully, if you look at recent studies about the number of children who have been solicited online and you look at the number of children who are responding to those solicitations, which I believe are going down, I think part of the reason is because we are doing a better job of educating parents and educating kids about the dangers of online solicitation.

So you are right, this may be an area that is going to be tough to measure. But I think you and I can both agree how important this is and, nonetheless, while it may be tough to measure, we have an obligation, in order to be successful in this, to educate parents

and educate kids about the dangers of child pornography on the Internet.

Senator ALLARD. I hope you spend some time in figuring out how to best measure this, because I think that is vital for the continuation of this program that you are starting. And if we cannot show results in some way, then I think it is difficult to come to the appropriators for more money for the program.

Attorney General GONZALES. We will look at that, Senator.

Senator ALLARD. Thank you, Mr. Chairman.

Chairman SHELBY. Thank you, Senator Allard.

Senator Enzi.

Senator ENZI. Thank you, Mr. Chairman. Senator Sarbanes mentioned an American law that could provide some follow-up. In England, a law was passed earlier this year that allows law enforcement officials to pass along to credit card companies the information of those who are suspected of or convicted of accessing child pornography. The credit card industry then has the ability to revoke the offender's credit card.

Is the Department of Justice interested in participating in such a program? And what liability issues exist if you were to participate?

Attorney General GONZALES. I would need to look at that program, quite frankly, Senator. Obviously, we operate under different legal systems, and I would have to—I would want the opportunity to look at that. There may be, again, if you are talking about sharing information, Government information, with commercial enterprises or nongovernmental entities, there may be privacy interests that we would have to take into consideration.

But this is a kind of crime where the more information we have, the more helpful it is, as I have indicated already. And it is something that I would be interested in looking at, so I would be happy to do that.

Senator ENZI. OK. Thank you.

Now, last year the administration announced its intention to ramp up the prosecution of Federal obscenity cases. What is the status of that increased prosecution? And has it increased the prosecution of obscenity cases that have led to increased prosecution of child pornographers? And do you find that people that do obscenity also do child pornography?

Attorney General GONZALES. There is a connection. I think there is a connection. I think we can cite the studies that show a connection. If you are talking about—people ask, well, why are you going after obscenity cases? It is because oftentimes there is child pornography involved, and that is why we think it is important, and that is why in this discussion we should not lose sight of obscenity prosecution. That is important. And it is a reason why, as I indicated in response to an earlier question, I have asked our U.S. Attorneys to do more. You asked me what is our status. We need to do more, quite frankly.

I have spoken with the troops out in the field about why I think this is important. I think we need to do a better job, and so we will continue to work at it.

Senator ENZI. What has been the result of the increased prosecution of obscenity cases?

Attorney General GONZALES. I cannot cite to you the numbers, but we can certainly get that for you, Senator. I would have to say that probably—I will say that I am disappointed in the efforts to date. But in defense, in fairness, I mean, these are tougher cases to make, again, depending on the prevailing standards of a community, whether or not you can have a successful prosecution. I suspect it is probably easier in some portions of the country than it is in other portions of the country. And so we are asking in some cases much more of a U.S. Attorney, depending on, you know, what city or town they are located in as opposed to someone else.

But, nonetheless, because of the correlation between obscenity and child pornography, I think it is important that we not lose sight of these kinds of cases as well.

Senator ENZI. And I would appreciate it if you would give me those numbers. I have reviewed a number of proposals to curb pornography and child pornography, and most of the proposals from the Department of Justice deal with the regulation of the Internet.

Will you be presenting us with any formal legislative proposals for the Banking Committee to consider? And if so, could you give us a preview of those proposals?

Attorney General GONZALES. Senator, I do not know whether--we are still in discussions about what, if anything, we would present to this Committee. Again, I apologize, but I do not have an answer to that question.

Senator ENZI. OK. Thank you.

Thank you, Mr. Chairman.

Chairman SHELBY. Thank you, Senator.

Senator Bunning.

Senator BUNNING. Thank you, Mr. Chairman.

Attorney General Gonzales, in observation of what we have done and where the status of Internet pornography and exploitation of children presently is, we seem to be going backwards. And the reason I say that we seem to be going backwards is that every time I watch or see a case, I see local, State, and Federal laws conflicting on what we can actually arrive at.

Now, I am asking you as the Attorney General, the chief law enforcement of the United States of America, what law would best serve our purpose so that we can wipe away the conflicting laws of local and State jurisdiction? Because if you watch some of the cases that are coming up, it always seems that local, State, and Federal jurisdictions are bumping into each other trying to prosecute the very people we know are exploiting our children, my grandchildren, and your two children.

So what can you do and what can your Department do to suggest getting rid of or making sure that the privacy laws are not violated and we can get at the perpetrators?

Attorney General GONZALES. Senator, I do not know whether it would make sense, quite frankly, to have a Federal law that would preempt State law. We have some very dedicated, very committed State and local prosecutors. Quite frankly, we do not have the resources—there are only 12,000 Federal law enforcement officials. There are 800,000 State and local law enforcement officials. And so we need them as partners, quite frankly. And so we need them to be able to prosecute State and local violations.

I would not characterize it as us bumping into each other. You know, obviously, we run—everyone is committed to this issue. In many cases, State and local officials are quite happy to have the Feds take over a prosecution. Why? Because we in most cases have better resources. We have more experience in dealing with these cases. And, quite frankly, the sentences, the Federal sentences are much tougher.

And so, for that reason, it has been my experience that the cooperation in terms of how to resolve these cases has been actually pretty good. And, obviously, from time to time, there are disagreements, but my general experience is that the end goal here is, again, to get a successful prosecution, and we try to work together whenever we can.

Senator BUNNING. I can understand us working together, but I have seen many cases that are stymied because of local, State, and Federal laws conflicting on certain privacy, evidence, and how a case is handled. We know the person is guilty. We cannot get to them because of some local jurisdiction—or State jurisdiction, for that matter. And I just think that the situation is such that we have to be able to get to the perpetrators.

Attorney General GONZALES. Senator, I would like the opportunity to think about this question, and perhaps I could get back to you with a response.

Senator BUNNING. OK. In preparing for this hearing, I was looking over the list of organizations in the Financial Coalition Against Child Pornography, but I did not see the Child Exploitation and Obscenity Section of the Department of Justice anywhere.

What role does this section play in this group?

Attorney General GONZALES. Senator, the Financial Coalition is a nongovernmental entity, and the members include NCMEC, its international partner, Internet industry leaders, and banks and financial institutions.

The coalition sort of serves as a clearinghouse. We have folks from the Department of Justice, the FBI, CEOS, the Postal Service, ICE, there on the premises at NCMEC. And so as they receive information, we receive it real-time, and that is why I talked earlier about this data base that has been created of commercial websites. And so when this information comes in, NCMEC makes an evaluation as to whether or not is this, in fact, child pornography. If it is, if they believe it is, they refer it to the law enforcement community. We then make an assessment as to whether or not this is something that should be prosecuted. If we cannot make that assessment within 10 days, then NCMEC goes back to the bank, say it is Visa or MasterCard, and then Visa or MasterCard takes the action that they believe is appropriate in dealing with that particular merchant.

So CEOS is involved in terms of assisting in the investigations, assisting in the prosecutions, and also involved very much so in training programs around the country with State and local officials.

Senator BUNNING. I know my time is almost—last question. Internationally, what countries are you seeing the most child pornography come from? And what cooperation have you gotten from those governments?

Attorney General GONZALES. Senator, I would say—I would characterize it as sort of Eastern Europe and Asia. I do not want to name a country in terms of—I do not want to emphasize a particular——

Senator BUNNING. You do not have to name a country. Just give me sections.

Attorney General GONZALES. Eastern Europe.

Senator BUNNING. Eastern Europe. And what cooperation have you gotten from those governments?

Attorney General GONZALES. Senator, we have seen cooperation in connection with specific cases where there has been a willingness to share information and to participate in prosecutions. But, quite frankly, I think that countries ought to be doing more.

We worry about the explosion of child pornography in our country. I believe it is even worse in other countries. It is because, I think, the efforts there are not as great as they are here in this country.

Senator BUNNING. They do not realize the damage that is being done.

Thank you.

Chairman SHELBY. Thank you, Senator Bunning.

Senator Sarbanes.

Senator SARBANES. I really want to go to the next panel, Mr. Chairman.

Mr. Attorney General, child pornography, as I understand it, is *per se* obscene, correct?

Attorney General GONZALES. Child pornography is not protected. That is correct, sir.

Senator SARBANES. That is right. So it does not have any First Amendment protections.

Attorney General GONZALES. That is correct, sir.

Senator SARBANES. So getting at child pornography, it seems to me, is a matter of implementation and enforcement. We do not have any sort of problem with the legal standard because the courts, in effect, have said on its face it is obscene, correct?

Attorney General GONZALES. That is correct, sir.

Senator SARBANES. Well, it seems to me that that really lays the basis for a pretty intense enforcement effort on the part of Federal, State, and local governments at all levels. I mean, I was listening carefully to Senator Bunning's question, and I thought it was a very, very important question. But we do not have a situation here where there is some question about the legality and so forth. The courts have been very clear about that, as I understand it.

And so it seems to me the challenge is the enforcement and the implementation. We appreciate what the Department of Justice is doing, and I think the other Federal agencies could also do more. And, of course, we need to back it with resources from here if we are going to—and I do, again, in closing, commend Chairman Shelby for launching this initiative, which I think was a very innovative approach. If we can dry up the money, we are going to dry up at least a very large part of this activity.

Thank you, Mr. Chairman.

Chairman SHELBY. Thank you, Senator.

Mr. Attorney General, we thank you for your presence today. We know you are a busy man. Let's continue to work on this. And there are a number of things for the record that you said you would get back to various Members here today.

Attorney General GONZALES. Thank you, Mr. Chairman.

Chairman SHELBY. Thank you.

We now will welcome the members of our second panel: Mr. Ernie Allen, President and Chief Executive Officer of the National Center for Missing and Exploited Children; Ms. Kim Mowder, Senior Vice President, Bank of America Merchant Services; Mr. Mike DeNoma, Group Executive Director of Consumer Banking for Standard Chartered Bank; Ms. Jodi Golinsky, Vice President, Regulatory and Public Policy Counsel for MasterCard Worldwide; Mr. Mark MacCarthy, Senior Vice President for Public Policy, Visa USA, Inc.

I will tell all of you now, all of your statements will be made part of the record in their entirety. The bad news—or maybe the good news—we have a vote pending at noon, so we ask that you summarize your remarks as quickly as possible.

Mr. Allen, I just want to say something about you and thank you for your tireless efforts. You have been very instrumental—very—in the success of the coalition thus far—we have got a long way to go—for your work on behalf of children all over the world. Thank you so much, and welcome again to the panel.

STATEMENT OF ERNIE ALLEN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NATIONAL CENTER FOR MISSING AND EXPLOITED CHILDREN

Mr. ALLEN. Thank you, Mr. Chairman, Senator Sarbanes, and Members of the Committee. I will be brief and summarize my testimony.

Mr. Chairman, as the Committee has pointed out, 1 year ago you convened leaders of the financial industry in this room and challenged us to do more to attack this problem. Six months ago, you joined us as we launched this new Financial Coalition. And as you know, and as has been mentioned, we set a goal, and that goal was to eradicate commercial child pornography by 2008. Well, today what I wanted to report to you and the Committee is what we believe is significant progress.

As you mentioned, financial industry leaders who represent 87 percent of the U.S. payments industry, measured in dollars running through the system, have signed on. They involve the largest credit card companies, major banks, third-party payment companies, Internet leaders, and we are seeking to expand the membership internationally.

I am pleased that an international bank, a coalition member, is with us today, Standard Chartered Bank of Singapore. Our mission, as the Committee has mentioned, is to follow the money, stop the payments, shut down the accounts, and put an end to this multi-billion-dollar worldwide enterprise.

The Attorney General spoke in vivid terms about what this problem really is, and let me emphasize that we still believe that most of America does not get it. They think this a problem about 20-year-olds in pigtails made to look like they are 15. Eighty percent

of the offenders who have been identified have had images of prepubescent children, 39 percent less than 6 years old, 19 percent younger than 3 years old. That is what this problem is about.

Since our March announcement, we have built a mechanism for sharing information between the participating companies and law enforcement. Our goal is to quickly identify the merchant bank at which the account is located and then utilize existing banking law to stop the payments and shut down the sites.

Our first priority remains investigation and prosecution, and as the Attorney General indicated, law enforcement always has first crack at the data. But our premise is you cannot possibly prosecute everybody. I have talked on many occasions about that Texas website that we identified through a report to our CyberTipline 5 or 6 years ago which, when it was shut down by the Dallas Police Department, had 70,000 customers paying $29.95 a month and using their credit cards to access graphic images of small children being raped and sexually assaulted. That is not acceptable.

What I am prepared to report to you today is that, even though we have just completed the pilot phase of this effort, testing the mechanisms and systems that we have put into place for information sharing and action, there are three basic conclusions that we have drawn that we are seeing already. One is because of the strong, unprecedented efforts of law enforcement at all levels, the efforts of the financial companies and others. We believe that we are already disrupting these enterprises.

Our first and primary goal was to eliminate the use of the credit card for child pornography purposes. We want these processes to be as difficult and cumbersome as possible and make the business plan unworkable for these enterprises. And what we are seeing is that, while we are still finding credit card logos on many of these sites, in most instances when we look deeper, we are finding that they do not link to real accounts.

There are a couple of possible explanations. One is we are finding that in many cases these logos are being used for purposes of identity theft. If you attempt to purchase access to a child pornography site and you do not get access to that product, who are you going to tell? So there is no question that criminals are using this technique for identity theft.

The other thing we are seeing is that in many cases the operators are going back to the purchaser and offering other payment mechanisms. These tend to be non-mainstream payment devices, but, clearly, as the Attorney General indicated, these businesses are evolving and they are changing, and we think the leadership of this industry and the pressure that is being put on these illegal sites is already having impact.

There are some things that we believe that you and Senator Sarbanes and the Committee can help us do. One, we are proud of the fact that companies representing 87 percent of the U.S. payments industry are part of the coalition. But it ought to be 100 percent. We welcome your help in bringing the rest of the U.S. financial industry into this process.

Second, we recognize that this is a global phenomenon. We need your help in bringing more international institutions and international decisionmakers into this process.

And then, as the Committee pointed out, third, as it relates to the Attorney General's report, we need much more law enforcement presence and much more law enforcement attention to this problem. What we have discovered is that the sheer scale of this is far greater than any of us ever imagined. The Internet has spawned a problem that is of a magnitude unimaginable.

Mr. Chairman, I am pleased to report to you that we are making progress, but we have only just begun.

Chairman SHELBY. Thank you.

Ms. Mowder.

STATEMENT OF KIM MOWDER, SENIOR VICE PRESIDENT, BANK OF AMERICA MERCHANT SERVICES

Ms. MOWDER. Chairman Shelby, Senator Sarbanes, and MM embers of the Committee, my name is Kim Mowder. I am the head of Risk and Fulfillment for BA Merchant Services, a subsidiary of Bank of America. Bank of America BA Merchant Services provides card processing services for merchants across the United States. We applaud the Chairman's focus on this issue and the resulting coalition that Ernie Allen so ably chairs. We are proud to be a part of this collective effort and believe that your involvement, Mr. Chairman, is what led to this first ever joint industry effort to combat child pornography—a process that I understand began right here in this room. We certainly commend Kathy Casey as well for all of her efforts before she left the Committee.

We are equally proud to be associated with the National Center for Missing and Exploited Children. We subscribe to and wholeheartedly agree with all of the benefits and progress Mr. Allen has described to you. Like everything Ernie brings his passion and commitment to, it is working, and it goes without saying that we appreciate the excellent work being done by the Attorney General, the Department of Justice, and all law enforcement to combat the issue.

I would like to begin my testimony by emphasizing that Bank of America's policy and practice is to vigorously screen for and avoid signing merchants that are engaged in any kind of questionable activity, let alone child pornography, and to terminate any relationships that subsequently change in that direction should that happen. We simply have zero tolerance when it comes to issues like child pornography, and like our colleagues, we are closely aligned with and cooperate with law enforcement at every level.

Bank of America is the second largest acquirer of merchant services in America. We have been processing credit cards for merchants since 1958 and have approximately 700,000 active merchants in our system. We take great pride in our very conservative risk-averse approach to the merchant services business and do not hesitate to decline nearly 2,000 applicants a year because the activity of the merchant is inconsistent with our policies.

In that regard, our underwriting policy clearly defines those merchant types whom we deem to be unacceptable for a card servicing relationship. We are much more conservative than is legally permissible, and the following business types are routinely declined by us: adult entertainment products and services, dating and escort services, debt collection firms, pornography products and services,

tobacco products being sold via mail order, telephone order, or Internet sales, wire transfer of money, or any money-related services. No exceptions are made on these business entities and, again, we have zero tolerance for issues like child pornography.

Our process of thoroughly vetting merchant applications begins with the salesperson talking directly to a merchant, often face to face. Together they complete a merchant application that is sent to the underwriting experts in our processing center. Our process is based on the principle of know your customer, not only to screen out undesirable activities but also to look for other potential business opportunities.

Merchant application packages contain profile information on the merchant's business that includes but is not limited to a description of the products and services being sold, a description of how sales will occur, and demand deposit banking information. In addition, the merchant application may include personal name, address, and Social Security information on the owner or officer of the business. This information is used in the due diligence process to validate the business type and ownership.

Underwriters review new merchant applications, and they are charged with validating the merchant's physical business address, confirmation of the products or services being sold, and the methods of sale, i.e., retail storefront, mail order, Internet. And of course, all pages and links in a merchant's website are examined and maintained for future comparisons. I have listed in my written testimony nine of the tools we use to properly vet merchant applications, including verifying physical inventory, contacting neighboring businesses, and based upon information from these sources, the underwriter may decide it is necessary to perform additional due diligence.

We will do whatever is necessary to ensure we are signing merchants consistent with our very conservative policies. Again, should the merchant be selling products or services via the Internet, the merchant's Internet links are a substantial focus, and we look at embedded links to any other sites to identify products and services that might be offered through this merchant's site that could be identified as unacceptable.

Screening for unacceptable activities does not end with the initial due diligence process. All accounts are reviewed every year by BA Merchant Services, and our Risk Department performs daily monitoring of merchant transaction activity to ensure close monitoring of their daily processing. Daily activity reports are generated on those merchants that appear to be processing sales contrary to the expected norm based on the original terms of their processing agreement and the business type and size.

Risk investigators utilize the same due diligence tools to investigate the merchants appearing on our exception reporting as those used by the underwriters on new merchant applications, all in an effort to gain an understanding of the merchant's current processing behavior. And due diligence may include, but is not limited to, talking directly to card holders to confirm transaction validity and makeup, communicating with the merchant's banking representative, or speaking directly with the merchant.

From this investigation, the investigator will determine what, if any, post-due diligence must occur. Should the investigation determine that the merchant subsequently has begun engaging in unacceptable activities, the following actions are immediately taken: the merchant processing capability is terminated, merchant profile information is forwarded to the bank's Investigation Service Division for immediate investigation, and the bank coordinates with law enforcement.

And, of course, we work in very close partnership with the card associations. They employ on our behalf a vast array of protocols, all designed to be a formidable line of defense to capture potential illegal activities. Our efforts and theirs are not discrete, but a seamless and cooperative venture to ensure we all prevent the use of our payment networks for such practices. It is a partnership made stronger by the coalition Ernie chairs.

In summary, Bank of America has a zero tolerance for anything related to child pornography. We believe strongly that our investigations and due diligence procedures provide assurance that no undesirable merchant activities are being processed through our service, and we work closely with the card associations to close any merchants that they identify as posing a risk. Finally, we support the collective efforts of the coalition and this Committee to ensure the legitimate electronic payments industry is neither wittingly or unwittingly facilitating the sale of online child pornography.

Thank you.

Chairman SHELBY. Thank you.

Mr. DeNoma.

STATEMENT OF MIKE DeNOMA, GROUP EXECUTIVE DIRECTOR, CONSUMER BANKING, STANDARD CHARTERED BANK

Mr. DENOMA. Thank you, Mr. Chairman and distinguished Members of the Committee, for the opportunity to contribute to this discussion. My name is Mike DeNoma. I am the Group Executive Director of Standard Chartered Bank and the CEO of Global Consumer Bank. My home base is Singapore.

As we all know, the scourge of child pornography knows no boundaries. For that reason, I was eager to travel to Washington yesterday to be part of these important hearings.

I commend the Senate Committee on Banking, Housing, and Urban Affairs for its commitment to this vital issue. In particular, I want to acknowledge Senator Shelby for his leadership in helping us to build and launch the Financial Coalition Against Child Pornography.

In addition to my role at Standard Chartered, I am a member of the Board of International Centre for Missing and Exploited Children, and it is an honor to be affiliated with that group.

Standard Chartered is a founding member of the Financial Coalition Against Child Pornography. As an individual institution, Standard Chartered, like Bank of America, has its own processes for ridding its systems of child pornography merchants, and we are beginning to share best practice with other industry players. However, we firmly believe the best way to battle this horrendous problem is to join forces and brain power with other members of the industry on both a global and a country-by-country basis. Given my

company's 153-year history and role in Asia, Africa, and the Middle East, we have committed to take the lead in attempting to recruit key actors—governments, payment providers, regulators, financial institutions, and Internet service providers—within each of our 56 countries and have them join forces to combat this serious problem on a national level.

Our objective is to present these key actors in 75 percent of our countries by the end of March 2007. We have been working in Singapore as a pilot market for this approach over the last 5 months. The Association of Banks in Singapore, which has 110 members, and the coalition it formed, we believe, is now just weeks away from making an important announcement on how it will combat this problem on a Singapore level. India, Hong Kong, Thailand, and Indonesia are next on our list and will be presented in the next 60 days.

Further, we are trying to raise awareness of the size, scope, and intensity of this problem amongst critical local decisionmakers as well as with the general public and opinion formers across our markets and the globe.

The Attorney General mentioned the need for education. To that end, we recently launched a campaign that we call "Light A Million Candles." Our goal is to gather a million signatures in a virtual petition to challenge financial institutions, governments, payment organizations, Internet service providers, technology companies, and law enforcement agencies to work together to eradicate this problem. The internet is much of the cause of this problem, and we believe the internet must be used to fight it. It is a platform to tell the facts and get people to take action.

The campaign was developed by a team lead by Standard Chartered employees who donated not only their time but also their creativity, and, in fact, their personal funds in raising the $60,000 to produce the television spot, which we will get you all a copy of, and they raised those funds in 48 hours. Global advertising agency TBWA worked with award-winning director Royston Than and well-known photographer Geoff Ang to develop a hard-hitting campaign involving a TV commercial, print ads, a viral e-mail that is in 22 languages on its way to 50 languages, and a website to increase awareness of the global problem of child pornography and to motivate people to visit lightamillion candles.com to pledge their support for this cause. One week old, 76,000 candles were lit by Sunday evening on the website by individuals from 130 countries. In fact, the last record before this meeting started, it is now up to 105,000 signatures from 130 countries.

In addition, the global media agency OMD is approaching international media owners to support the cause by running the TVC and print ad as a public service. So far, CNN, MTV, the BBC, Discovery Channel, Time Magazine, and Reader's Digest in four languages have already agreed to donate media space to support the campaign. We expect much more coverage in the weeks and months ahead.

The TV commercial itself involves 11 children of 11 different nationalities, giving the facts of child pornography in their own language, with subtitles in English below. We tested it with con-

sumers. It is both a sad and disturbing commercial, but it does drive action.

In terms of financial services industry push, the 23,000 delegates and observers to the IMF/World Bank meetings in Singapore this week will see the TV spot in elevators of the 110 buildings and hotels and on the big video screens in the main conference area of the IMF. And perhaps most important, our chairman and senior executives will be working at the IMF on a personal level to raise awareness of this issue and to enlist international and local financial institutions to join the Financial Coalition Against Child Pornography.

As you can see, Standard Chartered is engaged in the fight on a number of fronts. To be sure, the challenge is considerable in many areas, and includes safe harbor legislation on legal liability, clearinghouse administration and accountability, whether it is on a national or a global level, and the rapidly evolving alternative payment methods. But the good news is that awareness of the problem is growing rapidly, and the payments industry is putting a great deal of muscle into following and stopping the flow of funds to this insidious enterprise. But I agree with the Attorney General. Much more needs to be done.

Again, I commend the Committee for its proactive work on this critical matter and look forward to continuing our dialog with you in the future.

Chairman SHELBY. Thank you very much.

Ms. Golinsky.

STATEMENT OF JODI GOLINSKY, VICE PRESIDENT, REGULATORY AND PUBLIC POLICY COUNSEL, MASTERCARD WORLDWIDE

Ms. GOLINSKY. Good morning, Chairman Shelby, Ranking Member Sarbanes, and Members of the Committee. My name is Jodi Golinsky, and I am Vice President, Regulatory and Public Policy Counsel at MasterCard Worldwide. It is my pleasure to appear before you today to discuss our efforts to combat child pornography.

MasterCard deplores attempts to use our system for illegal purposes, and we are deeply committed to combating the sale of child pornography. Our efforts in this area include: one, working to prevent offending websites from accepting MasterCard-branded payment cards; two, detecting websites attempting to circumvent our prohibition; and, three, assisting law enforcement to detect, apprehend, and prosecute child pornographers.

We have had great success in impeding these criminals from accessing our system. We recognize, however, that we see only part of the problem and that criminals who are denied access to our system are quick to look for other payment alternatives. We also recognize that private sector efforts alone are simply not enough. Collaboration with law enforcement is critical. Law enforcement must be given the tools and resources to apprehend and prosecute these criminals, and there must be an effective mechanism for the private sector to assist law enforcement in achieving those objectives.

To address these issues, MasterCard has partnered with the National Center for Missing and Exploited Children, or NCMEC, to form the Financial Coalition Against Child Pornography. We

strongly commend the Chairman for his leadership in the formation of the coalition. In conjunction with government leaders and law enforcement agencies worldwide, the coalition has embarked on a first of its kind globally focused effort to identify and eliminate commercial sources of child pornography.

I want to discuss more directly MasterCard's efforts to combat this problem as well. MasterCard has a series of rules that require financial institutions that contract with merchants, also known as acquiring banks, to ensure that the merchants are legitimate and engaged in solely legal activities. These rules mandate, among other things, that acquirers perform due diligence before authorizing merchants to accept MasterCard payment cards and that acquirers monitor merchants on an ongoing basis for compliance with the rules. We have also proactively educated our customer financial institutions around the world about our rules and their obligations with respect to illegal transactions, such as child pornography.

MasterCard also works closely with law enforcement officials to assist them in detecting and prosecuting child pornographers. In addition, we undertake significant efforts to detect child pornographers seeking to circumvent our controls. These efforts include searching the Internet to identify sites that appear to be selling child pornography and purporting to accept our cards as payment. In the overwhelming majority of cases where our brand appears on the site, we have found that the site does not actually accept our cards but impermissibly displays our logo. Our success in impeding these criminals from using our system does not end the problem, however. We have seen a clear trend in which child pornographers denied access to our system are moving rapidly to alternative payment methods to avoid detection and prosecution. We are not, therefore, content simply to drive these criminals from our system, and we are devoting considerable resources to a more comprehensive approach to dealing with the problem.

We believe that our partnership with NCMEC and the coalition provides such an approach. MasterCard provides to NCMEC the fruits of our investigative efforts and other information that may be helpful to them. NCMEC in turn investigates and then refers this information to the appropriate law enforcement officials who are given the opportunity to conduct their own investigation. If law enforcement decides to proceed with an investigation, we work with law enforcement to support their efforts. If law enforcement decides not to proceed, a notice is sent to any payment service provided on that site, and those services work to terminate payment acceptance at the site.

In addition to our active participation in the coalition, MasterCard is also a corporate sponsor of NCMEC. MasterCard views our sponsorship of NCMEC as an extension of our fight against the exploitation of children and dissemination of child pornography on the Internet, and we are very proud to contribute to their efforts.

Chairman Shelby, Ranking Member Sarbanes, and Members of the Committee, thank you again for the opportunity to discuss these important issues with you today. MasterCard is deeply committed to doing its part to eliminate the commercial viability of

child pornography on the Internet. It has also been our pleasure to work with your staff, with NCMEC, with law enforcement, and others to try to develop solutions to this problem, and we look forward to continuing those efforts.

I would be glad to answer any questions you may have.

Chairman SHELBY. Mr. MacCarthy.

STATEMENT OF MARK MacCARTHY, SENIOR VICE PRESIDENT, PUBLIC POLICY, VISA USA, INC.

Mr. MACCARTHY. Thank you, Chairman Shelby, Ranking Member Sarbanes, and Members of the Committee. My name is Mark MacCarthy. I am Senior Vice President for Public Policy with Visa, and thank you for the opportunity to appear at today's hearing.

Mr. Chairman, Visa does not allow its payment system to be used for illegal activity, and that includes child pornography. And because the crime of child pornography is such a heinous exploitation of the vulnerable and the innocent, we have a special program designed to search the Internet to detect child pornography merchants and expel them from the Visa system. I want to describe that program for you in more detail today, but I want to start with the Financial Coalition Against Child Pornography.

Visa cannot conduct a successful campaign against child pornography by itself. We need to cooperate with others. And that is why, under your leadership, Mr. Chairman, Visa and other payment systems joined to form the Financial Coalition Against Child Pornography.

Together with our coalition partners, we will enhance our efforts to identify these websites, we will pinpoint the merchants who are involved in this illicit activity, and we will cut them off from our networks, and we will provide assistance to law enforcement to track them down and get rid of them for good.

Our own zero tolerance anti-child pornography program has two parts: We have got a set of due diligence requirements, as my colleague at MasterCard has mentioned, and we have our monitoring program designed to detect child pornography sites and get them out of our payment system.

A brief word on our system. Visa itself conducts communication and settlement functions for the members of the Visa Payment System. It is the members of the Visa Payment System themselves who have these direct relationships with the merchants.

We have explicit rules to govern their conduct. One of the rules is not to introduce illegal transactions into the system. And our pornography rules are quite clear. On child porn, acquires must ensure that Internet merchants do not submit child pornography transactions into the Visa system, and they must terminate acceptance at any child pornography site that is found to be accepting Visa cards.

You have heard from another one of my colleagues at Bank of America the kind of due diligence requirements that they go through. We think that these are important and necessary lines of defense against child pornography entering our system, but they are not a panacea. Child pornography merchants do not present themselves as such to our financial institutions. They often appear to be legitimate merchants. They use a variety of techniques to fool

acquires and gain access to our system. Senator Sarbanes mentioned a few of those techniques earlier.

As a result, Visa has a monitoring system to identify and eliminate child porn transactions. Since 2002, we have retained the services of an outside firm to search the Internet for child pornography websites that appear to be accepting Visa payment cards. This firm uses advanced webcrawling and filtering technology to detect the websites. It looks for websites that display the Visa logo and that satisfy one or more indicators that they are engaged in the sale of child pornography or that they advertise themselves as engaged in the sale of child pornography.

These sweeps are ongoing. They are conducted 24 hours a day, 7 days a week, 365 days a year. Hundreds of millions of websites are searched every month.

When our search firm detects one of these problematic sites, they conduct test transactions to see whether, in fact, the site is accepting Visa cards or whether they are simply purporting to accept Visa cards. As my colleague from MasterCard pointed out, in most of the cases they are merely purporting to accept the Visa cards.

When we find a site that is actually accepting Visa, we immediately get in touch with law enforcement and find out whether they have an active and ongoing investigation. If there is no request from law enforcement to keep the site open, Visa instructs the acquiring bank to shut down that website immediately.

If the sites are not, in fact, accepting Visa cards but they just appear to be, we then attempt to contact the web hosting service and get them to take down the Visa logo.

In addition, Visa provides information on all these sites to law enforcement, and if they request it, we do allow these sites to remain operational.

Visa's anti-child pornography program has made progress since we started it in 2002. Our most recent numbers tell the story. In August of this year, our search firm examined over 11 million Internet sites a day and found two child pornography sites that accepted Visa cards. Of course, that is two too many. Since the beginning of this year, nine such sites have been identified in the Visa system, and all of these sites were quickly expelled from our system.

Mr. Chairman, in conclusion, let me repeat the point I started with. The way forward lies with collective action. Visa intends to continue and to increase our efforts with the Financial Coalition Against Child Pornography and to work cooperatively with law enforcement to put an end to this scourge.

I would be happy to answer any questions you might have.

Chairman SHELBY. First, I would recognize Senator Allard, and I will conclude after everybody else because we have got a vote on the floor. Senator Allard.

Senator ALLARD. Thank you, Mr. Chairman. I have a couple of questions I would like to ask.

We have just been provided with some material here by Mr. Allen on some of the websites. For the audience's benefit, all the offensive material has been blacked out. But I noticed that there were some claims on these websites I would like to investigate with you.

There are some copyright claims. Now, are these false claims, or are they actually protected by the copyright system? And the question is: If they are protected by our copyright system, is that good in the fact that it prevents the dissemination of the offending material? Or is it bad in the fact that it protects the profits for those who are—protects the profits of the child porn exploiters?

Mr. ALLEN. Senator Allard, I think it is a bad thing. I think it is a misuse of the copyright system. However, in most—the examples we have given you are pretty explicit, and I am not sure how they got through the copyright system. But most of them are not quite as clear-cut.

Frankly, this has not been an aspect that we have focused on, but I think your point is a very good one, and we need to look more closely at that.

Senator ALLARD. Maybe in the Library of Congress I believe is where we have those copyrights provided for.

Mr. ALLEN. Absolutely.

Senator ALLARD. And so maybe some kind of program at the Library of Congress might be helpful in that regard.

The other question that I have, there is actually a guarantee on those sites also about absolute privacy. Now, is that a false claim?

Mr. ALLEN. Well, I think pretty clearly it is a false claim, but certainly that is the premise. If you think about the pressure that is on these sites, the kind of consumer audience that is being attracted, and certainly part of the premise is you can come to the site and you can patronize with no risk. Clearly, the effort of this coalition, the effort of Federal, State, local, and international law enforcement is to pierce that veil of privacy and make sure that they are not private so we can look behind the curtain. But, nonetheless, it is going to be a continuing representation that these sites make.

Senator ALLARD. Thank you, Mr. Chairman.

Chairman SHELBY. Senator Sarbanes.

Senator SARBANES. Well, thank you, Mr. Chairman. I will be very quick because I know there is a vote going.

Mr. MacCarthy, I wanted to ask you a quick question. You said if they are using the Visa logo, you ask them to stop using it. Is that correct?

Mr. MACCARTHY. If the site is actually accepting Visa cards, we are able——

Senator SARBANES. You expel them from your system.

Mr. MACCARTHY. Right.

Senator SARBANES. But if you are not actually doing that, they are just advertising the Visa logo, what do you do?

Mr. MACCARTHY. We have no ability to get directly to them through our banks, but we try to track them down using our search firm to find the hosting service that provides them the ability to maintain a website on the Internet.

When we find that hosting service, we say to them, No. 1, look what you are involved in; and, No. 2, at the very least, take down our logo from the site, they are not authorized to do it.

Senator SARBANES. Well, you can order them to take it—can they use your logo as an advertising way without your permission?

Mr. MACCARTHY. No, they cannot, but the question is: How do you enforce that? How do you make them stop doing it? You have to find them. And the way you find them is to go to the web hosting service and try to have their relationship with the merchant used to take down the logo. That is how we have to do it.

Going forward, we will probably be able to use the NCMEC facilities to have a better way of proceeding in this area, but right now the best way we have got to do it is to go to the web hosting services.

Senator SARBANES. Now, Mr. Allen, you said earlier there was a site in, I think you said, Dallas with 70,000 people a month, they pay $30 a month?

Mr. ALLEN. Right.

Senator SARBANES. So that is over $2 million a month just on that site. Is that correct?

Mr. ALLEN. That is right, Senator.

Senator SARBANES. That is $25 million a year.

Mr. ALLEN. And this was a mom-and-pop operation. This was not a highly sophisticated operation.

Now, in the interest of full disclosure, that is now 6 or 7 years ago. We think that that level of misuse of the payment system has disappeared because of the efforts of these companies. But I think that demonstrated what the potential consumer audience is for this content. That is one site.

Senator SARBANES. Now, where are they shifting off to when they get blocked out from using the credit cards? Where are these snakes going off to, sneaking off to?

Mr. ALLEN. They are going to a variety of places. Two of our key partners in this effort are PayPal and E-Gold, the third-party payment mechanisms who have increased their vigilance to make sure they do not go there, the use of Western Union, the use of a host of other payment mechanisms, and increasingly we are hearing that there are small aggregators who are being developed and customized specifically for the purpose of serving this kind of enterprise. So it is a moving target.

Senator SARBANES. Thank you, Mr. Chairman

Chairman SHELBY. Senator Bunning.

Senator SARBANES. I want to thank the panel. It was very helpful testimony. We appreciate it.

Senator BUNNING. I am just going to ask anyone of the panel. You have set a very ambitious deadline to meet your goal of eliminating all commercial child pornography. Why do you believe you can accomplish this goal by 2008, especially given the challenge posed by the Internet?

Mr. ALLEN. Senator, I believe, we believe it is realistic. The reality is I do not think there is a precedent for this kind of industry-wide approach to the problem. Our view simplistically is that if we can disrupt these enterprises, if you can eliminate the use of the credit card, it is going to be very difficult to maintain these businesses if you have to pay cash to gain access to a——

Senator BUNNING. But you just gave us some examples of where they are going.

Mr. ALLEN. That is where they are going, but clearly, the effort here is to stay ahead of the curve and to follow them where they

go. One of the things that we are learning now from law enforcement is a huge percentage of the operators of these businesses today are organized criminals, many of them in Eastern Europe. And in our judgment, at some point this is just not going to be worth the price that it costs. The reason they are into this now is because the profits are enormous and the risks are minimal. What we are trying to do is increase the risks and eliminate the profit.

Senator BUNNING. Yes, but you say that Eastern Europe or the European—isn't it more difficult to prosecute at that level?

Mr. ALLEN. Oh, absolutely, and one of the things we are doing through our International Centre in partnership with Interpol is training law enforcement around the world, building capacity. There is now a virtual global task force based in the U.K. to create a more unified law enforcement approach. The FBI has an international task force through its Innocent Images National Initiative.

So we are bringing a lot more troops to the battlefield.

Mr. DENOMA. I think part of it is by setting the deadline, you force action.

Senator BUNNING. Setting the deadline would actually force the perpetrators or the——

Mr. DENOMA. No. I think it will force action from——

Senator BUNNING. From the financial——

Mr. DENOMA. The financial, governments, law enforcement, ISPs, and the reason is I think there should be increasingly an argument why a bank is not on the coalition.

Senator BUNNING. On the list, yes.

Mr. DENOMA. Frankly, I think alternative payment methods should have to provide a reason why they are not in the coalition. And increasingly what we are trying to do internationally is ask why a government of a certain country is not pursuing action like many other countries in the world are.

Senator BUNNING. Well, I would think Visa and MasterCard would also not only throw the people out but report everything they do to the law enforcement agencies in the country or in the area where these perpetrators are exploiting.

Ms. GOLINSKY. Absolutely, Senator.

Mr. MACCARTHY. Senator, we have reporting relationships all over the world with international law enforcement as well as U.S. law enforcement.

Senator BUNNING. Thank you.

Ms. GOLINSKY. And MasterCard does as well.

Senator BUNNING. Thank you very much, Mr. Chairman.

Chairman SHELBY. Thank you, Senator.

I want to thank all of you, starting again with Mr. Allen, for your commitment. I want to thank the whole panel.

Mr. DeNoma, I want to especially thank you for the work that you are doing. You have taken the lead in recruiting international members, which the Attorney General pointed out is so important, to join the Financial Coalition Against Child Pornography. We hope you will continue in this effort and work. We have got a long way to go.

This has been, I think, a good hearing this morning. We have also had a chance to conduct an up-to-date review on the effort to eradicate child pornography. We have learned of the positive

steps—and they are out there—that the Government and the financial service industry that a lot of you represent have taken.

We have also had a chance to get a glimpse of the ongoing efforts of the criminals who seek to profit from this horrible crime. Clearly, they will not simply give up. You know, they are going to be around. You are talking about billions of dollars. Billions. Easy money, too.

I noted in my opening statement that our commitment and your commitment is crucial, and our level of commitment, that of the Government, the industry, and families must be greater than that of the criminals. If it is not, we will not win.

I think it will not be enough—it never is enough—to have press releases or normally participating organizations like the Financial Coalition. But if we are going to achieve our goal to eradicate child pornography, it is going to take constant vigilance and hard, hard work. And I commend you for your participation. I think we have a long way to go.

I personally believe that the software, if it is not there—and I know Bill Gates is very interested in this, too. Like everybody, he has got children. Maybe they can come up with software that will help you folks at Visa and MasterCard and the banking industry track these people a lot easier than it is today, because we have to win this battle.

We have a vote on the floor. The Committee is adjourned. Thank you.

[Whereupon, at 12:07 p.m., the hearing was adjourned.]

[Prepared statements and responses to written questions supplied for the record follow:]

PREPARED STATEMENT OF ALBERTO GONZALES
ATTORNEY GENERAL OF THE UNITED STATES
SEPTEMBER 19, 2006

Mr. Chairman, Senator Sarbanes, and distinguished Members of the Committee, thank you for inviting me to testify before you today about the sexual exploitation of children on the Internet and the efforts of the Department of Justice and others to protect our children from this horrific abuse. In particular, Mr. Chairman, your leadership in bringing non-governmental organizations such as the National Center for Missing & Exploited Children and the Financial Coalition Against Child Pornography to attack the financial underpinnings of the commercial trade in child pornography has been absolutely critical and I thank you for your outstanding efforts in this area. Because our children are at substantial risk of being harmed by sexual predators, we must all work together and use every available means to identify, investigate, and prosecute those who use the Internet to sexually exploit our children. Indeed, protecting our children from sexual exploitation on the Internet is one of the highest priorities of the Department of Justice.

While the Internet is undoubtedly one of the greatest inventions of our generation, it has also, unfortunately, greatly facilitated the sexual exploitation of children. By providing pedophiles a cloak of anonymity, extremely rapid communications, and access to potential victims, the Internet has made it easy for pedophiles to commit these crimes and, in many cases, to profit from them. It has also enabled pedophiles to easily find like-minded offenders, creating a field of competition to see who can produce the most unthinkable photos or videos of raping and molesting children. Tragically, this has led to the victimization of younger and younger children. Moreover, by enabling pedophiles to use credit cards and other forms of payment to purchase child pornography, the Internet has greatly contributed to the commercial trade in child pornography images.

Before giving you a sense of how horrific these images actually are, let me remind you

that virtually all images of child pornography depict the actual sexual abuse of real children. In other words, each image literally documents a crime scene. These are not just "pornographic" pictures or videos. They are images of graphic sexual and physical abuse of innocent children, sometimes even babies. All Americans must recognize that child pornography is brutal, it is heinous, and it is criminal.

In working with the Federal Bureau of Investigation, the Department of Homeland Security's Immigration and Customs Enforcement, the United States Postal Inspection Service, the Child Exploitation and Obscenity Section (CEOS) within the Department of Justice's Criminal Division, and non-governmental organizations such as the National Center for Missing & Exploited Children, I have seen just how horrific these images can be. I have seen a young toddler tied up with towels, desperately crying in pain, while she is being brutally raped and sodomized by an adult man. I have seen videos of very young daughters forced to have intercourse and oral sex with their fathers. I have seen pictures of older men forcing naked young girls to have anal sex. These are shocking images that cry out for the strongest law enforcement response possible.

Moreover, these disturbing images are only the beginning of a cycle of abuse. Once created, they become permanent records of the abuse they depict, and can haunt the victims literally forever once they are posted on the Internet. Unfortunately, advances in technology have also made it easier and easier for offenders both to profit from these images and to distribute them to each other. Once images are posted on the Internet, it becomes very difficult to remove the images from circulation. Even more disturbing, though, is the fact that offenders rely on these images to develop plans of action for targeting their next victims, and then use the images to entice them.

The scope of these dangers facing our children is immense. By all accounts, at any given

time, there are thousands of predators on the Internet prowling for children. And you can get a sense of the explosive increase in child pornography fueled by the Internet from the fact that from 1998 to 2004, the National Center for Missing & Exploited Children's CyberTipline experienced a thirty-fold increase in the number of child pornography reports.

The challenge we face in cyberspace was underscored by a new national survey, released in August 2006, conducted by University of New Hampshire researchers for the National Center for Missing & Exploited Children. The study revealed that a full third of all kids aged 10 to 17 who used the Internet were exposed to unwanted sexual material. Much of it was extremely graphic.

The survey also revealed, however, that we are making progress. It found that there has been some reduction in the number of children who have received an online sexual solicitation. One in seven children surveyed this time had received an online sexual solicitation, which is a six percent improvement over the one in five children who received such solicitations in the last survey, conducted five years ago. We are hopeful that this means that parents and kids are becoming more aware of the dangers online, and more responsible in the way they use the Internet. That said, we still have a lot of work to do. One in seven kids receiving solicitations is one in seven too many. And this most recent survey showed that there has been no letting up of aggressive online sexual solicitations, where the most depraved of the pedophiles actually try to make in-person contact with a child.

Now that I have given you an overview of the scope of the problem, let me turn to how the Department of Justice, Congress, and non-governmental organizations are dealing with it. We at the Department of Justice have dramatically increased our efforts in this area over the last decade. Indeed, over the last decade, the Department has significantly increased its efforts by dramatically increasing the number of prosecutions of child exploitation crimes. Many of these

cases include a financial component, with defendants profiting from the exploitation of children. While the dramatic increase in the number of prosecutions is an indicator of the importance of this issue to the Department of Justice, it is but one indicator. In addition to increasing the number of investigations and prosecutions it brings, the Department is constantly seeking to improve the quality and impact of its cases by adapting to the ever-changing methods by which the predators seek to purvey these images and evade detection by law enforcement. In order to have maximum impact, we are focusing our efforts on the producers and the commercial and mass distributors of this material. In addition, we continue to undertake wide-ranging prosecutions of the possessors and customers of child pornography.

An excellent example of how one child pornography investigation into the activities of individuals involved in a commercial website operation can lead to the apprehension of hundreds of other offenders is the Regpay case. This case was prosecuted by the United States Attorney's Office for the District of New Jersey, working together with CEOS, and ultimately led to Immigration and Customs Enforcement's (ICE) Operation Falcon. Regpay was a Belarus-based company that provided credit card processing services to hundreds of commercial child pornography websites. Regpay contracted with a Florida company, Connections USA, to access a merchant bank in the United States. In February 2005, several Regpay defendants pled guilty to various conspiracy, child pornography, and money laundering offenses. Connections USA and several of its employees also pled guilty in connection with this case. After exploiting customer information associated with the Regpay websites, ICE launched Operation Falcon, an international child pornography trafficking investigation. As a result, ICE was able to generate numerous additional leads identifying offenders who had purchased child pornography from the Regpay websites. In partnership with the Department of Justice, as of June 2006, Operation Falcon has resulted in 318 open investigations, 371 domestic and approximately 703 foreign

arrests, and 285 indictments, generating 290 convictions.

Another recent success is the case of *United States v. Mitchel*, investigated by the Federal Bureau of Investigation and prosecuted by the Child Exploitation and Obscenity Section in conjunction with the United States Attorney's Office for the Western District of Virginia. This case involved a defendant who operated child pornography websites that sold membership subscriptions to offenders looking to obtain videos of minor boys engaging in sexually explicit conduct. Those seeking access to these child pornography websites primarily used credit cards to purchase access using links on the websites to a commercial credit card processing company. The defendant was sentenced on July 14, 2006, to 150 years in prison based on his guilty plea to offenses involving the production, distribution, sale, and possession of child pornography. In addition, the owner of the commercial credit-card processing company has been indicted, and is currently pending trial.

United States v. Schiffer, prosecuted by CEOS together with the United States Attorney's Office for the District of Columbia, is a recent example of our success in prosecuting high-technology offenders. This case was part of CEOS's High Technology Investigative Unit's file-server initiative and was investigated by the Federal Bureau of Investigation. The defendant pled guilty in October 2005 to one count each of using his computer to advertise, transport, receive, and possess child pornography. By operating his personal computer as a file server, he allowed selected files to be downloaded and uploaded by the public to and from his computer. He even published on the Internet an advertisement aimed at young boys to get them to photograph themselves or other boys, so he could obtain more sexually explicit images that he could collect and then disseminate. When authorities executed a search warrant on the Washington home of 34-year-old Bruce Schiffer, they found not only several computers – and the files on plenty of his trading partners – but also more disturbing material. In his bedroom

were two boxes of catalogued correspondence he had with about 160 prison inmates, most of whom had either sexually assaulted or murdered children. In his letters, he discussed his "desire to rape children" – preferably boys between 6 and 16. Schiffer also wrote in detail about taking in runaways and "making use of them." Investigators also found a clown suit and a printed-out Mapquest route from his place of work to a boys' shelter. On August 30, 2006, Schiffer was sentenced to 25 years in prison for the high tech advertising and distribution of more than 10,000 images of child pornography. Upon his release, the defendant will be required to abide by strict conditions of no computer use except in the context of authorized employment, no possession of pornographic images, and supervision by a probation officer for life.

When imposing the sentence, Judge Paul L. Friedman captured the devastating impact of the defendant's crimes in a few words: "by advertising and exchanging these images, the defendant was expanding the market for child pornography, and that market is made up of kids who are being exploited, and thus it is damaging to the whole community of children." We at the Department of Justice could not agree more with Judge Friedman.

Through Project Safe Childhood, an initiative that I launched earlier this year, we are constantly expanding our efforts to address the sexual exploitation of children on the Internet and the financial underpinnings of this exploitation through Project Safe Childhood. Project Safe Childhood will help law enforcement and community leaders develop a coordinated strategy to prevent, investigate, and prosecute sexual predators, abusers, and pornographers who target our children. This initiative to protect our children is a strong, three-legged stool: one leg is the federal contribution led by United States Attorneys around the country; another is state and local law enforcement, including the outstanding work of the Internet Crimes Against Children task forces funded by the Department's Office of Justice Programs; and the third is non-governmental organizations, like the National Center for Missing and Exploited Children -- without which we

would not have the Cybertipline and victim advocates.

None of our efforts can stand alone. All must involve high levels of sharing and coordination. That is what Project Safe Childhood is all about. I have asked every United States Attorney to take the lead on implementing Project Safe Childhood with local partners in their communities. They will each begin with three major steps to put this important program into action.

The first step is to build partnerships and capitalize on the experience of our existing partners. U.S. Attorneys will engage everyone with a stake in the future of our children. Together, they will inventory the unique nature of the challenge and the resources available in the community. Second, these partners will work together as U.S. Attorneys develop a strategic plan for Project Safe Childhood in their area. Third, we will ensure accountability by requiring semi-annual progress reports. We want to know that Project Safe Childhood is having a measurable impact in terms of locking away criminals and identifying and rescuing child victims.

Congress has also provided invaluable support for our efforts by passing the Adam Walsh Child Protection and Safety Act of 2006. The Adam Walsh Act, signed by the President in July, will help us keep our children safe by preventing these crimes and by enhancing penalties for these crimes across the board. It mandates sex offender registration and it has teeth. The Act enhances penalties and helps us keep sex offenders away from our kids after they have been released from prison. This historic legislation also included two key provisions that bolster the administrative underpinnings for the efforts at the Department of Justice to protect children:

First, the new law establishes the Sex Offender Sentencing, Monitoring, Apprehending, Registering and Tracking Office, and it assigns the Office numerous important functions relating to the sex offender registry. The SMART Office will be led by a Presidentially-appointed

Director. We are working now to establish this Office.

Second, the new law provides statutory authority to the Justice Department's Project Safe Childhood initiative, launched earlier this year. We very much appreciate Congress's expression of support for this key initiative. In particular, I would like to personally thank Senator Santorum, a member of this Committee, for his leadership, support, and vision in authoring the Project Safe Childhood authorization language in the Walsh Act.

Let me turn now to the invaluable contributions of non-governmental organizations in the fight against child sexual exploitation on the Internet. As you know, non-governmental organizations such as the National Center for Missing & Exploited Children have played a lead role in educating the public concerning the risks of child sexual exploitation on the Internet. While much work remains to be done, the public is undoubtedly much more aware of these terrible crimes now than even five years ago. Much of the credit for increased public awareness is due to the efforts of non-governmental organizations. Moreover, they also deserve the lion's share of the credit for facilitating the reporting of child sexual exploitation offenses and for locating and rescuing the victims. For example, the National Center for Missing & Exploited Children's CyberTipline enables the public to report these crimes, and its Exploited Child Unit identifies and locates children depicted in these images so they can be rescued.

But non-governmental organizations do much more. The Financial Coalition Against Child Pornography consists of financial institutions and Internet industry leaders, together with the National Center for Missing & Exploited Children and its sister organization, the International Centre for Missing & Exploited Children, who are committed to eradicate commercial child pornography on the Internet. As I mentioned earlier, the Internet has expanded the commercial child pornography trade by allowing pedophiles to purchase access to child pornography websites using credit cards or other payment methods. The Financial Coalition is

working to stop the use of credit cards and other payment methods to purchase child pornography. When it discovers such use, it provides relevant information to the appropriate law enforcement agency. I understand from our law enforcement counterparts at the Department of Homeland Security's Immigration and Customs Enforcement that the information provided is assisting in critical investigations currently underway. Federal law enforcement has also used the Financial Coalition's new process to create a useful criminal intelligence database related to commercial child pornography websites, which is now fed by the transaction process, and a "clearinghouse" or de-confliction vehicle for these agencies and others outside the United States. We look forward to the continued development of the Financial Coalition's efforts to prevent the misuse of credit cards and other payment methods to purchase or sell child pornography, and to the continued development of the partnership between the Financial Coalition and federal law enforcement.

The Financial Coalition would not exist without the leadership and vision of the Chairman of this Committee, Senator Shelby, who was the catalyst in bringing industry leaders together to address this serious problem. Mr. Chairman, please accept my thanks on behalf of the Department of Justice for your critical role in creating this vital non-governmental organization.

While we obviously have come far in the fight against child sexual exploitation on the Internet, we still have far to go. As we've looked at ways to improve the law enforcement response to the problem of online exploitation and abuse of children, one thing we are examining is the retention of records by communications service providers. Several months ago, I established a working group within the Department of Justice that is looking at this issue.

I would like to briefly mention four legislative proposals that the Department of Justice recently transmitted to Congress. The first would strengthen 42 U.S.C. § 13032, which requires

Internet Service Providers to report violations of child pornography laws, by increasing the criminal penalties for knowing and willful failure to do so, and also establishing a new civil penalty for negligently failing to do so. The second would require warning labels to be placed on commercial websites containing sexually explicit material. The third would extend administrative subpoena power currently available under 18 U.S.C. § 3486 to obscenity investigations. And the fourth would add violations of 18 U.S.C. §§ 2252A and B as predicates for RICO and money laundering charges. I invite you to consider these proposals, which in our opinion will bolster our efforts in this area.

Additionally, we have learned that a greater federal response to child sexual exploitation on the Internet is needed in some states and localities because of insufficient criminal laws, weak sentencing schemes, or inadequate resources to provide meaningful punishment to child exploiters and abusers. So while we will do all we can at the federal level, and utilize partnerships to their fullest, we also strongly encourage state legislatures to look at the laws they have on the books and make them stronger if need be. The vast majority of states have done this, and legislators are to be commended, but adequate protections are not universal and they need to be. In particular, in states where it is not already the law, the possession of child pornography – even without the intent to distribute – should be made a felony. And some states need to increase the sentences available for certain kinds of abuse and exploitation.

Our fight against the proliferation of child sexual exploitation on the Internet does not stop at our borders, either. It demands a global strategy. This makes it imperative that we pay attention to the laws governing child sexual exploitation in other nations. Many countries have astonishingly lenient punishments for child pornography offenses. For instance, in several nations the production of child pornography is punished with only a fine or imprisonment of less than six months or a year. Simple possession is punishable merely by a fine. Just as we need

some states to strengthen their laws to punish child sex offenders, we must encourage some foreign lawmakers to strengthen their laws as well, including those concerning the financial components of these crimes.

In conclusion, protecting children from sexual exploitation on the Internet is one of the Department of Justice's highest priorities. I am grateful that you share our commitment. In particular, I again would like to thank the Chairman of this Committee, Senator Shelby, for his leadership in establishing the Financial Coalition Against Child Pornography, and Senator Santorum, a member of this Committee, for his leadership in authoring the provision in the Adam Walsh Act authorizing the Department's Project Safe Childhood initiative. Their exemplary actions have truly shown the depth of their commitment to protecting our children from this horrific abuse.

Mr. Chairman, thank you and the Committee for the opportunity to speak to you today, and I would be pleased to answer any questions the Committee might have.

TESTIMONY OF

ERNIE ALLEN
President & CEO

THE NATIONAL CENTER FOR MISSING & EXPLOITED CHILDREN

for the

UNITED STATES SENATE

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

"Combating Child Pornography by Eliminating Pornographers' Access to the Financial Payment System"

September 19, 2006

Mr. Chairman and distinguished members of the Committee, I welcome this opportunity to appear before you to discuss the commercial distribution of child pornography on the Internet. Chairman Shelby, you are a tireless advocate for child protection and I commend you and your colleagues for your leadership and initiative. The National Center for Missing & Exploited Children joins you in your concern for the safety of the most vulnerable members of our society and thanks you for bringing attention to this under-recognized problem.

Mr. Chairman, in July 2005 you convened a meeting involving the National Center for Missing & Exploited Children ("NCMEC"), the International Centre for Missing & Exploited Children ("ICMEC") and key financial industry leaders to challenge us to work together to attack the problem of commercial child pornography. Six months ago, you joined us in the formal announcement of the creation of our new Financial Coalition Against Child Pornography. Today, I want to provide you and the Committee with a Six-Month Update and Report. Briefly, the mechanism is in place. We have just completed a pilot to test the system and ensure that it will work effectively. We have begun our aggressive, comprehensive effort to eradicate commercial child pornography by 2008. However, we continue to need your help.

I want to commend the Attorney General for his aggressive steps against child pornography. His Project Safe Childhood brings additional resources to attacking this problem and demonstrates that protecting our children is a priority for the Department of Justice.

Let me first provide you with some background information about the National Center for Missing & Exploited Children. NCMEC is a not-for-profit corporation, mandated by Congress and working in partnership with the U.S. Department of Justice as the national resource center and clearinghouse on missing and exploited children. NCMEC is a true public-private partnership, funded in part by Congress and in part by the private sector. Our federal funding supports specific operational functions mandated by Congress, including a national 24-hour toll-free hotline; a distribution system for missing-child photos; a system of case management and technical assistance to law enforcement and families; training programs for federal, state and local law enforcement; and our programs designed to help stop the sexual exploitation of children.

These programs include the CyberTipline, the "9-1-1 for the Internet," which serves as the national clearinghouse for investigative leads and tips regarding crimes against children on the Internet. The Internet has become a primary tool to victimize children today, due to its widespread use and the relative anonymity that it offers child predators. Our CyberTipline is operated in partnership with the Federal Bureau of Investigation ("FBI"), the Department of Homeland Security's Bureau of Immigration and Customs Enforcement ("ICE"), the U.S. Postal Inspection Service, the U.S. Secret Service, the U.S. Department of Justice's Child Exploitation and Obscenity Section and the Internet Crimes Against Children Task Forces, as well as state and local law enforcement. Leads are received in seven categories of crimes:

- **possession, manufacture and distribution of child pornography;**

- **online enticement of children for sexual acts;**
- **child prostitution;**
- **child-sex tourism;**
- **child sexual molestation (not in the family);**
- **unsolicited obscene material sent to a child; and**
- **misleading domain names.**

These leads are reviewed by NCMEC analysts, who visit the reported sites, examine and evaluate the content, use search tools to try to identify perpetrators, and provide all lead information to the appropriate law enforcement agency. The FBI, ICE and Postal Inspection Service have "real time" access to the leads, and all three agencies assign agents and analysts to work directly out of NCMEC and review the reports. The results: in the 8 years since the CyberTipline began operation, NCMEC has received and processed more than 417,000 leads, resulting in hundreds of arrests and successful prosecutions.

The vast majority of these reports involve images of sexually exploited children. Child pornography has become a global crisis. A recent report by McKinsey Worldwide estimated that today commercial child pornography is a multi-billion-dollar industry worldwide, fueled by the Internet. Its victims are becoming younger. According to NCMEC data, 19% of identified offenders had images of children younger than 3 years old; 39% had images of children younger than 6 years old; and 83% had images of children younger than 12 years old. Children have become a commodity in this despicable crime.

Who is behind this trade in our children? There are documented cases in which the enterprise was found to be operated by an organized crime network. One such case was that of the Regpay Company, a major Internet processor of subscriptions for third-party commercial child pornography websites. The site was managed in Belarus, the credit card payments were processed by a company in Florida, the money was deposited in a bank in Latvia, and the majority of the almost 300,000 credit card transactions on the sites were from Americans.

Cases such as these highlight the connection between child pornography and the financial system.

Chairman Shelby, at our meeting last year we discussed another recent case in which investigators identified 70,000 individual customers paying $29.95 per month and using their credit cards to access graphic images of small children being sexually assaulted. I will never forget your reaction to this. You said "If people were purchasing heroin or cocaine and using their credit cards, we would be outraged and would do something about it. This is worse." And you were right.

You were the catalyst for the creation of the Financial Coalition Against Child Pornography. Thanks to you, 23 of the world's most prominent financial institutions and Internet industry leaders have joined with NCMEC and its sister organization ICMEC in the fight against Internet child pornography. Members include MasterCard, Visa,

American Express, Bank of America, Citibank, PayPal, Microsoft, America Online, Yahoo and many others. We are bringing new financial institutions into this Coalition every day. Our newest member is HSBC North America, and the American Bankers Association has recently agreed to support the Coalition's efforts. These are significant additions to our team.

The members of the Coalition represent 87 percent of the U.S. payments industry, measured in dollars running through the system.[1] This offers great potential to eradicate the commercial child pornography industry. We would have a greater chance of success if we had 100 percent participation by industry players around the world. ICMEC representatives have met with the heads of the European Banking Association as well as with officials from Central American banks. We are also actively recruiting the Asian banks as well.

Our goal: to eradicate commercial child pornography by 2008. Our mission: to follow the money. First, we will aggressively seek to identify child pornography sites with method of payment information attached. Then we will work with the credit card industry to identify the merchant bank. Then we will stop the flow of funds to these sites.

In each case we will work hand-in-hand with federal, state, local or international law enforcement, and the first priority will be criminal prosecution. However, our fundamental premise is that it is impossible to arrest and prosecute everybody. Thus, our goal is twofold:

[1] Nilson Report, No. 849, 850, 851 (2006).

(1) To increase the risk of running a child pornography enterprise; and

(2) To eliminate the profitability.

We have created working groups of industry leaders to explore the best techniques for detection and eradication. NCMEC serves as the global clearinghouse for this effort, sharing information and working together in a truly collaborative way. We are grateful for the participation of international organizations and law enforcement agencies, such as the Serious Organised Crime Agency in the U.K. International cooperation is vital to our success due to the global nature of these enterprises.

We are pleased to report the status of our efforts so far. We recently completed our pilot phase, from July 7 to September 9. We created a secure mechanism through which the information about illegal sites will flow between NCMEC, law enforcement, and the financial institutions. During this pilot phase the CyberTipline received 422 reports of commercial child pornography. NCMEC analysts viewed these sites and confirmed that the images were illegal. From these site analyses we identified 99 unique commercial child porn websites.

The names of these sites tell it all: "Elite Child Porn," "The Sick Child Room" and "Loli-Virgins." Each of these 99 websites offered multiple payment methods for the purchase of illegal images. We are seeing indications of a trend toward directing buyers away from credit cards and toward alternative payment methods to make the actual transaction. We are exploring possible explanations for this.

This pilot has given us a wealth of information that we could not have anticipated about the nature of these transactions and how to improve the flow of information necessary to identify the source of the images. We now know what we need to move into full implementation of the program. We need to capitalize on the investigative talents of multiple law enforcement agencies on a multi-national basis. And we need full participation by the payments industry worldwide. Then we will begin to dismantle these enterprises that profit from the heinous victimization of children.

The National Center for Missing & Exploited Children is grateful for your support, Chairman Shelby, and that of your colleagues, in our efforts to protect children.

Thank you.

FINANCIAL COALITION AGAINST CHILD PORNOGRAPHY

BACKGROUNDER

WHAT

Twenty-three of the world's most prominent financial institutions and Internet industry leaders have joined with the National Center for Missing & Exploited Children (NCMEC) and its sister organization, the International Centre for Missing & Exploited Children (ICMEC), in the fight against Internet child pornography. The group is called the Financial Coalition Against Child Pornography and its goal is to eradicate commercial child pornography by 2008.

Senator Richard C. Shelby (R-AL), Chairman of the U.S. Senate Banking, Housing, and Urban Affairs Committee, was the catalyst in bringing these industry leaders together to address the problem.

WHO

The Financial Coalition Against Child Pornography includes leading banks, credit card companies, third-party payment companies, and Internet services companies. Members of the Coalition include America Online, American Express Company, Authorize.Net, Bank of America, Capital One, Chase, Citigroup, Discover Financial Services LLC, e-gold, First Data Corporation, First National Bank of Omaha, Google, HSBC North America, MasterCard, Microsoft, North American Bancard, Nova Information Systems, PayPal, First PREMIER Bank/PREMIER Bankcard, Standard Chartered Bank, Visa, Wells Fargo, and Yahoo! Inc.

WHY

Within only a few years, child pornography has become a multi-billion dollar commercial enterprise, and is among the fastest growing businesses on the Internet. Through the use of digital and web cameras, child pornography has become easier and less expensive to produce. Distribution on the Internet has facilitated instant access by thousands and possibly millions of individuals throughout the world. The ability to use credit cards and other payment methods to purchase child pornography has made it easier than ever to obtain.

The exact number of child pornography web sites is difficult to determine. In 2001, the CyberTipline operated by NCMEC had received more than 24,400 reports of child pornography. By August 2006, that number had climbed to more than 375,000.

HOW

The first step to achieving the goal is to establish a global Clearinghouse on child pornography to provide a unified system for identifying illegal activities and sharing information between Coalition companies. NCMEC/ICMEC will serve as the global Clearinghouse on the commercial aspects of child pornography.

Coalition members will be vigilant and will look proactively for and report child pornography to the Clearinghouse. The Coalition will ensure that information derived from proactive efforts is reviewed by the Clearinghouse, that information is shared with Coalition companies, and that a tracking and feedback system is developed to ensure that broad based action is taken to eradicate illegal practices.

For more information on the Coalition, including how to join, please contact Christina Portz at 703.837.6329 or cportz@icmec.org.

FINANCIAL COALITION AGAINST CHILD PORNOGRAPHY

MEMBERS

America Online

American Express Company

Authorize.Net

Bank of America

Capital One

Chase

Citigroup

Discover Financial Services LLC

e-gold

First Data Corporation

First National Bank of Omaha

Google

HSBC North America

MasterCard

Microsoft

North American Bancard

Nova Information Systems

PayPal

First PREMIER Bank/PREMIER Bankcard

Standard Chartered Bank

Visa

Wells Fargo

Yahoo! Inc.

Statement of Kim Mowder

BA Merchant Services

Bank of America

Before

U.S. Senate Committee on Banking, Housing, and Urban Affairs

Chairman Shelby, and members of the committee, my name is Kim Mowder, and I am the Head of Risk and Fulfillment for BA Merchant Services, a subsidiary of Bank of America. BA Merchant Services provides card processing services for approximately 700,000 merchants across the United States.

First, like my colleagues, we applaud the Chairman's focus on this issue and the resulting coalition that Ernie Allen so ably chairs. We are proud to be a part of this collective effort and believe that your involvement, Mr. Chairman, is what led directly to this first ever joint industry effort to combat child pornography, a process that I understand began right here in this room. We certainly commend Kathy Casey as well for her efforts before she left the committee. We are equally proud to be associated with the National Center for Missing and Exploited Children. We subscribe to

and whole heartedly agree with all the benefits and progress Mr. Allen has described for you. Like everything Ernie brings his passion and commitment to, it is working.

I would like to begin my testimony by emphasizing that Bank of America's policy and practice is to vigorously screen for and avoid signing merchants that are engaged in any kind of questionable activity, let alone child pornography, and to terminate any relationships that subsequently change in that direction, should that happen. We simply have zero tolerance when it comes to issues like child pornography. And like our colleagues, we are closely aligned with and cooperative with law enforcement at every level in their efforts to combat this issue.

Bank of America is the second largest acquirer of merchant credit card processing in America. We have been processing credit cards for merchants since 1958 and have approximately 700,000 active merchants in our portfolio. We take great pride in our very conservative, risk averse approach to the merchant services business and do not hesitate to decline nearly 2,000 applications a year because the activity of the merchant is inconsistent with our policies.

In that regard, our underwriting policy clearly defines those merchant types whom we deem to be "unacceptable" for a card servicing relationship. We are much more conservative than what is legally permissible. The following business types are routinely declined by us:

- Adult entertainment products/services
- Dating/escort services
- Debt collection firms
- Pornography products/services
- Tobacco products being sold via mail order, telephone order or Internet sales
- Wire transfer of money or any money service businesses (MSB) including payday loans and check cashing

No exceptions are made on these businesses entities and, again, we have zero tolerance for issues like child pornography.

Our process of thoroughly vetting merchant applications begins with a sales person talking directly to a merchant, often face-to-face. Together they complete a merchant application package that is then sent to the

underwriting experts in our processing center. Our process is based on the principle of "know your customer", not only to screen out undesirable activities but also to look for other potential business opportunities.

Merchant application packages contain profile information on the merchant's business that includes, but is not limited to, a description of products and/ or services being sold, a description of how sales will occur, and demand deposit banking information. In addition, the merchant application may require personal name, address and social security number information on the owner/officer of the business if it is a small or new business. This information is used in the due diligence process to validate the business type and ownership.

Underwriters reviewing new merchant application packages are charged with validating the merchant's physical business address, confirmation of the products or services being sold, and the methods of sale (retail store front, mail order, Internet, etc.). All verifications are documented should later comparisons become necessary.

And, of course, all pages and links in a merchant's web site are examined, copied and maintained for future comparisons.

We believe that validation of ownership, business address and type is a simple but critical part of this process and we use sources of information like the following to verify all application information:

- Local, state and federal record sites (county clerk, secretary of state, etc.)
- Multiple search engines (yellow pages, phone number search, reverse information look- up services)
- Telephone contact with nearby businesses to secure knowledge of merchant activity
- Calls to trade associations familiar with the merchant or merchant business type
- Better Business Bureau Reports
- Dun & Bradstreet Business Reports
- Marketing materials requested from the merchant
- Invoices for store inventory confirming products in inventory
- Invoices for previous sales (calls frequently made to buyers to confirm products purchased)

Based upon information received from the above sources, the underwriter may find it necessary to perform additional due diligence to arrive at a sound business decision. We will do whatever is necessary to ensure we are signing merchants consistent with our policies.

Again, should the merchant be selling products or services via the Internet, the merchant's Internet site is reviewed in depth, with substantial focus on embedded links to any other sites to identify products/services offered for sale through links in the merchant's site. This identifies merchants that may be assisting other parties in sale of products or services that are unacceptable under our policies. The underwriter copies all internet pages that have been reviewed and stores them in the merchant file, primarily so they can be periodically checked for subsequent deviations.

Screening for unacceptable activities does not end with the initial due diligence process. BA Merchant Services' Risk Department performs daily monitoring of merchant transaction histories on existing merchant accounts. Investigators use an in house merchant transaction tracking tool with features that are designed to ensure close monitoring of merchant's daily

processing activity. Based upon parameters preset at the time of approval, daily activity reports are generated on those merchants that appear to be processing sales transactions that are contrary to the expected norm based on the original terms of their processing agreement and the business size and type.

Risk investigators utilize the same due diligence tools to investigate merchants appearing on any exception reporting as those used by the underwriters on new merchant applications, all in an effort to gain an understanding of merchant's current processing behavior. Due diligence may include but not be limited to talking directly to cardholders to confirm transaction validity and makeup, communicating with the merchant's banking representative and speaking directly with the merchant to gain answers to specific questions. From their investigation, the investigator will determine what, if any, post due diligence action is required by our policies.

The risk investigator may elect to terminate the merchant account based upon the risk associated with the new information obtained in the investigation, establish a loss reserve fund to compensate for any elevated

risk associated with the merchant's new method of operation, or take no action at all, if new information learned falls into acceptable parameters for the business type.

Should the investigation determine that the merchant subsequently has begun engaging in unacceptable activities, the following actions are taken immediately:

1. Merchant processing capability is terminated immediately
2. Merchant profile information is forwarded to Bank of America's Investigative Services

   Division for immediate investigation, and;
3. The bank coordinates with law enforcement.

And, of course, we work in close partnership with the Card Associations. They employ on our behalf a vast array of protocols, all designed to be a formidable line of defense and capture real time potential illegal activities. Our efforts and their efforts are not discrete but a seamless and cooperative venture to ensure we all prevent the use of our payment networks for such purposes. It is a partnership, made stronger by the coalition Ernie chairs.

In summary, Bank of America has a zero tolerance for anything related to child pornography. We believe strongly that our investigations and due diligence procedures provide assurance that no undesirable merchant activities are being processed through our service and we work closely with Card Associations to close any merchants they identify as posing a risk. Finally, we support the collective efforts of the coalition and of this committee to ensure the legitimate electronic payments industry is neither wittingly or unwitting facilitating the sale of online child pornography.

TESTIMONY OF

MIKE DENOMA

Group Executive Director, Consumer Banking

STANDARD CHARTERED BANK

for the

UNITED STATES SENATE

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

"COMBATING CHILD PORNOGRAPHY BY ELIMINATING

PORNOGRAPHERS' ACCESS TO THE FINANCIAL PAYMENT SYSTEM"

September 19, 2006

Thank you Mr. Chairman and distinguished members of the Committee for the opportunity to contribute to this critical discussion. My name is Mike DeNoma and I am a Group Executive Director of Standard Chartered Bank and the CEO of our Global Consumer Bank. My home base is Singapore. As we all know, the scourge of child pornography knows no boundaries. For that reason, I was eager to travel to Washington, D.C. to be part of these important hearings. I commend the Senate Committee on Banking, Housing and Urban Affairs for its commitment to this vital issue. In particular, I want to acknowledge Senator Shelby for his leadership in helping us build and launch the Financial Coalition Against Child Pornography.

In addition to my role at Standard Chartered, I am a member of the Board of Directors of the International Centre for Missing & Exploited Children. It is an honor to be affiliated with a group that has done so much for the welfare of children.

Standard Chartered is a founding member of the Financial Coalition Against Child Pornography. As an individual institution, Standard Chartered has its own processes for ridding its systems of child pornography merchants. And, we are beginning to share best practices with other industry players. However, we firmly believe that the best way to battle this horrendous problem is to join resources and brainpower with other members of the industry on both a global and a country-by-country basis. Given my company's 153-year history and role in Asia, Africa and the Middle East, we have committed to take the lead in attempting to recruit key actors (governments, payment providers, regulators,

financial institutions, Internet Service Providers) within each of our 56 countries and have them join forces to combat this serious problem on a national level.

Our objective is to present these key actors in 75% of our countries by the end of March 2007. We have been working in Singapore as a pilot market for this approach over the last 5 months. The Association of Banks in Singapore (110 Members) and the Coalition it formed, we believe, is now just weeks away from making an important announcement on how it will combat this problem on a Singapore level.

Further, we are trying to raise awareness of the size, scope and intensity of this problem amongst critical local decision makers as well as with the general public and opinion formers across our markets and the globe.

To that end, we recently launched a campaign that we call "Light A Million Candles." Our goal is to gather a million signatures in a virtual petition to challenge financial institutions, governments, payments organizations, Internet Service Providers, technology companies and law enforcement agencies to work together to eradicate the problem. It is a platform to tell the facts and to get people to take action.

The campaign was developed by a team led by Standard Chartered employees who donated not only their time, but also their creativity. Global advertising agency TBWA worked with award-winning director Royston Tan and well-known photographer Geoff Ang to develop a hard-hitting campaign involving a TV commercial, print ads, a viral e-

mail in 22 languages and a web site, to increase awareness of the global problem of child pornography and to motivate people to visit www.lightamillioncandles.com to pledge their support for this cause. Only one week old, 76,000 candles have already been lit on the web site by individuals from 130 countries.

In addition, the global media agency OMD is approaching international media owners to support the cause by running the TVC and print ad as a public service. So far, CNN, MTV, the BBC, Discovery Channel, Time Magazine and Readers Digest in four languages have already agreed to donate media space to support the campaign. We expect much more coverage in the weeks and months ahead.

In terms of a Financial Services Industry push, the 23,000 delegates and observers to the IMF/World Bank meetings in Singapore this week, will see the TV spot in the elevators of 110 buildings and hotels and on the big video screens in main conference areas. And perhaps most important, our Chairman and Senior Executives will be working at the IMF on a personal level to raise awareness of this issue and to enlist international and local financial institutions to join the Financial Coalition Against Child Pornography.

As you can see, Standard Chartered is engaged in the fight on a number of fronts. To be sure, the challenge is considerable in many areas (safe harbor legislation on legal liability, clearinghouse administration/accountability, and rapidly evolving alternative payment methods) but the good news is that awareness of the problem is growing rapidly

and the payments industry is putting a great deal of muscle into following and stopping the flow of funds to this insidious enterprise.

Again, I commend the Committee for its proactive work on this critical matter and look forward to continuing our dialogue with you.

WATCHMEN ON THE WALLS: HOW THE FINANCIAL INDUSTRY CAN GUARD AGAINST & STOP THE EVIL OF INTERNET CHILD PORNOGRAPHY

Purpose and Objective

Commercial child pornography has grown explosively in recent years and if allowed to continue unabated, threatens the world socially and culturally. This paper describes the nature, intensity and growing scale of commercial child pornography particularly on the Internet. It also recommends actions that can be taken by the financial payments industry in cooperation with governments, regulators, law enforcement authorities and Internet service providers to destroy the commercial viability of Internet child pornography by January 2008.

Dimensioning the Problem

Historically, child pornography was an underground industry that attracted only the most ardent of sexual perverts who would risk lack of anonymity to physically acquire child pornography material.

The physical barriers to obtaining child pornography images constrained the size of the industry. However, estimates of the size of the commercial child pornography business by 2004 ranged from US$3 billion to US$20 billion in revenue globally[1]. In comparison, the total global revenue in 2004 for the online music industry was US$3 billion.[4]

What has spurred the phenomenal growth of the commercial child pornography business?

McKinsey estimates that 75% of commercial child pornography revenue is generated through the Internet. Global internet advertising and access spending is estimated to grow at a compounded annual growth rate of 25% per year[2] from 1999 to 2009 – and the internet child pornography industry is likely to grow at a similar pace. Alarmingly, this appears to have led to the increasing involvement of organized crime[3].

The Internet has provided a degree of accessibility and anonymity that has permitted the growth of the industry from ensnaring unsuspecting victims through to the exploitative commercial abuse of young children. The ease, security and anonymity of Internet payments and transactions have exacerbated the problem. The growing availability of and access to such material on the Internet also raises the risk of providing an apparent but erroneous validity to viewing and purchasing such material through legitimate media and payment methods (such as credit cards).

However the very ease afforded by Internet access and payments also affords a simple option to the financial payments industry to make a significant contribution to stop the problem.

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1 *Council of Europe situation report on organized crime, 2005, footnote 86*
2 *PWC LLP, Wilkofsky Gruen Associates*
3 *Council of Europe, situation report on organized crime, 2005, page 36*
4 *Global Entertainment and Media Outlook 2005-2009, PWC*

WATCHMEN ON THE WALLS: HOW THE FINANCIAL INDUSTRY CAN GUARD AGAINST & STOP THE EVIL OF INTERNET CHILD PORNOGRAPHY

The financial industry can help destroy the commercial viability of the industry by taking action by strangling the flow of payments transacted through the Internet. The global nature and reach of the Internet means that the financial industry must on an international level cooperate across borders with governments, regulators, law enforcement agencies and ISPs to effectively and forcefully eradicate the problem.

Because of the dominant contribution of Internet transactions to the industry, attacking it in this arena will effectively force the industry back into a cash-based pre-Internet existence of relying on cash payments. Removing accessibility, anonymity and ease of transaction will make the option less attractive to consumers and purveyors alike, shrink the business and make it less commercially attractive to organized crime.

Defining the Issue

The generic issue of pornography is not the subject of this paper. This paper does not seek to address the debate on the legitimacy, "artistic" virtues or otherwise of pornography. The subject this paper focuses on is the sexual abuse and exploitation of children, including infants, through pornographic material:-

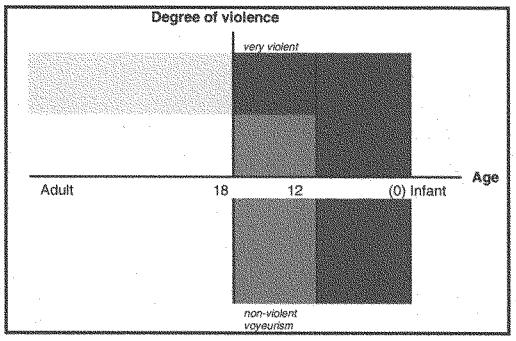
- 1 in 5 children are solicited sexually while on the Internet.[5]
- 10,000 to 20,000 children appear online in pornographic images every day, and four to five **new** children appear in images each week.[6]
- There has been a 1500% increase in the number of child pornography images since 1997.[7]
- Of offenders identified in the US, 39% had images of children 3 to 5 years old, and 19% had images of children under 3 years old.[8]

Pornographic materials relating to these children include violent and abusive images, and the National Centre for Missing and Exploited Children (NCMEC) in the US reports that these images are becoming even more graphic and violent.

Legal definitions are incidental to the issue – legal definitions and the legislation against child abuse or child pornography vary from country to country. It is more helpful to view the issue graphically.

5 *US Department of Health and Human Services*
6 *ECPAT; Internet Watch Foundation*
7 *Internet Watch Foundation*
8 *National Centre for Missing & Exploited Children (NCMEC)*

WATCHMEN ON THE WALLS: HOW THE FINANCIAL INDUSTRY CAN GUARD AGAINST & STOP THE EVIL OF INTERNET CHILD PORNOGRAPHY



The coloured areas are the areas of concern. The area where children are likely to be most vulnerable and generally incapable of making informed choices or consent with regard to being the subject of pornographic material is shaded amber and red. The area shaded red is particularly egregious in the commission of violent pornography using very young children. The ethics, morality, permissibility of material in the un-shaded areas is irrelevant to the objective of this paper.

The child pornography industry extends from the recruitment or ensnaring of children to be sexually exploited or abused through to the financial gratification of its purveyors. The financial industry has no or limited means to interfere with the production and distribution of child pornography, but because the Internet allows the facility to abuse the international payments system, this is an area of focus in which the financial industry can take effective action.

Cutting the Electronic Payment Loop

Modern electronic payments systems combined with the facility of Internet transactions have reaped great benefits for commerce and trade on one hand. On the other hand, the ease of anonymous accessibility and payments on the Internet has spurred the growth of the Internet child pornography problem. However, this ease and facility also provides a simple opportunity for the financial industry to attack the problem, through aggressively managing Internet commercial relationships and on-line payments.

(1) Internet payment transactions

Credit cards remain the most common method of payment on-line although other alternative payment modes are now being increasingly used by consumers and utilized by purveyors of the pornographic material.

To the extent that credit cards are used, the major payment associations (MasterCard, Visa), card companies (American Express, Discover) and banks can significantly intervene to stop the trade. This involves 2 steps:

(i) Seeking and identifying offending web-sites.

(ii) Terminating the commercial relationship between the merchant acquiring bank/company and the merchant owning the web-site.

The same or similar steps must also be developed for alternative Internet payment methods (e.g. e-gold).

(2) Inter-bank payments

To the extent principals (individuals and/or organizations) behind or responsible for the web-sites can be identified, financial institutions can:

(i) Terminate commercial relationships with the principals.
(ii) Actively intervene in inter-bank payments from/to the principals or freeze their accounts where permissible by law or in furtherance of law enforcement activity.

Critical Actors in the Solution

In order to effectively eradicate the problem, it has to be viewed globally across borders. Whilst financial institutions within any single jurisdiction can terminate a commercial relationship with the principals behind a child pornography website leading to its shutdown, the same principals may go to different institutions in different countries to establish new sites or new banking relationships or achieve the same effect through new agents.

Key to an effective eradication of the commercial viability of Internet child pornography is (in addition to the specific actions payments institutions and banks make above) the ability of institutions, corporations and individuals to legitimately and prudently share information on offending web-sites, and the principals behind them.

Broadly every person has a role to play in the effort to combat Internet child pornography:

(1) Internet service providers must cooperate with financial institutions and law enforcement authorities on identification of offending web-sites and transaction records/communications preservation and analysis.

(2) Technology corporations can provide support by developing software to help seek and identify offending web-sites; and to support other institutions to ensure firewalls are robust enough to withstand hacking by principals behind child pornography web-sites and, possibly, organized crime. It is interesting to note that apparently a significant number of offending web-sites are hosted through compromised servers which are otherwise legitimate.

(3) Financial regulators have a role to play in bringing financial industry players to the table by prescribing and enforcing relevant standards of business conduct.

(4) Legislators and governments can support the effort by:

(i) Criminalizing child pornography;
(ii) Permitting appropriate data sharing whilst balancing a need to ensure data protection and privacy.
(iii) Providing safe harbours or exceptions to financial institutions who terminate commercial relationships with or share information on the principals behind the websites.

(5) Law enforcement authorities must clearly agree operating principles with financial institutions, payment associations/companies and Internet service providers on evidential requirements for pursuing prosecutions and exceptions to termination of commercial relationships.

(6) Every person individually can sign up to the objective of eradicating commercial child pornography by providing information through means such as the NCMEC CyberTipline or by personally contributing to fulfilling one of the steps described above in the campaign to crush child pornography.

Where stakeholders play a principal role

	Production	Commercial Distribution/ Media	Consumer Payment Transactions	Commercial Payment Transfers
Governments	√	√	√	√
Law Enforcement Authorities	√	√	√	√
Financial Regulators			√	√
Financial Institutions			√	√
Payment Associations			√	√
ISPs		√	√	√
Technology Support Entities	√	√	√	√

WATCHMEN ON THE WALLS: HOW THE FINANCIAL INDUSTRY CAN GUARD AGAINST & STOP THE EVIL OF INTERNET CHILD PORNOGRAPHY

Necessary catalysts to stem the tide

It is critical that there are organizations, governments or regulators who are willing to take the lead in battling the problem. By being in the vanguard, they set an example to others and catalyse action to contain this threat to society.

"The worst evil of all is to say that neither good nor evil is anything in itself, but that they are only matters of human opinion."

Justin Martyr, 2nd century AD – written in the context of seeing as evil a society that abandons infants to die or to be raised by opportunists, who train them as prostitutes and sell them on the slave market "like herds of goats or sheep".

Standard Chartered

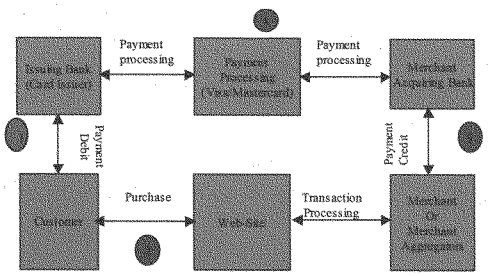
Eradicating the Commercial Viability of Child Pornography – Introduction

Financial institutions can make a very direct contribution to eradicating the commercial viability of internet child pornography by disrupting credit card payments for purchase of or access to child pornography material on internet web-sites.

The following pages outline a typical credit card transaction flow on the internet, how it can be disrupted for the purchase of child pornography on-line, and a model for suitably barring access the international card payments system to child pornography peddlers.

The examples outlined are based on the VISA/Mastercard model which is the most familiar model to the majority of financial institutions globally. Other card payment models (for example American Express) and internet-payment-providers (such as E-gold and pay-pal) operate differently and are of less relevance to the role of financial institutions. Nevertheless, the participation of these other card or internet payment providers is crucial for the sustainable long term eradication of commercial child pornography on the internet and many of the issues are equally applicable to these organisations.

Typical Credit Card Transaction Flow for Internet Purchasers



1 The issuing bank (IB) issues a credit card to its customer with whom it has a creditor-debtor relationship.

2 The customer accesses a web-site and chooses to make a purchase on-line using his/her credit card issued by the IB.

3 The merchant or merchant aggregator will have a commercial relationship with a Merchant Acquiring Bank (MAB). The merchant or merchant aggregator will put the credit card payment through to the MAB.

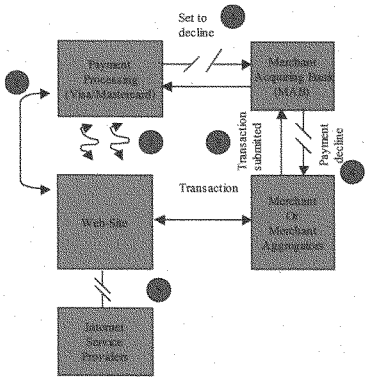
4 The MAB who is a member of a payment association (Visa/Mastercard) will process the payment through the payment system of the relevant card association – crediting the merchant's account, while the transaction is processed through to the IB which debits the customer's account.

Standard Chartered

The action which will most directly affect the child pornography merchant's ability to receive payment by credit card :

The MAB can :
i) decline to process the transaction; and / or
ii) terminate the commercial relationship
if the transaction is identified as one relating to the purchase of or access to child pornography.

Identification of Child Pornography Web-Site and Disrupting Payments



1. Internet search by the payment association identifies a suspect web-site.

2. Once a web-site has been confirmed as an offending web-site containing child pornography material, the payment association makes a dummy purchase, set to decline on receipt of the payment request through the MAB.

3. Merchant/merchant aggregator submits payment transaction through MAB which will process it through the relevant payment associations payments system.

4. Payment will be refused through the payments systems as the transaction has been set to decline, but the payment association will now have identified the MAB for the child pornography merchant. The payment association will notify the MAB that the merchant in question is hosting child pornography and request termination of the commercial relationship. MAB should then terminate the relationship. If it does not, the payment association may
   i. Fine the MAB; or
   ii. Suspend/terminate the MAB's membership of the association barring it from use of its payment system

5. ISP notified by payment association and web-site should be shut down by ISP.

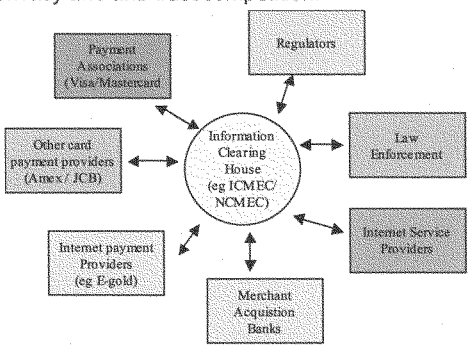
Standard Chartered

Barring Access to the International Cards Payment System

The intervention described above will work for a specific institution and within a specific country of jurisdiction.

To effectively ensure that the principals behind the offending web-sites do not go shopping for new merchant acquirers in the same or different countries to obtain access to the card/internet payment systems will require the ability to share data between relevant parties.

The challenge will be to achieve this without breaching laws and regulations relating to data protection/privacy and anti-trust/competition.



The suggested solution is to have a commercially neutral clearing house holding information relating to all web-sites known to be or have been holding child pornography.

Such information would be provided by all relevant parties from merchant acquisition banks to law enforcement agencies in much the same way lists of money laundering individuals are provided by certain agencies, or sanctioned countries or individuals are notified by government. The warehouse becomes a database against which payment organisations, ISPs and banks could conduct due diligence checks as a safeguard against establishing a relationship with the principals or organisations behind child pornography web-sites.

Within a country, the clearing house could be managed by the regulator or law enforcement agency or in some other independent model such as credit bureaus. However, ensuring that the eradication of the problem is effective globally implies that the data must be available internationally. Two options are proposed – (a) connecting the country clearing houses; or (b) creating international clearing houses, whether regionally or globally. By making the barrier to entry difficult, it is anticipated that the commercial attractives of child pornography on the internet will be significantly reduced – effectively eradicating its commercial viability.

Standard Chartered

What Needs to be Done!

First - all relevant parties should commit to eradicate the commercial viability of child pornography. Then.....

Party	Action
Financial Institutions (including merchant acquisition banks)	• Co-operate with Visa/Mastercard, other payment agencies/law enforcement when web-sites are identified and terminate relationship. • Share the information with information clearing house and/or other relevant parties (eg regulators/law enforcement) • Tighten and maintain strong due diligence procedures on merchants and ongoing transactions.
Payments Associations / Payment Processors	• Develop capabilities to identify potentially offending web-sites. • Work with financial institutions to ensure appropriate action is taken against identified and confirmed merchants. • Work with ISPs on identification of web-sites. • Share information as appropriate.
Internet Services Providers	• Co-operate with payments associations/payment processors/financial institutions on identification of web-sites. • Support investment on development of tools to help identify and block offending web-sites.
Law Enforcement	• Identify minimum evidential requirements for bringing effective prosecution and work with ISPs/payment providers/financial institutions on how these could be gathered and shared for use by law enforcement.
Regulators	• Promulgate appropriate regulations/rules for regulated institutions to terminate commercial relationships with principals behind offending web-sites.
Governments / Legislators	• Promulgate laws and legislation :- - Criminalising child pornography - Permitting sharing of data of principals and web-sites, with safe harbours/exceptions to protect parties terminating relationships/sharing information from legal liability for breach of privacy or from anti-trust/anti-competitive behaviour. - Defining evidential requirements for law enforcement to facilitate successful prosecution.

LIGHT A MILLION CANDLES

Frequently Asked Questions

What is "Light a million candles"?
It is a campaign to raise awareness of the problem of online child pornography. Our goal is to gather a million signatures in a virtual petition to challenge financial institutions, governments, payment organizations, Internet Service Providers, technology companies and law enforcement agencies to work together to eradicate the problem. This is a great opportunity to tell the shocking facts and to get people to take action.

Who is behind this?
"Light a million candles" is an awareness campaign developed by a group of volunteers in Singapore in support of the work of the Financial Coalition Against Child Pornography.

Twenty-two of the world's most prominent financial institutions and Internet industry leaders have joined with the National Center for Missing & Exploited Children (NCMEC) and its sister organization, the International Centre for Missing & Exploited Children (ICMEC), in the fight against Internet child pornography. The group is called the Financial Coalition Against Child Pornography and its goal is to eradicate commercial child pornography by 2008.

Who is financing this?
The people involved are giving their time and creativity.

For example, global advertising agency TBWA worked with award-winning director Royston Tan and well-known fashion photographer Geoff Ang to develop a hard-hitting campaign involving TV commercial, print ads, a viral e-mail and a website, to increase awareness of the global problem of child pornography and to motivate people to visit www.lightamillioncandles.com to pledge their support for this cause.

Some well wishers have made cash contributions to help defray expenses incurred in the production of the TVC, etc.

The global media agency OMD is approaching international media owners to support the cause by running the TVC and print ad as a public service.

How can I help?
You can help by further raising awareness in your country of this problem. Tell your friends, relatives and colleagues to light a candle.

If members of the public have knowledge of a child pornography website they are encouraged to report it immediately to the CyberTipline managed by the National Center for Missing & Exploited Children (www.cybertipline.com or 1-800-843-5678). Citizens outside the United States can call the CyberTipline or can contact any number of hotlines around the world. To learn more about these hotlines, visit the website of the International Association of Internet Hotlines (INHOPE) at www.inhope.org.

Who are the members of the Coalition?

The Financial Coalition Against Child Pornography includes leading banks, credit card companies, third-party payment companies, and Internet services companies. Members of the Coalition include America Online, American Express Company, Authorize.Net, Bank of America, Capital One, Chase, Citigroup, Discover Financial Services LLC, e-gold, First Data Corporation, First National Bank of Omaha, Google, MasterCard, Microsoft, North American Bancard, Nova Information Systems, PayPal, First PREMIER Bank/PREMIER Bankcard, Standard Chartered Bank, Visa, Wells Fargo, and Yahoo! Inc.

Who else is involved?
The Financial Coalition is being managed by the National Center for Missing & Exploited Children (NCMEC) and its sister organization, the International Centre for Missing & Exploited Children (ICMEC). Senator Richard C. Shelby (R-AL), Chairman of the Senate Banking, Housing and Urban Affairs Committee, was the catalyst in bringing these industry leaders together to address the problem.

The Financial Coalition works in collaboration with the American Bankers Association, Association of Sites Advocating Child Protection, Child Focus of Belgium, the European Federation for Missing and Sexually Exploited Children, Financial Services Roundtable, the International Association of Internet Hotlines (INHOPE), the Ohio Attorney General's Office-Ohio Missing Children Clearinghouse and the U.S. Office of the Comptroller of the Currency.

The Technology Coalition Against Child Pornography aims to develop and deploy technology solutions that disrupt the ability of predators to use the Internet to exploit children or traffic in child pornography. Members of the Technology Coalition are AOL, Yahoo!, Microsoft, Earthlink, Google, and United Online.

How specifically will the Coalition eradicate child pornography by 2008?
It is at the early stages of work but the broad mission is to:

- aggressively seek out and identify illegal content;
- give law enforcement first shot at investigation and prosecution, and if they decide not to pursue;
- alert the payment resource so that they can take action against the sites;
- seek to identify the merchant bank and work with the financial system to stop payments and stem the flow of funds.

Keep in mind that many of the payments companies and Internet services companies have been combating child pornography websites on their own. But their individual efforts have been insufficient given the scope of the problem. The Financial Coalition allows a forum for them to combine resources, expertise and brainpower in order to make serious strides in this fight.

What is the scope of the problem of commercial child pornography?
Child pornography has become a multi-billion dollar commercial enterprise and is among the fastest growing businesses on the Internet. The Internet has enabled instant access to child pornography by thousands and possibly millions of individuals around the world. And the ability to use credit cards and other payment methods has made purchasing child pornography easy.

The exact number of child pornography websites is difficult to determine. In 2001, the CyberTipline operated by NCMEC had received more than 24,400 reports of child pornography. By August 2006, that number had climbed to more than 375,000.

Other statistics to note:

A 2002 report by ECPAT International and the Bangkok Post estimated that 100,000 child pornography websites existed on the Internet in 2001.

In 2003, the National Criminal Intelligence Service in the U.K. estimated that child pornography websites had doubled worldwide.

According to the Internet Watch Foundation in the U.K., there has been a 1500% increase in the number of child pornography images since 1997.

The victims of child pornography are becoming younger and younger, and the images more graphic and violent. According to NCMEC, 83% of child pornography possessors arrested had images of children 6 to 12 years old; 39% had images of children 3 to 5 years old; and 19% had images of infants and toddlers under age 3.

How do these criminals get onto the payments system in the first place? Isn't it a failure on the part of the credit card companies and online currencies that CP websites are able to operate successfully?
Keep in mind that many of the payments companies and Internet services companies have been combating child pornography websites on their own. But their individual efforts have been insufficient given the scope of the problem. The Financial Coalition allows a forum for them to combine resources, expertise and brainpower in order to make serious strides in this fight.

Why isn't the XYZ company participating?
Many of the largest companies in the payments industry have joined the Financial Coalition but recruitment of new members is an ongoing priority. If companies are interested, they should contact Ernie Allen, CEO of NCMEC and ICMEC at eallen@ncmec.org.

Most of your membership is based in the US. Isn't this a global problem?
Yes it is a global problem. The Financial Coalition is actively recruiting companies from around the world. Standard Chartered Bank, an international company based in the UK with major operations in Asia, Africa and the Middle East has been a solid supporter and we have input from ICMEC allies in different regions of the world. If companies are interested, they should contact Ernie Allen, CEO of NCMEC and ICMEC at eallen@ncmec.org.

Isn't it more important to prosecute these criminals and put them in jail?
The first step in our process has been, and will continue to be, to give law enforcement first shot at investigation and prosecution. But we know that we will not arrest and prosecute ourselves out of the problem, we must stop the flow of money as well.

What will you do with the information the Clearinghouse secures? Do you think you'll be challenged by privacy groups?

The Clearinghouse will be managed much like the CyberTipline – with the utmost discretion and confidentiality. All of the proposed procedures will be reviewed to make sure they are in compliance with privacy laws.

The nature of the Internet usually means that when one website is shut down, a similar offering will appear days or weeks later under another name. Aren't you really just chasing phantoms?
This is one of the reasons that following the money is so important. Without question these criminals are adept at manipulating the system. Following the money will allow us to go beyond just shutting down a website and address how they are being paid. If you choke off access to funds, you wreck the economics of this despicable business.

What is your budget? Are you looking for contributions?
No new funds have been requested to support this effort. This is a cooperative, coordinated effort of all participating agencies and institutions. No company has been asked for new resources for this purpose. However, each company has been asked to designate liaison personnel to work with NCMEC, ICMEC and the other institutions. A director of Standard Chartered Bank and ICMEC has begun an effort in Asia to raise private funds to support this effort through a global campaign to eradicate child pornography. His efforts can be illustrated by visiting www.race4innocence.org.

What is your timeline? Is the Coalition a short-term initiative?
Our goal is to eradicate the commercial viability of child pornography by 2008. Admittedly this is an ambitious goal but it is my strongest wish that by 2008 we will be able to fold up our tent and move onto the next problem.

What can citizens do about this problem?
If members of the public have knowledge of a child pornography website they are encouraged to report it immediately to the CyberTipline managed by the National Center for Missing & Exploited Children (www.cybertipline.com or 1-800-843-5678). Citizens outside the United States can call the CyberTipline or can contact any number of hotlines around the world. To learn more about these hotlines, visit the website of the International Association of Internet Hotlines (INHOPE) at www.inhope.org.

Letter to Patrons of ICMEC

Dear Patron,

I would like to inform you of a campaign to raise awareness and encourage action against the exploding growth of child pornography on the Internet. This is in support of the Financial Coalition Against Child Pornography, which is led by the National Center for Missing & Exploited Children (NCMEC) and its sister organization, the International Centre for Missing & Exploited Children (ICMEC). The Financial Coalition's goal is to eradicate the commercial viability of online child pornography by 2008.

Child pornography has become a multi-billion dollar commercial enterprise and is among the fastest growing businesses on the Internet which has enabled instant access to child pornography. And the ability to use credit cards and other payment methods has made purchasing child pornography easy.

Not only is there an increase in reports of child pornography on the Internet, but the victims are becoming younger and the images are becoming more graphic and violent. To eliminate the commercial viability of child pornography, we must stop the flow of money. To do that, we need the involvement of the world's leaders in the payments industry, the Internet, as well as government and law enforcement agencies.

A team of volunteers in Singapore have developed a campaign involving a 60-second TV commercial, print advertisements, a viral e-mail and a website to raise awareness of the exploding growth of child pornography on the Internet. They are asking people around the world to visit www.lightamillioncandles.com to pledge their support by lighting a virtual candle and challenge the world's governments, law enforcement agencies, financial institutions, Internet Service Providers and payment associations to work together to tackle the problem. They are aiming to collect a million pledges by the end of 2006.

Please feel free to contact my staff either via e-mail at information@icmec.org or via telephone at 001-703-837-6116 for further information or to help in this awareness campaign.

Sincerely,

COMBATING CHILD PORNOGRAPHY BY ELIMINATING PORNOGRAPHERS' ACCESS TO THE FINANCIAL PAYMENT SYSTEM

TESTIMONY OF JODI GOLINSKY
VICE PRESIDENT, REGULATORY AND PUBLIC POLICY COUNSEL
MASTERCARD WORLDWIDE

Before the
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE

September 19, 2006

Good morning, Chairman Shelby, Ranking Member Sarbanes, and Members of the Committee. My name is Jodi Golinsky, and I am Vice President, Regulatory and Public Policy Counsel at MasterCard Worldwide[1] in Purchase, New York. It is my pleasure to appear before you today to discuss our efforts to combat the sale of child pornography.

MasterCard deplores the use of our system for any illegal purposes, and we prohibit our system from being used for the sale of child pornography. We take this matter very seriously, and we are committed to combating the sale of child pornography. Our efforts in this area include: (i) working to prevent offending web sites from accepting MasterCard-branded payment cards; (ii) investigating and testing to detect web sites attempting to circumvent our prohibition; and (iii) assisting law enforcement to detect, apprehend, and prosecute purveyors of child pornography.

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[1] MasterCard is a driving force at the heart of commerce, enabling global transactions and striving to make commerce faster, more secure, and more valuable to everyone involved. MasterCard seamlessly processes close to 14 billion transactions each year. With more than 1 billion cards issued through its family of brands, including MasterCard®, Maestro® and Cirrus®, MasterCard serves consumers and businesses in more than 210 countries and territories, and is a partner to more than 25,000 of the world's leading financial institutions. With more than 24 million acceptance locations worldwide, no payment card is more widely accepted than MasterCard. MasterCard, through its industry-leading payment analysis and consulting services, maintains a competitive infrastructure that drives business growth for merchants and banking customers alike.

These efforts have succeeded in significantly disrupting child pornography sales. We recognize, however, that we see only part of the problem and that criminals who are denied access to our system are quick to look for other payment alternatives, including new and evolving payment methods designed for Internet-based transactions. We also recognize that private sector efforts alone are not enough—collaboration with law enforcement is critical. Law enforcement must be given the tools and resources to apprehend and prosecute these criminals, and there must be an effective mechanism for the private sector to assist law enforcement in achieving those objectives.

To address these issues, MasterCard has partnered with the National Center for Missing and Exploited Children ("NCMEC") to form the Financial Coalition Against Child Pornography ("Coalition"). We strongly commend you, Mr. Chairman, for taking a leadership role in the formation of the Coalition. I believe it is fair to say that, without your involvement, the Coalition would not be where it is today. As you know, the Coalition represents a partnership of companies and governmental entities that have come together to combat child pornography. It includes a broad range of financial institutions, Internet service providers, and technology companies committed to working with NCMEC and governmental agencies to develop a coordinated approach to detecting and combating child pornography and provide a critical mechanism for assisting law enforcement in developing the information needed to apprehend and prosecute these criminals.

Coordinated by the NCMEC and the International Center for Missing and Exploited Children, the Coalition has embarked, in conjunction with government leaders and law enforcement agencies worldwide, on a first of its kind, globally focused effort to identify and eliminate commercial sources of child pornography. The Coalition has defined an initial four-

point strategy to combat child pornography that stresses the sharing of information about illegal activities among Coalition companies and has created a centralized system that proactively seeks, reports, and tracks the dissemination of child pornography. This information sharing is designed to provide law enforcement the essential information they need to apprehend and prosecute the criminals that purvey child pornography. It also provides an efficient mechanism for the Coalition's private sector participants to obtain the information needed to shut down the services being utilized by the criminals.

In addition, the Coalition is mobilizing world leaders to become a part of this global effort to eradicate child pornography. Through collaboration with this broad range of partners, we are mounting an aggressive effort against child pornography. Indeed, as discussed below, the Coalition has developed a mechanism to allow law enforcement and private sector parties to share valuable information to reduce the viability of child pornography web sites.

Background

MasterCard is a global organization with 25,000 financial institution customers that are licensed to use the MasterCard service marks in connection with a variety of payments systems. It is important to note that MasterCard itself does not issue payment cards nor does it contract with merchants to accept those cards. Instead, those functions are performed by our customer financial institutions. The financial institutions that issue payment cards bearing the MasterCard brands are referred to as "card issuers." The financial institutions that enter into contracts with merchants to accept MasterCard-branded cards are referred to as "acquirers." MasterCard provides the networks through which the customer financial institutions interact to complete payment transactions and sets the rules regarding those interactions.

Efforts to Address Child Pornography

A fundamental rule of our system is that each customer financial institution must conduct its MasterCard programs and activities in accordance with all applicable laws. This includes, for example, ensuring that any transaction a customer submits into the MasterCard system pertains to only legal activity. In connection with this rule, MasterCard expressly prohibits the use of its brand or system in connection with child pornography transactions, regardless of any legal ambiguity that may exist in a given jurisdiction.

MasterCard also has a series of rules that require acquirers to ensure that the merchants with whom they contract to accept MasterCard-branded cards are legitimate and engage in solely legal activities. These rules mandate, among other things, that acquirers perform due diligence on a merchant before authorizing the merchant to accept MasterCard payment cards and that acquirers monitor merchants for compliance with the rules. Acquirers that fail to comply with the rules may be required to absorb the cost of any illegal transactions, and may be assessed fines, suspended or terminated, in MasterCard's sole discretion.

It is important to note that we have been proactive in educating our customer financial institutions about our rules and their obligations with respect to illegal transactions, such as child pornography. For example, MasterCard has provided acquiring banks with guidance based on intelligence we have gained from previous investigations so acquirers are better prepared to avoid criminal or fraudulent schemes. In fact, we have also stressed the importance and utility of the Coalition to our customer financial institutions which has resulted in the recruitment of several Coalition participants.

MasterCard also works extensively with law enforcement officials to address situations where the legality of activities related to MasterCard payment card transactions is in question. A major objective of these efforts is to ensure that MasterCard provides appropriate support to law enforcement in their efforts to address illegal activity. We are sensitive to the fact that our efforts to enforce the MasterCard rules have the potential to hinder ongoing law enforcement investigations and the like. For example, when a merchant is shut off from accepting MasterCard-branded cards because the merchant violated our rules, law enforcement's ability to gather evidence can be impeded and shutting off a merchant might alert that merchant to an ongoing investigation.

In addition, MasterCard undertakes significant efforts to detect child pornographers seeking to circumvent our controls. These efforts include searching the Internet to identify sites that appear to be selling child pornography and purporting to accept our cards as payment. Once such sites have been identified, a painstaking, and largely manual, investigation is conducted to determine whether those sites actually accept our cards. In the overwhelming majority of cases where our brand appears on the site, we find that the site does not actually accept our cards but impermissibly displays our logo. Unfortunately, our success in impeding these criminals from using our system does not end the problem. We have seen a clear trend in which child pornographers denied access to our system are moving rapidly toward alternative payment methods to avoid detection and prosecution.

Consequently, we are not content to simply drive these criminals from our system and are deeply committed to a more comprehensive approach to dealing with the problem. We believe that our partnership with NCMEC and the Coalition provides such an approach, and we are in the process of conducting a program with the Coalition and law enforcement which is designed

to make it more difficult for criminals driven from our system to find safe haven. Under the program, MasterCard is providing to NCMEC the fruits of our investigative efforts. NCMEC, in return, refers this information to the appropriate law enforcement officials who are given the opportunity to conduct their own investigation. If law enforcement decides to proceed with an investigation, we work with law enforcement to support their efforts. If law enforcement decides not to proceed, a notice is provided to any payment service provided on that site and those services work to terminate payment acceptance at that site. This approach gives priority to any law enforcement efforts to investigate and prosecute the offending criminals but also helps to ensure that the criminals are thwarted from their efforts to receive payment when law enforcement is unable to pursue prosecution.

In addition to our active participation in the Coalition, MasterCard is also a corporate sponsor of NCMEC. MasterCard views its sponsorship of NCMEC as an extension of our commitment to helping fight the exploitation of children and dissemination of child pornography on the Internet, and we are proud to contribute to NCMEC's efforts.

Conclusion

Chairman Shelby and Ranking Member Sarbanes, thank you again for the opportunity to discuss these important issues with you today. MasterCard is deeply committed to doing its part to eliminate the commercial viability of child pornography on the Internet. It has also been our pleasure to work with your staff, NCMEC, law enforcement, and others to develop solutions to combat child pornography. We look forward to continuing these efforts. I would be glad to answer any questions you may have.

WRITTEN STATEMENT

OF

MARK MACCARTHY

ON BEHALF OF

VISA U.S.A. INC.

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

U.S. SENATE

SEPTEMBER 19, 2006

Chairman Shelby, Ranking Member Sarbanes and Members of the Committee, my name is Mark MacCarthy. I am the Senior Vice President for Public Policy for Visa U.S.A. Inc. Thank you for the invitation to participate in this hearing. Visa appreciates this opportunity to testify as part of the Committee's investigation into the exploitation of children on the Internet.

The Visa Payment System is one of the leading consumer payment systems in the world. Visa itself performs communication and settlement services for participating financial institutions. The financial institutions that participate in the Visa system are the entities that issue Visa payment cards to individual consumers and authorize merchants to accept Visa payment cards in payment for transactions. Visa itself does not have direct relationships with merchants that accept Visa payment cards. In the jargon of the industry, the financial institutions that have a direct relationship with the merchants that accept Visa payment cards are called acquiring financial institutions or acquirers.

Visa rules require acquiring financial institutions to assume responsibility for their relationships with merchants. A fundamental Visa rule is that these acquirers submit only legal transactions into the Visa payment system. In addition, Visa has an explicit rule obligating acquirers to ensure that Internet merchants do not submit child pornography transactions into the Visa system.

Visa recognizes that payment cards are an important part of electronic commerce and believe that we have responded, and continue to respond, effectively to the challenges posed by Internet transactions. In addition to our rule against introducing illegal transactions into the Visa payment system and our explicit rule against child pornography transactions, Visa has a long history of working with law enforcement

where the Visa Payment System may have been used in connection with illegal transactions. In this regard, Visa maintains ongoing working relationships with a variety of law enforcement agencies including the Secret Service, the Federal Bureau of Investigation, the Federal Trade Commission, and state and local law enforcement.

Our anti-pornography program has two components. The first is a set of due diligence requirements designed to prevent child pornography merchants from entering our payment system. The second is a monitoring program to detect and expel from our system any child pornography merchants that mange to fraudulently enter our system despite the best efforts of our acquiring banks to keep them out.

But first I want to mention our involvement with the Financial Coalition Against Child Pornography. Visa has made substantial progress with its own anti-child pornography program. So have the other major payment systems. But we cannot do it alone. We need to share information and work collaboratively together. That is why under the leadership of Senator Shelby, Visa, other payment systems and financial institutions joined with the National and International Centers for Missing and Exploited Children to form the Financial Coalition Against Child Pornography. In March of this year, there was a public launch of this program at a press conference with Senator Richard Shelby. This effort reflects our shared belief that child pornography is a global problem in need of a coordinated response. For many years, Visa has worked on its own to rid our system of this deplorable activity. By joining the Coalition, we reaffirmed and strengthened our long-standing commitment to doing our part to prevent the exploitation of children. Together with our Coalition partners, we will enhance our efforts to identify Web sites and pinpoint merchants that are trafficking in this illicit activity, cut them off

from use of our networks, and provide assistance to law enforcement to shut them down for good.

Visa's Due Diligence Requirements

Visa requires acquiring financial institutions to ensure that all merchants are properly qualified to accept Visa cards. Visa acquirers must determine that a prospective merchant is financially responsible, and will abide by Visa requirements, as well as applicable law. There are a variety of methods that acquirers may use to determine these qualifications, including credit reports, business financial statements, and income tax returns, conducting physical inspections of the business premises of a prospective brick and mortar merchant, and for electronic commerce merchants obtaining a detailed business description and examining the merchant's Web site.

By taking these precautions, acquirers can provide a line of defense against child pornography merchants entering the Visa system. These due diligence requirements are closely observed by acquirers, but they are not a panacea for addressing the problem of the use of Visa cards for child pornography transactions. Child pornography merchants do not present themselves as such to acquiring financial institutions. They often appear to be legitimate merchants. They use a variety of techniques to fool acquirers and thereby gain access to the Visa system, despite the best efforts of these acquirers to screen them out of the system.

Anti-Child Pornography Program

Accordingly, Visa has supplemented these due diligence requirements with an explicit program directed against child pornography transactions. The elements of this program are

- An explicit rule prohibiting any Visa financial institution from acquiring these transactions
- A series of specific penalties for violation of this policy
- A program of searching the Internet to detect any website that appeared to be accepting Visa cards for child pornography transactions and processes to immediately stop this acceptance

An explicit ban against child pornography transactions within the Visa system is the first part of this program. Acquiring financial institutions are under an obligation to carefully review the website names and URLs of their Internet merchants to ensure these prohibited merchants are not operating within their portfolios. Acquiring financial institutions must ensure that all prohibited activity is immediately halted.

Violation of this policy may subject the offending acquirer to significant penalties including the imposition of conditions and termination of Visa Membership privileges. Visa acquiring financial institutions have been notified and reminded of these penalties several times since 2002. If Visa identifies a child pornography merchant in their portfolio, they must terminate the merchant immediately. If the merchant is not terminated within 7 calendar days, the bank is fined. Repeated offenses are punished with a system of escalating fines and other sanctions including preventing the offending

acquiring financial institutions from signing up any new Internet merchants, requiring them to terminate existing Internet merchants and ultimately revocation of their Visa acquiring license.

Visa has not found it necessary to use these sanctions often. Early in our program some acquiring banks were initially reluctant to follow these required procedures. They were fined. They got the message. Since then, Visa acquirers have abided by our policy against child pornography.

In support of our efforts to keep child pornography transactions out of the system, Visa maintains a monitoring campaign to identify and eliminate transactions emanating from child pornography merchants. Since 2002, Visa has retained the services of an outside firm to search the Internet for child pornography websites that appear to be accepting Visa payment cards. This firm uses advanced web crawling and filtering technology to detect these websites. It looks for websites that display the Visa logo, and that satisfy one or more indicators that they are engaged in the sale of child pornography or are marketing themselves as engaged in that business. The sweeps are ongoing; they are conducted daily and search hundreds of millions of web pages each month.

When our search firm detects one of these problematic sites, they conduct test transactions to see whether in fact the site is accepting Visa cards or whether they are merely illegally using our trademark on their site. The search firm tells us immediately if they find a site that is accepting Visa cards for these transactions. Unless requested by law enforcement to leave these sites open, Visa then contacts any acquirer found to be processing these child pornography transactions and directs them to stop processing these transactions immediately. If they have not done so within 7 calendar days, they are fined.

If these identified sites are not in fact accepting Visa cards, but are merely using the Visa trademark on their site, Visa uses its best efforts to locate the web hosting company to direct them to remove the Visa logo.

In addition, Visa provides information regarding all these sites to U.S. and international law enforcement officials and to the National Center for Missing and Exploited Children. At their request and as part of an ongoing law enforcement investigation, Visa would allow these problematic sites to remain operational.

Visa's anti-child pornography program is making significant progress in the fight against the use of our payment system for these activities. Our experience is that fewer child pornography sites are displaying the Visa logo now than when we started the program in 2002 and that alternative payment mechanisms are increasingly the way these transactions are financed.

The way forward lies in collective action. We need to share information and work collaboratively together with other payment system providers and with law enforcement. Visa has recently taken an additional cooperative step in its anti-child pornography efforts. In April 2006 Visa signed a three-year partnership agreement with the newly created Child Exploitation and Online Protection Centre (CEOP), a London-based law enforcement agency. CEOP carries out proactive investigations worldwide and provides a single point of contact for the public, law enforcers and the communications industry, enabling suspicious activity to be reported direct, 24 hours a day. The unit, staffed by about 100 police, computer technicians and child welfare specialists, also offers advice to parents and potential victims. As a CEOP partner, Visa will provide not only financial support, but also use our knowledge and resources to strengthen the Center's Finance

Desk. This uses financial investigation tools to identify people engaged in the sexual exploitation of children for profit, setting out to confiscate offenders' assets and disrupt their activities.

In addition to this work with CEOP, Visa intends to continue and to increase our cooperative efforts with law enforcement and with other payment systems in the Financial Coalition Against Child Pornography.

Visa appreciates the opportunity to appear before you today. I would be happy to answer any questions that you may have.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR SHELBY FROM ERNIE ALLEN

Q.1. In your testimony, you highlighted the success of the Coalition pilot program. As we move forward, have you learned of any new challenges that the Financial Coalition Against Child Pornography will face, and do you have the tools and cooperation to address them?

A.1. We are very encouraged by the unprecedented level of cooperation among the companies of the Financial Coalition Against Child Pornography ("FCACP"), the National Center for Missing & Exploited Children ("NCMEC") and the International Centre for Missing & Exploited Children ("ICMEC"). At the same time, we are realistic that we are attacking a global problem that has flourished on the Internet, a channel that has no geographic or jurisdictional boundaries. The Coalition's commitment is strong, but challenges abound.

Most immediately, the worldwide scope of this problem necessitates the cooperation of financial institutions around the globe. We are in discussions with banking associations and individual companies outside the U.S., but progress is slow. There is hesitation about reporting into a US-based clearinghouse. The way forward may be to build regional networks that ultimately flow into our core system here, but we need the participation of companies and governments around the world in order to build a framework that will get us to our goal.

A centerpiece of the Coalition's work will be test transactions done by law enforcement once a commercial child pornography site is identified. The issuing members of the Coalition are being asked to contribute test cards on an ongoing basis. It is too early to determine if we will secure an adequate flow of test cards to keep the clearinghouse running to optimum effectiveness. The early response has been positive and enthusiastic.

The importance of law enforcement in our efforts to eradicate commercial child pornography cannot be understated. We are encouraged that the FBI has joined ICE in helping us to conduct test transactions. It is our hope to engage more law enforcement agencies going forward.

As for detection of the websites, thus far, we are reliant on one company (G2), Electronic Service Providers (ESPs) and the general public through NCMEC's CyberTipline (*www.cybertipline.com*) to report commercial child pornography sites. Awareness of reporting to the CyberTipline needs to be dramatically increased.

Despite the fact that we are nearing our 425,000th report since 1998, our research indicates that most of the American public still doesn't know about the CyberTipline. Reporting of child pornography and online enticement of children should be easier and more universal. We are eager to work with the private sector to explore mechanisms that will make reporting easier and more instantaneous, such as a link or icon on the screen that enables reporting at the very moment the illegal conduct is detected by the public. Such an icon could serve as a virtual panic button for children in chat rooms and on social networking sites, and an easy way for millions to report without having to know or remember *www.cybertipline.com*. In addition, methods of detecting these

websites as soon as they are uploaded onto the web must be developed.

We are mindful that as we put pressure on commercial child pornographers' reliance on traditional payment methods, they will move to alternative payment schemes. We are just starting to understand the implications of that migration but clearly we must identify and get cooperation from alternative billing companies that exist today and those that are sure to be created as this business adjusts to the disruption that is already taking place.

From a legislative/regulatory perspective, the Financial Coalition strategy is impacted by the inability to share data among the companies to build a more robust investigative resource. Legislation allowing for the transfer of information between and among companies registered with NCMEC would enhance the ability to keep offenders from acquiring financial payment capabilities.

We would be remiss if we did not share with the Committee concerns we have about existing laws that negatively impact the broader battle against commercial child pornography.

In April 2006 NCMEC's sister organization, the International Centre for Missing & Exploited Children (ICMEC), completed a study of child pornography laws around the world. The results were alarming: of the 186 Interpol member countries, more than half (95) have no laws addressing child pornography and in many other countries, the existing laws are inadequate.

As Attorney General Gonzales said in his testimony, "Just as we need some states to strengthen their laws to punish child sex offenders, we must encourage some foreign lawmakers to strengthen their laws as well, including those concerning the financial components of these crimes."

Also, while not directly related to the financial industry, NCMEC believes another obstacle to overcome is the reporting of child pornography found on customers' accounts by electronic service providers to NCMEC. Though apparently mandated by federal statute, 42 U.S.C. § 13032, not all ESP's are reporting and those that do report are not sending uniform types of information, rendering some reports useless. Some ESPs take the position that the statute is not a clear mandate and that it exposes them to possible criminal prosecution for distributing child pornography themselves.

In addition, because there are no guidelines for the contents of these reports, some ESPs do not send customer information that allows NCMEC to identify a law enforcement jurisdiction. So potentially valuable investigative leads are left to sit in the CyberTipline database with no action taken. Together with the U.S. Internet Service Providers Association ("USISPA"), we developed "best practices" reporting guidelines to address this problem. The major ESPs are following these guidelines. However, these are voluntary rather than mandatory, so there is no enforcement mechanism for those who choose not to follow them.

This reporting statute also constrains NCMEC in that it permits us to forward the CyberTipline leads only to U.S. law enforcement. This is a real problem, considering the global nature of the Internet. As an example, there is a portion of one major ESP system based in the U.S. that is used primarily in Brazil. This ESP wants us to send information about child pornography they find on their

customers' accounts to Brazilian law enforcement. But we are prohibited from doing so.

There is also another necessary yet missing link in the chain from detection of child pornography to conviction of the distributor. Once the CyberTipline analysts give law enforcement all the information they need about specific images traded on the Internet, there can be no prosecution until the date and time of that online activity is connected to an actual person. There is currently no requirement for ESPs to retain connectivity logs for their customers on an ongoing basis. Some have policies on retention but these vary, are not implemented consistently, and are for too short a time to have meaningful prosecutorial value.

Q.2. It should disturb all of us that child pornographers assume that they can still use the financial payment system to purchase and sell their products. What can we do to change the perception that the payment system is an option of any kind for child pornography transactions?

A.2. The Senate Banking Committee raises an intriguing concept that, by coincidence, was discussed at the most recent Coalition meeting. Specifically, what opportunities exist to educate the public and the business community of the risks they are now taking if they attempt to buy or sell child pornography, now that groups such as the FCACP exist? We will explore launching a media relations and/or public service campaign that puts people on notice. The participation of members of the Senate Banking Committee would give such a campaign significant momentum. In the future, as the work of the Coalition leads to actual arrests, this type of news will generate even greater awareness.

Q.3. The Internet has no boundaries and, consequently, has fueled consumption of child pornography by facilitating distribution and accessibility of these images. Thus, we need to think about attacking this problem not only by detection and action, but also by discouraging initial engagement and participation. What else can be done within the financial services community to raise barriers to entry in order to deter criminals and to diminish the attractiveness of the commercial child pornography industry?

A.3. In its first six months of operation, the Coalition's focus was to build the clearinghouse and make it operational. Now that the clearinghouse is up and running, we can turn our attention to additional priorities. The Prevention Working Group's mandate is to explore what the industry can do to make it harder for these merchants to get into the system in the first place. As a starting point, this group has collected best practices for underwriting and verifying merchants. The idea is to ensure that all Coalition members benefit from the best ideas currently being implemented by industry leaders. Once complete, the Best Practices document will be an appropriate platform from which to address how barriers to entry can be raised.

We are committed to working with banking leaders in the United States and worldwide to erect barriers, train and empower employees, and ensure worldwide vigilance in order to stop this insidious criminal enterprise.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR SHELBY FROM JODI GOLINSKI

Q.1. Can you describe some of the techniques that child pornography merchants use to fool acquiring banks and thereby gain access to the Visa and MasterCard systems?

A.1. MasterCard is deeply committed to eliminating the commercial viability of child pornography on the Internet and we have been working with our customer financial institutions, law enforcement and the National Center for Missing and Exploited Children ("NCMEC") to prevent child pornographers from using our system. These efforts are succeeding, as it is rare for a child pornography merchant to successfully obtain access to our system. Nonetheless, the criminals that operate child pornography web sites have become increasingly sophisticated over time and work hard to evade our controls. For example, some child pornography merchants will attempt to engage in so-called "factoring" schemes in which the child pornographer seeks to dupe a legitimate business into submitting the child pornographer's transactions into our system. We are also aware of schemes in which a child pornographer will establish a seemingly legitimate business to gain access to our system and later sells child pornography through that business. MasterCard uses a variety of approaches to detect this type of activity. These include searching the Internet for such merchants and having test transactions performed at the site.

Q.2. Credit card association rules require acquiring banks to shoulder responsibility for weeding out illegal merchants such as child pornographers in their portfolios. In your testimony, you both mention a number of sanctions that your companies may impose on acquiring banks that do not meet these responsibilities. How do you know that these sanctions are working?

A.2. MasterCard has a series of rules that require acquirers to ensure that merchants with whom they contract to accept MasterCard-branded cards are legitimate and engage in solely legal activities. These rules mandate, among other things, that acquirers perform due diligence on a merchant before authorizing the merchant to accept MasterCard payment cards and that acquirers monitor merchants for compliance with the rules. When we detect that a child pornographer has gained access to the system through an acquirer, we work closely with the acquirer to address the problem. In our experience, the acquirers we permit to participate in our system are extremely cooperative in addressing child pornography problems and work rapidly to resolve these issues.

In addition, MasterCard undertakes significant efforts to detect child pornographers seeking to circumvent our controls. These efforts include searching the Internet to identify sites that appear to be selling child pornography and purporting to accept our cards as payment. Through these efforts we have found that our anti-child pornography programs have been quite effective. Indeed, it is increasingly rare that child pornography sites actually accept our cards as payment. We are not content, however, simply to drive these criminals from our system and are working with NCMEC and others in the payments industry to ensure that child pornog-

raphers driven from our system do not find safe haven in other payment systems.

Q.3. Both Visa and MasterCard use advanced web crawling and filtering technology to monitor websites for child pornography. Has this technology detected any trends in the prevalence of child pornography?

A.3. As part of our efforts to detect child pornography, MasterCard uses the services of a technology company that constantly searches the Internet to identify child pornography sites that purport to accept our cards. As a result of these efforts, we have detected a clear trend away from accepting traditional payment cards on these sites toward the acceptance of alternative payment methods. For example, many of these sites direct their customers to another site where the customer can establish a special electronic payment account that has been used to pay the child pornographer. Some of these electronic payment sites use unusual value propositions such as offering the ability to transact over the Internet using virtual precious metals or calling card minutes to pay for products sold by web sites. Through the coalition formed by NCMEC we are working to find ways to address these evolving schemes.