AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

TERRORIST FINANCING AND THE ISLAMIC STATE

HEARING

BEFORE THE

COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRTEENTH CONGRESS

SECOND SESSION

NOVEMBER 13, 2014

Printed for the use of the Committee on Financial Services

Serial No. 113–99

U.S. GOVERNMENT PUBLISHING OFFICE

92–874 PDF WASHINGTON : 2015

For sale by the Superintendent of Documents, U.S. Government Publishing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

HOUSE COMMITTEE ON FINANCIAL SERVICES

JEB HENSARLING, Texas, *Chairman*

GARY G. MILLER, California, *Vice Chairman*
SPENCER BACHUS, Alabama, *Chairman Emeritus*
PETER T. KING, New York
EDWARD R. ROYCE, California
FRANK D. LUCAS, Oklahoma
SHELLEY MOORE CAPITO, West Virginia
SCOTT GARRETT, New Jersey
RANDY NEUGEBAUER, Texas
PATRICK T. MCHENRY, North Carolina
JOHN CAMPBELL, California
MICHELE BACHMANN, Minnesota
KEVIN McCARTHY, California
STEVAN PEARCE, New Mexico
BILL POSEY, Florida
MICHAEL G. FITZPATRICK, Pennsylvania
LYNN A. WESTMORELAND, Georgia
BLAINE LUETKEMEYER, Missouri
BILL HUIZENGA, Michigan
SEAN P. DUFFY, Wisconsin
ROBERT HURT, Virginia
STEVE STIVERS, Ohio
STEPHEN LEE FINCHER, Tennessee
MARLIN A. STUTZMAN, Indiana
MICK MULVANEY, South Carolina
RANDY HULTGREN, Illinois
DENNIS A. ROSS, Florida
ROBERT PITTENGER, North Carolina
ANN WAGNER, Missouri
ANDY BARR, Kentucky
TOM COTTON, Arkansas
KEITH J. ROTHFUS, Pennsylvania
LUKE MESSER, Indiana

MAXINE WATERS, California, *Ranking Member*
CAROLYN B. MALONEY, New York
NYDIA M. VELÁZQUEZ, New York
BRAD SHERMAN, California
GREGORY W. MEEKS, New York
MICHAEL E. CAPUANO, Massachusetts
RUBÉN HINOJOSA, Texas
WM. LACY CLAY, Missouri
CAROLYN MCCARTHY, New York
STEPHEN F. LYNCH, Massachusetts
DAVID SCOTT, Georgia
AL GREEN, Texas
EMANUEL CLEAVER, Missouri
GWEN MOORE, Wisconsin
KEITH ELLISON, Minnesota
ED PERLMUTTER, Colorado
JAMES A. HIMES, Connecticut
GARY C. PETERS, Michigan
JOHN C. CARNEY, JR., Delaware
TERRI A. SEWELL, Alabama
BILL FOSTER, Illinois
DANIEL T. KILDEE, Michigan
PATRICK MURPHY, Florida
JOHN K. DELANEY, Maryland
KYRSTEN SINEMA, Arizona
JOYCE BEATTY, Ohio
DENNY HECK, Washington
STEVEN HORSFORD, Nevada

SHANNON MCGAHN, *Staff Director*
JAMES H. CLINGER, *Chief Counsel*

CONTENTS

	Page
Hearing held on:	
November 13, 2014	1
Appendix:	
November 13, 2014	57

WITNESSES

THURSDAY, NOVEMBER 13, 2014

Cohen, Hon. David S., Under Secretary for Terrorism and Financial Intelligence, United States Department of the Treasury	7
Gurule, Hon. Jimmy, Law Professor, Notre Dame Law School	36
Johnston, Patrick B., Ph.D., Political Scientist, the RAND Corporation	40
Levitt, Matthew, Ph.D., Director, Stein Program on Counterterrorism and Intelligence, The Washington Institute for Near East Policy	38

APPENDIX

Prepared statements:	
Hinojosa, Hon. Ruben	58
Cohen, Hon. David S.	62
Gurule, Hon. Jimmy	71
Johnston, Patrick B.	86
Levitt, Matthew	96

TERRORIST FINANCING AND THE ISLAMIC STATE

Thursday, November 13, 2014

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

The committee met, pursuant to notice, at 10:04 a.m., in room 2167, Rayburn House Office Building, Hon. Jeb Hensarling [chairman of the committee] presiding.

Members present: Representatives Hensarling, Lucas, Garrett, Neugebauer, Bachmann, Pearce, Posey, Fitzpatrick, Westmoreland, Luetkemeyer, Huizenga, Duffy, Hurt, Stivers, Fincher, Stutzman, Mulvaney, Hultgren, Ross, Pittenger, Barr, Rothfus, Messer; Waters, Maloney, Sherman, Meeks, Capuano, Clay, Lynch, Scott, Green, Ellison, Perlmutter, Himes, Sewell, Foster, Kildee, Murphy, Delaney, Sinema, Beatty, Heck, and Horsford.

Chairman HENSARLING. The committee will come to order.

Without objection, the Chair is authorized to declare a recess of the committee at any time.

Before we begin, if you think you are in a strange room, you are. We did not change the portraits. As I have announced previously to the committee, our hearing room, I think, is the last hearing room in the Rayburn Building to receive a sound upgrade and other modifications to make the room ADA-compliant.

So as a reminder to all Members, we will be a Nomadic tribe between now and, theoretically, the end of March, we hope that doesn't mean mid-May, and we will take whatever committee room our friends will allow us to have. So if you see Chairman Shuster on the Floor, please thank him for his kindness in allowing our committee to use his committee room.

This hearing is entitled, "Terrorist Financing and the Islamic State." I wish to advise Members who are unaware, we have two panels today, and of course we also have organizing meetings for the 114th Congress that are ensuing, and so we are going to release the Administration witness, Secretary Cohen, at noon. We will convene the second panel at that time, and then the hearing will be gaveled down at 1:00 p.m.

Please know this will be our first hearing on this vitally important topic. It will not be our last in the next Congress. So Members who don't have an opportunity to ask questions, if need be, we can certainly call the witnesses back in the future, and at least for those on the Republican side of the aisle, once the second panel begins, wherever we last left off in the queue, those who didn't have

an opportunity to ask questions of the first panel, we will start with you on the second panel.

I now wish to recognize myself for one minute for an opening statement.

The 9/11 Commission estimated that al Qaida's brutal, evil attack on 9/11 cost the terrorists approximately half a million dollars. So for half a million dollars, terrorists were able to murder almost 3,000 of our fellow countrymen and inflict immeasurable suffering upon our Nation. Today, we face another terrorist enemy for which half a million dollars appears to be pocket change, an organization that reportedly raises between $1 million and $2 million a day.

And unlike al-Qaeda and other terrorist groups with which we are familiar, who rely mainly on private donations and state sponsorship to fund their activities, ISIL is internally financed, and apparently is sitting on assets of almost $2 billion.

So today's hearing continues this committee's ongoing efforts to ensure our Government is doing everything possible to stop the Islamic State and other terrorists from using the global financial system to pay for their evil activities. Fighting the financial war against terror will demand constant innovation and improvement. The tools we have used in the past may not be suitable for the future.

I look forward to hearing from all the witnesses on what may be necessary to upgrade, innovate, and improve our capabilities to starve the terrorists of the money they so desperately need to carry out their attacks.

I will now recognize the ranking member for 3 minutes for an opening statement.

Ms. WATERS. Thank you very much, Mr Chairman, for scheduling today's hearing.

I would like to thank Under Secretary Cohen and each of our other witnesses for being here today.

I am looking forward to hearing about the Administration's efforts to degrade ISIL's financial capability and to review the effectiveness of our current legal framework in deterring terrorists' financing and money laundering.

The Islamic State, also known as ISIL or ISIS, is an incredibly violent organization that has shown a particularly callous disregard for human life, employing shocking and brutal tactics that include beheading, mass murder, and rapes, and more recently, allegations of chemical weapons use. The group is a tremendously destabilizing force across large swaths of Iraq and Syria, and its brutal campaigns have appropriately drawn the condemnation of the broader international community.

In addition to the horrific massacres, kidnappings, and decapitations, officials now believe that ISIL is one of the richest terrorist groups to ever exist, with estimated assets in excess of $1 billion. Unlike most other terrorist groups, which tend to rely heavily on foreign sponsors, ISIL generally raises its funds internally, limiting the opportunities traditionally available to the Treasury Department to cut them off from the formal financial system.

Regardless, Treasury's ability to sanction and block assets remains vital to ensure that over the long run the United States and our allies can shut down any funds that are tied to illicit oil sales,

extortion, and kidnapping for ransom, and as we make progress in curtailing ISIL's internal funding schemes, it may be forced to rely more heavily on types of funding that would most likely have to float through the formal financial system. To guard against this and all other efforts to finance terrorist activities, Treasury, our financial regulators, the Department of Justice, and Congress must work diligently to strengthen the enforcement and deterrent value of our counterterrorism and anti-money-laundering laws.

Due to concerns that the Department of Justice and regulators have not met the task of holding banks and their executives sufficiently accountable for blatant violations of law designed to staunch the flow of funds to terrorist groups, I joined with my Democratic colleagues earlier this Congress in introducing legislation that would close loop holes, encourage the flow of information related to illicit activity, and strengthen civil powers to hold bank executives accountable for their role in safeguarding our national security, among other things.

So I hope that as part of this committee's discussion of the adequacy of international banking policy, we take a hard look at the proposal that Democrats have put forth but which has yet to be considered by this committee.

I yield back the balance of my time.

Chairman HENSARLING. The Chair now recognizes the chairman of our Capital Markets Subcommittee, the gentleman from New Jersey, Mr. Garrett, for 1 minute.

Mr. GARRETT. And I thank the chairman for holding this important hearing today on terrorist financing and ISIS.

ISIS inherits the rightful claim to the evil legacies of senseless brutality and inhumanity, and there is no doubt that if given the opportunity, ISIS would try to harm Americans here in the homeland, and as a Member of Congress who represents the district across the river from what once was the World Trade Center twin towers, I know that we cannot be cavalier about security threats such as ISIS.

Unfortunately, our Commander in Chief hasn't always appreciated ISIS' threat to this Nation. Accordingly, I am concerned about just how seriously our Commander in Chief, President Obama, has taken this threat, and so I look forward to today's hearing and today's witnesses, including an Administration official. I hope to get a better understanding of what has been done and what must be done to not only degrade, but actually eliminate this terrorist threat.

Thank you, Mr. Chairman.

Chairman HENSARLING. The Chair now recognizes the gentleman from California, Mr. Sherman, for a minute and a half.

Mr. SHERMAN. Thank you, Mr. Chairman.

I spent a substantial amount of time on these issues at our Terrorism and Nonproliferation Subcommittee over on the House Foreign Affairs Committee. We have learned that Qatar is a major source of funds, both at the governmental level, but also allowing its citizens to donate to Hezbollah, Hamas, and ISIS. ISIS is now much more internally-funded. At one point, it relied more on donations.

There are those who attack the President's—who I think have an overly simplistic view of the situation. ISIS is evil. But many of ISIS' enemies are just as evil and more dangerous than ISIS. Given this complicated circumstance, simplistic attacks on policy don't really further our situation.

I am concerned that the electricity continues to be on in all the cities that ISIS controls. This means that either we are providing that electricity from dams under the control of the Iraqi government or we are allowing ISIS to operate electric generation facilities. Either way, ISIS is able to sell electricity because we are unwilling to turn the lights off. We are in a difficult circumstance because the civilians who live under ISIS' rule are, to some extent, hostages, and, to some extent, supporters of ISIS, but we did not hesitate to bomb strategic targets in occupied Europe, and we cannot hesitate to bomb strategic targets in ISIS-controlled Northern Iraq and Eastern Syria.

Finally, we have learned that the control of the New York Fed and its ability to clear dollar transactions is perhaps the most powerful sanction that we have against terrorist states like Iran, and I will be interested to see whether that would play a role in ISIS. In any case, it has brought Iran to the point where they are willing to pretend to negotiate with us in Geneva.

I yield back.

Chairman HENSARLING. The Chair now recognizes the vice chairman of our Oversight and Investigations Subcommittee, the gentleman from Pennsylvania, Mr. Fitzpatrick, for 2 minutes.

Mr. FITZPATRICK. Thank you, Mr. Chairman.

This past month I had the opportunity to travel to the region to investigate terror financing. I had meetings in Qatar and Turkey with Department of State and Department of the Treasury officials to round out my understanding of terror financing, and specifically the threat posed by ISIS.

I look forward to working with my colleagues on this committee to provide oversight over the Government's response to ISIS and ensure that we have all the tools necessary to meet this very unique challenge.

ISIS is an enemy unlike any other that we have faced up to this point. Though they have their roots in al-Qaeda in Iraq, they have not only learned from their previous experiences, they have, in fact, evolved, and they are not just an organization committed to acts of terrorism, but have designs on establishing their own state and are, in fact, currently governing a large area in the region.

This structure creates a unique challenge for one of the means that we have traditionally employed to combat terrorist threats, which is to go after their money and their resources.

This mission to degrade and ultimately defeat ISIS requires a coordinated response between the Executive and the Legislative Branches. Our national security transcends all other considerations, and I look forward to hearing today how we can work together to protect the American people.

I yield back.

Chairman HENSARLING. The Chair now recognizes the gentleman from Massachusetts, Mr. Lynch, for a minute and a half.

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

I want to thank the Secretary and the other panelists for working with the committee and helping us with our work.

As co-Chair of the Congressional Task Force on Antiterrorism Financing, along with my colleague, Mr. King from New York, who is the Republican co-Chair, we have done a lot of work in this area in the traditional sense where we are trying to block terrorist organizations from using a legitimate financial system. This problem presents a different type of issue where a lot of revenue is being generated internally by ISIS and it is a totally different scale. We are talking $1 million to $2 million a day, as the chairman pointed out, in terms of their revenue.

I would be very interested in hearing from the Secretary on what we are doing in Turkey along the border—the northern border of Syria there.

Like my colleague, I just came back from Erbil and looked at the situation in Northern Iraq as well as in Turkey, and we are very concerned about the porous nature of that border and how illicit shipments are still being handled both through Turkey and through parts of Syria. So I would be interested in hearing the Secretary's comments on that.

I do want to say thank you for the work you have done so far. I think it has been commendable in terms of the anti-money-laundering and anti-terrorist-financing work that you have done.

Thank you.

Chairman HENSARLING. The Chair now recognizes the gentleman from Florida, Mr. Ross, for 1 minute.

Mr. ROSS. Thank you, Mr. Chairman, and thank you for holding this hearing. I also want to thank our distinguished panelists for their testimony today.

As you pointed out, Mr. Chairman, it cost the terrorists who targeted and murdered thousands of Americans citizens on 9/11 approximately $500,000 to plan and execute their coordinated attack, and in a single day, ISIL is estimated to bring in more than double that amount through illicit business practices.

ISIL is a threat to America and the free world. We must dismantle and destroy this terrorist organization before more American lives are put at risk. From selling oil on the black market to taxing and extorting local businesses to kidnapping for ransom, ISIL is a criminal organization with numerous financial resources that have perpetuated their reign of terror in unstable regions across the Middle East.

I look forward to working with my colleagues on this committee to ensure the Federal Government uses every tool at its disposal to prevent ISIL and all terrorist groups from acquiring the funds to continue their reign of terror.

I yield back.

Chairman HENSARLING. The gentleman yields back.

The Chair now recognizes the gentlelady from Ohio, Mrs Beatty, for 1 minute.

Mrs. BEATTY. Thank you, Chairman Hensarling, Ranking Member Waters, Under Secretary Cohen, and the other panelists.

Today, we are examining the critical and important topic of terrorist financing in the Islamic State, specifically how the terrorist

group known as ISIL obtains and deploys financial resources to further their operations in Iraq, Syria, and the Middle East.

Each night, my constituents turn on the news, and they find reports of ISIL's acts and the brutality against religious minorities, women, aid workers, and journalists. This must stop, and the financing is the kill switch.

While the military is providing air support and aid to moderate rebels and legitimate governments in the Middle East to defeat ISIL, we must also highlight the efforts of other agencies within the Administration and how Federal resources may be coordinated to erode and ultimately eradicate ISIL.

The U.S. Government is actively combating terrorist financing, attempting to choke off sources of funding for ISIL and related organizations.

Mr. Chairman and my other colleagues here, I look forward to working with you because the hearing on this topic not only protects our financial interests but our national security interests as well.

Thank you, and I yield back.

Chairman HENSARLING. The Chair now recognizes the gentleman from Indiana, Mr. Stutzman, for 1 minute.

Mr. STUTZMAN. Thank you, Mr. Chairman, and thank you for calling this very important hearing.

Mr. Chairman, Islamic State is one of the most well-armed, well-equipped, and well-financed terror organizations the world has ever seen. They are potentially the most barbaric as well, using tactics that include torture, kidnapping for ransom, and beheading of innocent people, including two Americans, James Foley and Steve Sotloff.

Since 2013, they have recruited thousands of fighters from around the world, swept through Iraq and Syria, taken over cities, and killed thousands of innocent people who did not conform to their ways.

It is reported that Islamic State now controls around 60 percent of the oil fields in Syria, which are bringing in massive daily revenues to fund their operations.

One of the most effective ways the United States has disrupted terrorists in the past has been to cut off their financing, limiting their ability to plot and plan attacks. Thwarting Islamic State's multiple revenue streams and their ability to spend money they already have requires new tactics.

So today I am looking forward to hearing exactly how we are identifying and blocking financial intermediaries that could keep Islamic State in a strong position. Is our current strategy working? Are our allies doing all that they can to help coordinate this effort?

Thank you to the witnesses for appearing today and I look forward to this conversation.

I yield back.

Chairman HENSARLING. Last but not least, the Chair recognizes the gentleman from North Carolina, Mr. Pittenger, for 1 minute.

Mr. PITTENGER. Thank you, Mr. Chairman, for calling this very critical hearing.

The threat from ISIS seems to be growing exponentially. In the summer, we were told there were about 15,000 soldiers. Now, we

are told that there are between 40,000 and 80,000 soldiers. We are training 5,000 moderate Syrians right now. Our best hope and our best opportunity appears to me to be to intercept this transport of funds coming from the sale of oil. Of course, there is extortion and ransoms and other means. It does beg the question of whether we have enough military intel ops on ground to make these interceptions.

Another area of real opportunity is, of course, with data mining software that is available. I have met with FinCEN and with OFAC several times as chairman of the Task Force on Terrorism, and also with many national software companies, and with the very sophisticated software available, I do hope that the Department is making every effort to utilize the software to engage these funds as they get into the international financial system.

Thank you. I yield back.

Chairman HENSARLING. We now turn to our Treasury Department witness, David Cohen, the Under Secretary for Terrorism and Financial Intelligence, a position to which he was confirmed in June of 2011. At Treasury, Mr. Cohen leads the Department's Policy, Enforcement, Regulatory and Intelligence functions aimed at identifying and disrupting the lines of financial support to international terrorist organizations.

Prior to his current service, Under Secretary Cohen held other positions at Treasury. He also practiced law in the private sector.

We welcome you, Mr. Under Secretary, to the committee. Without objection, your full written statement will be made a part of the record.

You are now recognized for a 5-minute summary of your testimony.

STATEMENT OF THE HONORABLE DAVID S. COHEN, UNDER SECRETARY FOR TERRORISM AND FINANCIAL INTELLIGENCE, UNITED STATES DEPARTMENT OF THE TREASURY

Mr. COHEN. Good morning, Chairman Hensarling, Ranking Member Waters, and distinguished members of the committee, I thank you for the invitation to appear before you today to testify on this very important topic. I will focus my testimony this morning on the Treasury Department's efforts to undermine ISIL's financial strengths as part of the Administration's comprehensive strategy to disrupt, degrade, and ultimately defeat ISIL.

We are determined to defeat ISIL not just because of its brazen atrocities, but also because it threatens core U.S. interests. ISIL threatens American personnel and facilities. It threatens our regional allies, and if left unchecked, it could ultimately pose a direct threat to the U.S. homeland. That is why, under the leadership of President Obama, a broad coalition of more than 60 partners has come together to stop this threat.

ISIL has grabbed the world's attention for its astounding brutality, but also, as this committee knows, for its substantial wealth. So I would like to outline how we at Treasury are focused on undermining ISIL's financial foundation.

Our work is one of several complementary lines of effort being undertaken by the international coalition. These include military operations and training, additional humanitarian assistance, stem-

ming the flow of foreign terrorist fighters into and out of Syria and Iraq, and exposing the hypocrisy of ISIL propaganda.

The military components of the strategy are also bolstering our work in attacking ISIL's financial foundation. As with the rest of the campaign, our efforts to combat ISIL's financing will take time, patience, and extensive collaboration, but so long as ISIL terrorizes the people of Iraq and Syria, imperils the broader Middle East, and threatens U.S. interests, we will remain to committed to degrading its financial strength. Our strategy involves 3 mutually supportive elements.

The first is working to cut off ISIL's main sources of funding. ISIL has raised a significant amount of money from selling oil that it extracts from the fields of Iraq and Syria. From mid-June until recently, ISIL's daily oil revenue was approximately $1 million, although it is now likely lower, thanks mostly to coalition air strikes.

To further disrupt this market we are targeting for sanctions anyone who trades in ISIL's stolen oil. It is true that ISIL's oil moves in illicit networks that are largely outside of the formal economy, but at some point that oil is acquired by someone who makes use of the financial system and is thus vulnerable to sanctions.

We are also working with our Turkish and Kurdish partners, as well as with regional companies, to clamp down on ISIL's cross-border smuggling.

Next, ISIL, like other terrorist organizations, kidnaps civilians to profit from ransoms paid to obtain their release. ISIL has taken in at least $20 million from ransoms this year. To address this, we are redoubling our engagement with foreign partners as we urge them to subscribe to a no-ransoms policy. Refusing to pay ransoms to terrorist organizations not only makes it less likely that innocent civilians will be kidnapped, it also deprives terrorists of funding critical to their deadly aspirations.

ISIL also takes in some funds from external financial supporters, and we will continue to target them for sanctions. We intend to make sure that donations do not become more significant to ISIL as we squeeze its other revenues.

As the revenue that ISIL generates from crime and extortion, essentially by demanding cash at gunpoint, shutting down this source of funding ultimately will require breaking ISIL's hold on territory.

But Treasury still has a crucial role to play, and that brings me to the second element of our strategy: Restricting ISIL's access to the international financial system in order to impair its ability to collect funds from abroad and to store, move, and use the funds it acquires locally. ISIL's ability to make the most effective use of its money or to fund external operations depends on its access to the banking system. So we are working with the Iraqi authorities, Iraqi banks, and international banks and regulators to prevent ISIL from using bank branches located in territories where it operates.

The third element of our strategy aims to dismantle ISIL's financial foundation through targeted sanctions on its leadership and financial facilitators. This will make it harder for ISIL to conduct commercial activity and also clearly identify who stands behind this evil organization.

Before concluding, I would like to make one final point. We should not confuse funding with financial strength. While ISIL today is well-funded, a terrorist group's overall financial strength turns not just on its income, but also on its expenses and its ability to spend money freely. In that regard, ISIL faces significant financial burdens. Paying its fighters and attempting to govern sprawling territory is expensive, and ISIL does not have the money to meet its costs. As we make progress in diminishing ISIL's revenues and its freedom to use them, we will further exploit this vulnerability.

Thank you, and I look forward to addressing your questions.

[The prepared statement of Under Secretary Cohen can be found on page 62 of the appendix.]

Chairman HENSARLING. The Chair now recognizes himself for 5 minutes for questions.

Mr. Under Secretary, my understanding is that the ability to block terrorist funds derives from Executive Order 13224 that was issued by President Bush shortly after 9/11. As part of that Executive Order, certain entities and individuals can be designated as specially designated global terrorists, and I think the initial list has grown from maybe 27 to now 800, which, as you know, is important because it means that funds in the United States can be blocked. U.S. persons and entities are no longer permitted to do business with those on the list.

It is my understanding that so far, only four members of ISIS have been designated specially designated global terrorists by Treasury, and it is my understanding that these four are not involved with the major funding sources of the illicit petroleum trade to the black market. So it strikes me as a little bit of a low number.

Can you briefly describe some of the challenges here and what should be the expectation of this committee and the American people going forward?

Mr. COHEN. Yes. Absolutely, Mr. Chairman. As you note, the authority to impose sanctions on terrorists and terrorist financiers derives from Executive Order 13224. It is an authority that we have used extensively in attacking the financial foundations of a wide variety of terrorist organizations, including al-Qaeda and ISIL's predecessor, al-Qaeda in Iraq, and so we have, over the years, used this authority to designate more than two dozen individuals and entities, some of whom are in the current manifestation of ISIL, and some of whom are part of ISIL's antecedents in al-Qaeda in Iraq, and we are continuing to look for opportunities to use this tool to designate these individuals because, as you note, it freezes their assets, it prevents their use of the U.S. financial system, but equally importantly, it also has ramifications overseas—

Chairman HENSARLING. I understand what it does, Mr. Under Secretary, but we only have four people on the list. So is this an intelligence challenge? Is it a priority challenge? Again, what should be our expectation there?

Mr. COHEN. Specifically with regard to your question on the oil trade, there is work that needs to be done to get better insight into precisely who is involved in that oil trade and our intel agencies are working day and night to develop that intelligence, and we are working with partners in the region as well to help us gain better

insight into that. As we identify the individuals who are involved in that oil trade, they are vulnerable to designation under this authority.

As I noted in my remarks, what we are particularly eager to identify are the individuals who have some foothold in the formal financial system because we can designate people who are in Syria and Iraq who have no—

Chairman HENSARLING. Mr. Under Secretary, if I could, my time is running out, and I am going to attempt to set a good example here.

Besides the question of priorities, we have mentioned the Executive Order. Is there any other legal authority that the Administration is positing that it needs on a go-forward basis to deal with ISIL terrorist financing?

Mr. COHEN. Mr. Chairman, I think we have the legal authorities that we need, mostly the Executive Order 13224. We have a host of other authorities that are potentially available to us to address terrorist financing and the financial activity related to it.

One of the keys to our ability to designate, which is just one aspect of our plan of attack—

Chairman HENSARLING. I understand.

Mr. COHEN. —is to develop better insight, better intel. I can tell you that work is under way. We have—

Chairman HENSARLING. With the remaining time I have, let me get this last question in, which deals with intel.

My search of the record seems to indicate that there has been really only one significant terrorist financing prosecution by the Justice Department, and as a Texan, it received a lot of press in my hometown of Dallas: *The United States of America* v. *the Holy Land Foundation,* but I am unaware of any other major terrorist financing prosecution. I understand you are representing Treasury and not Justice here, but can you at least describe the intel sharing between Treasury and Justice because, again, one significant prosecution seems to be a dearth.

Mr. COHEN. Mr. Chairman, I am not sure that there has only been one terrorist financing prosecution. I think, in fact, there have been many, but I would—

Chairman HENSARLING. "Significant" may be a term of art, so proceed.

Mr. COHEN. I would defer to my colleagues at the Department of Justice, whom I understand file an annual report with Congress about their activities in prosecuting terrorist financing. So, I will leave it to them.

In terms of information-sharing between Treasury and Justice, we are very, very closely linked up with Justice on a policy level and also on an information-sharing level. I think probably the best, but by no means the only, is our relationship between FinCEN, our financial intelligence unit, and the Justice Department in sharing information that FinCEN obtains regarding financial activity that could potentially be used for a whole host of financial prosecution.

Chairman HENSARLING. Thank you, Mr. Under Secretary. I have run past my time.

The Chair now recognizes the ranking member for 5 minutes.

Ms. WATERS. Thank you very much, Mr. Chairman.

The questions that I have, perhaps, are questions that should only be asked in a classified briefing, and so rather than delving into some of the questions that I have about what we have not been able to do, I will simply say this: Many of us were shocked and surprised that we appear to know so little about ISIS when the information finally reached public view.

It is inconceivable when we have what we think is one of the best intelligence agencies in the world that ISIS could have developed this far with sophisticated operations for selling oil and other kinds of things that it is doing without us knowing what they were doing.

So without asking the questions that I would ask in a classified briefing, I would simply ask you: Have you been engaged, has Treasury been engaged with the CIA and others who have the responsibility for intelligence in ways that we can catch up with how far they have developed and what they are doing?

I heard what you said about their inability to spend the money and the fact that they are short maybe of money because of the payouts that they have to do, et cetera, but how can we have confidence in that kind of representation without knowing what you have done to fix the system or to mend the lack of communication that got us to the point where we are with too little information about ISIS?

Mr. COHEN. Congresswoman Waters, I don't want to understate our insight into ISIL financing on a whole host of areas because I do think we have good information. We need better information, but we are not, by any means, completely blind to how ISIL is raising its funds.

On the oil transactions in particular, the situation there is that this oil smuggling that ISIL is now taking advantage of had been going on for quite some period of time. You had people who were essentially stealing oil from Iraqi and Syrian wells and selling it through this black market that has existed in that part of the world for a long time, but what changed was when ISIL came in and took over some of these fields, it became ISIL that was the beneficiary of this pre-existing smuggling network.

In years past when it was not a terrorist organization that was involved in this smuggling network, it frankly wasn't a high priority for our intelligence community to understand exactly who was involved in the smuggling of Iraqi or Syrian oil. It is now, obviously, an enormously high priority to identify these individuals, but what has changed is you now have ISIL as the beneficiary because they have some control over the oil coming out of the ground.

The work to identify external funding networks for ISIL is something that we have been very much involved in for many years, understand, and to take action against the funding networks that are coming out of the Gulf.

Congressman Sherman referenced Qatar earlier. We have been deeply engaged with Qatar, Kuwait, Saudi Arabia, and the United Arab Emirates over the years to both better understand the financing networks in the Gulf and to take action to cut those funding networks off. So we are working very, very closely with our intelligence community, the CIA and other members of the intelligence

community, so that we have the information that we need in order to execute the policy or—

Ms. WATERS. I don't want to cut you off, but my time is running out.

Let me just say that to date, many of us are uncomfortable with the fact that ISIS has gotten as far as it has gotten, raised as much money as it has raised, and is wreaking havoc in the way that it is doing without us having known more about them. We invest a lot of money in our intelligence operation here in this country, and we just don't expect to be this far behind ever because of it.

I yield back the balance of my time.

Chairman HENSARLING. As a reminder to all Members, to state the obvious, this is an open hearing. In a sidebar conversation between myself and the ranking member, we anticipate a classified hearing very early in the next Congress.

The Chair now recognizes the gentleman from New Jersey, the chairman of our Capital Markets Subcommittee, Mr. Garrett.

Mr. GARRETT. Thanks again, Mr. Chairman.

I have had a number of concerns with this Administration's approach to combating ISIS. From the very beginning, the Administration, including the President, has underestimated the threat that ISIS poses to the region and to the United States. His early characterization of ISIS, as we all know now, as the "JV team," suggests perhaps that the President was not informed of the threat, and so it is also concerning that the reports then also indicate that the President missed more than half of his security briefings at the beginning of the Administration.

So looking to you now, from your perspective within the Department of the Treasury, do you believe that the necessary information is now being communicated to the President, and from your position, do you think the information was always being communicated to the President and other senior Administration officials over the last year-and-a-half?

Mr. COHEN. Congressman, I don't accept the premise of your question. I think the President and the national security team as a whole has been focused on the terrorist threat that we see coming out of—

Mr. GARRETT. The premise of the question was that the President saw this as not a significant terrorist threat. The President said that this was the "JV team," so meaning that there were other more looming issues. That is from the President's comments.

So you are saying the President misspoke when he said that it wasn't a problem before and now it is a problem?

Mr. COHEN. I will obviously allow the President to speak for himself on this. What I am telling you is that the national security team, from the President on down, has been focused like a laser on the threat of terrorism coming from this part of the world, and, frankly, from elsewhere as well, throughout this Administration.

Mr. GARRETT. That is really the question—

Mr. COHEN. I can tell you that because I have been part of this team from the outset. We have been working day and night to degrade al-Qaeda, and degrade al-Qaeda affiliates, as well as the terrorist organizations that have grown up in the turmoil in Syria, whether it is al-Nusrah funds or ISIL.

We are working extraordinarily hard to ensure that we have both the information that we need in order to address the terrorist financing threats and the way that these organizations are financed—

Mr. GARRETT. And just as a semantic point, because you used a term that the President often uses, which is to degrade and eliminate, you used the term there. That is why I bring it up.

Has our intention always been, from the Treasury's perspective, simply to degrade al-Qaeda and now ISIS, or has our intention has been to eliminate them?

Mr. COHEN. I think I said degrade, disrupt, and defeat ISIL, and—

Mr. GARRETT. Because during other military engagements—we just had Veterans Day, and when we talk about World War II, we never said, "We are going to degrade our enemies there, the axis of power." We said, "We are going to defeat them." And during the other wars as well, we didn't say we were simply going to degrade our enemies, we said we were going to defeat them.

I have taken a note that both the President and now you as well simply say that our intentions here seem to be to degrade them, to allow them to exist for a period of time and then take that step—

Mr. COHEN. Can I just be very clear? The ultimate objective is to defeat ISIL, to defeat al-Qaeda. There is a process involved here that, particularly on the financing side, initially what we are looking to do is to degrade their access to funding, ultimately leading to the defeat of this terrorist organization.

Mr. GARRETT. I would hope.

Mr. COHEN. There is no misunderstanding.

Mr. GARRETT. Okay. I assume you consult and you coordinate with DOD as well, and it is my understanding that the United States employs something called a Threat Finance Cell to gather on-the-ground intelligence to track illicit financial transactions in the Middle East.

You are nodding, "yes."

It is also my understanding that these units have been pulled out of Iraq as a result of the President's troop withdrawal.

Can you explain to this committee how this lack of resource has impacted our fight against terrorist financing, and also within the time we have here, I think the Administration is also talking about removing them from Afghanistan as well, these Threat Finance Cells. Will that have an impact upon your intelligence gathering if that goes forward?

Mr. COHEN. Actually, picking up on the chairman's direction of the classified supplements to this hearing, I can give you a more expansive answer in that setting.

I can tell you, though, that we are—the Iraq Threat Finance Cell that had existed a decade ago was dismantled when the activity—the fighting on the ground was ramping down, but I would actually like to leave the second half of this answer to a classified setting, if I could.

Mr. GARRETT. Okay.

Mr. COHEN. What we are doing to enhance our intel collection.

Mr. GARRETT. Okay.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentlelady from New York, the ranking member of our Capital Markets Subcommittee, Mrs. Maloney.

Mrs. MALONEY. Thank you.

Mr. Cohen, ISIS is the richest terrorist organization on Earth, and financially sophisticated. Unlike the other terrorist organizations we have dealt with that raise their money from outside sources, they basically raise it and spend it internally in Iraq and Syria, and one way to crack down on them is to crack down on the shell companies that are financing terrorism.

Toward this end, last year Ranking Member Waters, Representative King, and others on the other side of the aisle and I introduced a bill called the Incorporation Transparency and Law Enforcement Assistance Act, which would require the disclosure of very basic information from corporations of who their beneficial owners are. I was very pleased in August when Treasury proposed a rule to implement many parts of my bill, and I would like to know what is the update on this. Has it been successful? Have you cut off revenues? What is happening with the rule that you put into place?

Mr. COHEN. Congresswoman, you highlight a very important issue with the issue of shell companies. The rule that you are referring to, we proposed a final rule in August. The comment period on that final rule—actually, I think the comment period expired in August. We are in the process of reviewing the comments that—I think we received over 120 comments on that proposed rule.

Because it is in ongoing rulemaking, I should probably not get into any more detail on where we are in terms of issuing the rule, but we are deeply committed and have been for a number of years, as I know you have, to getting better transparency into the beneficial owner of legal entities.

In that regard, I would also note that in the President's budget this year there is a proposal for legislation that would enhance our insight into the beneficial owners of legal entities at the time they are formed so that we would be able to address this in two ways: both when an entity opens a bank account, we will have insight into the beneficial owner of the entity at that stage; and also when a company is formed, we will have better insight into who the beneficial owner is of a company that is formed. So we are continuing to pursue this very vigorously, and I—

Mrs. MALONEY. It just seems like common sense to me and something we should have implemented yesterday. And I think that is something that we could jointly work on, is requiring this and helping you move forward with your rulemaking more quickly by passing it in a bipartisan way in Congress.

Secondly, you testified that they are making money off of extortion and their territorial gains as they went into Mosul and took over the bank and so forth.

One of the ways that we can contain them is to obviously go after their territory, but also go after how they can hold onto that territory, which is huge cars, tanks, infrastructure, and equipment.

Have we moved to block their ability to purchase this, sanction companies, the materials that they need to hold onto geographic areas?

Mr. COHEN. Clearly, one important line of effort to address ISIL's hold on geographic territory is the Defense Department's line of activity working with the Iraqi security forces—

Mrs. MALONEY. Obviously, we support the military, but I am—they also have a procurement system. Can we cut off their ability to purchase cars, tanks—

Mr. COHEN. Absolutely—

Mrs. MALONEY. And are we moving to do that?

Mr. COHEN. Yes. Part of our strategy is to deprive ISIL of access to the financial system. Because, obviously, one way that they can try to procure vehicles, weapons, what have you—

Mrs. MALONEY. We could just cut off their banks in the territories. Have we looked at that?

Mr. COHEN. Yes. We have, and we have worked very closely with the Iraqi Central Bank and with the Iraqi banks that have branches in the territory where ISIL operates to ensure that ISIL does not have the opportunity to use those banks to make payments for whatever reason, including the reasons that you cite.

Mrs. MALONEY. And then of course the third area is to cut off their revenue from the illegal oil sales that they are controlling, and they can't all be in cash. It is too much money. You were saying it was like a million a day. Now it is down to a million or two a week. What are we doing to cut off the transactions that are not in cash? It has to be through banks.

Chairman HENSARLING. Very brief answer, please.

Mr. COHEN. Yes. We are working to understand exactly how those transactions occur, whether it is entirely in cash or through banks. If it is through banks, we will be able to address that.

Chairman HENSARLING. The Chair now recognizes the gentleman from Texas, the chairman of our Housing and Insurance Subcommittee, Mr. Neugebauer.

Mr. NEUGEBAUER. Thank you, Mr. Chairman, and Secretary Cohen, thank you for being here.

As you were kind of laying out the plan that Treasury has for the counterterrorism financing, I think one of the questions that came to my mind was—two things. One, how long do you think it will take to get this plan to the point where we see some diminishing amount of resources going to ISIL?

Mr. COHEN. Congressman, it is a very good question, and it is a hard question to answer. I think we have begun to see some diminishment in ISIL's revenue from the oil sales. As I noted, they were earning, on average, about a million dollars a day over the summer.

In particular, because of the air strikes on the ISIL mobile refineries, as well as other military activity, we have seen a decrease in what we estimate to be the revenue from the oil sales from about a million dollars a day to several million dollars a week. So, there is some progress there.

The history of our counter-terrorist financing work, not ISIL-related but more generally, has been that it is small steps you can see over time that are having a real impact. So I don't expect I am going to be able to come back to this committee a month from now and be able to give you a balance sheet that says: Okay. This is exactly what ISIL has today, and then a month later show a de-

crease. I do think that the strategy that we are employing will impair ISIL's access to funding. It will impair their ability to use the funding that they have, and we will see a real impact on ISIL as a result, but it is going to take the dedicated effort over some period of time.

Mr. NEUGEBAUER. Now, one of the things that also came to mind was that we almost sound like we are ramping up this antiterrorism funding infrastructure, but we have been fighting these terrorists for a very long time.

So are we just now really taking this issue seriously, or have we been taking it seriously but this is a different situation? I'm not clear as to where we have been and why we are just now, I think, maybe taking this more seriously.

Mr. COHEN. We have been working for years on degrading the access of terrorist organizations to funding, whether, it is al-Qaeda, al-Qaeda affiliates, Hezbollah, Hamas, Lashkar-e-Taiba, Haqqani network, you name it, we are working on this, including al-Nusrah funds and al-Qaeda in Iraq, which was the predecessor to ISIL, as well as ISIL.

What we are obviously doing is talking more about the integrated strategy that we have to defeat ISIL and to go after its financing, but this is a reflection of a lot of work that has been done over many years.

Mr. NEUGEBAUER. Recently, in September ISIL released 46 hostages from Turkey. And the Turkish president said no ransom was paid. The President of the United States said no ransom was paid, but there are a lot of different ways to remunerate or to compensate for someone, and I think it is kind of outside of ISIL's pattern here of releasing hostages, even though you state that they are using hostages to raise money.

Are you absolutely sure that there was no quid pro quo for releasing those hostages between Turkey and ISIL?

Mr. COHEN. Congressman, recognizing the chairman's admonition about this being an open hearing, I think this might be a topic better addressed in a closed session.

I can tell you that it is U.S. policy not to pay ransom and not to make any other type of concession to hostage takers, including, obviously, terrorist organizations. We are very aggressive in our efforts to ensure that others around the world adhere to a similar policy. We think that is the best way to protect all of our citizens, is for everybody to adhere to a no-ransoms, no-concessions policy.

Mr. NEUGEBAUER. Final question quickly before my time runs out.

What are the metrics that you use to—in other words, you have this plan that you have implemented. What are some of the metrics that you are using that say: Okay. This indicates we are being successful?

Mr. COHEN. Most importantly is we will continue to get insight into how ISIL is raising its funds and its ability to use the funds, and we can get reflections on the extent to which it feels that it is under financial stress.

Again, it is not going to be a pretty balance sheet, but we do get information on the financial wherewithal of these organizations, and we will be able to track it that way.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from California, Mr. Sherman.

Mr. SHERMAN. Yes. Some of my colleagues have talked about the surprising strength of ISIS. I think instead it is the incredible and surprising weakness of the Iraqi government and military, which easily conceded territory, handed over weapons, left the bank vault open in Mosul and elsewhere.

The problem is the government in Baghdad. We, under a previous Administration, installed Mr. Maliki, a man whose evil is exceeded only by his incompetence; a man who refused to enter a status of forces agreement not only with this Administration, but refused to enter such a long-term agreement with the prior Administration that had installed him, and instead wanted and succeeded in getting American troops out so that he could further oppress the Sunnis in the middle of his country.

Second, we are talking a lot about how powerful ISIS is. Let us keep in mind the Hezbollah/Assad/Iran alliance or axis is far more powerful, has far more money, and has a far greater capacity to carry out terrorist actions outside the Middle East than ISIS does.

Looking at ISIS' finance, we have had discussions of their export and smuggling of oil. Do we have—and this comes from the gentleman from Illinois, Mr. Foster—the technology to sample oil that might be on sale in Turkey and say we know what field that oil came from? That came from an ISIS-controlled field in Syria. That came from Northern Iraq. Is that technology available or is oil more or less fungible?

Mr. COHEN. Your question is at the outer edges of my knowledge of oil, but I can tell you this mostly from my work on the Iran sanctions effort.

Different oil has different properties. It is often possible to tell where oil comes from, although I am also told that there is some similarities among fields. So I can't tell you where great certainty that we will be able to do that, but I believe so.

Mr. SHERMAN. We all want to go after ISIS. The policy issue is do we go after ISIS in a way that causes harm to the civilians under its control? As I said in my opening statement, we didn't hesitate to bomb occupied Europe.

If a business person of good character and reputation in Mosul wants to buy something from Europe using the international banking system, a civilian item, do we try to stop that?

Mr. COHEN. Congressman, it is a—we obviously would not try to stop a decent citizen in Mosul trying to buy a—

Mr. SHERMAN. We certainly did in World War II, which we seem to have taken more seriously. You couldn't just say: Hey. I am in occupied Marseille. I want to buy a shipment of food from Argentina. Let's ship it on over. Use the banking system, use the—but you are saying that if I need a replacement part for my factory in Mosul, I can just buy it online?

Mr. COHEN. No. I am not saying that, and in particular—

Mr. SHERMAN. Do we prevent the honest business person in occupied Mosul from conducting civilian transactions?

Mr. COHEN. What prevents most directly the honest citizen of Mosul from conducting transactions is ISIL and ISIL's effort to con-

trol that territory, but the use of the banking system to facilitate a transaction coming out of Mosul is something that we are, as I noted earlier, attempting to prevent. We are—

Mr. SHERMAN. Okay. You have answered this question, but with two inconsistent answers.

If you get an international banking transaction where a civilian business person not affiliated with ISIS, but located in Mosul, is moving his investments around on Wall Street or is trying to buy replacement parts for his factory, is that something where, if a bank is involved in that transaction, they will be sanctioned?

Mr. COHEN. And it is not related to ISIL in any way? Is that the question?

Mr. SHERMAN. No. Except that the guy is located in Mosul.

Mr. COHEN. There is obviously an intelligence question embedded in there: Do we know that this person is or is not affiliated with ISIL? If he is not affiliated with ISIL, it is not a sanctionable transaction.

That being said—

Mr. SHERMAN. When we get serious, it will be. We did not wage World War II and say every Marseilles businessman can conduct international business just because we love the French. We noticed that was Nazi territory.

I yield back.

Mr. COHEN. Could I just briefly answer, please?

Chairman HENSARLING. Briefly.

Mr. COHEN. Our efforts to prevent ISIL from making use of the banking system would effectively prevent that transaction, but we are not targeting the civilian in Mosul who is currently being dominated and subjugated by ISIL.

These people are victims as well. But what we are trying to do is to prevent ISIL from making use of the financial system.

Mr. SHERMAN. So the lights are on in Mosul.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from New Mexico, Mr. Pearce.

Mr. PEARCE. Thank you, Mr. Chairman.

And thank you, Mr. Cohen, for being here.

Okay. I appreciate your efforts to create national security and diminish the terrorist threat.

You lay out a fairly complex strategy in your report here. Are you in the rooms where those strategies are being formulated—

Mr. COHEN. Absolutely.

Mr. PEARCE. —sort of? Yes.

So on a scale of 1 to 10, when you talk about depleting the resources, say from oil production, you would be familiar with the processes and the targets and things like that?

Mr. COHEN. In terms of the military targets?

Mr. PEARCE. Yes. You are sitting there. You are fairly comprehensive in your report here. Are you in that room, is all I am asking?

Mr. COHEN. We are linked up closely with the Defense Department in terms of its overall effort. But I'm not—

Mr. PEARCE. Okay. Well, let's go a different direction then.

On a scale of 1 to 10, how committed are you to stopping the oil revenues from coming in? The Administration, 1 to 10.

Mr. COHEN. I would give that a 10, Congressman.

Mr. PEARCE. Okay. So why don't you stop it this afternoon? If you really want to do it—you are in the room—you can stop it today.

You can move 30,000 barrels of oil a day, basically, is what the report is saying, that sell for anywhere from $25 to $60 a barrel, which results in three-quarters of a billion dollars to $1.8 billion a day. To move 30,000 barrels of oil requires 250 trucks.

Now, your report starts talking about insurance—choking off the funding for insurance. If you start bombing the trucks, the insurers will cut the insurance off themselves. You don't have to track one insurance company down.

It is the trucks moving the oil to market. And you have access to that. Satellites tell you every movement, every highway, every oil field. You know which oil fields are under the control. I wonder why you are not stopping the oil today, because can you do it. It is well within your grasp, and you have the technology. You have the information.

You don't have to sort through all the banking. You don't have to track straw companies. You don't have to find out which people in Marseilles are taking the oil. Stop the flow of the oil. It is very simple.

Why don't you do it?

Mr. COHEN. Congressman, as you know, the Defense Department has conducted air strikes—

Mr. PEARCE. No. You are telling me that it is not important, then. It is not a number 10 on the list of the Administration or they would have stopped it today.

It doesn't matter what the Department of Defense says. The American people—you say in your report that American interests are at stake. Then, stop the flow of the oil.

Every single drop of oil, speaking as someone who comes from a county that makes its entire living on oil, goes from a well into a tank. Now, you can either blow up the tanks, you can blow up the trucks, or you can blow up the connection between the two.

You don't just put oil by 5-gallon cans into a tanker truck. You put it in through a delivery mechanism. So you don't have to blow up the tanks. Just blow up the delivery mechanism that loads it on the trucks.

This is a very simple operation and, yet, you all do not appear to have a number 10 commitment to the process of stopping the oil today or you would do it.

Do you have any—I really am curious, because people in my State are extremely alarmed by the fact that the terrorists are funding themselves through oil revenues and they know how to stop it. They could stop it this afternoon.

Mr. COHEN. Congressman, I am not a military targeter.

Mr. PEARCE. It doesn't require a military target. I asked you what is your commitment from this Administration to stop the flow of oil. You said it is a number 10. That is the highest on the scale of 1 to 10.

And if the commitment is there, you don't have to be a military targeter. Just stop the oil. We can shut it off today. It is a very simple process if you have a commitment.

The other result I come up with is that maybe the commitment is lacking, the commitment to absolutely stop the funding for ISIS.

Mr. COHEN. If I had a switch that I could turn to—

Mr. PEARCE. You told me you are in the room, sir. Is anyone in the room talking about this? Has anyone suggested that we stop the flow of oil today?

If it is a number 10 item, if we have a desire on a 10 scale, number 10, to stop the flow of oil, why hasn't somebody said, "Let's stop the flow of oil. Let's quit working around the corners. Let's quit looking at insurance companies. Let's quit looking at financing. Who takes the oil? We don't have to know any of that?"

Stop it in its tracks. It is very simple.

Mr. COHEN. Okay. I understand your point, Congressman.

Mr. PEARCE. If you would take that message back, maybe someone would contact someone in the oil field and find out what it takes to blow up a 120-barrel tanker. It is not very complex.

I don't know that we have the technology in our county, but I suspect it exists in the Department of Defense. But we just sit here and let them get $2 billion a day while the American people live in fear? It is irresponsible on the part of the Administration.

Thank you, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from New York, the ranking member of our Financial Institutions Subcommittee, Mr. Meeks.

Mr. MEEKS. Thank you, Mr. Chairman.

Mr. Under Secretary, in your remarks at the Carnegie Endowment, I believe you stated that you were working to limit ISIL's ability to transact through Iraq, Syria, and international banking systems.

However, it is the hawala system, which is the informal value transfer system based on the performance and honor in the Middle East, with a huge network of money brokers, that has been in place for centuries.

And if the international community imposes sanctions on persons and institutions under ISIL control, there is a chance that the sanctions would not only be as effective as we like, but it would push money into this informal, hard-to-regulate network.

So my question is: Is the U.S. Treasury looking into hawala brokers who, according to written testimony that we have received here today, are able to move ISIL money sort of through Iraq and Syria and abroad? What are we doing in that regard?

Mr. COHEN. Absolutely, Congressman, the hawala networks are part of the financial system in Iraq and Syria, as well as the more formal banking system. And as we are working to exclude ISIL from the ability to use the formal financial system, we are very much focused on ensuring that they can't use and can't turn to the hawala system to a greater extent than they already use it.

I will say that we have had success in Afghanistan, Pakistan in particular, in targeting hawalas for sanctions and disrupting their activity. Because these hawalas, although they are an informal

mechanism for value exchange, ultimately also have intersections with the formal financial system.

These brokers need to at some point have accounts at banks. And that is another means by which we can disrupt the use of informal financial networks to transact outside of the formal financial system.

Mr. MEEKS. Because the concern here is, from what I also understand, utilizing the hawala system and others, that is the mechanism that ISIL has used, also, to send payments to its fighters and workers and regional leaders and that is what is enticing some folks to come, because they are looking for it.

So are we looking at ways that we can prevent them from getting this money so that these payments are interrupted and the folks won't get—they won't be able to entice folks to join them because of the revenue that they are able to generate?

Mr. COHEN. Absolutely. And what we are looking to do is identify who the hawala brokers are and how those hawala brokers intersect with the formal financial system. Because, at some point, essentially, the payment message that goes through a hawala system needs to get translated into actual cash or other—being delivered to somebody on the other end.

We do have, when we get insight into who is involved there, ways to disrupt that activity. So that is very much one of the things that we are working on with our partners in the intelligence community.

Mr. MEEKS. Now, here is also a question I have that I think is difficult. I know we have to try to weigh these lines, and I am trying to make sure that we don't turn against—or have all the folks over in the region against us, et cetera.

So I was wondering what steps is Treasury taking to close the financial systems to sponsors of terrorist organizations such as ISIL, but at the same time keeping remittance channels open to legitimate actors, including the millions of—because there are a lot of immigrants and immigrant families who provide critical financial lifelines to their family members back in their home countries.

I have some in my district, for example, who send money. And so, we have this thin line to work. I have some coming to my office asking me, so I thought that I would ask you to see what you have to say.

How is Treasury working on that?

Mr. COHEN. Right. We are working on the remittance issue broadly to try to ensure that legitimate remittances coming from the United States going to communities around the world are able to flow. And I see Congressman Ellison here. We have had a number of conversations on this issue.

I think—and I can go into more detail on sort of the variety of steps that we are taking, including providing guidance to the banking community, implementing legislation that Congressman Ellison sponsored that was signed into law over the summer to try to ensure that the money service businesses can continue to operate.

With respect to remittances into Iraq, our efforts to cut off the banking activity in the area where ISIL operates will not prevent remittances going into Baghdad, for instance, but ought to prevent

ISIL from getting access to funds in the areas where it is operating, which I think is very much in our interests.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Pennsylvania, the vice chairman of our Oversight and Investigations Subcommittee, Mr. Fitzpatrick.

Mr. FITZPATRICK. I thank the chairman.

And, as I said, Mr. Secretary, before I traveled to the region last month, I had the chance to meet with some of your analysts and employees of the Treasury. I found them to be very helpful and very thorough in the information.

I did want to follow up on some of what Mr. Meeks was asking about the hawala systems, which are informal, they have been around a long time, and pose quite a challenge, I think, in terms of trying to follow the money and how it flows into terrorist organizations.

Does the Department of the Treasury have a handle on how many there are, say in Iraq or in Qatar, and perhaps as a percentage of the bigger banking system there?

Mr. COHEN. Congressman, first of all, I do want to commend you for your interest in this issue. And I actually was in Qatar, I think, just after you were there and got a briefing on your meetings. I think they were very useful, and I appreciate your interest in this issue.

In terms of the hawala networks, let me get back to you with specific information on this. I can tell you, though, that the hawala networks that cross the borders—so from Iraq or Syria into—whether it is Qatar or into Saudi Arabia, into Kuwait, UAE—we are—you can work on both ends of this issue, both on what is happening in the area where ISIL is operating, but, also, in the—on the other end, where the funds may be being transmitted in the first instance.

And so part of our strategy is to work with our partners in the Gulf to cut down on the source of financing, cut down on the ability to transfer money, whether through the formal system or through the informal hawala system, so that the money doesn't flow into Iraq and Syria to ISIL.

Mr. FITZPATRICK. When you say, "cut down on the source," you are talking about the source being the illicit gains from the oil?

Mr. COHEN. No, I mean principally from donations that are collected in the Gulf.

Mr. FITZPATRICK. Okay.

Mr. COHEN. The oil sales, I think, are actually more of an issue going north into the Kurdish region in Iraq or into Turkey.

And as I was answering an earlier question, what we are trying to get a good handle on is how those payments are made, whether through cash changing hands, through a hawala system, through the formal financial system. Whatever the mechanism may be, we are looking for the key there so that we can disrupt that financial activity.

Mr. FITZPATRICK. Right. What makes ISIS unique is their ability to self-finance their terror interests. They use the oil—this is different from other terror organizations—to fund their recruitment, their training, their equipping.

And so, while we are taking a look at this—why ISIS is unique and how to deal with that, I think you are correct that we can't forget the more traditional sources. You were talking about donations.

On that subject, one of the meetings that I had in Qatar was with the minister of labour and social affairs. His name is Abdullah Saleh al-Khulaifi. And he was talking about a new law that they have in Qatar to crack down on funding that comes through what they call Qatari charities, that we have a concern some of it may ultimately find its way to radical Islamists.

Does Treasury have faith that law will work?

Mr. COHEN. The law that was adopted, I think, just in September in Qatar is well-designed. It can cut down on the misuse of charitable organizations to provide funding to terrorist organizations. What it requires is solid implementation.

I had similar meetings to the ones you had. We have been pressing the Qataris to move from a situation where they have the right structures in place, the right laws in place, the right institutions in place, to being more effective in cutting down on funding that comes out of Qatar for terrorist organizations.

We have recently seen some very positive steps that Qatar has taken after your trip and some of the engagement that we have had. They have deported an individual who was involved in illicit charitable fundraising in Qatar. It wasn't really charitable fundraising. It was fundraising for terrorist organizations.

They have committed to implementing their charities law—and there are other laws—to more effectively cut down on terrorist financing. There is still work to be done there. But I think some of the recent steps are a harbinger of some good things to come. But there is clearly work that needs to get done.

Mr. FITZPATRICK. Are you able to identify other regimes in the area that need to do more?

Mr. COHEN. I think we haven't been shy about identifying Qatar and Kuwait as the two jurisdictions in the Gulf where additional steps could be taken.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Massachusetts, Mr. Lynch.

Mr. LYNCH. Thank you, Mr. Chairman.

Again, Mr. Secretary, thanks for your willingness to testify. I just want to just make one observation. I do share the frustration that some of my colleagues across the aisle have expressed about stanching the flow of oil and degrading some of the facilities that are currently under the control of ISIS.

But I do want to point out that, for instance, the Baiji oil refinery about—I don't know—maybe about 75 miles—maybe 150 miles north of Baghdad—I have been there a couple of times. It is not really—it is low tech, but it is the largest refinery that they have there in that region.

If we had destroyed that a month ago, I think the Iraqi government, last week—2 weeks ago the Iraqi forces retook that refinery. So now it is pumping oil for the Iraqi government. It is a key asset. If we had gone in there and destroyed that asset, that refinery, it

would have been a huge setback for the Iraqi government to retake and reestablish their oil flow.

We have a similar situation in the Kirkuk region, where it is in dispute right now between Kurdish forces and ISIL. Sure, we could go in there and destroy those oil wells, but there is a long-standing problem there.

We had a similar problem with Saddam Hussein when we first went in there about whether to destroy these oil facilities or whether to allow them to continue to operate and then capture them. So that will be an ongoing challenge for us as we go forward.

What I would like to talk to you about, Mr. Secretary, is the actual shipment of what is going on right now over the Turkish border. We have been largely unsuccessful in interrupting that oil flow. And I was in Irbil in Kurdistan recently. I actually had a chance to talk to the foreign secretary in Turkey.

And I have to say, between our intelligence and what we heard on the ground there, there is widespread abuse and sale of oil by ISIL forces over the Turkish border, and we have to get at that. We have to disrupt that. And I am not confident that is happening now, and I am not at all confident that we are getting cooperation from the Turkish government.

The same situation is ongoing in Syria in Al-Qaim. There are smuggling routes there that have been in use for about a thousand years. We weren't able to stop them. Back when we had the oil embargo against Saddam Hussein, after the fact, we found out that was porous, that there were dozens of countries that were taking illicit oil.

So there are two ways we can get at this. One is to—eventually, this oil is going to find its way to a legitimate country and a legitimate company to which you could apply sanctions.

But before it gets there—back in 2006–2008 in Iraq, we had Threat Finance Cells—and we used this as well in Afghanistan—where we actually partnered up Treasury folks and DOD.

We had military. So it was a joint operation where they actually had boots on the ground. They could identify shipments that were going over the Turkish border, like they are right now, and we were able to disrupt that.

And I am just curious why we got away from that model where we had military paired up with Treasury folks and were actually doing a pretty good job at disrupting that oil flow? It is commodity exchanges now cross-border that is really financing about 75 percent of ISIS' revenue.

So I would just like to hear your thoughts about what we might do in the future, if we could restart those Threat Finance Cells and maybe reestablish some type of control.

Mr. COHEN. On the issue of the Threat Finance Cells, as I noted earlier, I think I would like to address that in a closed hearing.

More broadly, we are enhancing our efforts to collect intelligence, including intelligence on these smuggling networks, which you know have been in existence for thousands of years.

That doesn't mean that we can't get better fidelity on who is involved, where it is going across the border, and how we can stop it, including through financial actions that we can take to designate those who take the oil and are in some respects part of the

formal economy. We can use financial tools against them. We are also engaging with the private sector to stop this.

But there are other mechanisms that rely on intelligence, and I hope at some point we can get into more detail on that.

Mr. LYNCH. Thank you, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentlelady from Minnesota, Mrs. Bachmann, who also serves as a valued member of the Intelligence Committee.

Mrs. BACHMANN. Thank you, Secretary Cohen, for being here.

And thank you, Mr. Chairman.

The State that I represent, Minnesota, has a tragic nexus to terrorism. We are the only State that has a convicted member of Al-Qaeda from 9/11. That was Moussaoui.

My largest city in my district is St. Cloud, Minnesota. That was the site where Moussaoui went to receive his instruction in how to fly a plane. He was interested in how you take off a plane. He wasn't so interested in how you land a plane. He became the only convicted terrorist from 9/11.

Since that time, we have had over 50 Minnesotans go and fight on behalf of Al-Shabaab. We also have the largest number of Americans who have left the United States to fight on behalf of the Islamic State. The first two Americans killed, fighting on behalf of the Islamic State, were both from the State of Minnesota.

We know that today there are those who are American citizens, with American passports, who have left the United States, who knowingly have gone to fight with the Islamic State, who have been involved with beheadings, shootings, raping of innocent women, killing of innocent children, burying alive in August innocent women and children in mass graves.

We also know that these individuals are being allowed to transit out of Syria and Iraq back to western nations, whether it is Europe, whether it is in the UK, or whether it is in the United States of America.

Our country today is freely allowing the return of terrorists who have given allegiance to the Islamic State back to the United States on the basis of their American citizenship and on their passport.

That makes a lot of Americans very nervous, especially people in my State of Minnesota, wondering, with battlefield experience, with relationships, and with perhaps directives from those who are giving the orders in the Islamic State to come back and begin plots in the United States.

I am wondering what is being done to follow these individuals, whether it is through financial transactions or any other way. I am wondering why they are allowed back into the United States? I wonder why in the world we don't pull their passports and prevent them from coming to the United States in the first place?

Why do we allow them in?

Why are they allowed to resume their lives after they have joined a murderous band that is killing innocent women and children across the country? Why are we allowing that? Why aren't we using our resources to thwart this?

There has only been one serious investigation of terrorist financing since 2008, and that is the Holy Land Foundation trial. It was a Muslim charity in the State of Texas. That happened in 2008 from the Department of Justice.

I assume that you are working, Mr. Secretary, with the Department of Justice closely on this matter. And I am wondering, what sort of prosecutions are going on?

Because I can tell you, from my State of Minnesota, this has not receded. This has only gone up tempo. What sort of prosecutions are going on? Why is it that 6 years later there have been zero prosecutions coming out of the Department of Justice? Are you working with the Department of Justice? Are you identifying individuals?

There are over 40 known individuals who have now returned to the United States who are terrorists, who have participated in terrorist activities, and who are freely walking about. It seems they have more protections than the American people. This is concerning to us now.

We also know that the Department of Justice has boxes and boxes and boxes of documentation—known documentation from the Holy Land Foundation trial. Have they allowed you to look through those boxes? This is material that identifies known terrorist networks for terrorist financing. We, as Members of Congress, have not had one bit of access to those boxes of documentation.

I would ask you, Mr. Secretary, are you aware of these boxes of documentation regarding terrorist financing with the Holy Land Foundation trial? Have you requested those boxes? Have you looked through those boxes? What do you know about that? And what are you doing to prevent terrorists from returning to a wonderful American life and putting innocent American citizens at risk from plots and attacks here in our homeland?

Mr. COHEN. In the time I have remaining, let me try and address that.

The effort to identify both individuals from the United States who are traveling to Iraq and Syria as foreign terrorist fighters and those who seek to return is one where there is an enormous amount of energy and resources dedicated, including from the Treasury Department, in trying to understand how to identify these people through tracing their financial transactions. And my counterparts, in particular the Department of Homeland Security and the FBI, allowed them to describe it in more detail.

But you can rest assured that the threat of the foreign terrorist fighter flow both going to Syria and Iraq and coming back, whether into Europe or especially into the United States, is something that this Administration is highly—

Mrs. BACHMANN. Secretary Cohen, I don't rest very well because they are allowed free reentry into the United States.

Chairman HENSARLING. The time of the gentlelady has expired.

The Chair now recognizes the gentleman from Georgia, Mr. Scott.

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

I am over here, Mr. Cohen. Over here in the corner. How are you?

An area that I think we are not putting enough attention to is on our Arab and Muslim nations who are over in the Middle East. I don't believe for 1 minute that we are getting the level of cooperation, the level of backbone and insert into this issue as we should.

We are never going to solve the Middle East problem. We are never going to solve this problem of terrorism and certainly not this problem of financing the terrorists if Saudi Arabia, if Jordan, if Egypt, if the United Arab Emirates, if Turkey, if Iran—if these countries and these nations do not come 100 percent and buy into this, then they will look at it and look as if they are playing the American people for fools. And I, for one, am not going to stand for that.

Now, I believe one of the weak points within the Administration's effort on this is a failure to come to Congress and get the type of resolution with the backbone and the balls in it that will do some good. We give Egypt, we give Saudi Arabia, $6 billion, $7 billion every year. It is Congress who controls the purse strings.

And if we had the resolution, the Administration would be much stronger now, because in that resolution there are enough of us in Congress who would demand that Saudi Arabia, that Egypt, that Turkey, that the United Arab Emirates, all would come in or else they would feel the sting of our pulling back the billions of dollars that taxpayers' moneys are going into it.

Now, money laundering—do you think they could launder this money without the cooperation of those nation states who have the banking system in place to do it, the oil that they are getting so much of their money from? Do you think that they could do that without Turkey's cooperation? No.

And so, unless we get very serious about this—and if the Administration has 62 nations in this coalition, this Congress ought to know what they are doing to stop this financing.

Finally, we wouldn't have these terrorist groups if it weren't for Saudi Arabia. Do you think we would have Al Qaeda? Osama bin Laden comes right out of the royal family there. Do you think we would have ISIS if we did not have Al-Qaeda in Iraq and if we did not make sure we contain that area?

So what I am saying is that we need to send a message back to the world that Congress wants in on this. The people elected the Congress of the United States not to just sit back and twiddle our thumbs.

We need to reach out and give this President the backbone he needs, if we are going to solve this financial situation, and demand that these Arab nations, these Muslim nations, not only put their boots on the ground to fight and take back their religion that has been hijacked, but put forth every effort they can and to work cooperatively with us to make sure that in no way are they contributing to this.

And if they are, we would look like fools in America to continue to give millions of our taxpayers' dollars to these nations while they, on the one hand, take our money and, on the other hand, support these terrorist groups, as Iran is doing. They have Hezbollah and Hamas. Saudi Arabia originated Al Qaeda. You have Al-Shabaab, Egypt coming up with the brotherhood—the Muslim Brotherhood. Come on. Only a joint, strong resolution, working

with the President, then this Nation will take the United States seriously on this.

What do you say about that?

Mr. COHEN. Congressman, let me just address your last point about a resolution coming out of Congress. And, indeed, the Administration has requested authorization for the effort against ISIL.

I think the President and the Administration have been very clear that we are stronger when Congress, as you say, has its backbone into this, and I think the Administration is looking to work with Congress for authorization for this plan.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Florida, Mr. Posey, for 5 minutes.

Mr. POSEY. Thank you, Mr. Chairman.

Mr. Secretary, is ISIS engaged in any narcotrafficking?

Mr. COHEN. Congressman, not that I am aware of, sitting right here. But let me ensure that—there is something I don't know about. But I am not aware of any narcotrafficking by ISIL.

Mr. POSEY. Okay. I know they have given the Taliban credit for almost 100 percent of the heroin trade and FARC, the Colombian rebels, almost 100 percent, ultimately, of the cocaine trade.

And, one way to go after terrorist funds is for Americans who are terrorized—or victims of terrorism to sue their attackers and go after their frozen assets under Section 201 of the Terrorism Risk Insurance Act, known as TRIA. The plaintiffs cannot, however, currently seize the funds of terrorists related to narcotraffickers.

And my question for you is going to be what you are doing or what steps you are taking to help change that. But I guess, until you can qualify your position on ISIS being involved in narcoterrorism, this might not be the right time.

Mr. COHEN. Congressman, as I say, I am not aware that ISIL is involved in narcotrafficking. I will follow up on that with you.

On the broader issue of attacking terrorist organizations' use of narcotrafficking as a way to raise funds—you mentioned the Taliban; you mentioned the FARC—we have been aggressive in the use of our authorities to try and prevent that, disrupt that. We use the Kingpin Act as a way to identify the major narcotics traffickers and then to build out the networks and apply sanctions against those who are involved in that activity.

I can assure you that, if we see in the ISIL situation something akin to what we have seen with the Taliban or with the FARC, we won't hesitate to use those same authorities in this instance.

Mr. POSEY. But, again, with Kingpin, there is a big hole there for narcotrafficking. And, of course, it has been the subject of one of the hearings that we had previously. And some would say we really need to be locking that up as much as we can.

Mr. COHEN. So I am not aware of the particular deficiency that you are identifying, but I am happy to follow up on that issue.

Mr. POSEY. Okay. Thank you, Mr. Chairman.

Chairman HENSARLING. The Chair now recognizes the gentleman from Texas, Mr. Green, the ranking member of our Oversight and Investigations Subcommittee.

Mr. GREEN. Thank you, Mr. Chairman.

And I thank the witness for appearing today.

My feelings are ambivalent on this topic of kidnapping for ransom. It is my understanding that ISIL has received as much as $20 million. I also understand that this undercuts the goal of eliminating their access to funds if we don't take a strong position on these kidnappings.

My feelings are ambivalent because I have a constituent who has a son who is being held captive. We are not sure who is holding her son captive.

But I visited with this mother and father, and I know that they want their son returned home safely. And while I understand that we can't pay ransoms, I have been with them. And while I don't feel their pain, I have seen the evidence of it.

And you are in a tough position. But I want you to do all that you can, please. Please do all that you can to try to get these people who are being held hostage returned home safely.

It is a balancing act. It is contrary to what our policy is. And I understand this. But we have to do everything that we can to prevent these dastards—that is with a "d," not a "b"—from performing the dastardly deeds that have been shown worldwide.

If you could, please, sir, kind, sir, kindly give some indication as to the balancing act and what we are trying to do to make sure that this mother gets her son returned home safely.

Mr. COHEN. Congressman, I think you have put it beautifully. And I think it is an incredibly difficult issue. I share your feelings that you described. I can't imagine the pain that a family goes through in this situation.

Our policy is one, as you note, that is intended to protect Americans by removing the incentive to take hostages in the first place and to not provide another source of funding to these horrific organizations that take hostages, and commit other terrorist acts.

We have seen evidence that it, in fact, does protect Americans, as these terrorist organizations choose not to take Americans hostage because they know that they will not get paid ransom. It obviously does not work in every instance, as the situation you are citing identifies and reflects, but it protects our citizens over the long term and as a whole.

In terms of getting our citizens back who are held hostage, I am sure you are aware over the summer there was a rescue attempt made to try and free James Foley, who was being held hostage by ISIL. It unfortunately was not successful.

But the fact that we will not pay ransoms or make other concessions to terrorists does not mean that we are leaving our citizens in the hands of these dastardly people. We try everything we possibly can ourselves and working with partners to free our hostages, short of conceding to their demands for ransom payments or other concessions.

It is, as you say, an emotionally fraught, difficult issue, but it is a policy that I think we need to employ ourselves and, frankly, we need to get our partners around the world to employ because it is to the benefit of all of our citizens ultimately.

Mr. GREEN. Thank you, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Missouri, Mr. Luetkemeyer, the vice chairman of our Housing and Insurance Subcommittee.

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

Secretary Cohen, I want to frame my remarks—or my questions this morning with regards to the United States banking system providing access and being complicit in terrorist financing and money laundering.

I am kind of concerned about the things that have been going on recently with regards to activities by different banking regulators and DOJ and how they are carrying out their duties. And, in fact, I think you are going a little too far with it. I certainly support their going after the bad actors.

But, anyway, in your remarks that you made earlier this week with regards to derisking, while I think it is essential we have laws in place to combat terrorist financing, our regulators have no—I am concerned that the broad derisking we have seen in financial institutions is having a negative situation. I know that there was concern voiced also by the Comptroller of the Currency recently about this.

And in your remarks—I have a copy of your speech you gave to the ABA Money Laundering Enforcement Conference earlier this week—you talk about that. And I would just like for you to tell us how you believe banks and bank regulators should judge risk and how it should not be done on a case-by-base basis.

Mr. COHEN. Congressman, the foundation of our anti-money-laundering regulatory regime is a risk-based approach where we ask our financial institutions to assess the risks of the customers that they have on board or they are thinking of taking on board on a case-by-case basis and make a judgment whether the risk profile of that particular customer is one that the institution feels that it is in a position to manage.

The concern that I was addressing in the speech earlier this week was that some institutions were acting in sort of a wholesale manner to just cut off entire categories of customers, entire jurisdictions from correspondent account relationships, without an assessment of the actual risk posed by that particular customer.

And what I was advocating was that institutions and those of us in Government who are responsible for overseeing the institutions adhere to the risk-based approach and to a case-by-case analysis—

Mr. LUETKEMEYER. Perfect.

Mr. COHEN. —in approaching that.

Mr. LUETKEMEYER. Thank you for that.

You are an expert on terrorist financing. And I am just kind of curious. Can you tell us what types of activities lead to ISIS financing?

Some of these regulators are going after folks with firearm sales, fireworks sales, payday lenders, tobacco sales. Are these folks who engage in terrorist financing activities? Have you run into any—let me rephrase it. Have you had any actions against any of these folks for terrorist financing activities?

Mr. COHEN. I am not aware of any actions against any of the entities you just described for terrorist financing—

Mr. LUETKEMEYER. Any of those industries. Yes. Okay.

Mr. COHEN. —certainly with respect to ISIL.

Mr. LUETKEMEYER. Very good.

I know that the Financial Crimes Enforcement Network, FinCEN, put out a paper earlier this week, in fact, with regards to money service businesses laundering money for terrorists. And they are concerned about the same thing that you are talking about in derisking, about the banks indiscriminately terminating accounts.

How closely do you work with these folks? You work with them every day, I assume. Right?

Mr. COHEN. These folks work for me.

Mr. LUETKEMEYER. Work for you. Okay. There we go.

So you are aware of this paper. You are aware of this statement and support their conclusions as well, I assume.

Mr. COHEN. Yes, sir.

Mr. LUETKEMEYER. Very good.

One last question here. Your remarks during the week also mentioned a few reforms needed to make our anti-money-laundering capability stronger.

One of those was a safe harbor from civil liability for financial institutions that file a suspicious activity report, a SAR.

I wholeheartedly agree with that recommendation, which is included in my—a bill that I offered, H.R. 4986, the End Operation Chokepoint Act.

Can you tell the committee why you believe that the safe harbor is important and how this will help financial institutions in the fight against terrorist financing?

Mr. COHEN. The issue there is that there is a difference of interpretation in some court decisions about whether—when an institution files a suspicious activity report, whether they could be brought into court, subject to civil liability if they didn't have—are unable to prove a good-faith basis for filing the report.

These reports, which are confidential, based on suspicion of potential illegal activity, that are filed with FinCEN, used by law enforcement to pursue cases, not as the end point, but as an opening point into cases, are incredibly valuable.

And what we are looking to do is to ensure that institutions can comply with their obligations to file these reports without fear of civil liability.

Mr. LUETKEMEYER. Thank you.

Thank you, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has expired.

As a reminder to all Members, we are going to excuse our Administration witness fairly close to 1:00 and empanel the second panel, which means that the Chair plans to call upon—I'm sorry—noon—excuse me—noon. I don't want our witness to panic.

I will call upon Mr. Ellison, Mr. Pittenger, and Mr. Perlmutter. And then we will release our first witness and we will welcome our second panel.

So at this time the gentleman from Minnesota, Mr. Ellison, is recognized.

Mr. ELLISON. Mr. Cohen, thanks for your service to our country and your hard work to help combat terrorist financing.

Earlier you mentioned the Money Remittance Improvement Act, which is a bipartisan piece of legislation passed through Congress earlier this year. Now we are in the phase where we want to see it implemented.

I wonder if you might elaborate on how you see the bill being adopted, absorbed into the financial community, so that we can stop bad people from getting money and allow the decent people to remit money.

Mr. COHEN. Congressman, I think this is an important piece of legislation. I commend you for pushing it through the House and getting it signed.

Mr. ELLISON. I had help even from the other side.

Mr. COHEN. Exactly.

The way that it will be used and be effective is it allows the Federal regulators to rely on State examinations for purposes of overseeing compliance with the anti-money-laundering regulations.

That will expand our ability to get insight into the quality of the anti-money-laundering efforts across the country, particularly in the money services industry. And that will, I think, enhance the confidence that financial institutions have in taking on money service businesses as customers.

So to get back to the derisking question, what we are hoping to foster is an environment where institutions do, in fact, engage in a—continue, really, to engage in a case-by-case analysis of risk. And the better the information, the better the foundation for that risk assessment, I think the better off we all are.

Mr. ELLISON. Thank you.

Now I want to just say I would like to work with you to help more financial institutions understand what is available under the Act.

Let me ask you another question. And then I will pass it so we can have as many people as possible ask you a few questions.

Do you feel like our international partners—we have enough cooperation with people in the Middle East, and the European world? Do you think we have enough international cooperation to identify and freeze off some of the sources of terrorist financing in dealing with ISIL?

Mr. COHEN. That is a big question.

The answer is, we have cooperation. It varies, as you might expect, from country to country. We have some partners that are 100 percent committed and effective, and other partners where I think there is work to be done.

One of the things that we do at the Treasury Department is travel around the world to try and enhance the effectiveness of partners in cutting off terrorist financing. It is a big part of my job, and a big part of the job of the folks who I work with.

We have made enormous progress over the last decade or so in improving international efforts to combat terrorist financing. But, this is a task that is never going to be complete, and there is still, obviously, some work to be done.

Mr. ELLISON. Thank you again.

And I yield back.

Chairman HENSARLING. The gentleman has yielded back.

The Chair now recognizes the gentleman from North Carolina, Mr. Pittenger.

Mr. PITTENGER. Thank you, Mr. Chairman.

Secretary Cohen, following up on Congressman Pearce's questions, during Operation Desert Storm we had an average of 1,100 strikes a day. Twelve years later against Saddam Hussein, during Operation Iraqi Freedom, we had 800 strikes a day. In the last 2 months against ISIS, we have had a total of 412 strikes, an average of 7 a day.

Is this limited amount of air strikes as a result of not having the intel on the ground as a result of precipitously pulling out our forces several months ago or is it a lack of the will by the Administration to take out particularly these transfers of oil out of country?

Mr. COHEN. Congressman, I am not sure it is either of those. But I am really not in a position to comment on the military campaign.

Mr. PITTENGER. Secretary Cohen, are you in dialogue with DOD? Are you in conversation? Are you in meetings with them regarding our approach and how we would seek to dismantle, disrupt, and destroy these transports of oil out of country, given that is the most significant manner of which—that ISIS has obtained their $1 million to $2 million of revenue a day?

Mr. COHEN. Absolutely. And the conversations that I am involved in, as you might expect, are conversations about policy and broad approach. I don't sit at CENTCOM. I am not doing targeting on the day-in-day-out basis.

But in terms of the overall policy direction and the contribution that I cited that the Defense Department can make to efforts to undermine ISIL's financial strength, that is something that, as part of the overall integrated strategy that General Allen is leading, is part of the conversation.

Mr. PITTENGER. Do you believe it—number one, that it is in our best interests and, also, the best strategy if we would seek to destroy all of the transports out of country?

Mr. COHEN. All of the illicit oil transports?

Mr. PITTENGER. Illicit transport of oil out of the country.

Mr. COHEN. It would seem to me that one of the ways we can impair the oil trade is to stop them from bringing it out of the country. What I am not in a position to comment on is the practicality of doing that. It is just not my area of expertise.

Mr. PITTENGER. I appreciate that.

Please convey our continued concerns on the manner of the limited approach that we have had in terms of our commitment to air strikes in various capacities, but particularly related to trying to disrupt the income flow back to the ISIS.

On another matter, I mentioned earlier the availability of technology. There are very robust analytic software programs. I have worked for a dozen years with major software companies, originally related to Medicaid fraud.

But, in these discussions, we have transferred now to talking about how we can dismantle the terrorist funding and the transfer of it outside the United States and inside the United States.

And, as such, I wrote Jennifer Calvery, the Director of the Financial Crimes Enforcement Network, on September 4th and requested a meeting to make sure that the Department is utilizing every pos-

sible analytic support software available, and I would appreciate your help and response so I could meet with Ms. Calvery. It would be most appreciated.

Mr. COHEN. Certainly, Congressman.

And I can tell you that FinCEN, which Director Calvery oversees, has recently gone through an IT enhancement. It has some advanced analytical tools available to it.

And they are using those tools to go through the reports that they receive from U.S. financial institutions to identify potential fundraising for ISIL and to push that out on a very rapid basis to our law enforcement colleagues. So that is happening, but I will convey your request.

Mr. PITTENGER. If you could help bring about a meeting with her, I would very much appreciate it.

I yield back.

Chairman HENSARLING. The gentleman yields back.

The Chair now recognizes the gentleman from Colorado, Mr. Perlmutter.

Mr. PERLMUTTER. Mr. Secretary, thanks for your testimony today. And I want to compliment Treasury and the Administration. The stock markets are hitting new highs again today, from where we were 6 years ago.

I want to follow up on the line of questioning Mr. Pittenger was just asking you. He was talking about how one of your points was we got revenue, we got the flow of money, and we have expense. Okay. I get back to basics. Okay?

So in the revenue side of this, you have the production piece, which is what he was talking about, "Can we eliminate or destroy the production?" I would rather focus on the price.

We have had a 30 percent reduction in the price of oil in the last 5 months. So West Texas Intermediate has gone from 103 down to 75. Just basic economics would say to me that has to hurt these guys somehow, that they have less money for any barrel of oil that they have.

Can you tell us kind of what you see the drop in oil prices doing to ISIS and its revenue stream? And then I will get to expenses in a second.

Mr. COHEN. Congressman, the price at which ISIL is selling the oil that it is stealing has never been at the open market price for reasons I am sure you understand. Whether the drop in oil price has also forced a decline in the discount that ISIL is taking off the oil it is selling, I just don't know the answer to that question, but let me see if there is something—

Mr. PERLMUTTER. What price in the black market, if you will, do you think they are selling it at?

Mr. COHEN. Can I get back to you on that in a different setting?

Mr. PERLMUTTER. What—okay. So let me move to the expense side. So on the expense side there is some cost to extract oil from the ground and then refine. Do we have any sense of what it costs them to produce this oil?

Mr. COHEN. I think not a lot because this is not a sort of sophisticated operation. We have seen them take over wells, but, also, sort of in some respects destroy the wells and just—and have the oil pool and are taking it that way.

So I can't give you a dollar figure on what it costs for them to produce a barrel of oil or for them to refine it in one of their mobile refineries. There is obviously some expense involved there, but—

Mr. PERLMUTTER. Yes. I am not trying to stump you on this.

Mr. COHEN. Well, you did.

Mr. PERLMUTTER. This is just sort of basic stuff that I am trying to understand. Everybody else has kind of gone into monologues about what is going on in the Middle East. So, just basic price, production expense of producing this.

Let me change it just a little bit. On the revenue side, we have oil and there is some revenue stream that is coming from oil. And I would like a little more specificity from you on how the price of oil affects that.

What other pieces of revenue does this get? Does it get it—you mentioned sort of charity from some other countries. Does it have other earnings? What other kinds of revenue do they have?

Mr. COHEN. And just on the price of oil, I can provide you with more detail on that. I would just like to do it in a different setting.

The other sources of funding for ISIL are ransoms from kidnapping, extortion, and crime from within the territory where they are operating, essentially forcing people to hand over cash at gunpoint, and, to some extent, donations from external sources, from wealthy donors overseas. Those are the four most significant sources of funding for ISIL.

Mr. PERLMUTTER. All right. So now moving to their total expense, obviously, they have to be paying their soldiers or whatever they are called, their fighters, their terrorist group—they have to be paying somebody something. And your point was, at some point, whatever revenue they have is going to outstrip those expenses.

Can you elaborate on that?

Mr. COHEN. Yes. Particularly as we make progress in squeezing down their revenue streams, their expenses for paying fighters for attempting to deliver social services of some sort in the territory where they are operating will outstrip their revenue.

Just in terms of the fighters, if you assume that they have 30,000 fighters, give or take, we have information that they pay their fighters about $1,000 a month. That comes to $360 million a year in just the expenses for fighters.

Now, that figure is obviously a soft number. I don't know if that is exactly right. But it gives you sort of an idea of the magnitude of the expenses.

If you look at what the Iraqi government has budgeted—had budgeted for this year for the territories where ISIL is currently operating for the delivery of social services, it was well over $2 billion.

Now, nobody expects ISIL to deliver social services to the same extent as the Iraqi government was planning to, but ISIL does try to portray itself as if it were a government that can deliver social services. That is going to be quite a substantial expense.

Mr. PERLMUTTER. Thank you, Mr. Chairman.

Chairman HENSARLING. Under Secretary Cohen, we appreciate your testimony today. We will release you at this time and invite the witnesses for the second panel to please come to the witness table as quickly as possible.

Mr. COHEN. Thank you, Mr. Chairman.

Chairman HENSARLING. Thank you.

We will now turn to our second panel of witnesses, whom I will briefly introduce.

We will first welcome the Honorable Jimmy Gurule, a law professor at Notre Dame Law School. Professor Gurule has notable experience in the field of terrorism and finance, drawing on his 10 years at both Treasury and the Department of Justice.

Next, we will welcome Dr. Matthew Levitt, the Director of the Stein Program on Counterterrorism and Intelligence at The Washington Institute for Near East Policy. Dr. Levitt previously served as Deputy Assistant Secretary for Intelligence and Analysis at Treasury.

Last, but not least, Dr. Patrick Johnston is a political scientist at the RAND Corporation, where he specializes in counterinsurgency and counterterrorism, especially in Afghanistan and the Phillipines.

Without objection, your full statements will be made a part of the record.

I am not sure who has testified before Congress before, but like the traffic light system, we have a green, yellow, and red lighting system. The yellow will go off when you have 1 minute to go. I ask that you each observe the 5-minute time allocation.

Professor Gurule, you are now recognized for a summary of your testimony.

STATEMENT OF THE HONORABLE JIMMY GURULE, LAW PROFESSOR, NOTRE DAME LAW SCHOOL

Mr. GURULE. Thank you, Chairman Hensarling, Ranking Member Waters, and other distinguished members of the House Committee on Financial Services.

Permit me to begin by thanking you for inviting me to testify before the committee on the timely and important topic of primary sources of funding for the Islamic State of Iraq and Syria, also known as ISIS.

To enhance the U.S. Government's counter-terrorist financing strategy against ISIS, I would like to make several recommendations.

First recommendation: Targeted blocking actions. The centerpiece of the Government's counter-terrorist financing strategy is to freeze the assets of suspected terrorists, terrorist-related entities, deep-pocket donors, and other financial supporters and facilitators of terrorism and prohibit such individuals and entities from doing business in the United States. The strategy is a preemptive strategy intended to prevent the financing of terrorist attacks and the killing of innocent civilians.

More specifically, the authority to block ISIS-related funds derives from Executive Order 13224 that was actually issued after the terrorist attacks of September 11, 2001, by President George W. Bush. Unfortunately, the Treasury Department has not yet gained its footing with respect to ISIS-related designations.

The ISIS-related designations by the Treasury Department raised two primary concerns.

First, few individuals associated with ISIS have been designated for asset freeze under Executive Order 13224. This year there have been only four. Two of the designations did not involve individuals involved in any way with terrorist financing. A third individual was a relatively lower level facilitator with respect to moving money from Kuwait to Syria. And then the fourth was involved in raising money from deep-pocket donors and external funding.

None, unfortunately, of the Treasury designations include individuals engaged in any of the major sources of internal funding for ISIS. Absolutely none. I have a very basic fundamental question, and that is: Who is the finance minister for ISIS? Who is he? And why is that individual not on the Treasury list under Executive Order 13224?

It seems to me that there needs to be a direct nexus between the Treasury Department's designations and the principal sources of internal funding for ISIS. Whether, again, we are talking about illicit oil trade, ransom payments, trafficking, trading in stolen artifacts in Iraq and Syria, extortion payments, those are the individuals that the Treasury Department should be focusing on for designating blocking their assets, if any, in the United States.

It seems to me—and I don't know if this is the case—that it would seem to make good sense that there should be financial intelligence teams focused on each of the principal sources of internal fundraising for ISIS.

There should be a financial intelligence team dealing with the payment of hostage ransom payments and where those monies go. There should be an intelligence team dealing with oil—the illicit oil trade and how that is happening, who is involved in that, and designating individuals involved in the illicit oil trade.

Second recommendation: Enhanced terrorist financing prosecutions. There has already been some discussion of this, so I will keep my remarks on this front very brief.

The bottom line is that the Department of Justice has a mixed record on prosecuting terrorist financing cases. Since the September 11, 2001, terrorist attacks, there have been very, very few major terrorist financing cases.

I am aware of one, which there has been reference to, the Holy Land Foundation case. It was a charity and, by the way, a charity that was involved in raising money for Hamas.

I am not aware of any significant terrorist financing prosecutions dealing with terrorist financiers of Al Qaeda and certainly none dealing with terrorist financiers of ISIS.

To increase the number of terrorist financing prosecutions, my recommendation is that the Treasury Department should intensify and accelerate its efforts in sharing financial intelligence information with DOJ so the DOJ has the evidence that it needs to bring criminal indictments against terrorist financiers and take those indictments to successful prosecution.

The last recommendation has to do with the Bank Secrecy Act (BSA). And I would just add that under the BSA, there have been over the last 10 years only two enforcement actions by FinCEN where fines have been imposed on banks for noncompliance with the BSA dealing with terrorist financing. I think that effort needs to be enhanced.

Thank you very much.

[The prepared statement of Professor Gurule can be found on page 71 of the appendix.]

Chairman HENSARLING. Dr. Levitt, you are now recognized for a summary of your testimony.

STATEMENT OF MATTHEW LEVITT, PH.D., DIRECTOR, STEIN PROGRAM ON COUNTERTERRORISM AND INTELLIGENCE, THE WASHINGTON INSTITUTE FOR NEAR EAST POLICY

Mr. LEVITT. Thank you, Chairman Hensarling, Ranking Member Waters, and distinguished members of the committee. It is an honor to be here to discuss this timely and important issue.

The U.S. Government effort to counter the Islamic State, or ISIS, is focused on five mutually enforcing lines of effort, one of which aims to stop ISIS financing and funding. That may prove to be a difficult task in large part due to the differences between the funding models employed by ISIS and Jabhat al-Nusrah or other Al Qaeda affiliates, but not one that is beyond the international community's capabilities.

Combating ISIS's financing is an important component of the international campaign against the only group to be too extreme even for Al Qaeda. Counter-finance tools have been proven uniquely effective both as a means to stem the flow of funds to terrorist groups, but also as sources of actionable financial intelligence that can then be leveraged to even greater success. Sometimes, you let the money flow so you can watch it and tag it.

There is no doubt that in those areas where ISIS financing crosses international borders or leverages the international financial system, especially the formal financial sector, but, banks, but even alternate—alternative financial transfer mechanism, like hawalas—in those cases, the traditional tool set developed in the years since 9/11 will continue to prove to be effective means of countering ISIS financing.

This includes ISIS's income from illicit oil smuggling, donations from those few deep-pocket donors we know about in the Gulf and elsewhere, kidnap-for-ransom payments, efforts to access the antiquities black market to sell looted ancient artifacts and more, but this is unlikely to be enough to fully dismantle ISIS.

Unlike Al Qaeda and other groups, ISIS was financially self-sufficient for about 8 years as a terrorist and insurgent group before committing itself to running a proto-state. Remember that before it renamed itself the Islamic State, it was ISIS, before that, the Islamic State of Iraq, Al Qaeda in Iraq, Majlis Shura al-Mujahidin, Jamaat al-Tawhid wa-l-Jihad. It went through many iterations.

And then, like other groups which are reliant on state sponsors, major donors, or abuse of charities, AQI, now ISIS, was financially independent for years by virtue of engaging in tremendously successful criminal activity enterprises domestically within Iraq.

Today, criminal enterprise still accounts for significant ISIS financing, complementing the group's other lucrative sources of income, especially the sale of illicit oil. But on its own, criminal enterprise is an insufficient source of funding for a group committed not just to terrorist and insurgent activity, but to capturing, holding, and administering territory, which involves significant expend-

itures and, therefore, requires much more significant revenue streams.

Therefore, while it is true that ISIS criminal enterprises within Iraq are currently beyond the reach of traditional law enforcement and regulatory action, we do not have an Iraq Threat Finance Cell on the ground in Iraq like we once did. Focusing even only on those areas that are vulnerable to current tool sets will effectively deny ISIS the money it needs to hold and administer the Islamic State.

Meanwhile, while military tools would, under other circumstances, be the last thing one would think might be—one might think of as a logical means of combatting crime, the fact is that air strikes against ISIS have already significantly undermined some of the group's criminal enterprises, and further such strikes should continue that trend. They don't hold territory. They can't tax people in that territory. They can't abuse domestic resources, et cetera.

And while the prospects of real political reform in Iraq are bleak today, should the Iraqi government at some point re-prioritize governance and the rule of law over sectarianism and corruption, then perhaps local Iraqi law enforcement could at some future point investigate and prosecute ISIS criminal enterprises in their country as the domestic criminal activities they are.

Treasury's ISIS strategy focuses on imposing financial sanctions on anyone who trades in ISIS's stolen oil, inducing our foreign partners to put an end to kidnap-for-ransom payments, targeting external donor networks for sanctions, restricting ISIS's access to the international financial system, and employing targeted sanctions against ISIS's leadership and facilitators.

I think those should be done in those places where it will make the most difference, not where we will feel good about ourselves in the morning. If, in fact, most of those things are happening domestically in Iraq, targeting them with Treasury designations actually doesn't do a thing.

It is a wise strategy using these Treasury tools that we currently have, but I encourage people to look beyond these tools, as I am sure Treasury already is, to envision the kind of tools Treasury and its partners might need to adapt and deal with an evolving illicit financial threat.

I submit there is no agency that does this better, thinking outside the box to develop the strategies needed to deal with tomorrow's threats. Treasury's Terrorism and Financial Intelligence branch did that after 9/11 to deal with the threat of Al Qaeda. It did it in an even more substantial way in 2005, 2006, when it developed tools and strategies to contend with Iran's illicit financial conduct support for terrorism and nuclear proliferation. It came up with the Iraq Threat Finance Cell in Iraq, et cetera. And I expect that we will see similarly creative tools coming up soon.

So, a few policy prescriptions. First, I will say this. There is no silver bullet to dismantle ISIS financing, let alone to ultimately defeat the organization. ISIS presents a unique set of circumstances, and Treasury should continue to do what it does best: assess the situation, and develop new tools to deal with an evolving threat.

But there is circumstantial evidence that Treasury's full-court press is already working far away from Iraq's borders. Consider the case of a jihadist on trial in Germany for joining a group in Syria

allied to the Islamic State who struggled to send funds to the Middle East largely because of measures Treasury and others have put in place.

The court proceedings in Germany and local media reports describe a picture of a jihadist forced to send a member to Europe for supplies because it had become too hard for them to transfer money without being traced.

That is not all. The extremists used the wire transfer service of Western Union to send money around the world, but had become so nervous of transactions being monitored, they were afraid to pick up the money.

So just a couple of—

Chairman HENSARLING. If you could summarize quickly, please.

Mr. LEVITT. Absolutely.

We have to use the military to disrupt the oil, no question, and, also, to move ISIS back from controlled territory so it cannot engage in criminal activities in those areas.

Even though today major donors are not a big part of ISIS financing, as soon as we have more success in cracking down on its existing streams, that will increase.

And so, as I get into in my written statement, we need to focus on Qatar in particular but also Kuwait. The fact that they have passed a new law does not in and of itself mean anything. They need to enforce the law.

We need to isolate ISIS from the national financial system to be sure. But in the long run, at the end of the day, the only way to stop criminal enterprise within Iraq is for law enforcement within Iraq to be able to do the job.

Thank you very much.

[The prepared statement of Dr. Levitt can be found on page 96 of the appendix.]

Chairman HENSARLING. Dr. Johnston, you are now recognized for a summary of your testimony.

STATEMENT OF PATRICK B. JOHNSTON, PH.D., POLITICAL SCIENTIST, THE RAND CORPORATION

Mr. JOHNSTON. Chairman Hensarling, Ranking Member Waters, and distinguished committee members, thank you for allowing me to testify.

Today I will discuss how ISIL accumulated the wealth that made it the richest terrorist group in the world, how ISIL's money amplifies the threat that it poses and challenges and opportunities for degrading its finances.

Before I begin, I just want to note that countering ISIL's funding is both difficult and important. The methods ISIL uses to raise and move money make it a hard target for traditional counter-terrorist finance instruments.

Nonetheless, money is a critical component of all of ISIL's activities, and failing to degrade ISIL financially would increase the threat that it poses both in the region and to Europe, as well as the U.S. homeland.

So in my testimony I want to make three main points. My written testimony contains a fuller discussion of each.

My first point is that ISIL raises almost all of its money within the territory that it controls. This has been discussed already by other members, so I will be belief.

The funding scheme differs from a lot of the terrorist organizations that some of these tools and instruments that Treasury uses now were developed for, and this is challenging, given the way that ISIL makes its money internally, which I will discuss in turn.

I have had a chance to look behind the curtain, to a degree, through some historical documents that were captured during the second Iraq war between 2005 and 2010 from—that were captured from the Islamic State of Iraq before it became the Islamic State of Iraq and the Levant.

And these documents show with meticulous detail how the group raised money during this period and how the group spent money, and they were fairly comprehensive over certain time periods in 2005 and 2006 and 2009 and 2010.

And what these documents show, I think really importantly, are two different things. One is that this group has been making its money, at least in Mosul, in basically the same way for at least the last 6 years and probably longer.

So this is nothing new, despite the change in the group's name and it creeping up on the United States and the world after the U.S. withdrawal, but the group has been there and using a lot of the same kinds of methods that it is using now.

Now, the main difference in really what is going on in Mosul and with ISIL is the scale at which it raises funds. And so what we are able to see through looking at the group's captured financial ledgers is that, in Mosul, in 2008 and 2009, the group, known then as the Islamic State of Iraq, was making about $1 million total per month, on average. And now, as we know, just from oil revenues alone, revenues have been estimated between $1 million and 3 million per day.

So it is an enormous increase and one that I think needs to be appreciated when we think about how threatening we viewed Al Qaeda and Iraq and the Islamic State of Iraq and then, with the additional finances that the group has now, what that might mean for their capabilities and then also for their ability to sustain a long-term protracted fight against various enemies.

There are real challenges in disrupting ISIL's finances through targeted sanctions against its leadership and restricting its access to the international financial system. I think that Under Secretary Cohen is correct that key individuals involved in financial activities that benefit ISIL should be targeted for sanctions and that ISIL—it does benefit from access to the international financial system.

But these facts don't negate another fact, which is that a large share of ISIL's revenue is made internally. It is moved through informal channels or in cash by networks of intermediaries, among other methods that are used. And all of these methods combined make it difficult to collect the precise financial intelligence that is necessary to effectively apply targeted sanctions.

Absent such intelligence, we are left with a fairly blunt set of financial instruments at our disposal that are unlikely to cut off ISIL from key revenue sources that could sustain the organization for the next several years or longer.

My third point covers a few things that could be done to disrupt and degrade ISIL's internal financing. And so this refers specifically to extortion and various types of crime.

Robust partnerships with local, regional and U.S. Government interagency partners will be necessary to collect the high-quality intelligence on ISIL's local funding sources, methods.

Several steps could be taken, including enhancing intelligence cooperation with Kurdistan and Iraqi partners to identify oil facilitators, prioritizing collection on the quantities and prices of oil over time that facilitators and intermediaries are smuggling to maintain basic situational awareness of ISIL's financial capabilities as an early warning of sorts, and identifying and monitoring all external contracts for areas in and around the territory that ISIL controls, allowing action to be taken to reduce ISIL extortion revenue by stopping these contracts if they are not absolutely necessary for the population's well-being.

So just to recap, the three main points are the importance of ISIL's internal funding scheme, the challenges associated with targeted financial sanctions and efforts to cut off a group like ISIL's access to the international economy, and to use this as sort of the primary tool kit to degrade the specific threats, financial capabilities, and an improved financial intelligence as a way ahead to understand the threat better and then to conduct targeted operations, whether by Treasury, DOD, or other agencies.

Thank you.

[The prepared statement of Dr. Johnston can be found on page 86 of the appendix.]

Chairman HENSARLING. I want to thank each of the gentlemen for their testimony.

The Chair now recognizes the gentleman from Pennsylvania, Mr. Rothfus.

Mr. ROTHFUS. Thank you, Mr. Chairman.

Professor Gurule, you talked a little bit about the specially designated global terrorists and that we have only had four identified, I think, with ISIS, and you made a good point about who is the finance minister for ISIS.

Can you just give us a little historical context going back to the early 2000s when you were in public service and individuals we would have been identifying within Al Qaeda just to compare and contrast?

Mr. GURULE. Thank you for the question.

First of all, we have to keep in mind that the method of raising money by Al Qaeda is very different than the method that ISIS uses to raise money.

Al Qaeda relied almost entirely on external sources of funding. And so, for example, we focused on corrupt charities that were raising money for Al Qaeda and related affiliated terrorist groups.

And when I was Under Secretary, I think we designated as specially designated global terrorists over 20, maybe—actually higher than that—probably closer to 40—charities for that purpose. But, again, the focus was on external sources.

ISIS is very different. It is principally a self-funded organization. And so what Treasury has to do is they have to pivot. They have

to refocus. They have to recalibrate their efforts to the dynamic that they are currently facing with respect to ISIS funding.

And my point is I think they are struggling to make that change, to make that adjustment, and it is borne out by the fact that we only have—there are only four designations today.

Mr. ROTHFUS. Do you believe that there would be individuals that Treasury would be aware of today that could be designated?

Mr. GURULE. I would certainly hope so. Because, if they are not, then the situation is even more dire than it appears.

Mr. ROTHFUS. We have talked a little bit with the Under Secretary and other panelists have mentioned some of the countries in the area, and I wonder if each of the members of the panel can address this.

The Under Secretary talked about how there is still more work that needs to be done, for example with Qatar and what they are doing. We talked about the charity law that Qatar has in place. I think the Under Secretary had previously made statements about Qatar and Kuwait being permissive jurisdictions for terrorist financing.

What kind of things could these countries be doing now that they are not doing today?

Mr. LEVITT. A lot. Mostly these are countries that have passed fantastic laws on the books when you look at them black and white on paper.

I have gone to the Middle East many times, and sat with some of these individuals. They have given me enough copies—hard copies, soft copies—that I could wallpaper my house with them.

But when you get them privately and you ask them, "This is a great law, 3.1. Have you ever implemented it?" "No." "Have you ever used this?" "No."

There are very few cases, especially in Kuwait and Qatar, of any type of implementation, even the case that the Under Secretary was able to point to earlier, a case where Qatar did deport someone.

They didn't prosecute the individual. They didn't hold the individual accountable. The individual was deported and is now presumably continuing that activity from someplace else.

I get into Qatar in great detail in my written report with the concerns—the Financial Action Task Force, the International Monetary Fund and others, including people who have gone to Qatar and investigated, like myself, with their ability to implement. There are similar concerns about Kuwait.

If I could just add on the question of the SGDTs, we lose—what we should not be asking Treasury is to designate as many people as possible. What we want Treasury to do is to designate as many people as possible when designating them would have an impact.

There is an innumerable number of people around the world related to ISIS and other groups that you could under that—the threshold—hit the threshold—legal threshold and you could designate them.

But they don't have assets here. They don't have assets around the world. In this case, they are doing things domestically in Iraq. It would not make a difference just to add them to the list.

What we want to do ultimately is to make a difference. So what we need to be doing in particular is not just focusing on the guy who today has the title of finance minister and is in Iraq doing things only within Iraq, but those middlemen who are facilitating oil payments or anything that crosses borders. That is where these designations have teeth.

Mr. ROTHFUS. Are there leverage points that Treasury—or anywhere in the Administration that we could use to encourage, whether it is Kuwait, Qatar, or Turkey or other countries in the region, to follow through?

Mr. GURULE. I think there are. One of the concerns that I have is whether or not these vast sums of money that are being generated internally by ISIS are entering banks in Qatar and that we should be scrutinizing and working very closely to ensure that those banks are implying the—or applying the relevant anti-money-laundering, terrorist financing regulations that they should.

And, if not, perhaps their banking licenses—if they have U.S. branches in the United States, perhaps those banking licenses should be revoked or other restrictions should be imposed on their ability to do business in the United States.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Massachusetts, Mr. Lynch.

Mr. LYNCH. Thank you, Mr. Chairman.

And I want to thank the panel. Thank you very much. You have all helped us enormously today.

Dr. Johnston, I had a chance to read some of your earlier stuff back in August and then your testimony today. You indicate today that you believe there might be a surplus—that ISIS might have a surplus of about $2 billion.

How do you think they are holding that from a custodial sense? How do you think they hold that reserve of about $2 billion?

Mr. JOHNSTON. So, this is purely speculation. But I think the easiest way to hold it would be in the banks that it overran when it overran Mosul and to be able to store the money securely in a facility that is intended to store money of a high quantity, I think, is a reasonable guess. But there could be wide distribution of it. It could be in other countries. And so I suspect it is some of each of those.

Mr. LYNCH. Yes.

The one vulnerability they have now that traditionally terrorist organizations have not had is that they have to defend their turf.

And I know that your report—I think all of you have hit on this, that our response to the traditional financing of Al Qaeda, as the Professor has outlined—our response was really sanctions and restrictions on proper banking practices and things like that, anti-money-laundering statutes.

But the way that ISIS is operating now, they are internally generating this revenue. So they are not relying principally on Qatar or Saudi Arabia as Al Qaeda did in the past. So we really have to get at the oil revenue.

I understand, Professor, in your report that you indicate the second largest source of revenue for ISIS is the selling of antiquities, but that is an—I think they will exhaust that at some point. It is

really the oil that is going to be their—if they are going to have a sustainable system here and organization, it is going to be the oil.

How do we get at that, Dr. Johnston, in terms of our strategy? I know that we are doing targeted missile strikes and bombings. But to really take away the capacity to produce oil, you have to occupy the ground. And I am just curious if you think that our current strategy that really looks at population centers like Mosul is the right strategy.

Would it not be better for us to encourage the Iraqis and the Kurds to really focus on the oil production areas and try to take them away from ISIS control?

Mr. JOHNSTON. Thanks for the question.

I think that the appropriate way to do this is pretty much what is being done right now, actually, and that is using air strikes to limit the freedom of movement and ability to move oil and smuggle it as easily as ISIL was able to before the air strikes started, meanwhile buying time for an advise-and-assist effort and capacity-building effort to try to stand up, in some cases, local security forces or the Iraqi Army to conduct effective operations essentially to push ISIL back from the territory that it has controlled.

Mr. LYNCH. I appreciate that. And I don't mean to cut you off.

But from 2003 to 2011, we spent $24 billion, the United States taxpayer—we spent $24 billion training 938,000 Iraqis how to fight and to equip them, train them. And here we have 30,000 Sunni that are overrunning the country and Syria.

And I just—in the race against time, as this ISIS gets stronger and stronger, we are back again with this training operation. And I just—I just have some misgivings about—what is that saying? That the definition of insanity is doing the same thing over and over again and hoping for a different result?

I have just a little bit—I think the training piece in Kurdistan where we did not train before is probably money well spent, but I am a little skeptical about what we are doing with the folks we trained already.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Kentucky, Mr. Barr, for 5 minutes.

Mr. BARR. Thank you, Mr. Chairman.

Let me just direct this first question to Dr. Levitt. Would you assess that the primary source of revenue for ISIL is the oil revenue?

Mr. LEVITT. By far.

Mr. BARR. Okay. And so how effective have U.S. efforts been so far—the coalition's efforts been so far at targeting the middlemen in Iraqi—the Iraqi Kurds or the Turkey—to the Turkish elements that are—that constitute the middlemen? How effective have we been at identifying those middlemen that are delivering the oil to other parties?

Mr. LEVITT. There is very little in the open source about it. When I talk to people privately, my understanding is there has been some progress in identifying these people. Then it takes some time to put together packages and fully get to the point where you can actually designate somebody. But I expect that those types of designations will be forthcoming.

We have seen more success in working with partners in places like Turkey and in the Kurdish areas in the north of Iraq where the problem isn't so much criminal middlemen, but corrupt politicians who are involved in this as well.

Keep in mind these are oil-smuggling routes and individuals have been involved in this for years since the Oil-for-Food Programme. And so combatting something that has that kind of traction is difficult.

Mr. BARR. What about air strikes with these mobile refineries? How effective has that been so far?

Mr. LEVITT. The Military says they have been very, very effective. And if you look at the numbers, we at one point were saying that ISIS was making as much as $3 million a day, and now most say about a million, maybe even a little less.

So I would that is about a two-thirds reduction. That is tremendously successful, nowhere near where we need to be yet, but very much headed in the right direction.

Mr. BARR. And to follow up on Mr. Lynch's line of questioning, is there any way—even if we have had some modest success with respect to these mobile refineries and the air strikes, is there any way that we can truly combat—or is it practical to believe that we can truly combat the source of oil revenue without retaking identifiable oil fields from ISIL control?

Mr. LEVITT. To fully deal with the problem, you are going to have to retake the oil fields. But even short of that, if you can deny your adversary the ability to extract, to move, to refine that oil, if they are sitting on it, but not making money on it or only making as much money as they can make domestically, which is happening already, in some cases, then you can further degrade their capabilities.

Mr. BARR. And how well do we know whether or not the Assad Regime is a primary purchaser or a small purchaser of some of this illicit oil trade?

Mr. LEVITT. My understanding is there is no question but that the Assad Regime purchases ISIS oil, has been doing so for some time. Keep in mind we are talking about oil fields on both sides of the border.

In fact, one of the points I didn't get to in my oral remarks is the need to make sure that we are doing things—including doing things combatting their financing not only in Iraq, but also within Syria. But the extent of that, which I am sure fluctuates, I don't know exactly.

Mr. BARR. What about Turkish cooperation with respect to the oil trade?

Mr. LEVITT. My understanding is that Turkish cooperation has increased significantly. It is going to be difficult, though. As I said, this is something that has been going on for years and years and years.

The price of oil in southern Turkey is very expensive per liter, more expensive than if you have ever rented a car in Europe. That says something.

And so there is a built-in supply and demand. Even at the sharp discounts that people are selling the oil for in southern Turkey, you

can still make a profit because the market will bear it because market oil is so high.

Mr. BARR. A quick final—shifting gears to the issue of kidnapping for ransom, Under Secretary Cohen's testimony was that it has been U.S. policy for many years to refuse the payment of ransoms or make other concessions to hostage-takers.

Can any of you assess how the release of the five Taliban war criminals from Guantanamo in exchange for Sergeant Bergdahl impacted the U.S. position with respect to sending that signal to partner nations?

Mr. GURULE. My response is that it wasn't helpful. I think it is inconsistent, and I think it is sending a mixed message to our European allies who we are being critical of—France and Spain—for making ransom payments for the release of ISIS hostages. I think it, again, was counterproductive and it undermines our effort.

At the end of the day, this is a significant—it may not be the most significant source of ISIS funding, but if ISIS is making $20 million a year—or up to this point, this year, $20 million, that is significant, and we need to undercut that ability. And when we are engaging in this type of conduct, I think it is counterproductive.

Mr. BARR. Thank you.

I yield back.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Wisconsin, Mr. Duffy, for 5 minutes.

Mr. DUFFY. Thank you, Mr. Chairman.

A lot of topics have been covered today. But my concern with the Administration is its initial designation of ISIS as being a "JV team."

I looked at the strategy of the Administration in regard to its mission to disrupt, degrade, and defeat ISIS. I take issue with the way they lay they out. I wish they would just say, "We are going to defeat ISIS."

But spending $500 million in trying to train 500 "moderate" rebels to take on 40,000 to 80,000 jihadists doesn't seem like a sound strategy to defeat this group of radicals.

And then, as I think it was Mr. Rothfus who indicated, on average, seven bombing missions a day compared to what we had previously done in prior engagements seems far too little and somewhat too late.

So my concern has been with the Administration's strategy, and I am concerned that the lackluster approach that I have just referenced is also taking place on the finance side.

Does the panel think that Treasury has been adequately engaged on the terror finance side of disrupting the money that flows to ISIS?

Mr. Gurule?

Mr. GURULE. As I stated in my opening statement, I think they are struggling. And I think certainly they have good intentions and they—

Mr. DUFFY. Treasury is struggling.

Mr. GURULE. —but I think they are struggling with gaining their traction, gaining their footing. That is reflected in the low number of designations.

Mr. DUFFY. Right.

ISIS isn't struggling. Treasury is struggling. Is that—

Mr. GURULE. Treasury. Yes.

Mr. DUFFY. To the panel, I think Mr. Pearce asked this question, but I am maybe a little bit confused.

Moving oil is not like moving nuggets of gold or diamonds. Right? It is a pretty—there is a large quantity of oil that has to be moved from the oil fields and/or the refineries. Is that correct?

Mr. GURULE. We are talking about 20,000 to 30,000 barrels a day. Now, there may be some—it is not an exact figure, but it is a significant amount of oil that is being transported every single day.

Mr. DUFFY. And once it is sold, I understand it can be more difficult to identify those who are participating in the finance side and the purchase side and the middleman side of oil.

But does it seem impossible that we couldn't bomb tankers of oil as they leave the refinery or leave the wells? Why aren't we engaging in military action to destroy the oil as it leaves? Is there—I just don't have the answer to that question. Why aren't we doing that, to anyone on the panel?

Mr. Levitt?

Mr. LEVITT. I don't have the answer to that. It is more of a military question than not. My guess is that, if it were that simple, we would be doing it, because there is no one who disagrees with the premise of what you are saying.

Sometimes, they are small trucks. I think that people watch too much TV and think that we have complete aerial coverage of everything that is happening at all times. But I don't have the perfect answer to your question.

I would just say that I am absolutely certain that the approach at Treasury is not lackluster in the least. People are working very, very hard on these issues. It is the nature of the problem that they are facing.

If what Congress really wanted them to do is just designate 40 people, we could do that tomorrow.

Mr. DUFFY. But I am not saying that.

We are moving large quantities of oil, and we have drones in the air. We have air superiority. That we can't take that out is somewhat of concern.

And we are not dealing with a small terror network either. We are dealing with large amounts of money. And I would imagine that it is easier to trace large amounts of money than a few million dollars here and there to different terror networks.

We are talking about hundreds of millions of dollars. Right?

Mr. LEVITT. Correct. And while you are—yes. I would just challenge the idea that we have complete coverage everywhere at all times, but it is better asked to a military person.

Mr. DUFFY. Fair enough. I want to switch to another topic.

The United States and Turkey are co-leading an initiative within the Financial Action Task Force. Are you all aware of that?

Is it fair to say that Turkey was just removed from the gray list from that task—from the task force?

Mr. LEVITT. That is right. And that was a lot of Treasury and other work to get them listed and then to get them to the point where they could be de-listed.

At the end of the day, though, we don't have a choice as to who sits on the borders of Syria and Iraq. And so, if you can get Turkey not only to get off that list, but now to be helpful on this—which, by the way, isn't a favor to us—this is on their border, not ours—then that is a good thing.

But you are absolutely right to expect that we need to sit on them very, very carefully.

Mr. DUFFY. And so, looking at Turkey, Kuwait, Iraq, Qatar, are we applying adequate pressure to those countries to get them to engage with us on the finance side of ISIS?

Mr. GURULE. I think there is always more that can be done. And one of the points that I made in my written testimony is I think that there has been ineffective or inadequate use of the BSA enforcement actions.

Under the BSA, FinCEN can impose significant civil fines on banks that are not complying with the counter-terrorist financing regulations. And with respect to counter-terrorist financing, I think Treasury, FinCEN, has done a pretty good job on the anti-money-laundering side.

But with respect to designating—or I should say fining banks that are not in compliance with the terrorist financing regulations, I have only identified two banks in the last 10 years, and those include the Arab Bank and the Doha Bank from Qatar. So I think we can be doing—Treasury could be doing a much better job in that area.

Mr. DUFFY. Thank you. My time has expired.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from California, Mr. Sherman.

Mr. SHERMAN. ISIS rules territory and extracts money from that territory. That is probably its biggest source of revenue. The lights are on in Mosul. Okay. Not all the time. But electricity continuity is shoddy in much of Iraq.

Before this outbreak, a lot of the electricity for Mosul came from the Mosul Dam. Is that dam still providing electricity to those living under ISIS? Does anyone have an answer? Is ISIS collecting money from the people who receive that electricity?

Dr. Levitt?

Mr. LEVITT. Yes. My understanding is that the dam isn't under their control. They are not—

Mr. SHERMAN. I know.

Mr. LEVITT. —getting money from any of it.

Mr. SHERMAN. They don't control the dam. But how are they getting the electricity for Mosul?

Mr. LEVITT. My understanding is that the government that controls the dam is still allowing electricity to go into the city because there are citizens who live there.

Mr. SHERMAN. And that is basically the point. The electricity goes into Mosul. ISIS collects for that electricity—

Mr. LEVITT. I don't know that that last part is true.

Mr. SHERMAN. We do know that they are in a position to collect for the electricity.

Mr. LEVITT. We know that they are in a position to tax for anything they want.

Mr. SHERMAN. Right. They tax—

Mr. LEVITT. For the air they breathe or anything else, but I don't know that there is anything—

Mr. SHERMAN. When we were serious about World War II, we didn't provide electricity or food or anything else to the people of France when they lived under Nazi occupation. Yet, you are saying the Iraqi government is providing electricity to Mosul.

Is the Iraqi government being paid for that?

Mr. LEVITT. I don't know. But I think that the Iraqi government—

Mr. SHERMAN. So it supports the economy of Mosul and the other areas under ISIS control. ISIS then taxes those people. And it is very hard to wage war if you supply strategic assets to areas under enemy control. I have never seen that done in a war in the past.

Mr. LEVITT. I hear your point.

I just say we are short of world war right now. And if you want one sure way for the central government in Iraq to go even further to losing the support of more of their constituencies, deny electricity to Iraqi citizens who are—

Mr. SHERMAN. So let me get this in.

You supply the economy under ISIS's control. ISIS then taxes that economy, and that is—did we lose the hearts and minds of those who were resisting Nazis because we not only did not provide free food or electricity to the people of France—obviously, electricity wouldn't have worked, but food—but, in fact, we prevented food imports in France? Didn't we retain the support of the civilian population that was under Nazi occupation? Is there any other war you could point to where free electricity goes from one side to the other?

Mr. LEVITT. Again, unless you have information, I don't know that it is free electricity. I don't know if they are taxing electricity. But this is a deeply sectarian war more than anything else. And so the further you make divisions between the sectarian communities in Iraq, the worse it is going to be.

Mr. SHERMAN. So you are for a policy of supporting the strategic elements of the economy under ISIS control. That is certainly—

Mr. LEVITT. I think you know that is not what I said.

Mr. SHERMAN. What?

Mr. LEVITT. I think you know that is not what I said.

Mr. SHERMAN. You can clarify for the record in writing what your position is.

Now, I guess that would also apply to petroleum. If you are in favor of the lights being on in Mosul, then people ought to be able to drive from north Mosul to south Mosul.

We are preventing them from exporting oil. Have we done everything possible to prevent them from producing enough oil for the civilians under their control?

Professor Gurule?.

Mr. GURULE. Again, I think this is, as we have already discussed, a very important source of income for—

Mr. SHERMAN. I am not talking about exporting the oil. I am talking about providing for the millions of civilians under their control.

Mr. GURULE. I don't think it has been a priority. I don't think it has—

Mr. SHERMAN. So turning off—we did not hesitate to bomb oil fields during World War II. We did not think that making sure that the people of France could drive around Paris was essential to retaining the support of those civilians.

The idea that there would be people driving civilian cars in Mosul, but that somehow the tanks now captured by ISIS would not have—obviously, a lot of this hearing is focused on the oil exported by ISIS, but ISIS has no shortage of oil for its own military operations and even for the civilians under its control.

I yield back.

Chairman HENSARLING. The gentlemen yields back.

The Chair wishes to announce that we will clear the remaining three Members who are in the hearing room and then we will adjourn the hearing.

The Chair recognizes the gentleman from Virginia, Mr. Hurt, vice chairman of our Capital Markets Subcommittee.

Mr. HURT. Thank you, Mr. Chairman.

And I want to thank the witnesses for providing testimony today.

I represent Virginia's 5th District. And I can tell you that most of the people that I represent have concerns about the way this Administration has approached this crisis in Syria and Iraq, and I think that there is a lot of concern that the Administration either didn't know or ignored critical information that could have prevented us from being in the situation that we find ourselves.

With that said, I was interested in the testimony of each of you as it relates to the hard work that goes into identifying those who should be subject to the sanctions that are allowed by U.S. law and law of other countries, and it strikes me that information has to be gathered, really, on the ground and it has to come to Treasury through, again, Department of Defense and intelligence agencies who are in the business.

And so I guess my question is, after listening to Under Secretary Cohen for 2 hours, I came away with a little concern that maybe he is not, and Treasury is not at the table as much as he indicated that it was.

And I wanted to start with you, Dr. Johnston, and then maybe get comments from the other two witnesses.

But my question is this. Secretary Cohen indicated that he was, I think in his words, at the table. There were a lot of questions he couldn't answer, and perhaps that is the nature of an open meeting like this in an unclassified setting.

But I do wonder whether or not he is getting the cooperation and the precise information about these targets from intelligence agencies and from the Defense Department and is he getting what—is Treasury getting what it needs to be able to make these decisions and impose these sanctions?

And then, secondly, if not, what can be done to make sure that Treasury is at the table? Because I think we all agree, those of us

sitting here today, that stopping the financing is extremely important.

So, Dr. Johnston, if I could start with you?

Mr. JOHNSTON. On the first part of the question, I think it is hard to say the extent to which he is at the table for any given decision.

But my sense is that the Treasury has done extremely well in working with interagency partners, to include the Department of Defense and various parts of the intelligence community, to get the capabilities that it needs to make the impact that is desired for policy outcome.

Mr. HURT. Why do you say that, though? Can you just explain that?

Mr. JOHNSTON. Since 9/11 and the realization that terrorist financing really matters, and that to disrupt terrorist networks and terrorist attacks, going after their financing is really a useful instrument to have among the various tools that we have.

Treasury couldn't do it alone. It didn't have the capacity. And it has worked successfully with interagency partners in Iraq, among other places, during the second war.

But I think that for the purposes of the current Treasury effort, it is still a young effort, and I think that, really, their programs and approach is kind of still developing.

And I think that we will see more as the policy becomes clearer and kind of the overall posture and footprint that the Administration wants to have becomes clearer. Treasury's role and the—

Mr. HURT. Okay. Thank you.

Just briefly—we only have a few seconds—but the question is: Are they getting enough information? Are they at the table? And, if not, how do we—what can we do, as a Congress, to help that out?

Mr. LEVITT. I think the portion where Mr. Cohen was saying that he was at the table, but he couldn't answer the questions, was on military strikes. And I don't think they are at the meeting where specific targets are being selected.

But not only are they at the meeting at the senior level, his level, at the Assistant Secretary level, but Treasury now has its own office of intelligence and analysis, which I once helped run. And because of that, they are not only getting information from, they are actually part of, the intelligence community in every way.

So part of the problem is not that there has not been enough effort, it is not that there are not enough people at the table, but that developing the intelligence takes time. It is an excellent question as to why we are only developing that intelligence now. That is a very strong question.

But the interagency structure, the way people from other agencies and departments are located at Treasury and vice versa means that they are at the table.

Mr. HURT. Thank you, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair recognizes the gentleman from Pennsylvania, the vice chairman of our Oversight and Investigations Subcommittee, Mr. Fitzpatrick.

Mr. FITZPATRICK. I thank the chairman.

And I have a question for Dr. Levitt or perhaps any of the witnesses who might want to answer about the mobile refineries.

What do they look like? More importantly, where are they coming from? Who is manufacturing them? And how are they delivered to the regions where the oil fields exist?

Mr. LEVITT. I would love to know that, too.

I am not an oil expert, so I can't answer this in any detail. But I think it is quite clear that these were there already. It is not something that suddenly has been imported into Iraq from someplace. This is a capability they have had.

Apparently, they are relatively low tech. So you put—it is a very small refinery put in the back of a truck. But more than that I don't think.

Mr. FITZPATRICK. Do you believe they are manufactured in that region or are they being imported from somewhere else?

Mr. LEVITT. My understanding is that this is something that is slapped together. And so it is being put together by people right there. I don't get the sense that this is something that is being imported.

And to the extent that I am wrong, that this is something more sophisticated that needs to be imported, my sense is that this happened some time ago. This is stuff that has already been there in Iraq.

Mr. FITZPATRICK. And then, once the oil is refined, you have testified that the Assad Regime is purchasing some of that oil.

Some of it is being smuggled into the southern region of Turkey, where you said the price of gasoline is higher than we would expect here or you would see in Europe. If you are purchasing barrels of oil at $30 or so a barrel, you have reason to know that this may be illicit oil.

Are we doing enough at Treasury, the United States, our intelligence agencies, to determine who the middlemen are that are purchasing oil at $30 a barrel and then make sure that we are following that money into what accounts?

Mr. LEVITT. That is exactly what Treasury and others are doing, identifying those middlemen. That is, I think, what Under Secretary Cohen was referring to, and it is what I discussed more explicitly in my testimony.

I think there is also a significant more diplomatic push to get the Turks to do more in southern Turkey. People know that this is illicit oil. They really don't care.

Oil costs so much there, people are—have been for years putting basically garden hoses across to Orontes River and just air-pumping oil from the Syrian side to the Turkish side. There is lots of ingenious ways that this is being moved and there is a market for it.

There are lots of ingenious ways that this is being moved and there is a market for it.

Mr. GURULE. One of the concerns that I have or the banks that are helping move the proceeds, the profits from the sale of the ISIS oil, if in fact ISIS is making between $1 million to $2 million a day, that money is not being transported in shoeboxes and placed under somebody's mattress.

That money has to be entering into the financial system at some point, and I think we need to do a better job. The Department of Justice—the Department of the Treasury, needs to be doing a better job or intensify its efforts, let me say that, to identify the financial institutions that are knowingly receiving and transferring ISIS-related funds.

Mr. FITZPATRICK. So where are the gaps in the system then?

Mr. GURULE. One of the gaps could be the fact that some of that money may be going to Iraqi banks. I think principally foreign banks, and of course, the United States' lack of control over foreign banks, banks in Qatar, banks in Kuwait, banks in Iraq. I think that is the difficulty. But at the same time that those banks have U.S. branches in the United States, we do have control over those. So there would be an opportunity where we could exert greater leverage with respect to the U.S. branches to ensure that the foreign banks aren't being used to move ISIS, oil money.

Mr. FITZPATRICK. Nothing further, thank you.

Chairman HENSARLING. The gentleman yields back.

The last Member to be recognized will be the gentleman from North Carolina, Mr. Pittenger.

Mr. PITTENGER. Thank you, Mr. Chairman.

Professor Gurule, in your testimony you stated that there were only two banks which had violated our Bank Secrecy Act, the Arab Bank in Jordan, and the Arab Bank in New York, if I heard correctly, and that is just over the last 10 years. Is that as a result of our lack of capacity to track these folks, or are there others who are complicit that we haven't been successful yet in tracking?

Mr. GURULE. That is the question. The question is why is it the FinCEN I think has done a fairly good job in terms of sanctioning banks that do not have compliant AML, anti-money-laundering regimes, that comply with the BSA.

But with respect to counter-terrorist financing, it doesn't seem to be a priority, and I wonder, is that because of a lack of resources, personnel within FinCEN? Maybe there are just not enough bodies to be engaged in oversight with respect to whether these banks pose a high risk for terrorist financing, or perhaps the weak spot may be with the other Federal regulators; that the other Federal regulators aren't focusing and emphasizing on whether or not these banks are in compliance with the counter-terrorist financing regulations under the BSA.

But it seems to me that it is unacceptable that we could have only two banks, where if you look at the actual orders issued by FinCEN, the only two banks where I could find references in those orders to threats regarding terrorist financing.

Mr. PITTENGER. Yes, sir. In that light, as we look at our partners throughout the world, we have relationships with them, many of whom we given the tens, and even hundreds of millions of dollars of foreign aid, it is always of concern to me of how we are not honored by our relationships with our partners, and particularly in this situation that is so critical for our national security and for theirs as well.

To what extent, what would you advise us as a Congress in going forward in how we could put greater pressure on these respective

countries and their banks to be in compliance with our BSA requirements?

Mr. GURULE. One point that I haven't made in my testimony today, has to do with the Antiterrorism Act. And it does have a civil provision that authorizes private litigants to bring civil tort actions against individuals who commit actions of international terrorism. And I think that statute could be enhanced through amendment to make it a more effective remedy for victims of terrorism including people and entities that aid and abet terrorists. For example, banks that knowingly provide financial services and transfer money to suspected terrorists.

There is a problem. There are several problems with the current legislation as it stands. One, it doesn't explicitly authorize aiding and abetting, and if we are going after the banks, they are really the aiders and abetters. So the plaintiffs are left with the dilemma of having to prove that the bank is primarily responsible for the acts of international terrorism through secondary action by being an aider and abetter with respect to the acts of terrorists.

So I think in that way we could unleash the plaintiffs, we could unleash an army of litigants to go after banks and charities and other entities that are facilitating the financing of terrorism. And again, I think from an equitable standpoint, it is the right thing to do. These are victims. These are the surviving family members of victims of violent actions of terrorism.

Mr. PITTENGER. Thank you, I yield back.

Chairman HENSARLING. The gentleman yields back.

There are no other Members in the queue, so I want to thank our witnesses for their testimony today.

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

This hearing stands adjourned.

[Whereupon, at 1:07 p.m., the hearing was adjourned.]

A P P E N D I X

November 13, 2014

QUESTION FOR PANEL
THE HONORABLE RUBÉN HINOJOSA
11/13/2014
FINANCIAL SERVICES COMMITTEE HEARING
"TERRORIST FINANCING AND THE ISLAMIC STATE"

THANK YOU CHAIRMAN AND THANK YOU TO OUR DISTINGUISHED PANELISTS FOR BEING HERE TODAY TO INFORM US ABOUT ISIL AND HOW THEY ARE BEING FINANCED.

THE ISLAMIC STATE OF IRAQ AND THE LEVANT (ISIL), AN ORGANIZATION THAT HAS PROFITED FROM INCREASING INSTABILITY IN SYRIA AND THE MIDDLE EAST, HAS BECOME THE MOST DANGEROUS TERRORIST ORGANIZATION OPERATING IN THE WORLD TODAY. OF GREAT CONCERN IS THE FACT THAT NOT ONLY IS ISIL ABUSING AND COERCING THE LOCAL POPULATION IN IRAQ TO PROVIDE FUNDS FOR THEIR OPERATIONS, THEY ARE ALSO SEEING INCREASING AMOUNTS OF FUNDS BEING DONATED FROM OVERSEAS TOWARDS THEIR OPERATIONS.

MEMBERS OF ISIL HAVE BEEN KIDNAPPING AMERICAN AND EUROPEAN JOURNALISTS, TORTURING THEM AND THREATING THEM WITH DEATH, SHOULD THEIR FAMILIES OR GOVERNMENTS FAIL TO PAY THEIR RANSOMS. THIS IS MOST TROUBLING. THE UNITED STATES HAS ALWAYS HAD A POLICY OF NOT PAYING RANSOMS TO TERRORISTS MAKING DEMANDS AND WE MUST WORK WITH OUR EUROPEAN ALLIES TO ENSURE THAT THEY TOO ADOPT SUCH A POLICY.

THE UNITED STATES SHOULD WORK WITH ITS ALLIES TO STEM THE FLOW OF FOREIGN DONATIONS THAT ARE FUNDING ISIL'S OPERATIONS. WE MUST AID IN EQUIPPING THE GOVERNMENT AND MILITARY OF IRAQ SO IT CAN NOT ONLY TRACK ISIL'S FUNDING WITHIN IRAQ, BUT ALSO TAKE ACTION TO STOP THE FLOW OF FUNDS TO THIS GROUP. I URGE MY COLLEAGUES IN CONGRESS TO PRESSURE THE ADMINISTRATION TO STAY ON TOP OF THIS ISSUE AND TO CONTINUE THEIR EFFORTS TOWARDS THE DESTABILIZATION OF ISIL'S FUNDING SOURCES WHILE ALSO KEEPING AMERICANS AND OUR ALLIES ABROAD SAFE FROM THE CLUTCHES OF THIS TERRORIST ORGANIZATION.

I LOOK FORWARD TO HEARING THE TESTIMONY OF OUR PANELISTS AND THEIR RECOMMENDATIONS. THANK YOU.

QUESTIONS FOR UNDERSECRETARY COHEN:

- UNDERSECRETARY COHEN, WHAT TOOLS DOES THE TREASURY DEPARTMENT HAVE TO COMBAT THE PAYMENT OF FUNDS NOT JUST FROM GOVERNMENTS BUT FROM PRIVATE INDIVIDUALS FOR KIDNAPPING RANSOMS?

- A RECENT ARTICLE IN THE NEW YORK TIMES ELABORATED ON A LAWSUIT BROUGHT BY PRIVATE INDIVIDUALS TOWARDS WALL STREET AND SEVERAL INTERNATIONAL BANKS FOR TRANSFERRING BILLIONS OF DOLLARS ON BEHALF OF IRAN TO TERRORIST GROUPS. DO YOU FEEL THAT BANKS ARE DOING ENOUGH TO STOP THE TRANSFER OF MONEY FROM PRIVATE ACCOUNTS TO ISIL AND OTHER TERRORIST ORGANIZATIONS?

PANEL II QUESTIONS

QUESTIONS FOR MR. JOHNSTON:

- **CAN YOU ELABORATE ON HOW ADEQUATELY OR INADEQUATELY EQUIPPED THE GOVERNMENT OF IRAQ IS TO TRACK ISIL'S FUNDING SOURCES?**

- **HOW CAN THE US GOVERNMENT HELP THE GOVERNMENT OF IRAQ TO STOP ISIL'S FUNDING?**

Written Testimony of David S. Cohen

Under Secretary for Terrorism and Financial Intelligence

United States Department of the Treasury

House Committee on Financial Services

"The Islamic State and Terrorist Financing"

November 13, 2014

Good morning. Chairman Hensarling, Ranking Member Waters, and distinguished members of the committee: Thank you for the invitation to appear before you today to discuss the terrorist group known as the Islamic State in Iraq and the Levant (ISIL). I will focus my testimony on the U.S. and international effort that my team at the Treasury Department is leading to undermine ISIL's financial strength, as part of the Administration's comprehensive strategy to disrupt, degrade and ultimately defeat ISIL.

Let me begin by briefly reviewing why we are so focused on ISIL. We are determined to defeat ISIL not just because of its brazen atrocities – its brutal murders, its persecution of members of religious minorities, its rape and enslavement of women and girls – but also because it threatens core U.S. interests.

ISIL threatens American personnel and facilities in Iraq. It threatens our regional allies, including Turkey, Jordan, and Lebanon. And because it is attracting so many foreign terrorist fighters, destabilizing an entire region, and securing a safe haven, ISIL, if left unchecked, could ultimately pose a direct threat to citizens of the United States and our allies outside of the Middle East. Put simply, a terrorist organization with territorial ambitions and a stated desire to kill innocent people abroad must be confronted.

That is why, under the leadership of President Obama, the international community has come together to stop this threat. The President has tapped General John Allen as Special Envoy to spearhead the establishment of a broad coalition – now more than 60 partners strong, ranging from the Middle East to Europe and beyond – behind a strategy to degrade ISIL's capabilities, roll back its recent gains, and ultimately defeat it.

ISIL has grabbed the world's attention for its outlandish ambitions and astounding brutality, but also, as this committee knows well, for another reason: its substantial wealth. ISIL's primary funding tactics, which I will detail in a moment, enable it today to generate tens of millions of dollars per month.

So this morning, I'd like to outline how we at Treasury are focused on undermining ISIL's financial foundation by denying ISIL access to funds, limiting what it can do with the money it collects, and imposing sanctions on its senior leadership and supporters. Our work is one of several, complementary lines of effort within the international coalition to degrade and defeat ISIL.

The most visible of these lines of effort consists of military operations and training. The systematic campaign of air strikes underway makes clear that ISIL terrorists will not find safe haven anywhere. Our additional support for the Iraqi military, Kurdish forces, and the moderate Syrian opposition is allowing these partners to take the fight to ISIL on the ground. The bipartisan authorization by Congress of the mission to train and equip the moderate Syrian opposition will allow for this absolutely critical component of the strategy to move forward.

But the other lines of effort are also essential. Additional humanitarian assistance aims to provide a measure of relief to the people most affected by these terrible conflicts. The international push to stem the flow of foreign terrorist fighters into and out of Syria and Iraq will deprive ISIL of manpower and help safeguard against terrorist attacks on coalition nations. And our fight against ISIL propaganda will expose the hypocrisy of its twisted narrative.

Several of these lines of effort – in particular the air strikes and the fight to dislodge ISIL from territory it holds – bolster our work in attacking ISIL's financial foundation. As I will explain in a moment, ISIL obtains most of its revenues through local criminal and terrorist activities, so one way to cut off those revenues is to cripple ISIL's ability to operate freely on Iraqi and Syrian territory.

This is a whole-of-government effort, and while we take the lead on the financial component of the strategy, we are working closely with our counterparts in the State Department, the Department of Defense, law enforcement, and the intelligence community. And we are also linked up with international counterparts. In October, we hosted a meeting with the State Department that brought together over 20 countries and organizations to identify measures to financially isolate and undermine ISIL, as well as al-Nusrah Front and the illegitimate Asad regime.

As with the rest of the campaign against ISIL, our efforts to combat its financing will take time. We have no silver bullet, no secret weapon to empty ISIL's coffers overnight. This will be a sustained fight, and we are in the early stages. But one thing is certain: so long as ISIL terrorizes the people of Iraq and Syria, imperils the broader Middle East, and threatens U.S. interests overseas and at home, we will remain committed to degrading its financial strength.

I. The State of ISIL's Finances

In 2004, the office I lead in the Treasury Department was created and charged with developing and deploying financial tools to combat terrorist financing, reflecting the recognition that one way to forestall terrorist attacks is to deprive terrorist organizations of money.

Through the application of powerful national and international sanctions, close cooperation with foreign partners and the private sector, and enhancements to international financial transparency, we have made it harder than ever for terrorist groups to raise, move, store, and use funds.

In many respects, our campaign against ISIL's financial foundation will build on our work over the past ten years, and closely resemble our previous campaigns.

But to some extent, ISIL poses a different terrorist financing challenge. It has amassed wealth at an unprecedented pace, and its revenue sources have a different composition from those of many other terrorist organizations. Unlike, for instance, core al-Qa'ida, ISIL derives a relatively small share of its funds from deep-pocket donors, and thus does not, today, depend principally on moving money across international borders. Instead, ISIL obtains the vast majority of its revenues through criminal and terrorist activities in Syria and Iraq.

So, just as ISIL relies in part on new models to fund itself, we too are adapting our tools and techniques to combat ISIL's financial activities. Before turning to the specific steps we are taking, let me take a moment to detail these sources of revenue.

First, ISIL has raised a significant amount of its money from selling oil it extracts from fields in Syria and Iraq.

Our best understanding is that ISIL has tapped into a long-standing and deeply rooted black market connecting traders in and around the area. After extracting the oil, ISIL refines some of it in makeshift facilities and then sells some of the refined product, as well as unrefined oil, to smugglers and a variety of middlemen who, in turn, transport it outside of ISIL's strongholds.

It is difficult to get precise revenue estimates on the value to ISIL of these transactions, but we estimate that from mid-June up until recently, ISIL was earning approximately $1 million a day from oil and refined product sales.

We are seeing, however, that coalition airstrikes are successfully impairing ISIL's ability to sell oil, and so its daily oil revenue has fallen. We assess that ISIL is probably now earning several million dollars per week from the sale of stolen and smuggled energy resources, which is still substantial, but a decrease from what ISIL earned prior to coalition airstrikes.

Second, ISIL, like many other terrorist organizations, kidnaps innocent civilians to profit from ransoms paid to obtain their release.

These payments are irregular, but each one can be a significant boon. This spring, ISIL released captured journalists and other hostages from several European countries. In return, according to press reports, ISIL received several multi-million dollar payments. All in all, ISIL has taken at least $20 million in ransoms this year.

Third, ISIL raises up to several million dollars per month through a sophisticated extortion racket. In Iraq and Syria, ISIL extracts payments at gunpoint from those who pass through, conduct business in, or simply seek to live in the territory where it operates. We've also seen reports that when customers make cash withdrawals from local banks where ISIL operates, ISIL has demanded as much as ten percent of the value.

Fourth, ISIL also profits from a range of other criminal activities. They rob banks, loot and sell antiquities, and steal livestock and crops.

Finally, ISIL derives some funding from wealthy donors. Even though ISIL currently does not rely heavily on external donor networks, it maintains important links to financiers in the Gulf, as a spate of Treasury designations in September made clear.

II. Degrading ISIL's Financial Strength

ISIL's revenue streams are, to be sure, diverse and deep. With the important exception of some state-sponsored terrorist organizations, ISIL is probably the best-funded terrorist organization we have confronted. Nonetheless, understanding that this effort will take time, dedication, and broad collaboration, we are well-positioned to degrade ISIL's financial strength.

Our strategy involves three mutually supportive elements. First, we are working to disrupt ISIL's revenue streams in order to deny it money in the first place. Second, we aim to limit what ISIL can do with the funds it collects by restricting its access to the international financial system. And finally, we will continue to impose sanctions on ISIL's senior leadership and financial facilitators to disrupt their ability to operate. Let me elaborate.

Cutting off ISIL's Access to Revenue

The first element of our strategy is working to cut off ISIL's main sources of funding, in particular its revenue from oil and refined product sales, ransom payments, extortion and crime, and support from foreign donors.

Oil Sales

To disrupt the market in oil derived from ISIL-controlled fields, we are targeting for financial sanctions anyone who trades in ISIL's stolen oil or refined product.

It is true, of course, that ISIL's oil moves in illicit networks that are largely outside the formal economy, where individuals are less vulnerable to financial pressure. But at some point, that oil is acquired by someone who operates in the legitimate economy and who makes use of the financial system. He has a bank account. His business may be financed, his trucks may be insured, and his facilities may be licensed. All that makes ISIL oil facilitators vulnerable.

The middlemen, traders, refiners, transport companies, and anyone else that handles ISIL's oil or refined product should know that we are hard at work identifying them, and that we have tools at hand to stop them. We not only can cut them off from the U.S. financial system and freeze their assets, but we can also make it very difficult for them to find a bank anywhere that will touch their money or process their transactions. In combating ISIL's fundraising through oil sales, we will leverage the well-established reluctance of banks around the world to facilitate the financing of terrorism.

Of course, as I mentioned earlier, our military colleagues are also playing a significant role in degrading this source of funding through airstrikes on oil-related targets.

And our partners in the region, including Turkey and the Kurdistan Regional Government, are committed to preventing ISIL-derived oil and refined product from crossing their borders. The United States is actively supporting these efforts. We have also made progress in our conversations with oil, insurance, and transportation companies with operations in the region, as we work to ensure that they have the appropriate controls in place to identify information about their customers and thus limit their exposure to ISIL's oil.

Kidnapping for Ransom

Next, to prevent ISIL from raising funds through ransoms, we are redoubling our engagement with foreign partners to translate the emerging international consensus against the payment of ransoms to terrorist groups into a more widely adopted practice.

It has been U.S. policy for many years to refuse the payment of ransoms or make other concessions to hostage-takers. That's because refusing to pay ransoms eliminates the underlying incentive to take hostages, making it less likely that Americans will be kidnapped. When it comes to terrorist organizations, this policy has even more force, because refusing to pay ransoms deprives them of funding critical to their deadly aspirations and operations.

This norm is becoming more widespread. Last year, the G-8 unequivocally rejected the payment of ransoms to terrorists, and this year, members of the UN Security Council have twice adopted resolutions reaffirming their shared commitment to seek the safe release of hostages without making monetary or political concessions.

Going forward, as we seek to prevent kidnappings from occurring and remain dedicated to freeing those taken, we will continue to urge partner nations to subscribe to a no-ransoms policy.

At the same time, we will look to use our counter-terrorism sanctions authorities against those who demand or receive ransoms on behalf of terrorist organizations.

External Donor Networks

We are also concerned about external donor networks, and we continue to identify ISIL's financial supporters and target them for sanctions. Even though ISIL does not currently rely heavily on wealthy supporters, we are focused on making sure that donations do not become a more significant source of funding as we squeeze ISIL's other revenues.

In fact, we have long focused on disrupting the funding networks of ISIL and its predecessor, al-Qa'ida in Iraq (AQI). Over the past ten or so years, we have applied sanctions against more than two dozen individuals associated with AQI or ISIL.

We are now accelerating our efforts to identify ISIL targets for sanctions and take actions against them through our counter-terrorism authorities. In September, President Obama led the United Nations Security Council in unanimously passing a binding resolution to suppress the flow of money and foreign fighters to terrorist groups in Iraq and Syria, and we are working to implement it swiftly.

And we are working especially closely with our friends in the Gulf – who are stalwart partners in the anti-ISIL coalition – to ensure that they all have the tools in place to combat terrorist financing and that they all use those tools effectively. Even though ISIL does not currently rely heavily on the traditional donor model for terrorist financing, that is no reason to relax our efforts in this area. Particularly as we make progress in disrupting ISIL's current sources of income, and as ISIL gains additional prominence in the global terrorist movement, we must be prepared for the possibility that wealthy extremists will increasingly seek to fund it.

I should also note that other terrorist groups in Iraq and Syria, particularly al-Qaida's branch, known as the Nusrah Front, draw more heavily on external donor networks than ISIL. We remain intensely focused on blocking the flow of funds to the Nusrah Front, both through targeted sanctions and cooperation with our partners in the Gulf.

Extortion and crime

As for disrupting the revenue that ISIL generates from extortion and other local criminal activities, we recognize that Treasury's tools are not particularly well-suited to the task. We can and we will identify and designate the individuals who oversee ISIL's extortion networks, calling attention to those who are brutalizing the people of Iraq and Syria. But shutting down this source of funding ultimately will require breaking ISIL's hold on territory. As I mentioned earlier, other lines of effort in the anti-ISIL coalition are focused on this crucial objective.

Nonetheless, even where Treasury's financial tools cannot cut off certain revenue streams, we still have a crucial role to play, and that brings me to the second key element of our strategy.

Restricting ISIL's Access to the International Financial System

As we work to disrupt ISIL's sources of income, we are focused on restricting ISIL's access to the international financial system in order to impair its ability to collect funds from abroad, and to store, move, and use the funds it acquires locally.

ISIL's ability to make the most effective use of money that it raises depends on its access to the banking system in Syria, Iraq, and internationally. Operating entirely in cash is both cumbersome and risky – cash is bulky, vulnerable to theft, and requires complicated logistics to transport. Moreover, ISIL will have a hard time funding external operations, including facilitating the movement of foreign fighters, without access to the international financial system.

To that end, we are working with the Iraqi authorities, Iraqi bank headquarters, and the international financial community to prevent ISIL from using the scores of bank branches located in territories where it operates.

The results of this work have begun to show. We've seen a decline in financial activity in areas where ISIL operates, and banks under ISIL influence are losing their access to the international financial system.

We are also engaging closely with our international counterparts on this issue. The United States and Turkey are co-leading an initiative within the Financial Action Task Force (FATF) to identify how ISIL raises, moves, and uses funds and other assets, so that we can best disrupt its financing and prevent it from abusing the financial system. Last month, the FATF, the international standard-setting body for combating money laundering and terrorist financing, called upon all countries to take steps to prevent ISIL from accessing the international financial system and highlighted the importance of implementing the key FATF standards to deprive ISIL of finances.

Targeted Sanctions Against ISIL's Leadership and Facilitators

The third element of our strategy draws on our time-tested approach to countering the financing of terrorism – that is, we will continue to dismantle ISIL's financial foundation through targeting for designations its leadership, supporters, and financial facilitators. This will make it harder for ISIL to conduct commercial and financial activity, and also clearly identifies for the international community who stands behind this evil organization.

We have already stepped up our designations of ISIL members, both those based in Iraq and Syria and their financial supporters outside the area. Most recently, on September 24, Treasury sanctioned two high-profile individuals associated with ISIL – a financial facilitator who arranged for a $2 million donation from the Gulf, and a senior military commander. Both were based in Syria, soliciting donations, procuring military equipment, and recruiting foreign fighters to ISIL's areas. These designations will not, on their own, stop these individuals from operating,

but they – and the designations to come – will frustrate ISIL's ability to attract money and fighters.

Before concluding, I'd like to make two final points about our campaign against ISIL's financial foundation.

First, in all these efforts, I cannot overstate the importance of our access to actionable financial intelligence. Our ability to combat ISIL's financial strength – to target those smuggling its stolen oil, to prevent it from gathering donations abroad, to stymie its abuse of the international financial system – all depends deeply on the quality of the information available to us. And indeed, we are working with our counterparts in the intelligence community to ramp up collection on ISIL's finances.

Within the office I lead at Treasury, we have a top-notch intelligence shop that helps us understand the landscape of terrorist financing. But for my intelligence analysts to do what they do best, they depend on the human and signals intelligence collection from their sister intelligence agencies and from our partners around the world.

The second point is this. We should not confuse funding with financial strength. While ISIL today is well-funded, a terrorist group's overall financial strength turns not just on its income, but also on its expenses and, importantly, the degree to which it can dedicate its resources to violent purposes. And in that regard, ISIL operates within certain real constraints.

ISIL's territorial ambitions are a financial burden. Attempting to govern territory, subjugate millions of people, and deliver some modicum of services is expensive. By way of comparison only – since no one expects ISIL to deliver the same level of services as the legitimate Iraqi government – the official Iraqi budget this year for the provinces where ISIL currently operates is well over $2 billion. That far outstrips ISIL's revenue, and does not include the price-tag for the territory it seeks to dominate in Syria.

What this means is that ISIL cannot possibly meet the most basic needs of the people it seeks to rule, despite its baseless attempts to function as the sovereign government in territories where it operates. As we make progress in diminishing ISIL's revenues and its freedom to use them, we will further exploit this vulnerability.

III. Conclusion

With time, patience, and close international cooperation, the steps I have outlined today will help undermine ISIL's financial foundation. I must stress again, however, that the campaign against ISIL's finances will require more than just financial tools.

This is primarily because, given that ISIL is enriching itself locally, depriving it of funding will ultimately require dislodging it from territory in which it operates. But more broadly, we recognize that the only solutions to the conflicts in Iraq and Syria are political in nature. The hateful ideology propagated by ISIL must be countered by tolerant, economically vibrant societies and governments that rule in an inclusive manner.

While the United States works toward fostering these long-term goals, Treasury will continue to deploy innovative strategies to disrupt ISIL's financing. Together with our partners in the U.S. government and across the globe, we will degrade and ultimately defeat ISIL.

Thank you.

Testimony Submitted to the House Committee on Financial Services
November 13, 2014

Jimmy Gurulé[1]
Professor of Law
Notre Dame Law School

Chairman Hensarling, Ranking Member Waters, and other distinguished members of the House Committee on Financial Services:

Permit me to begin by thanking you for inviting me to testify before the Committee on the timely and important topic of the primary sources of funding for the Islamic State of Iraq and Syria ("ISIS"), and the independent and interagency efforts by the Treasury Department to disrupt and stem the flow of funds to the terrorist organization.

A. **The Danger and Threat Posed by ISIS**

ISIS emerged in the global consciousness in June 2014, when its fighters seized Mosul, Iraq's second-largest city, after moving into Iraq from its original base in Syria.[2] The terrorist group is attempting to redraw the map of the Middle East and establish an Islamic caliphate led by Abu Bakr al-Baghdadi, the self-appointed caliph.[3] ISIS has been rapidly expanding its control of territory in Iraq and Syria by seizing towns along supply routes, critical infrastructure, and border crossings. The Central Intelligence Agency estimates that ISIS has between 20,000 and 31,500 fighters in Iraq and Syria, and approximately 15,000 of the jihadists are foreign recruits.[4]

The acts of brutality committed by ISIS include the beheadings of two American journalists, the torture and ruthless slaughter of civilians, the persecution of minorities, and gross violations of human rights that constitute war crimes, crimes against humanity, and genocide.[5] On October 31, 2014, the United Nations Security Council condemned ISIS's kidnapping and murder of "scores" of Sunni tribesmen in the Anbar province.[6] Media reports of this incident suggest that more than 300 bodies were found in mass graves. On June 10, 2014, members of the extremist group systematically executed some 600 male inmates from a prison outside the

[1] I served as Under Secretary for Enforcement, United States Department of the Treasury, from 2001 to 2003.
[2] *See* Ben Hubbard & Eric Schmitt, *Military Skill and Terrorist Technique Fuel Success of ISIS*, N.Y. TIMES, Aug. 27, 2014, *available at* http://www.nytimes.com/2014/08/28/world/middleeast/army-know-how-seen-as-factor-in-isis-successes.html.
[3] *See* Tim Arango & Eric Schmitt, *US Actions in Iraq Fueled Rise of a Rebel*, N.Y. TIMES, Aug. 10, 2014, *available at* http://www.nytimes.com/2014/08/11/world/middleeast/us-actions-in-iraq-fueled-rise-of-a-rebel.html.
[4] *See* David E. Sanger & Julie Hirschefeld Davis, *How ISIS Works*, N.Y. TIMES, Sept. 16, 2014, *available at* http://www.nytimes.com/2014/09/14/world/middleeast/struggling-to-starve-isis-of-oil-revenue-us-seeks-assistance-from-turkey.html.
[5] *See* Joshua Berlinger, *New York Times: ISIS hostages were tortured before beheadings*, CNN (Oct. 26, 2014), http://www.cnn.com/2014/10/26/world/meast/isis-beheading-torture/.
[6] Press Release, Security Council, Security Council Press Statement on Iraq, U.N. Press Release, SC/11625-IK/694 (Oct. 31, 2014), at http://www.un.org/press/en/2014/sc11625.doc.htm, *but see* sources cited with authority *infra* article *Security Council condemns ISIL's murder of Sunni tribesman in Anbar*, U.N. (Oct. 31, 2014), http://www.un.org/apps/news/story.asp?NewsID=49227#.VF4dlPnF98H.

northern city of Mosul.[7] After seizing Badoush Prison, the gunmen from ISIS separated the Sunni and Shia inmates and then forced the Shia men to kneel along the edge of a ravine before executing them with assault rifles and automatic weapons.[8] The day after the massacre in Mosul, ISIS carried out the mass killing of Shia soldiers in the city of Takrit. The terrorist group claimed to have executed 1,700 Shia troops and posted videos on the internet showing their gunmen summarily slaying the captives.[9]

While ISIS threatens regional security in the Middle East, the terror group also poses a serious threat to United States national security interests. Secretary of Defense Chuck Hagel stated that "[ISIS] is as sophisticated and well-funded as any group that we have seen. They're beyond just a terrorist group. They marry ideology, a sophistication of strategic and tactical military prowess. They are tremendously well-funded."[10]

According to a recent United Nations Security Council report, foreign recruits fighting in Iraq and Syria originate from more than 80 countries, including the United States.[11] The risk of future terrorist attacks may increase when the foreign fighters return home. These battle-hardened and militarily-trained jihadists may be deliberately tasked by terror cells to commit terrorist attacks on the homeland.

ISIS's ability to use the social media to influence "lone wolf" terrorist attacks should not be underestimated. On October 22, 2014, a terrorist attack in Ottawa, Canada resulted in the death of a Canadian soldier. The terrorist proceeded to attack the Centre Block parliament building, where members of the Canadian Parliament were present. The Prime Minister of Canada characterized the incident as a terrorist attack.[12] Recently, the New York City Police Commissioner called a hatchet attack in the subway, which left two New York Police Department Officers injured, a terrorist attack.[13]

B. The Principal Sources of Funding for ISIS

ISIS has fundamentally different methods of obtaining funding than similar terrorist organizations. Al Qaeda and affiliated terrorist groups receive the vast majority of their funding from external sources, such as corrupt charities, deep-pocket donors, state sponsors of terrorism, and other terrorist sympathizers. For example, Al Rashid Trust, WAFA Humanitarian

---

[7] *See Iraq: ISIS Executed Hundreds of Prison Inmates*, HUMAN RIGHTS WATCH (Oct. 30, 2014), http://www.hrw.org/news/2014/10/30/iraq-isis-executed-hundreds-prison-inmates

[8] *Id.*

[9] *Id.*

[10] Chuck Hagel, U.S. Sec'y of State, & Martin E. Dempsey, Chairman, Joint Chiefs of Staff, U.S. Dep't of Def., Press Briefing in the Pentagon Briefing Room (Aug. 21, 2014), *transcribed at* http://www.defense.gov/utility/printitem.aspx?print=http://www.defense.gov/transcripts/transcript.aspx?transcriptid=5491.

[11] Rep. of the Analytical Support and Sanctions Monitoring Team, 16th Sess., transmitted by letter dated October 27, 2014 from the Chair of the Security Council Comm. established pursuant to resolutions 1267 (1999) and 1989 (2011) concerning Al-Qaida and associated individuals and entities addressed to the President of the Security Council, ¶ 1, U.N. Doc. S/2014/770 (Oct. 29, 2014).

[12] *See Canada PM Calls Parliament Shooting a 'Terrorist' Act*, ABC NEWS (Oct. 22, 2014), http://www.abcnews.go.com/International/canada-m-calls-parliament-shooting-terrorist-act/story?id=26372013.

[13] *See NYC police say hatchet attack by Islam convert was terrorism*, REUTERS (Oct. 24, 2014), http://www.reuters.com/article/2014/10/24/us-usa-newyork-hatchet-idUSKCN0IC2RG20141024.

Organization, Revival of Islamic Heritage Society, various branches of Al Haramain Foundation, Global Relief Foundation, and Benevolence International Foundation are charities accused of raising money for al Qaeda.[14]

According to the Department of State, Hezbollah receives substantial sums of funding, training, weapons, explosives, and logistical support from Iran and Syria. The organization's annual operating budget is estimated between $200 and $500 million, including approximately $100 million from Iran.[15] In light of its support from Iran, Hezbollah does not rely on charities to raise funds as much as other terrorist groups, such as al Qaeda and Hamas.[16] Hezbollah also depends on a wide variety of criminal activities, including fraud and the drug trade, to raise money to support its terrorist efforts, while some funds come from charitable donations.[17]

Hamas's annual budget is disputed due to its control over Gaza. The Council on Foreign Relations lists Hamas's annual budget as $70 million.[18] However, in 2010 Hamas stated that its budget was $540 million, the vast majority of which comes from "undisclosed" foreign aid, such as Iran and the Muslim Brotherhood in Egypt.[19]

Finally, the CIA estimates that Taliban leaders and their allies receive $106 million a year from donors outside Afghanistan.[20] According to Stanley A. McChrystal, former Commander of United States and NATO forces in Afghanistan, other sources of funding come from imposing a tax on local Afghans, ransom payments, and the opium drug trade.[21]

ISIS is the most well-funded terrorist organization in history. However, in contrast to other terrorist groups that rely on external sources of funding, ISIS is primarily self-funded. ISIS has four major sources of funding. First, ISIS's principal source of funding is derived from the illicit sale of oil from oil fields and refineries under its control in Iraq and Syria. The proceeds from

---

[14] *See* Office of Terrorism and Financial Intelligence, U.S. Dep't of Treasury, Designated Charities and Potential Fundraising Front Organizations for FTOS, TREASURY.GOV http://www.treasury.gov/resource-center/terrorist-illicit-finance/Pages/protecting-fto.aspx (last updated Nov. 5, 2014, 3:11 PM). *See also* JIMMY GURULÉ, UNFUNDING TERROR: THE LEGAL RESPONSE TO THE FINANCING OF TERROR 138 n. 18 (2010).
[15] *See* HEZBOLLAH'S INTERNATIONAL REACH, ANTI-DEFAMATION LEAGUE (2004), *available at* http://www.adl.org/terror/hezbollah_print.asp
[16] MATTHEW LEVITT, HEZBOLLAH FINANCES: FUNDING THE PARTY OF GOD, TERRORISM FINANCING AND STATE RESPONSES: A COMPARATIVE PERSPECTIVE 9 nn. 7 & 9-10 (Jeanne Giraldo & Harold Trinkunas eds. 2007) (2005).
[17] *Id.*
[18] Zachary Laub, *Hamas,* COUNCIL ON FOREIGN RELATIONS (Aug. 1, 2014), http://www.cfr.org/israel/hamas/p8968.
[19] Nidal Al-Mughrabi, *Foreign fund for Hamas Hit by Syria unrest-diplomats,* REUTERS (Aug. 21, 2011), http://www.reuters.com/article/2011/08/21/uk-palestinians-hamas-finance-idUSTRE77K19120110821.
[20] *See* Craig Whitlock, *Afghan Insurgents' Diverse Funding Sources Pose Challenges,* WASH. POST, Sept. 27, 2009, *available at* http://www.washingtonpost.com/wp-dyn/content/article/2009/09/26/AR2009092602707.html.
[21] *See* Memorandum from U.S. Army General, Stanley A. McChrystal, to Sec'y of Defense, Robert M. Gates, subject: Commander's Initial Assessment, U.S. International Security Assistance Force Afghanistan (Aug. 30, 2009), *available at* http://www2.gwu.edu/~nsarchiv/NSAEBB/NSAEBB292/Assessment_Redacted_092109.pdf.

the sale of ISIS oil are estimated between $1 million to $2 million a day. [22] The oil fields controlled by ISIS produce approximately 20,000 to 30,000 barrels daily.[23]

Second, extortion and illicit taxation systems are also a significant source of income for ISIS.[24] Extortion payments bring in "several million dollars a month" for ISIS.[25] Third, ISIS profits from looting ancient artifacts in Iraq and Syria. The income received from the theft of antiquities is second only to the revenue the terrorist group derives from illicit oil sales.[26] The scale of ISIS's looting and profits from trafficking in antiquities is unprecedented. Moreover, tracking and recovering the stolen artifacts poses a difficult challenge for law enforcement. According to one expert, "The material is gradually, incrementally laundered in the world-antiquities market, and it becomes very difficult to establish when, where, who, what, why, at that point in time."[27] Finally, kidnappings for ransom constitute another major source of ISIS funding.[28] Ransom payments have netted ISIS approximately $20 million this year alone.[29]

C. Recommendations to Disrupt ISIS Funding Streams and Restrict ISIS's Access to the U.S. Financial System

(1) Targeting for Designation Under Executive Order 13224 Individuals and Entities that Enable ISIS to Sell Oil on the Black Market

Following the terrorist attacks of September 11, 2001, the United States Government developed a strategy to dismantle the financial networks of al Qaeda and affiliated terrorist organizations, and disrupt the flow of funds to foreign terrorists. The centerpiece of the Government's counter-terrorist financing strategy is to freeze the assets of suspected terrorists, terrorist-related entities, deep-pocket donors, and other financial supporters of terrorism, and prohibit such individuals and entities from doing business in the United States. The strategy is preemptive in nature, intending to prevent the financing of terrorist attacks and killing of innocent civilians.

---

[22] Sanger & Hirschfeld Davis, *supra* note 4.
[23] *See* Keith Johnson & Jamila Trindle, *Treasury's War on the Islamic State*, FOREIGN POLICY (Oct. 23, 2014), *available at* http://www.foreignpolicy.com/articles/2014/10/23/treasurys_war_on_the_islamic_state_oil_kuwait_qatar.
[24] *See* Charles Lister, *Cutting off ISIS's Cash Flow*, BROOKINGS INSTITUTION (Oct. 24, 2014), *available at* http://www.brookings.edu/blogs/Iran-at-saban-osts/2014/10/24-lister-cutting-off-isis-jabhat-al-nusra-cash-flow?utm_campaign-Prookings+Brief&utm_source.
[25] *See* Johnson & Trindle, *supra* note 23.
[26] *See* Justine Drennan, *The Black-Market Battleground*, FOREIGN POLICY (Oct. 17, 2014), *available at* http://www.foreignpolicy.com/articles/2014/10/17/the_black_market_battleground_syria_iraq_isis.
[27] *Id.*
[28] *See* Johnson & Trindle, *supra* note 23.
[29] *Id.*

The authority to block terrorist funds derives from Executive Order ("E.O.") 13224 issued by President George W. Bush on September 23, 2001.[30] President Bush invoked this authority under the International Emergency Economic Powers Act ("IEEPA").[31] The IEEPA authorizes the President to declare a national emergency "to deal with any unusual and extraordinary threat, which has its source in whole or substantial part outside of the United States, to the national security, foreign policy, or economy of the United States."[32] After declaring a national emergency, the IEEPA grants the President broad economic powers, including the authority to block the transfer of any property in which "any foreign country or national thereof has any interest. . . ."[33] Simply stated, "once the President has declared a national emergency, the IEEPA authorizes the blocking of property to protect against the threat."[34]

President Bush determined that the grave acts of terrorism committed by foreign terrorists, including the terrorist attacks in New York, Washington, D.C., and Pennsylvania on September 11, 2001, and the continuing threat of terrorist attacks against United States nationals constituted "an unusual and extraordinary threat to the national security, foreign policy, and economy of the United States."[35] E.O. 13224 provides that "because of the pervasiveness and expansiveness of the financial foundations of foreign terrorists, financial sanctions may be appropriate for these foreign persons that support or otherwise associate with these foreign terrorists."[36]

Under E.O. 13224, President Bush invoked the IEEPA to initially designate 12 individuals and 15 entities and freeze their assets in the United States. These 27 individuals and groups were labeled "Specially Designated Global Terrorists" ("SDGTs") and identified in the Annex to the Order. The designations included "core members of al Qaeda, affiliated terrorist groups, Islamic charities suspected of funding al Qaeda, and other businesses believed to be a front for al Qaeda."[37] With respect to the 27 SDGTs, the legal implications are twofold. First, the property and interests in property in the United States of these persons and entities are ordered to be blocked.[38] Second, U.S. persons are prohibited from engaging in any transactions with such persons and entities.[39]

---

[30] Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism, Exec. Order No. 13,224, 3 C.F.R. 786-90 (2001), *reprinted as amended* in 50 U.S.C. § 50 U.S.C. § 1701 (1977) note (Supp. IV 2004) [hereinafter E.O. 13224].

[31] The IEEPA was enacted by Congress in 1977 and amended by Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act of 2001, Pub L. No. 107-56, § 314(a) 115 Stat. 272 (codified in scattered sections of the U.S.C.). IEEPA is codified at 50 U.S.C. §§ 1701-7 [hereinafter IEEPA]. *See also* S.C. Res 1373, U.N. Doc. S/RES/1373 (2001).

[32] 50 U.S.C. § 1701.

[33] 50 U.S.C. § 1702(a)(1)(B).

[34] Islamic Am. Relief Agency v. Gonzales, 477 F.3d 728, 735 (D.C. Cir. 2007).

[35] E.O. 13224.

[36] *Id.*

[37] JIMMY GURULÉ, UNFUNDING TERROR: THE LEGAL RESPONSE TO THE FINANCING OF TERROR 195 (2008).

[38] *See* E.O. 13224, § 1(a)-(d); *see also* 31 C.F.R, § 594.201(a). Blocking prohibits transfers and transactions of any kind involving property owned or controlled by the designated party.

[39] E.O. 13224, § 2(a).

Executive Order 13224 is broad in scope. The Order authorizes blocking the property or property interests of foreign persons and entities that are (1) "owned or controlled by," or "act for or on behalf of," (2) "assist in, sponsor, or provide financial, material, or technological support for," or (3) "otherwise associated" with foreign terrorists. [40] Finally, E.O. 13224 authorizes the Secretary of State, in consultation with the Secretary of the Treasury and the Attorney General, to designate persons determined "to have committed, or to pose a significant risk of committing, acts of terrorism that threaten the security of U.S. nationals, or the national security, foreign policy, or economy of the United States."[41]

The initial list of 27 SDGTs has grown to over 800 individuals and entities covered by the Order.[42] Generally, the list of SDGTs consists of suspected terrorists, terrorist sympathizers, charities and other front entities, and persons believed to provide funding and other assistance to al Qaeda and affiliated terrorist groups.

Perhaps because of the fundamentally different ways in which al Qaeda and ISIS raise funds, since May 2014, only four ISIS members have been designated SDGTs by the Treasury Department. Of those four, only two were involved in financing ISIS. One facilitated funds from Kuwait to Syria, and one raised money from external donors. Neither was involved in the terrorist organization's major sources of funding. Thus, it appears that the Treasury Department has not gained its footing in identifying and designating individuals involved in the principal methods of funding for ISIS.

ISIS-related designations by the Treasury Department raise two primary concerns. First, few individuals associated with ISIS have been designated for asset freeze under E.O. 13224.[43] The dearth of ISIS-related designations is deeply disturbing. Second, none of the Treasury designations include individuals engaged in any of the major sources of funding for ISIS.[44] While E.O. 13224 authorizes designating individuals merely "associated with" foreign terrorists,

---

[40] *Id.* §1(c), (d)(i)-(iii).
[41] *Id.* § 1(b).
[42] *See* OFAC, U.S. TREASURY, TERRORISTS ASSET REPORT TO THE CONGRESS, 22d annual, at 5-6 (2013), http://www.treasury.gov/resourcecenter/sanctions/Programs/Documents/tar2013.pdf (citing Specially Designated Global Terrorists) *available here* http://www.treasury.gov/resource-center/sanctions/Pages/legal-index.aspx.
[43] *See* Press Release, U.S. Dep't of Treasury, Treasury Designates Al-Qa'ida Leaders in Syria (May 14, 2014) (designating Abd Al-Rahman Mustafa Al-Qaduli "for acting for on behalf of ISIL," and also designating a member of al Qaeda), *available at* http://www.treasury.gov/press-center/press-releases/Pages/jl2396.aspx; Press Release, U.S. Dep't of Treasury, Treasury Designates Three Key Supporters in Syria and Iraq (Aug. 6, 2014) (designating two individuals associated with the Syria-based, al Qaeda-linked terrorist organization Al Nusrah Front, and Abd al-Rahman Khalaf 'Ubayd Juday' al-'Anizi,, a financial facilitator for ISIL), *available at* http://www.treasury.gov/press-center/press-releases/Pages/jl2605.aspx.
[44] *See* Press Release, U.S. Dep't of Treasury, Treasury Designates Al-Qa'ida Leaders in Syria (May 14, 2014) (designating Abd Al-Rahman Mustafa Al-Qaduli "for acting for on behalf of ISIL"), *available at* http://www.treasury.gov/press-center/press-releases/Pages/jl2396.aspx. The State Department has designated a few members of ISIS, but none of these individuals are involved in providing financial assistance to ISIS. *See* Press Release, U.S. Dep't of State, Terrorist Designation of Abu Mohammed al-Adnani (Aug. 18, 2014), *available at* http://www.state.gov/r/pa/prs/ps/2014/230676.htm; Press Release, U.S. Dep't of State, Designation of Foreign Terrorist Fighters (Sep. 24, 2014), *available at* http://www.state.gov/r/pa/prs/ps/2014/09/232067.htm.

the Treasury Department should prioritize its resources on targeting individuals that are enabling ISIS to sell oil on the black market. The illicit oil trade is generating hundreds of millions of dollars annually for ISIS. The Treasury Department should focus its designations on banks that are knowingly receiving and transferring funds from such sales. If ISIS is generating $1 to 2 million dollars a day from the illicit sale of oil, it is difficult to imagine that banks are not being used to transfer such large sums of money to entities controlled by ISIS.

To maximize the effectiveness of ISIS-related designations, Treasury should prioritize targeting individuals and entities that are involved in the sale of oil for ISIS. More specifically, the Treasury Department should target for designation the middlemen and persons transporting the oil, as well as the border guards and Turkish officials looking the other way as oil is smuggled into Turkey. The Treasury Department should also target any foreign businesses involved in the illicit oil trade, including companies that purchase the oil.

According to Treasury Department sources, ISIS has collected tens of millions in ransom payments so far this year. Banks are likely involved in the transfer of funds from the collection of large hostage-ransom payments. Any foreign bank with a U.S. branch that knowingly transfers funds for ISIS or ISIS-controlled entities should be subject to severe economic sanctions.

Treasury Department designations should also focus on persons suspected of trading in stolen Iranian and Syrian artifacts. These individuals could have assets in the United States that would be subject to blocking under E.O. 13224. Such individuals could also be engaged in business activities in the United States. If so, U.S. persons would be prohibited from doing business with such individuals. Ultimately, designating individuals and entities involved in the major sources of funding for ISIS should be a top priority.

The purpose of designating individuals under E.O. 13224 is not merely to place their names on a "name and shame" list. The designations are intended to freeze the assets of individuals providing funding and other financial assistance to foreign terrorist organizations, and prohibit such persons from doing business in the United States. It is not the number of SDGT designations that matters most, but the quality of the designations. The relevant standard for determining who should be designated under E.O. 13224 should be whether the designations will disrupt ISIS's ability to raise funds and finance their terrorist activities. To be effective, the SDGT designations should focus on the principal sources of ISIS funding. Focusing designations on members of ISIS that are not involved in the internal funding of ISIS will have limited impact in disrupting ISIS's ability to raise funds and finance deadly terrorist attacks.

(2) Enhanced Sharing of Financial Intelligence Information to Increase the Number of Terrorist Financing Prosecutions

The Department of Justice ("DOJ") has a mixed record on prosecuting terrorist financing cases. Since the September 11, 2001 terrorist attacks, there have been very few major terrorist

financing prosecutions. The DOJ should make it a top priority to criminally prosecute the individuals and entities involved in the major sources of funding for ISIS. For example, individuals and companies that purchase oil from ISIS, as well as the financial institutions that knowingly engage in transferring funds generated from the illicit oil trade are providing material support to a foreign terrorist organization, in violation of 18 U.S.C. § 2339B. Such individuals and entities are enabling ISIS to raise hundreds of millions of dollars to finance terrorist activities and should be prosecuted and punished to the full extent of the law. Individuals involved in other major sources of ISIS funding should also be prosecuted. To increase the number of terrorist financing prosecutions, the Treasury Department should enhance its efforts in sharing financial intelligence information with the DOJ.

Congress has enacted important legislation aimed at cutting off financial assistance and services to foreign terrorist organizations. The "material support" statutes, 18 U.S.C. §§ 2339A and 2339B, enable federal prosecutors to prosecute persons that provide "material support or resources," including money, financial services, transportation, and other forms of assistance, to foreign terrorists and terrorist organizations.[45] Congress recognized that "[c]utting off 'material support or resources' from terrorist organizations deprives them of their means with which to carry out acts of terrorism and potentially leads to their demise."[46]

Section 2339A makes it a crime to provide "material support or resources" "knowing or intending" that they are to be used to prepare for or carry out terrorist-related crimes enumerated in the statute, such as a terrorist bombing plot.[47] By contrast, § 2339B punishes whoever knowingly provides "material support or resources" to a "foreign terrorist organization" ("FTO") with knowledge that the organization has been designated an FTO by the Secretary of State, or has engaged in or engages in terrorist activities. Upon conviction, both §§ 2339A and 2339B authorize a term of imprisonment of not more than 15 years, and, if death of any person results, imprisonment of any term of years or for life.

Section 2339A requires proof that the defendant acted with a heightened state of mind or mens rea not required under § 2339B. To convict for a violation of § 2339A, the Government must prove that the defendant provided material support or resources "knowing or intending"

> any property, tangible or intangible, or service, including currency or monetary instruments or financial securities, financial services, lodging, training, expert advice or assistance, safe houses, false documentation or identification, communications equipment, facilities, weapons, lethal substances, explosives, personnel (1 or more individuals who may be or include oneself), and transportation, except medicine or religious materials.

[45] 18 U.S.C. §§ 2339A & 2339B, (defining "material support or resources")

[46] Humanitarian Law Project v. Mukasey, 552 F.3d 916, 931 (9th Cir. 2009), *overturned on other grounds*, Holder v. Humanitarian Law Project, 130 S. Ct. 2705 (2010).

[47] 18 U.S.C. § 2339A.

> a person must have knowledge that the organization is a designated terrorist organization (as defined in subsection (g)(6), that the organization has engaged in or engages in terrorist activity (as defined in section 212(a)(3)(B) of the Immigration and Nationality Act), or that the organization has engaged or engages in terrorism (as defined in section 140(d)(2) of the Foreign Relations Authorization Act, Fiscal Years 1988 and 1989).

that they are to be used to carry out a terrorism-related crime. To prove a violation of § 2339B, the defendant must have knowledge that the organization is a designated FTO or has engaged or engages in acts of terrorism.[48]

In *Holder v. Humanitarian Law Project,* the Supreme Court held that in order to sustain a conviction under 18 U.S.C. § 2339B, the Government is not required to prove that the defendant intended to further the terrorist activities of the FTO by the provision of material support or resources.[49] Under § 2339B, the defendant is criminally liable even if he intended to provide money or other forms of assistance for a humanitarian purpose or purpose totally unrelated to the group's terrorist activities, if he had knowledge that the group has been designated an FTO or has engaged or engages in terrorist activities.

The scope of liability under § 2339B is broad and extends to aiders and abettors and persons that conspire to violate the statute.[50] Anyone that aids and abets the provision of material support or resources to an FTO, or conspires to do, may be prosecuted under the statute. Finally, §2339B, but not § 2339A, has extraterritorial application. Pursuant to § 2339B(d)(2), federal courts may exercise jurisdiction for violations of the statute that occur outside of the United States.[51] Section 2339B(d)(1)(E) provides that there is jurisdiction over a violation of § 2339B if "the offense occurs in or affects interstate or foreign commerce."[52] Thus, someone who provides material support or resources to an FTO, and the prohibited conduct occurs entirely outside the United States, may be prosecuted under § 2339B.

Participation in the sale of oil on behalf of ISIS is clearly a violation of the material support statute, 18 U.S.C. § 2339B. First, ISIS has been designated a "foreign terrorist organization" by the Secretary of State.[53] Second, the transportation, distribution, and purchase of ISIS oil constitute the provision of "material support or resources" to an FTO.[54] The shipment of ISIS oil constitutes "transportation" under the definition of "material support or resources." [55] The provision of any other form of assistance in the illicit distribution of oil for ISIS involves a "service" provided to an FTO. Further, the payment for ISIS oil constitutes the provision of funding, which is prohibited under the statute.[56] Finally, the transfer of funds from one bank account to another for the payment of ISIS oil constitutes the provision of "financial services" under the statute. [57] Thus, banks that knowingly transfer funds involving the sale of ISIS oil engage in prohibited conduct under the material support statute.

The fact that the transportation, distribution, and sale of oil occurred outside the United States is not a defense. Section 2339B expressly authorizes extraterritorial application of the

---

[48] *Id.* § 2339B(a)(1) (on how to sustain a conviction for violating § 2339B).
[49] Holder v. Humanitarian Law Project, 130 S. Ct. 2705, 2717 (2010).
[50] 18 U.S.C. § 2339B(d)(1)(F).
[51] *Id.* § 2339B(d)(2) ("There is extraterritorial Federal jurisdiction over an offense under this section.").
[52] *Id.* § 2339B(D)(1)(E).
[53] 8 U.S.C. § 1189 authorizes the Secretary of State to designate a foreign group as an FTO. *See also* Press Release, U.S. Dep't of State, Terrorist Designations of Groups Operating in Syria (May 14, 2014) (amending the designation of al-Qa'ida in Iraq to add the alias Islamic State of Iraq and the Levant (ISIL) as its primary name), *available at* http://www.state.gov/r/pa/prs/ps/2014/05/226067.htm.
[54] 18 U.S.C. § 2339A(b)(1).
[55] *Id.*
[56] *Id.*
[57] *Id.*

statute, if the provision of material support or resources affects foreign commerce. Since the sale of oil affects foreign commerce, federal courts have jurisdiction over the offense.

The critical issue is whether the persons involved in the distribution and sale of ISIS oil had knowledge that they were acting for or on behalf of an FTO or foreign organization that engages in terrorist activities. In light of widely published media reports of ISIS members participating in the barbaric beheading of two American journalists, and committing other gross violations of human rights, this would be an easy element for prosecutors to prove. Knowledge also can be proven by evidence that the defendant engaged in willful blindness and deliberately avoided learning the truth. Finally, § 2339B only requires proof of knowledge. Prosecutors are not required to prove that the individuals that facilitated the sale of oil for ISIS intended that the profits from the sale be used to commit a terrorist attack or fund other terrorist-related activities.

While the material support statute, 18 U.S.C. § 2339B, provides federal prosecutors an invaluable prosecutorial tool to prevent the financing of terrorism, prosecuting terrorist financiers and persons that provide financial assistance to terrorists has not been a priority for the DOJ. Since the September 11, 2001 terrorist attacks, there have been relatively few major terrorist financing prosecutions. The most significant prosecution under the material support statute involves prosecuting members of the Holy Land Foundation for Relief and Development ("HLF"), a charity headquartered in Richardson, Texas.[58] The Government alleged that HLF was the principal fundraiser for HAMAS, raising over $12 million for the terrorist organization in the United States.[59] In 2010, five members of HLF were convicted by a federal jury for providing and conspiracy to provide financial assistance to HAMAS, in violation of 18 U.S.C. § 2339B.[60] However, the initial charges in the HLF case were filed in 2004.[61]

Since the prosecution of the members of the Holy Land Foundation, there have been few, if any, major terrorist financing prosecutions targeting the financial networks, deep-pocket donors, or front organizations responsible for raising large sums of money for al Qaeda and affiliated terrorist groups. Moreover, the DOJ has failed to bring criminal charges against anyone for raising funds for ISIS.

It is difficult to explain or justify the low number of terrorist financing prosecutions by the DOJ. Whatever the reason for the paucity of cases, Congress needs to ensure that prosecuting terrorist financing cases is a top priority, and that the DOJ is allocating sufficient prosecutorial resources for this purpose. One way to ensure a greater emphasis on stemming the flow of funds to foreign terrorists is to require the DOJ to submit an annual report to Congress, which includes the number of terrorist financing cases filed by the DOJ, the status of any pending terrorist financing cases, and the number of criminal convictions for providing funds and financial assistance to international terrorist organizations.

Disrupting the financing of ISIS is critical to preventing the expansion of ISIS in the Middle East, and the commission of terrorist attacks in the United States by lone-wolf terrorists trained or inspired by ISIS. Prosecuting individuals and entities under the material support

[58] *See* United States v. El-Mezain, 664 F.3d 467 (5th Cir. 2011).
[59] *Id.* at 486-87.
[60] *Id.*
[61] *See* United States v. Holy Land Found. for Relief & Dev., Superseding Indictment, No. 3:04-CR-240G (N.D. 2005).

statute that are enabling ISIS to sell its oil abroad could reduce an important stream of ISIS funding.

(3) Prioritize the Imposition of Civil Monetary Penalties on Banks that Willfully Violate the Bank Secrecy Act and Create a Risk of Terrorist Financing

The Bank Secrecy Act ("BSA") imposes important legal duties on financial institutions to prevent money laundering and terrorist financing.[62] The centerpiece of the federal regulatory scheme established by the BSA is the requirement that banks and other financial institutions establish, implement, and maintain written programs and procedures to prevent money laundering and terrorist financing.[63] The failure to comply with federal banking regulations intended to prevent banks from being used to facilitate the financing of terrorism could result in the imposition of large civil monetary penalties by the Financial Crimes Enforcement Network ("FinCEN"), an agency within the Treasury Department responsible for enforcing the BSA. In fact, FinCEN has imposed multi-million dollar civil penalties against numerous banks for non-compliance with the BSA for creating a money laundering risk, including, for example, ABN AMRO Bank ($30 million),[64] Riggs Bank ($25 million),[65] and Israel Discount Bank of New York ($12 million).[66] However, these cases involved non-compliance with the anti-money laundering provisions of the BSA.

There have been very few cases where the BSA violation involved concerns of terrorist financing. During the last ten years there only have been two significant terrorist financing bank cases.[67] The scarcity of terrorist financing cases raises serious questions about FinCEN's enforcement of the BSA provisions intended to prevent the financing of terrorism. It is unclear whether the lack of rigorous enforcement of the BSA counter-terrorist financing regulations is due to the lack of personnel and other resources, or lax oversight by the Federal regulators.

In 2005, FinCEN imposed a $24 million civil penalty against the New York branch of Arab Bank, a foreign bank headquartered in Amman, Jordan.[68] Action taken by FinCEN was motivated by concerns that Arab Bank was being used by front entities to transfer money to Hamas.[69] More specifically, Arab Bank's New York branch allegedly handled wire transfers of more than $20 million involving forty-five suspected Hamas terrorists and affiliated terrorist

---

[62] Bank Secrecy Act, Pub. L. No. 91-508, 84 Stat. 1114 (codified in scattered sections of 12 U.S.C., 15 U.S.C. and 31 U.S.C).
[63] 18 U.S.C. § 5318(h)(1).
[64] *See* Assessment of Civil Money Penalty, In the Matter of the New York Branch of ABN AMRO Bank, New York, New York, No. 2005-5, Financial Crimes Enforcement Network (FinCEN), U.S. Dep't of Treasury (Dec. 19, 2005).
[65] *See* Assessment of Civil Money Penalty, In the Matter of Riggs Bank N.A., No. 2004-01, FinCEN, U.S. Dep't of Treasury (May 13, 2004).
[66] *See* Assessment of Civil Money Penalty, In the Matter of Israel Discount Bank of New York, No. 2006-7, FinCEN, U.S. Dep't of Treasury (Oct. 31, 2006).
[67] *See* Assessment of Civil Money Penalty, In the Matter of Doha Bank, No. 2009-1, FinCEN, U.S. Dep't of Treasury (Apr. 21, 2009); Assessment of Civil Money Penalty, In the Matter of the Federal Branch of Arab Bank PLC, New York, New York, No. 2005-2, FinCEN, U.S. Dep't of Treasury (Aug. 17, 2005). [hereinafter "*Arab Bank Penalty*"]. *But see* Consent Order for the Assessment of a Civil Money Penalty, In the Matter of TCF National Bank, No. 2013-003, Office of the Comptroller of the Currency (OCC), U.S. Dep't of Treasury (Jan. 25, 2013).
[68] *Arab Bank Penalty*, *supra* note 67.
[69] *Id.*

groups.[70] However, the Bank failed to file suspicious transaction reports with FinCEN involving such transactions. In February 2005, Arab Bank was ordered to cease its traditional banking activities in New York, including wire transfer services and opening accounts. In August 2005, FinCEN announced the imposition of a $24 million fine for failure to implement an effective anti-money laundering and counter-terrorist financing program. According to FinCEN, Arab Bank's failure to implement an adequate system of internal controls to comply with the BSA regulations "posed heightened risks of money laundering and terrorist financing."[71]

While Arab Bank maintained correspondent accounts that operated in jurisdictions that posed a heightened risk of terrorism and terrorist financing, the Bank only monitored transactions of individuals and entities that it considered direct customers of the Bank.[72] It failed to monitor the financial transactions of originators and beneficiaries of international funds transfers that did not maintain accounts at Arab Bank. The Bank also failed to implement procedures for obtaining and utilizing publicly available information to monitor and identity suspicious transactions. According to FinCEN, names similar to those of originators and beneficiaries in funds transfers cleared by Arab Bank appeared in congressional testimony, indictments in the United States, and research and media reports linked to terrorist activities.[73]

FinCEN also found that Arab Bank failed to comply with directives given by financial regulatory officials in the Palestinian Territories intended to prevent terrorist financing. Foreign financial regulators issued circulars containing the names of suspected terrorists and ordered institutions holding accounts in the names of those individuals to either freeze their accounts or place them on a terror watch list. However, Arab Bank lacked internal procedures for cross-checking the names of these suspected terrorists against wire funds cleared by the Bank.[74] Thus, the accounts of these suspected terrorists were not frozen as requested.

Banks that knowingly transfer funds to suspected terrorists and fail to report such suspicious transactions to FinCEN violate the requirements of the BSA. Under the BSA, FinCEN may impose substantial civil penalties against the offending banks for such violations. FinCEN enforcement actions are therefore an important tool to hold financial institutions accountable for failing to prevent the transfer of funds to terrorists. However, if the BSA authority to punish banks that do business with foreign terrorists is rarely used, it cannot serve as an effective deterrent to ensure that banks are not being used to transfer money to terrorists.

(4) Amend the Civil Provision of the Anti-Terrorism Act to Afford Victims of International Terrorism a Meaningful Remedy

The Anti-Terrorism Act ("ATA"), 18 U.S.C. § 2333(a), provides "a private right of action for civil damages for any national of the United States injured 'by reason of an act' of

---

[70] *See* Glenn R. Simpson, *Arab Banks Link to Terrorism Poses Dilemma for U.S. Policy*, WALL STREET JOURNAL, Apr. 20, 2005, *available at* http://online.wsj.com/articles/SB111396116907311600.
[71] *Arab Bank Penalty*, *supra* note 67, at 3.
[72] *Id.* at 4.
[73] *Id.* at 5; *see also* Almog v. Arab Bank, 471 F. Supp.2d 257, 259, 265 (E.D.N.Y. 2007) (plaintiffs alleged that Arab Bank knowingly provided financial services to Palestinian terrorist organizations); Linde v. Arab Bank, 384 F. Supp.2d 571, 575-9 (E.D.N.Y. 2005) (same).
[74] *See Arab Bank Penalty*, *supra* note 67, at 5.

'international terrorism (or the victim's estate) to sue those responsible for the act in a U.S. court for treble damages, no matter where in the world the act occurred."[75] While the civil tort statute is outside the jurisdiction of the Treasury Department, it is an important statutory tool to enable the victims of terrorist attacks to hold banks and bank officials liable for knowingly transferring funds and providing financial services to terrorists. However, the statute needs to be amended by Congress to provide an effective remedy for the victims of terrorism.

The purpose of the civil tort provision of the ATA is to deter acts of international terrorism by punishing terrorists and their financial supporters "where it hurts them most: at their lifeline, their funds."[76] However, these private tort actions have been largely ineffective. The threat of a large civil monetary judgment has no deterrent effect on terrorists or foreign terrorist organizations that "are unlikely to have assets, much less assets in the United States."[77] As the result, ATA lawsuits have been filed almost exclusively against secondary actors, such as charitable organizations and domestic and foreign corporations. However, the ATA has been primarily used against financial institutions. These private tort actions allege that banks have committed acts of "international terrorism" by providing financial services to terrorist organizations that resulted in plaintiffs' injuries.[78] These claims have been largely unsuccessful. Only one bank has been held liable under the ATA.[79]

There are two principal reasons why the ATA has proven ineffective against banks. First, providing financial services to persons that commit acts of international terrorism involves secondary liability. The terrorists that actually committed the terrorist attack are primarily liable for killing or injuring U.S. nationals. At most, the bank aided and abetted the terrorists (principals) by transferring funds and providing other services to such persons. However, the ATA is silent on civil liability for aiders and abettors of acts of international terrorism. Moreover, the courts are deeply divided on the issue. The United States Court of Appeals for the Second and Seventh Circuits hold that 18 U.S.C. § 2333(a) does not authorize a cause of action against aiders and abettors.[80] In contrast, the U.S. District Court for the Southern District of

---

[75] 18 U.S.C. § 2333(a). *See also* United States v. Phosphorous, Ltd. V. Angus Chem. Co., 322 F.3d 942, 955 (7th Cir. 2003) (en banc) (Wood, J., dissenting) *aff'd.*

[76] Ungar ex rel. Strachman v. Palestinian Authority, 304 F. Supp.2d 232, 238 (D. R.I. 2004) (quoting 136 CONG REC. S14279-01 (1990) (statement of Sen. Grassley).

[77] Boim v. Holy Land Foundation, 511 F.3d 707, 715 (7th Cir. 2007) ("Boim I")

[78] *See*, e.g., Weiss v. Nat'l Westminster Bank, PLC, No. 13-1618-cv (2d Cir., Sept. 22, 2014); In re Terrorist Attacks on September 11, 2001, 714 F.3d 118 (2d Cir. 2013) (suing Al Rajhi Bank and Saudi American Bank); Rothstein v. UBS AG, 708 F.3d 82 (2d Cir. 2013); Wultz v. Bank of China, 2014 WL 3610898 (S.D.N.Y. 2014); Linde v. Arab Bank PLC, 944 F. Supp.2d 215 (E.D.N.Y. 2013); Strauss v. Credit Lyonnais, S.A. 925 F. Supp.2d 414 (E.D.N.Y. 2013); Gill v. Arab Bank, 893 F. Supp.2d 542 (E.D.N.Y. 2012); Goldberg v. UBS AG, 660 F. Supp.2d 410 (E.D.N.Y. 2009); Almog v. Arab Bank, 471 F. Supp.2d 257 (E.D.N.Y. 2007).

[79] *See* Jury Verdict, Linde v. Arab Bank, No. 1:04-cv-02799 (E.D.N.Y. September 22, 2014).

[80] *See* Rothstein v. UBS AG, 708 F.3d 82, 98 (2d Cir. 2013) ("We doubt that Congress, having included in the ATA several express provisions with respect to aiding and abetting in connection with the criminal provisions, can have intended § 2333 to authorize civil liability for aiding and through its silence."); Boim v. Holy Foundation for Relief and Development, 549 F.3d 685, 689 (7th Cir. 2008) (en banc) ("statutory silence on the subject of secondary liability means there is none").

Texas, District of Columbia, and Southern District of Florida have reached the opposite conclusion, finding that the ATA extends to secondary actors.[81]

In a jurisdiction that does not recognize aiding and abetting liability under the ATA, plaintiffs face a difficult burden of proof. Plaintiffs must prove that the provision of financial services to terrorists was the proximate cause of the injuries suffered by plaintiffs. More specifically, plaintiffs must prove that the provision of financial services was a "substantial factor" in the subsequent terrorist attack.[82] The injury from a terrorist attack must also have been "reasonably foreseeable" as a natural consequence of the bank's conduct.[83] Except in the most extreme cases, a person would not reasonably expect or foresee that the provision of routine banking services would result in a terrorist bombing or killing of innocent civilians.

If the ATA civil claims are filed in a jurisdiction that authorizes liability for aiders and abettors, plaintiffs only have to prove that the terrorists (principals) committed an act of international terrorism that caused plaintiffs' injuries, and the bank's provision of financial services "substantially assisted" the criminal violation.[84] There is no requirement that it was reasonably foreseeable that the provision of routine banking services would result in a terrorist attack. Plaintiffs therefore have an easier burden of proof in a jurisdiction that recognizes aiding and abetting liability under the ATA. Finally, the different application of the statute could result in inconsistent verdicts and encourage forum shopping. Whether plaintiffs are successful in litigating an ATA claim should not turn on the jurisdiction where the lawsuit is filed.

The second reason why plaintiffs have been largely unsuccessful in holding banks liable under the ATA involves the meaning of the term "international terrorism." Under the ATA statute, "international terrorism" requires proof that the prohibited conduct "appear to be intended" "(i) to intimidate or coerce a civilian population; (ii) to influence the policy of a government by intimidation or coercion; or (iii) to affect the conduct of a government by mass destruction, assassination, or kidnapping."[85] Plaintiffs face a difficult legal hurdle to prove that the provision of basic banking services "appear[s] to be intended" for a terrorism-related purpose. The bank's transfer of funds was more likely committed for a financial purpose of making money from the international funds transfers, and totally unrelated to any of the terrorism purposes set forth in the statute.

The aiding and abetting problem can be easily solved by legislative amendment. If Congress intends to prohibit banks from knowingly providing financial services to terrorists, 18 U.S.C. § 2333(a) should be amended to expressly authorize aiding and abetting liability.

---

[81] *See*, e.g., Abecassis v. Wyatt, 785 F. Supp.2d 614, 649 (S.D. Tex. 2011); Wultz v. Islamic Republic of Iran, 755 F. Supp.2d 1, 56 (D.D.C. 2010); In re Chiquita Brands Intern., Inc., Alien Tort Statute and Shareholders Derivative Litigation, 690 F. Supp.2d 1296, 1309 (S.D. Fla. 2010).
[82] *See* Rothstein v. UBS AG, 708 F.3d at 91 (citing Lerner v. Fleet Bank, N.A., 318 F.3d 113, 123 (2d Cir. 2003)).
[83] *Lerner*, 318 F.3d at 123 (citing First Nationwide Bank, 27 F.3d at 769 (quoting Hecht, 897 F.2d at 23–24)).
[84] *See Wultz v. Islamic Republic of Iran*, 755 F. Supp.at 56.
[85] 18 U.S.C. § 2331(1).

Prohibiting aiding and abetting under the statute would also solve the "appear to be intended" issue. While plaintiffs would have to prove that the acts of the *principals* "appear to be intended" for a terrorism-related purpose, such requirement would not apply to aiders and abettors. Plaintiffs would have to prove that the secondary actor had knowledge that the funds were being transferred to foreign terrorists and such services "substantially assisted" the principals in committing the acts of terrorism.

The civil provision of the ATA could be used against ISIS, ISIS-controlled entities, and banks that knowingly transfer funds and provide financial services to members of ISIS. For example, the surviving family members of slain American journalists James Foley and Steven Sotloff could bring suit under the ATA against those persons that aided and abetted ISIS by enabling the terror group to sell oil on the black market, as well as banks that knowingly received and transferred funds from the sale of ISIS oil. However, the statute needs to be amended to expressly permit liability for aiders and abettors of acts of international terrorism.

Conclusion

ISIS is a violent and ruthless terrorist organization that poses an imminent threat to international peace and security, as well as U.S. national security interests. The terror group is flush with funds to finance its goal of establishing a caliphate state in the Middle East. To effectively disrupt the flow of funds to ISIS, the Treasury Department needs to recalibrate and intensify its efforts under E.O. 13224, focusing on individuals and entities involved in the principal sources of ISIS funding, such as the illicit oil trade and trafficking in stolen artifacts from Iraq and Syria.

The Treasury Department should work more closely with the DOJ in sharing financial intelligence information to increase the number of successful terrorist financing prosecutions under the material support statutes. Moreover, Treasury should make more effective use of its civil enforcement actions under the BSA to ensure that banks are not being used for terrorist financing purposes. Finally, Congress should amend the civil provisions of the ATA to provide the victims of international terrorism an effective remedy to hold banks accountable that knowingly transfer funds to international terrorists. Collectively, these proposals will enhance the effectiveness of the United States Government's efforts to disrupt and reduce the flow of funds to ISIS.

Testimony

Countering ISIL's Financing

Patrick B. Johnston

RAND Office of External Affairs

CT-419

November 2014

Testimony presented before the House Financial Services Committee on November 13, 2014

This product is part of the RAND Corporation testimony series. RAND testimonies record testimony presented by RAND associates to federal, state, or local legislative committees; government-appointed commissions and panels; and private review and oversight bodies. The RAND Corporation is a nonprofit research organization providing objective analysis and effective solutions that address the challenges facing the public and private sectors around the world. RAND's publications do not necessarily reflect the opinions of its research clients and sponsors. **RAND®** is a registered trademark.

Published 2014 by the RAND Corporation
1776 Main Street, P.O. Box 2138, Santa Monica, CA 90407-2138
1200 South Hayes Street, Arlington, VA 22202-5050
4570 Fifth Avenue, Suite 600, Pittsburgh, PA 15213-2665
RAND URL: http://www.rand.org/
To order RAND documents or to obtain additional information, contact
Distribution Services: Telephone: (310) 451-7002;
Email: order@rand.org

Patrick B. Johnston[1]
The RAND Corporation

Countering ISIL's Financing[2]

Before the Committee on Financial Services
United States House of Representatives

November 13, 2014

Chairman Hensarling, Ranking Member Waters, and distinguished committee members: Thank you for allowing me to testify before you today on this critical topic.

Today I will discuss how the Islamic State of Iraq and the Levant (ISIL) accumulated the wealth that has made it the richest terrorist group in the world, what it spends that money on, how its money amplifies the threat it poses, and opportunities and challenges for the United States to counter its funding.

The success or failure of disrupting ISIL funding lies less in sanctioning foreign entities with whom ISIL or its intermediaries do business and more in developing the capacity of Iraqi and other local and regional partners to target ISIL financial facilitators and the group's local revenue sources. This can be achieved by supporting partner forces in rolling back ISIL's territorial gains; working with the local, regional, and U.S. government interagency partners to develop better financial intelligence on ISIL; and working with those same partners to block the various mechanisms by which ISIL raises money.

However, it is important to note that stopping ISIL financing is an extraordinarily difficult challenge. Even great success may not end the group's activities. We know from history that even when its predecessor organization, al-Qaeda in Iraq (AQI), was at the nadir of its power, it was able to maintain a core membership and conduct operations.

The Sources of ISIL's Riches

The first question is where ISIL gets its money. As part of my research at the RAND Corporation, since 2011 I have been studying the finances, management, and organization of the precursors to ISIL—AQI and the Islamic State of Iraq (ISI)—using their own financial documents. These declassified ledgers,

[1] The opinions and conclusions expressed in this testimony are the author's alone and should not be interpreted as representing those of RAND or any of the sponsors of its research. This product is part of the RAND Corporation testimony series. RAND testimonies record testimony presented by RAND associates to federal, state, or local legislative committees; government-appointed commissions and panels; and private review and oversight bodies. The RAND Corporation is a nonprofit research organization providing objective analysis and effective solutions that address the challenges facing the public and private sectors around the world. RAND's publications do not necessarily reflect the opinions of its research clients and sponsors.
[2] This testimony is available for free download at http://www.rand.org/pubs/testimonies/CT419.html.

payrolls, and memos were captured by U.S., Coalition, and Iraqi forces between 2005 and 2010, and show in great detail what has been publicly reported about ISIL in recent months.

The documents show that ISIL and its predecessors have long generated the vast majority of the group's funding internally. ISIL reportedly raises the majority of its money now through smuggling oil and products originating in the Iraqi and Syrian oil sectors or through extorting entities in those sectors; through extortion and taxation of the local economy in the areas it controls; through looting war spoils, including the region's rare and valuable antiquities; and through black-market sales of stolen and looted goods. Our analysis of the group's documents found that by 2008—well before Abu Bakr al-Baghdadi became the ISI's leader—ISI funded itself in Mosul by exploiting the same local revenue sources ISIL currently exploits there. The documents also revealed that the group was wary of strings attached to revenue from external sponsors and was unlikely to seek external support as a major component of its overall financing.[3]

This might have changed under Abu Bakr al-Baghdadi's leadership. Senior U.S. government officials have recently claimed that some of ISIL's funding now comes from external donors, and some believe external funding could become increasingly key to ISIL's financing if its finances in Iraq and Syria are squeezed and the group must look outward for financial support. Moreover, if ISIL mends its relationship with Jabhat al-Nusra (JaN), which splintered from ISI to become an independent affiliate in Syria of the central al-Qaeda organization (based in Pakistan), it is possible that ISIL could integrate JaN's external funding network into its broader financial scheme. Guarding against these possibilities will require the Treasury Department's continued vigilance in targeting external supporters for sanctions with the necessary authorities.

However, because only a modest share of ISIL's funding comes from external donors, sanctioning donors and external facilitators should be a secondary effort. Countering ISIL's internal financial operations must be the main effort.

The Growth of ISIL's Riches

The key difference between the financial activities of ISIL's predecessors and the financial activities of ISIL now is not in kind but rather in scale. Most recent estimates suggest that ISIL makes between $1–3 million per day. In contrast, ISI's master financial ledgers in Mosul show that the group made an average of slightly less than $1 million per month between August 2008 and January 2009. Although it is unclear

[3] One captured ISI document—a lengthy internal review of the organization's "lessons learned"—explicitly warned against relying on external funding. The author cited the vulnerabilities such financial arrangements had caused in the past for Islamic militant groups. See Combating Terrorism Center at West Point, "Analysis of the State of ISI (English translation)," p. 23. As of August 24, 2014: https://www.ctc.usma.edu/posts/analysis-of-the-state-of-isi-english-translation-2

how much of present-day ISIL's revenues are made in and around Mosul, the key fact is that it used to take the group a month to make what it now makes each day. These resources have been critical enablers of ISIL's success in seizing broad swaths of territory in Syria and Iraq and in waging a two-front war against multiple governments and other non-state armed groups.

The many-fold growth of ISIL's wealth in recent years has also enabled ISIL to generate a budget surplus. This is a new development that occurred sometime after spring 2010. The group's Mosul financial ledgers from 2008 and 2009 reveal that it maintained a meticulously balanced budget. They also reveal that the group spent nearly all of the money it made very rapidly on its operating expenses, such as members' salaries and legal costs incurred on behalf of its detained members, and to fund military operations and attacks.[4] If reports published in June 2014 based on similar documents that were captured from a senior ISIL leader in Mosul are true, ISIL's surplus is now approximately $2 billion. Unlike in the past, ISIL no longer struggles to maintain a balanced budget each month—it instead enjoys a significant amount of surplus capital.

How ISIL Spends Its Money

The question about this surplus is, how will ISIL use it? First, ISIL could use surplus funding to continue to expand its territorial base in Iraq and the Levant—the area of Syria, Lebanon, Jordan, Israel, the West Bank, and Gaza. Second, it could use it to expand its influence in other strategic parts of the Muslim world, including Pakistan and Afghanistan, as it attempts to usurp primacy in the jihadist world from al-Qaeda. Third, it could use this money to fund plots for attacks in North America, Western Europe, or elsewhere in the world. Fourth, it will need to spend some of its money to fund its members and to provide services and maintain its sharia-based order in the territory it currently controls.

Of the four options, the first and the last appear to be the most likely. ISIL's top priority appears to be building an Islamic caliphate emanating from Iraq and the Levant. For now, ISIL is focused primarily on controlling territory and establishing a viable caliphate in the region. It likely will spend a large share of its revenue on "state building"—that is, implementing its strict Salafi-jihadist governance structures in the territory it controls. The group's financial holdings do not allow for the same level of spending the Iraqi government had budgeted for the governorates ISIL controls. My assessment is that ISIL requires far fewer resources to implement its sharia-based governance structures within this territory because ISIL's

[4] Analysis by my RAND colleagues in 2010 observed the same pattern of balanced revenues and expenditures in a study of captured AQI financial documents from Anbar province from mid-2005 through late-2006. See Benjamin Bahney, Howard J. Shatz, Carroll Ganier, Renny McPherson, and Barbara Sude, with Sara Beth Elson and Ghassan Schbley, *An Economic Analysis of the Financial Records of al-Qa'ida in Iraq*, Santa Monica, Calif.: RAND Corporation, MG-1026-OSD, 2010, pp. 42–43. As of November 11, 2014: http://www.rand.org/pubs/monographs/MG1026.html

operating expenses and provision of other services is limited in comparison to what the government of Iraq would spend on services.

ISIL's wealth no doubt could contribute to a capability to conduct external operations, the second option I mentioned earlier. Media reporting has suggested that ISIL operatives have traveled to Pakistan and Afghanistan, among other countries, to attempt to recruit jihadi militants to join ISIL. Several commanders of the Pakistani Taliban, the leaders of the Abu Sayyaf Group in the southern Philippines, the splinter group led by the former leader of Jemaah Islamiyah in Indonesia, and Ansar Beit al-Maqdis in Egypt's Sinai Peninsula have all sworn allegiance to ISIL. Although the extent of the links between ISIL and these groups is unclear, it is clear that ISIL's media operations and deployment of teams of agents to conduct operations in distant countries requires money. And some jihadists, such as the Philippines' Abu Sayyaf Group, which has stepped up kidnappings of Westerners in recent months, may shift their support to ISIL in exchange for financial support.

The third option is the least likely but has the highest stakes for U.S. national security. Although ISIL appears more intent on consolidating control in Iraq and the greater Levant and spreading its brand throughout the Muslim world, an ISIL terrorist attack in the West could boost the group's standing among jihadist elements worldwide and attract another wave of foreign jihadis to fight with ISIL in Iraq and Syria. Such an attack would be costly for ISIL to plan and execute, but probably not costly enough for it to be impossible, even if the U.S. and its allies do manage to significantly degrade the group's finances. However, a financially degraded ISIL would pose less of a threat of successfully conducting a major attack using expensive and deadly weapons than a financially strong ISIL, which would have the resources necessary for such an attack: research and development, long-term surveillance and reconnaissance operations, training, weapons, and other materiel.

Current U.S. Strategy to Disrupt ISIL Finances: Opportunities and Limitations

The U.S. strategy that Treasury Under Secretary Cohen outlined on October 23 in his speech at the Carnegie Endowment for International Peace has three core elements: cutting off ISIL's access to revenue, restricting ISIL's access to the international financial system, and targeted sanctions against ISIL's leadership and facilitators.

Cutting Off ISIL's Access to Oil and Extortion Revenue

The first element of Treasury's strategy is working to cut off ISIL's main sources of funding, in particular its revenue from oil sales, extortion and crime, ransom payments, and support from foreign donors. I will focus on revenues from oil and criminal extortion, as they appear to be ISIL's largest sources of funding.

Oil

Treasury has announced it will target for financial sanctions anyone who trades in ISIL's stolen oil. Under Secretary Cohen's commentary is worth quoting at length on the challenges associated with sanctioning ISIL's oil trade:

> It is true, of course, that ISIL's oil moves in illicit networks that are largely outside the formal economy, where individuals are less vulnerable to financial pressure. But at some point, that oil is acquired by someone who operates in the legitimate economy and who makes use of the financial system. He has a bank account. His business may be financed, his trucks may be insured, his facilities may be licensed. All that makes ISIL oil facilitators vulnerable.
>
> The middlemen, traders, refiners, transport companies, and anyone else that handles ISIL's oil should know that we are hard at work identifying them, and that we have tools at hand to stop them. We not only can cut them off from the U.S. financial system and freeze their assets, but we can also make it very difficult for them to find a bank anywhere that will touch their money or process their transactions. In combating ISIL's fundraising through oil sales, we will leverage the well-established reluctance of banks around the world to facilitate the financing of terrorism.
>
> Beyond financial sanctions, we are working closely with others in the U.S. government to enhance the ability of our partners in the region to choke off cross-border oil smuggling routes and to identify those involved in the smuggling networks. The Turkish and Iraqi Kurdish authorities have both made commitments to combat whatever oil smuggling occurs in their territory.[5]

It remains unclear whether this can be done effectively enough to degrade ISIL's oil wealth. Although some information exists on ISIL's oil sales and the smuggling schemes that are used to move oil to market in Turkey, Kurdistan, and elsewhere, getting the high-fidelity comprehensive intelligence on how ISIL sells oil and smuggles it will be difficult. Sanctioning individuals associated with ISIL oil sales will be difficult and may only have second- or third-order effects on the group. Pinning down specific bank accounts in hard-target countries will be very challenging. Aside from the opacity of the informal economic processes ISIL uses to profit from oil, Turkish cooperation has been limited due to geopolitical concerns.

Enhancing liaison activities in key areas through the U.S. Consulate in Erbil and U.S. Embassy Ankara will be important for obtaining necessary intelligence on banking and oil trafficking in those areas, and for working effectively with our partners on the ground. These challenges are enormous, and in many cases, it may only be possible to identify the banks that are doing business with oil smugglers from Iraq and Eastern Syria—not the identities of the smugglers or of the downstream parties who do business with ISIL wittingly or unwittingly. After all, ISIL runs that part of the world and claims to have its own state. Thus, disrupting ISIL's oil revenues through sanctions may be possible, but in a less precise fashion than we

[5] Remarks of Under Secretary for Terrorism and Financial Intelligence David S. Cohen at The Carnegie Endowment For International Peace, "Attacking ISIL's Financial Foundation," October 23, 2014.

would like. To address this challenge, banks in the region should be put on notice, and Treasury should be given the necessary authorities to sanction these financial institutions.

Extortion

As I have described, extortion has long constituted one of this organization's most lucrative revenue sources. As of early 2009, for example, ISI documents show that in Mosul, it was making roughly the same share of revenue from extortion as from oil. Treasury's tools are not currently well suited for disrupting this source of ISIL revenue. Under Secretary Cohen recognizes that cutting off ISIL extortion revenue will require rolling back its control over territory, local businesses, and the local population—that is, in the long-term, rolling back ISIL's financing will require a well-resourced and capable indigenous ground force. This is primarily a military and law enforcement challenge, and it shows the inextricable links between the financial and the military challenges presented by a group such as ISIL. Until ISIL's territorial control can be reduced, cutting off its revenue from extortion and other criminal activities will be extremely difficult.

However, in the near term, two steps should be taken as possible to *disrupt* ISIL extortion and criminal revenue: First, work with partners—especially Iraqi Arabs and Kurds—to monitor flow of goods into and out of ISIL territory in Iraq and along key border areas, and learn from truck drivers the amounts of money demanded for transit fees and other taxes. This will provide better visibility into ISIL's revenue stream. Second, monitor all contracts with entities in ISIL territories—or cut off contracting since it's going to be extorted. These measures should be expanded if and when ISIL's territorial control is degraded to ensure its black-market activities are also degraded.

Restricting ISIL's Access to the International Financial System

Treasury is actively working to limit ISIL's ability to transact through the Iraqi, Syrian, and international banking systems. Scores of bank branches are located in territories where ISIL operates. Through cooperation with Iraqi authorities, bank headquarters, and the international financial community, Treasury aims to prevent ISIL from using those bank branches. Bank Secrecy Act reports filed with the Treasury by U.S. banks could provide the U.S. government with valuable insight into ISIL financial activity in areas where ISIL operates to the degree it or those who do business with it use U.S. banks. Treasury can carefully review these reports for indications of ISIL financing and quickly disseminate information to the appropriate authorities. However, more cooperation from countries in Europe and the Middle East is needed to significantly undermine financial options available to ISIL.

Attempts to restrict ISIL's access to the international financial system face three significant challenges. First, a number of northern Iraqi banks in and around ISIL's Mosul stronghold are reportedly under the group's control. These banks obviously have no incentive to comply with any U.S. regulatory policies. Efforts to isolate these banks from other formal financial institutions are important, yet little can be done to prevent ISIL from using them to exert financial control over the *local* formal economy and as a means of generating revenue.

Second, to the extent that ISIL relies on the Iraqi, Syrian, and international banking systems—and the extent to which it does remains unclear—the group has an incentive to identify and use banks that are unlikely to comply with policies designed to target ISIL's financial operations. Iraq's weak governance and sectarian politics makes oversight of a segment of banks ISIL is likely to use extremely difficult. As long as ISIL violence remains a threat to those who refuse to cooperate with the group, the United States may struggle to garner cooperation from target banks in Iraq and Syria.

Third, to the extent that these policies are effective, ISIL still would not be cut off from informal banking systems, such as networks of *hawalas*—informal value-transfer institutions throughout the Middle East, South Asia, and parts of Africa. These institutions can move ISIL money in Iraq, Syria, and abroad and have been difficult for Western intelligence authorities to penetrate.

Targeted Sanctions Against ISIL's Leadership and Facilitators

The third element of Treasury's strategy aims to dismantle ISIL's financial foundation through targeting its leadership, supporters, and financial facilitators with official terrorist designations.

Running a terrorist organization—especially one as large as ISIL—is both costly and bureaucratically challenging.[6] To keep track of all its revenues and costs, ISIL depends on complex management networks, with CFO-like figures and professional administrators who allocate and monitor the group's money top-to-bottom.

Citing success in identifying, exposing, and financially neutralizing individuals in similar positions in al-Qaeda, Treasury has made identifying and designating these members of ISIL a priority. Placing sanctions on ISIL's leadership and facilitation network would indeed make it harder for ISIL to conduct commercial or other formal financial activities. But ISIL's financing scheme is different from al-Qaeda's, and targeting ISIL's leaders and facilitators for sanctions may harm ISIL less than past sanctions harmed al-Qaeda. ISIL financial and administrative officials receive and transfer most of the group's money

[6] Bahney et al., 2010; Patrick B. Johnston and Benjamin Bahney, "Hitting ISIS Where It Hurts: Disrupt ISIS's Cash Flow in Iraq," *The New York Times*, August 13, 2014; Howard J. Shatz, "To Defeat the Islamic State, Follow the Money," *Politico*, September 10, 2014.

internally, and in cash. Their limited reliance on the formal economy may reduce the strategic value of cutting off their access to formal economic channels. Alternative means of targeting these individuals, whether kinetic or non-kinetic, may be more valuable against ISIL.

Policy Recommendations

Recommendation #1: Continue conducting airstrikes against oil assets, refineries, and other financial targets. Airstrikes alone have been, and will continue to be, insufficient to stop ISIL funding flows. However, airstrikes do disrupt ISIL oil operations, reduce its profits, and most importantly, buy time to build more robust diplomatic, intelligence, and military capabilities for a coordinated effort to weaken ISIL financially. The tricky element will be avoiding destroying those assets that legitimate successor governments will need to maintain either revenue or legitimacy.

Recommendation #2: Develop more effective financial intelligence collection and analysis capabilities to gain the level of understanding of ISIL's financial networks needed to target them. This is necessary to target its local financial schemes, which generate the vast majority of ISIL's finances. Realizing these capabilities will require robust partnerships with local, regional, and U.S. government interagency partners. Several key steps should be taken, including (1) enhancing intelligence cooperation with Kurdish and Iraqi partners to identify oil facilitators; (2) prioritizing collection on, and monitoring of, the quantities and prices of oil that facilitators and intermediaries are smuggling; and (3) identifying and monitoring all external contracts for areas in and around territory ISIL controls, and taking action to stop them if they are not absolutely necessary for the population's well-being.

Recommendation #3: Continue supporting the deployment of U.S. advisers to Iraq to increase the capacity of Iraqi Security Forces and advise them in military operations. The financial fight is inextricably linked to the military campaign that is happening on the ground. ISIL accumulated its wealth by taking advantage of Iraq's weak central governance and exploiting political sectarian grievances—in addition to exploiting the ongoing instability in Syria—and its expanded territorial control also expanded its capacity to generate higher and higher levels of revenue. In short, cutting off ISIL's finances cannot be done without rolling back its territorial control, and the Iraqi, Kurdish, and other partner security forces will have to do this with U.S. advice and assistance in lieu of a U.S. ground combat role.

Thank you again for inviting me. I am happy to answer any questions you may have.

Testimony of Dr. Matthew Levitt, Fromer-Wexler fellow and director of the Stein Program on Counterterrorism and Intelligence at The Washington Institute for Near East Policy

House Financial Services Committee

"Terrorism Financing and the Islamic State"

November 13, 2014

Chairman Hensarling, Ranking Member Waters, distinguished members of the House Financial Services Committee, it is an honor to testify before you today on this timely and important matter.

The U.S. government effort to counter the Islamic State, or ISIS, is focused on "five mutually reinforcing lines of effort," one of which aims to stop ISIS' financing and funding.[1] That may prove a difficult task, in large part due to the differences between the funding models employed by ISIS and Jabhat al-Nusra (JN) or other al Qaeda affiliates, but not one that is beyond the international community's capabilities.

Combating ISIS financing is an important component of the international campaign against the only group to be even too extreme for al Qaeda. Counter-terror finance tools have proven uniquely effective both as a means to stem the flow of funds to terrorist groups and as sources of actionable financial intelligence (FININT) that can then be leveraged to even greater success. There is no doubt that in those areas where ISIS financing crosses international borders or leverages the international financial system (especially the formal financial sector, banks, but even alternative financial transfer mechanisms) the traditional tools sets developed in the years since 9/11 will continue to prove to be effective means of countering ISIS financing. This includes ISIS' income from illicit oil smuggling, donations from deep pocket donors in the Gulf and elsewhere, kidnap-for-ransom payments, efforts to access the antiquities black market to sell looted ancient artifacts, and more.

But this is unlikely to be enough to fully "dismantle" ISIS. Unlike al Qaeda and other groups, ISIS, which has renamed itself the Islamic State and unilaterally declared the reestablishment of an Islamic caliphate, was financially self-sufficient for about eight years as a terrorist and insurgent group before committing itself to running a proto-state. Remember that before it renamed itself the Islamic State, the group was known as ISIS, as the Islamic State of Iraq, as al Qaeda in Iraq (AQI), as Majlis Shura al-Mujahidin and as Jamaat al-Tawhid wa-l-Jihad. And unlike other groups, which are reliant on state sponsors, major donors or abuse of charity, AQI

[1] US Department of State, "Special Presidential Envoy for the Global Coalition to Counter ISIS," http://www.state.gov/s/seci/

was financially independent by virtue of engaging in tremendously successful criminal activity enterprises domestically within Iraq.

Today, criminal enterprise still accounts for significant ISIS financing, complementing the group's other lucrative sources of income, especially the sale of illicit oil. But on its own criminal enterprise is an insufficient source for funding for a group committed not just to terrorist and insurgent activity but to capturing, holding and administering territory, which involves significant expenditures and therefore requires more significant revenue streams.

Therefore, while it is true that ISIS criminal enterprises within Iraq are currently beyond the reach of traditional law enforcement and regulatory action, focusing even only on those areas that are vulnerable to current toolsets will effectively deny ISIS the money it needs to hold and administer its Islamic State. Meanwhile, while military tools would under other circumstances be the last thing one might think of as a logical means of combating crime, the fact is that airstrikes against ISIS have already significantly undermined some of the group's criminal enterprises and further such strikes should continue that trend. And, while the prospects of real political reform in Iraq seem bleak today, should the Iraqi government at some point reprioritize governance and the rule of law over sectarianism and corruption then perhaps local Iraqi law enforcement could—at some future point—investigate and prosecute ISIS criminal enterprises as they domestic criminal activities they are.

Speaking last month, Under Secretary for Terrorism and Financial Intelligence David S. Cohen explained that the Treasury Department's ISIS strategy focuses on imposing financial sanctions on anyone who trades in ISIS's stolen oil, inducing our foreign partners to put an end to kidnap-for-ransom payments, targeting external donor networks for sanctions, restricting ISIS's access to the international financial system, and employing targeted sanctions against ISIS's leadership and facilitators.[2] This is a wise strategy, using the tools Treasury currently has in its toolkit. I encourage people to look beyond these tools, however, as I am sure Treasury already is, to envision the kinds of tools Treasury and its partners might need to adapt and deal with an evolving illicit financial threat. I submit there is no agency that does this better, thinking outside the box to develop the strategies needed to deal with tomorrow's threats. Treasury's Terrorism and Financial Intelligence branch did just that to address al Qaeda financing after 9/11, and it did so in an even more substantial way in 2005-2006 when it developed tools and strategies to contend with Iran's illicit financial conduct, support for terrorism, and nuclear proliferation. I expect we will see a similarly creative process of adaptation by Treasury and its interagency and international partners when it comes to ISIS as well.

Today, ISIS financing revenue comes primarily from the sale of illicit oil, from the deep pockets of a small number of major donors, and from a wide array of criminal enterprises.

---

[2] David S. Cohen, "Remarks of Under Secretary for Terrorism and Financial Intelligence David S. Cohen at The Carnegie Endowment for International Peace, 'Attacking ISIS's Financial Foundation,'" US Department of the Treasury, October 23, 2014, http://www.treasury.gov/press-center/press-releases/Pages/jl2672.aspx.

Oil

By September, estimates put ISIS' daily income at around $3 million[3], giving it a total value of assets between $1.3 and $2 billion,[4] making it the world's best-funded terrorist group. By this standard, ISIS draws more income than many small nations, including Tonga, Nauru, and the Marshall Islands[5]. This income to crucial to ISIS's existence, as it helps supply and maintain equipment, provide salaries for fighters, manage civilian infrastructure and administration, expand its propaganda campaign, and bribe tribal leaders..

Prior to the air campaign against ISIS which began in September, ISIS operated around 350 oil wells in Iraq[6] and 60% of Syria's oil fields.[7] In August, oil production from facilities under ISIS control was estimated at around 80,000 barrels per day. ISIS is believed to sell some 30,000 barrels a day in Iraq and 50,000 in Syria, which go for roughly $40 per barrel on the black market.[8] ISIS only produces around a fifth of the total capacity of the oil fields' under its control in Iraq and Syria.[9] Even prior to the conflict, Syria's oil fields were considered old and inefficient, producing only 10% of total capacity.[10] ISIS has tapped into pre-existing black market routes that date back to the 1990s and the smuggling networks that propped up under Saddam regime era oil-for-food program. It uses these to sell extracted crude oil to smugglers, who then transport the oil outside of conflict zones using a variety of means: tanker trucks, vans, jerry cans carried by mules, makeshift pipes, and even rafts when crossing rivers. In one case, Turkish authorities found an underground pipeline as long as 3 miles (4.8 kilometers).[11]

---

[3] Ken Dilanian, "Islamic State group's war chest is growing daily," *Associated Press*, September 15, 2014, http://bigstory.ap.org/article/islamic-state-groups-war-chest-growing-daily-0.

[4] Martin Chulov, "How an arrest in Iraq revealed Isis's $2bn jihadist network," *The Guardian*, June 15, 2014, http://www.theguardian.com/world/2014/jun/15/iraq-isis-arrest-jihadists-wealth-power.

[5] Terrence McCoy, "ISIS just stole $425 million, Iraqi governor says, and became the 'world's richest terrorist group," *Washington Post*, June 12, 2014, http://www.washingtonpost.com/news/morning-mix/wp/2014/06/12/isis-just-stole-425-million-and-became-the-worlds-richest-terrorist-group/.

[6] Janine di Giovanni, Leah McGrath Goodman, and Damien Sharkov, "How Does ISIS Fund Its Reign of Terror?" *Newsweek*, November 6, 2014, http://www.newsweek.com/2014/11/14/how-does-isis-fund-its-reign-terror-282607.html?piano_t=1.

[7] Katarina Montgomery, "Understanding the Oil Money that's Fueling ISIS," *Syria Deeply*, November 4, 2014, http://www.syriadeeply.org/articles/2014/11/6345/understanding-oil-money-fueling-isis/.

[8] Richard Barrett, "The Islamic State," The Soufan Group, November 2014, http://soufangroup.com/wp-content/uploads/2014/10/TSG-The-Islamic-State-Nov14.pdf, p. 47.

[9] Giovanni, Goodman, and Sharkov, "Reign of Terror," http://www.newsweek.com/2014/11/14/how-does-isis-fund-its-reign-terror-282607.html?piano_t=1.

[10] Karen Leigh, "ISIS Makes Up To $3 Million a Day Selling Oil, Say Analysts," *Syria Deeply*, August 2, 2014, http://abcnews.go.com/International/isis-makes-million-day-selling-oil-analysts/story?id=24814359.

[11] Benoit Faucon and Ayla Albayrak, "Islamic State Funds Push into Syria and Iraq with Labyrinthine Oil Smuggling Operation," *Wall Street Journal*, September 16, 2014, http://online.wsj.com/articles/islamic-state-funds-push-into-syria-and-iraq-with-labyrinthine-oil-smuggling-operation-1410826325?tesla=y

From the Syrian town of Ezmerin, about 500 illegal oil pipelines extend to the Turkish side of the Orontes ("Asi" in Arabic) River.[12] Diesel fuel is pumped from tankers on the Syrian side into private tanks via simple "pump" and "stop" commands over cell phones.[13] These tanks feed pipelines that are buried deep under agricultural fields, crisscross under streets, to reach the back yards of private houses in villages scattered across Hatay Province.[14] Customers arrive to the houses and purchase the oil at a discount price. Around 80-90% of Hacipasa's villagers are somehow involved in the fuel smuggling operation.[15]

To accommodate domestic demand, ISIS occasionally transports crude oil into neighboring countries, refines it into low quality gasoline at makeshift refineries, and brings it back to urban centers for resale. For example, the 2 million residents of Mosul buy fuel that is extracted from nearby field in Qayara, refined in Syria, and transported back to Mosul.[16]

While ISIS does sell its oil to foreign customers in Turkey, Kurdistan, and Jordan, it has gradually re-directed its focus internally, fueling its vehicles and establishing dependence between civilians and its capacity to provide them oil at nearly half the free market price per barrel. This is due to the increasing costs of exporting stolen crude throughout the region. Turkey says it seized nearly 20 million liters of oil at its southern border in the first eight months of 2014.[17] The Kurdish Regional Government announced the arrest of several citizens along with a number of Kurdish politicians and security officials for facilitating the smuggling of stolen oil.[18] U.S. airstrikes have targeted ISIS's dozens of "teakettle" refineries run by local Syrian businessmen that churn out only 100 barrels a day.[19] An International Energy Agency report estimates the current production is down to 20,000 bpd.[20]

A major component of ISIS's oil strategy is its dependence on specialized labor. In many cases, ISIS has paid and protected pre-existing skilled workers to remain at their posts and maintain the oil fields. For example, Qayara oilfield kept pumping after ISIS asked the Iraqi employees to stay, promising them protection from the government and rival opposition groups.[21] This

---

[12] Fehin, Tastekin. "Turkish villages smuggle IS oil through makeshift pipelines." *Al-Monitor*. September 15, 2014. http://www.al-monitor.com/pulse/originals/2014/09/turkey-syria-iraq-illegal-oil-pipeline.html
[13] Ibid.
[14] Ibid.
[15] Ibid.
[16] Ahmed Rasheed, "Oil smuggling finances Islamic State's new caliphate," *Reuters*, July 23, 2014, http://www.reuters.com/article/2014/07/23/us-iraq-security-oil-idUSKBN0FS0BP20140723.
[17] "Turkey cracks down on oil smuggling with ISIS in mind," *Associated Press*, October 6, 2014, http://www.cbsnews.com/news/turkey-cracks-down-on-oil-smuggling-with-isis-in-mind/.
[18] Giovanni, Goodman, and Sharkov, "Reign of Terror," http://www.newsweek.com/2014/11/14/how-does-isis-fund-its-reign-terror-282607.html?piano_t=1.
[19] Deborah Amos, "How the Islamic State Smuggles Oil to Fund Its Campaign," *NPR*, September 9, 2014, http://www.npr.org/blogs/parallels/2014/09/09/346844240/how-the-islamic-state-smuggles-oil-to-fund-its-campaign.
[20] Matthew Philips, "Islamic State Loses Its Oil Business," *Businessweek*, October 14, 2014, http://www.businessweek.com/articles/2014-10-14/u-dot-s-dot-air-strikes-cut-isis-oil-production-by-70-percent.
[21] Rasheed, "Oil smuggling," http://www.reuters.com/article/2014/07/23/us-iraq-security-oil-idUSKBN0FS0BP20140723.

increasing mutual dependence between the militants and civilians poses several issues for U.S. strategy of destroying the facilities. ISIS propaganda attributes the subsequent destabilizing effects on the economy to the U.S. air campaign in an effort to turn former laborers and specialized workers into more hardline supporters.

Charitable donations

ISIS does benefit from donations from deep pocket donors, which has been a source of funds for the group for nearly a decade, dating back to when ISIS was known as al-Qaeda in Iraq (AQI). Documents seized in a September 2007 raid on a suspected AQI safe house in Sinjar, in western Iraq, revealed that in the 2006-2007 timeframe the group depended on donations, much of which came from AQI leaders, foreign fighters, and local Iraqis.[22]

Yet donations are now only one, relatively small, source of financing for the group. As Treasury's David Cohen put it, ISIS "derives some funding from wealthy donors [but] even though [ISIS] currently does not rely heavily on external donor networks, it maintains important links to financiers in the Gulf…."[23]

Still, ISIS has accumulated as much as $40 million or more over the last two years donors in the oil-rich nations of Saudi Arabia, Qatar, and Kuwait.[24] In April 2013, in a statement not limited to ISIS, the State Department noted that donations from the Persian Gulf were a "major source of funding for Sunni terrorist groups, particularly…in Syria."[25] But while Saudi Arabia and the United Arab Emirates have made significant strides in combating terror finance within their countries, Qatar and Kuwait remain problematic jurisdictions. Today, those radical deep pocket donor in Saudi Arabia still wishing to transfer money to Syria often do so through Kuwait.[26]

In March, Department of the Treasury Undersecretary David Cohen singled out Qatar as an especially "permissive jurisdiction" for terrorist financing. Qatari oversight is so lax, Cohen noted, that "several major Qatar-based fundraisers act as local representatives for larger terrorist fundraising networks that are based in Kuwait." Not wanting to expose sensitive intelligence, Cohen pointed to press reports that Qatar not only supports Hamas but also extremist groups

---

[22] Brian Fishman (ed.), *Bombers, Bank Accounts, and Bleedout: Al-Qai'da's Road In and Out of Iraq*, Harmony Project (Combating Terrorism Center at West Point, 2008), p. 93. Available online (http://www.ctc.usma.edu/harmony/pdf/Sinjar_2_July_23.pdf).

[23] David Cohen, "Attacking ISIL's Financial Foundation," Carnegie Endowment for International Peace, October 23, 2014, http://carnegieendowment.org/2014/10/23/remarks-by-u.s.-treasury-under-secretary-david-s.-cohen-on-attacking-isil-s-financial-foundation

[24] Giovanni, Goodman, and Sharkov, "Reign of Terror," http://www.newsweek.com/2014/11/14/how-does-isis-fund-its-reign-terror-282607.html?piano_t=1.

[25] US Department of State, "Chapter 2: Middle East and North Africa," *Country Reports on Terrorism 2013*, http://www.state.gov/j/ct/rls/crt/2013/224823.htm.

[26] "Funding ISIS," The Washington Institute for Near East Policy, http://www.washingtoninstitute.org/policy-analysis/view/funding-isis-infographic.

operating in Syria. "To say the least," he concluded, "this threatens to aggravate an already volatile situation in a particularly dangerous and unwelcome manner."[27]

Qatar has presented a tricky counter-terror finance problem for some time, but now, under steadily increasing pressure over charges that Qatar itself has funded extremists in Syria and Iraq, Qatari Emir Sheikh Tamim bin Hammad al Thani took it upon himself to personally assure German Chancellor Angela Merkel that his regime does no such thing. But even he conceded that "such organizations are partly financed from abroad," so Qatar has now issued a new law creating a new agency empowered to regulate charities in the kingdom that are engaged in politics, send money overseas or receive foreign contributions.[28]

This, of course, is a welcome first step in the right direction, but it will only amount to anything if the new law is actually implemented and enforced. Unfortunately, Qatar has a history of introducing such laws with great fanfare but little or no follow-through or enforcement.

In 2004, Qatar passed a law criminalizing terror financing, established a Financial Intelligence Unit (FIU), and founded the Qatari Authority for Charitable Activities (QACA). [29] Another law, passed in 2006, expanded charitable oversight and gave additional authorities to the Ministry of Civil Service and Housing Affairs. All positive steps, but by the time an International Monetary Fund (IMF) mutual evaluation team came to inspect Qatar's anti-money laundering and counter-terror finance (AML/CFT) regime two years later, it found significant problems. The IMF reported that terrorist financing was criminalized in Qatar, "but in a limited way."[30] The administrative order creating the FIU, it transpired, was inconsistent with Qatar's anti-money laundering law. A system requiring the disclosure of currency transported across the border was assessed by the IMF as being "neither implemented nor effective."[31] And despite having authority to confiscate, freeze or seize funds tied to money laundering or terror finance, not a single confiscation had been ordered because not a single money laundering charge had been brought before the courts. To the contrary: The IMF reported that it appeared that "on one occasion, the [Qatari] authorities offered safe harbor to a person designated under [United Nations terrorism designation list] UNSCR 1267. No actions were taken with respect to this person's funds or other assets."[32]

In a surreal encounter in 2009, this author experienced firsthand Qatar's penchant for passing legislation and considering the matter closed without any implementation or enforcement. In a meeting with Qatari officials in Doha, this author asked how the Qatari FIU assessed the

---

[27] Remarks of Under Secretary for Terrorism and Financial Intelligence David Cohen before the Center for a New American Security on "Confronting New Threats in Terrorist Financing, March 4, 2014, http://www.treasury.gov/press-center/press-releases/Pages/jl2308.aspx

[28] Amena Bakr, "Insight – Qatar pares support for Islamists but careful to preserve ties," *Reuters*, November 2, 2014, http://uk.reuters.com/article/2014/11/02/uk-mideast-crisis-qatar-insight-idUKKBN0IM07E20141102.

[29] International Monetary Fund, "Qatar: Detailed Assessment Report on Anti-Money Laundering and Combating the Financing of Terrorism," October 2008, http://www.imf.org/external/pubs/ft/scr/2008/cr08322.pdf.

[30] International Monetary Fund, "Qatar: Report on the Observance of Standards and Codes – FATF Recommendations for Anti-Money Laundering and Combating the Financing of Terrorism," *IMF Country Report No.08/321*, October 2008, http://www.imf.org/external/pubs/ft/scr/2008/cr08321.pdf.

[31] Ibid.

[32] International Monetary Fund, "Qatar," http://www.imf.org/external/pubs/ft/scr/2008/cr08322.pdf.

compliance of local Hawalas (informal money transfer businesses common in the region) with a then-new law requiring Hawalas to register with the government or shut down. The official explained — with a straight face — that there appeared to be no Hawalas operating in the country since none had registered with the authorities as required under the new law.[33] In fact, the official had an identical conversation with IMF assessors just a few weeks earlier. Highly skeptical that not a single Hawala operated in the country, IMF experts returned to their hotels and asked expatriate foreign workers how they sent money back to their families in their home countries. Their answers were hardly surprising: "Hawalas." The IMF team returned to the official with a long list of Hawalas operating openly in Qatar, required the government submit an updated section of its report on this issue to the IMF, and stressed the need to actually implement and enforce new laws.[34]

The following year Qatar passed still another AML/CFT law, this time specifically requiring prosecutors to freeze funds of U.N.-designated terrorist organizations. A National Anti-Terrorism Committee (NATC) was empowered to designate terrorists independently of the U.N., but no designations were made as of 2013.[35] While Qatar requires financial institutions to file suspicious transaction reports, Qatar's FIU has referred to the public prosecutor a grand total of one case for investigation as of November 2013.

Fast forward to Qatar's latest recommitment to provide regulatory oversight of its charitable sector. This law was ready in draft form last year, but was only passed now under significant international pressure. Last year, the State Department noted that "formally" the Qatari Ministry of Labor and Social Affairs monitors and licenses nongovernmental charitable organizations and requires their foreign partners to submit to a vetting and licensing process. Formally. In fact, this has not happened, in part because so long as charities operated within the Qatar Financial Center (QFC), they were exempt from having to register or be subject to supervision.

In its latest annual report on terrorism trends, the State Department politely described Qatar's oversight of local donations to foreign organizations as "inconsistent" and more bluntly characterized implementation of the country's AML/CFT law as "lacking" and marred by "significant gaps."[36] In the words of one U.S. official, the Qatari attitude to date is often that "a law has been passed, and therefore the problem has been solved."[37] It should therefore not surprise that last December the Treasury Department added Abd al-Rahman al-Nu'aymi, a Qatari academic and businessman, to its terror list, noting he "ordered the transfer of nearly $600,000 to al-Qa'ida via al-Qa'ida's representative in Syria, Abu-Khalid al-Suri, and intended to transfer nearly $50,000 more." An equal opportunity terror financier, Treasury reported that al-Nu'aymi

---

[33] Senior Qatari official, interview by author, January 2008.
[34] Qatari Banking Regulator, interview by author, January 2008.
[35] "Qatar's Record of Counterterrorism," Embassy of the State of Qatar: Washington, D.C., http://www.qatarembassy.net/article/qatars-record-of-counterterrorism.
[36] US Department of State, "Chapter 2. Country Reports: Middle East and North Africa Overview," *Country Reports on Terrorism 2013*, http://www.state.gov/j/ct/rls/crt/2013/224823.htm.
[37] State Department official, interview by author, January 2008.

also sent funds to al Qaeda in Iraq (now called ISIS), to al Qaeda in the Arabian Peninsula (AQAP) and to al-Shabaab in Somalia.[38]

To date, implementation and enforcement have not been a component of Qatar's approach to these issues. Instead, Qatar routinely stresses to investors and critics alike the passage of laws that, on paper, appear robust but are almost never implemented or enforced.

In and of itself, the passage of this latest law is therefore unremarkable. Qatar has passed similar laws in the past, without acting on any of the authorities the laws gave to its departments and agencies. It was the day after announcing the new law that the Qatari emir informed the German chancellor that "Qatar has never supported and will never support terrorist organizations."[39] Having the charity regulations on the books is an essential first step; however, it must be implemented. The proof in the pudding will not be when Qatar opens the doors of a new charity oversight agency, but rather when that agency takes action against the terror financing that is indeed taking place within the country.

The penchant for passing legislation and considering the matter closed without implementation or enforcement is similar in Kuwait. In 2013, a Kuwaiti law was passed criminalizing terrorist financing, allowing for freezing of assets and the creation of a Financial Intelligence Unit (FIU).[40] Yet, Treasury has described Kuwait as the "epicenter of fundraising for terrorist groups in Syria."[41] Kuwait is more politically vibrant, and thus more volatile than Qatar. Any meaningful crackdown on terrorist financing would certainly "invite the wrath of powerful Salafist politicians and clerics…[as well as] the Sunni majority [who] have criticized the government for not providing military [enough] military support to the Syrian opposition."[42] For example, Kuwaiti MP Mohammed Hayef al-Mutairi has "raised funds for jihadist groups with direct ties to ISIS."[43]

According to Undersecretary Cohen, the U.S. has applied sanctions against more than 24 individuals associated with al-Qaeda in Iraq (AQI) or ISIS over the past 10 years. The passing of Security Council Resolution 2178 ensures the international community's commitment to preventing and rolling back the flow of foreign fighters and funds to ISIS and Al-Nusrah Front

---

[38] US Department of the Treasury, "Treasury Designates Al-Qa'ida Supporters in Qatar and Yemen," December 18, 2013, http://www.treasury.gov/press-center/press-releases/pages/jl2249.aspx.

[39] Bakr, "Qatar pares support," http://www.reuters.com/article/2014/11/02/us-mideast-crisis-qatar-insight-idUSKBN0IM07B20141102.

[40] Lori Plotkin Boghardt, "The Terrorist Funding Disconnect with Qatar and Kuwait," The Washington Institute for Near East Policy, May 2, 2014, http://www.washingtoninstitute.org/policy-analysis/view/the-terrorist-funding-disconnect-with-qatar-and-kuwait.

[41] Remarks of Under Secretary for Terrorism and Financial Intelligence David Cohen before the Center for a New American Security on "Confronting New Threats in Terrorist Financing, March 4, 2014, http://www.treasury.gov/press-center/press-releases/Pages/jl2308.aspx.

[42] Plotkin Boghardt, "The Terrorist Funding Disconnect," http://www.washingtoninstitute.org/policy-analysis/view/the-terrorist-funding-disconnect-with-qatar-and-kuwait.

[43] Janine di Giovanni, Leah McGrath Goodman, and Damien Sharkov, "How Does ISIS Fund Its Reign of Terror?" *Newsweek*, November 6, 2014, http://www.newsweek.com/2014/11/14/how-does-isis-fund-its-reign-terror-282607.html?piano_t=1.

(ANF). But reflecting the relatively small role major donors play in ISIS financing, only two of the individuals designated over the past few months, Tariq Al-Harzi and Abd al-Rahman al-Anizi, were designated specifically for providing financial support to ISIS:

- As of mid-2014, Al-Harzi has been an ISIL official operating in Syria. As a high-profile ISIL member, he works to raise funds and recruit and facilitate the travel of fighters for the terrorist organization. He was also known as one of the first terrorists to join ISIL, according to information available to the U.S. Government.[44] Al-Harzi worked to help raise funds from Gulf-based donors for ISIL. In September 2013, he arranged for ISIL to receive approximately $2 million from a Qatar-based ISIL financial facilitator, who required that Al-Harzi use the funds for military operations only. The Qatar-based ISIL financial facilitator also enlisted Al-Harzi's assistance with fundraising efforts in Qatar.[45]
- Since at least 2008, al-'Anizi worked with a senior ISIL facilitator and ISIL financial official to transfer funds from Kuwait to Syria.[46] He also worked with an ISIL facilitator to pay for the travel of foreign fighters moving from Syria to Iraq.[47]

As noted above, last December Treasury also singled out Abd al-Rahman bin 'Umayr al-Nu'aymi, who secured the transfer of over $2 million per month to AQI (now called ISIS), along with donations to al Qaeda in the Arabian Peninsula (AQAP), al Qaeda in Syria, and al-Shabaab in Somalia.

Information included in some of these designations reveals operational echoes of the old AQI. Tariq Al-Harzi not only arranged for ISIS to receive approximately $2 million from a Qatar-based ISIS financial facilitator, but worked directly with fighters as well. According to Treasury's designation, "As of late 2013, Al-Harzi was ISIS's Amir of suicide bombers and a key figure in an ISIS facilitation network that played a central role in ISIS's suicide and vehicle-borne improvised explosive (VBIED) attacks in Iraq.... Al-Harzi worked with other ISIS members to facilitate the travel of individuals from Syria into Iraq." Back in the mid-2000s, AQI was similarly relying on at least 95 such coordinators in Syria to arrange travel for foreign fighters to Iraq. Giving a sense of how well-organized this system was, the coordinators appeared

[44] US Department of the Treasury, "Treasury Designates Twelve Foreign Terrorist Fighter Facilitators," September 24, 2014, http://www.treasury.gov/press-center/press-releases/Pages/jl2651.aspx.
[45] US Department of the Treasury, "Treasury Designates Twelve Foreign Terrorist Fighter Facilitators," September 24, 2014, http://www.treasury.gov/press-center/press-releases/Pages/jl2651.aspx.
[46] US Department of the Treasury, "Treasury Designates Three Key Supporters of Terrorists in Syria and Iraq," August 6, 2014, http://www.treasury.gov/press-center/press-releases/Pages/jl2605.aspx.
[47] US Department of the Treasury, "Treasury Designates Three Key Supporters of Terrorists in Syria and Iraq," August 6, 2014, http://www.treasury.gov/press-center/press-releases/Pages/jl2605.aspx

to specialize in working with prospective foreign fighters and suicide bombers from specific locales. For example, one Syrian coordinator worked primarily with Saudi clients.[48]

Criminal enterprises

Unlike al Qaeda, ISIS has been financially self-sufficient for at least eight years by virtue of engaging in tremendously successful criminal activity enterprises on the ground in Iraq. According to a November 2006 U.S. government assessment cited in the *New York Times*, AQI and other groups had created a self-sustaining insurgency in Iraq, raising $70 million to $200 million a year from illegal activities alone.[49] Documents from the Department of Defense's Harmony Database indicate that "outside donations amounted to only a tiny fraction -- no more than 5 percent -- of the group's operating budgets from 2005 until 2010, when Baghdadi took over after the deaths of two superiors."[50] In fact, AQI's financial resiliency was so strong that, despite the significant tensions between al Qaeda's then-deputy leader, Ayman al-Zawahiri, and AQI leader Abu Musab al-Zarqawi, Zawahiri found himself in the unenviable position of having to ask Zarqawi for money at a time when international efforts to target al Qaeda's financial channels were taking their toll on al Qaeda's coffers. In a July 2005 letter to Zarqawi, Zawahiri humbly asked the leader of AQI if he could spare "a payment of approximately one hundred thousand" because "many of the lines have been cut off." Zawahiri swallowing his pride and seeking support from the leader of AQI, despite the strained relationship among the two groups, was a clear indication of AQI's superiority in running a self-sufficient operation.

Today, ISIS engages in a wide array of criminal activities, large and small. ISIS steals livestock, sells foreign fighter's passports, taxes minorities and farmers and truckers, runs a sophisticated extortion racket, kidnaps civilians for ransom payments, and much more.

ISIS has robbed banks, reportedly including the central bank in Mosul. But ISIS reportedly takes in a few million dollars a month in "taxes" alone in Mosul. Most of these "taxes" are levied on companies and individuals. Tawfik, a Mosul-based computer shop owner said the extortionists "told us that everyone in the street who is working pays for them and that we should pay too…[the extortionists] killed three people because they had not paid or were actually late to pay." Tawfik fled to Erbil after an anonymous caller demanded amount $114,000 for "jihad", an

---

[48] Brian Fishman (ed.), *Bombers, Bank Accounts, and Bleedout: Al-Qai'da's Road In and Out of Iraq*, Harmony Project (Combating Terrorism Center at West Point, 2008), p. 93. Available online (http://www.ctc.usma.edu/harmony/pdf/Sinjar_2_July_23.pdf).

[49] John F. Burns and Kirk Semple, "U.S. Finds Iraq Insurgency Has Funds to Sustain Itself," *New York Times*, November 26, 2006, http://www.nytimes.com/2006/11/26/world/middleeast/26insurgency.html?_r=1&oref=slogin&module=Search&mabReward=relbias%3Ar%2C%7B%221%22%3A%22RI%3A9%22%7D.

[50] Hannah Allam, "Records show how Iraqi extremists withstood U.S. anti-terror efforts," *McClatchy DC*, June 23, 2014, http://www.mcclatchydc.com/2014/06/23/231223_records-show-how-iraqi-extremists.html?rh=1.

unreasonable sum of cash for a shop owner who makes only $1,000 per month.[51] Pharmacists, who previously paid ISIS $100-$200 a month, were being forced to pay as much as $20,000 per month.[52]

ISIS also seizes property under the control of its "Bayt al-Mal", or treasury system. Most of the seized property belonged to Christians, Shiites, and former government officials, who either fled or were killed by ISIS. The seized real estate is now being auctioned off for cash.[53] Even prior to the June takeover, ISIS was deeply embedded in Mosul's real estate scene and had infiltrated the local authority's real estate registration offices.

In April, ISIS finally allowed customers to withdraw money from their accounts in Mosul. But to withdraw money, the account-holder is forced to submit a statement to a three-person committee, all of whom are ISIS members. The committee checks for any connections between the account and government institutions, Christians, Yazidis, or Shiites – all of whom are considered enemies. Even after the conditions are fulfilled, account-holders are only allowed to withdraw ten percent of the balance in the account.[54] Al-Jabouri, a Mosul local, says most people "don't want to reveal how much they have in case they are asked to pay money to finance IS (ISIS) fighting." Often, withdrawals are "taxed" up to ten percent. A Christian teacher, also in Mosul, was not even allowed to take out money because it had been seized by "Bayt al-Mal." At the same time, Christians and other non-Muslims are forced to pay a *jizya*, a head tax of $720 per adult male.[55]

ISIS also levies taxes on goods and all vehicles and trucks bringing in those goods, including oil, into population centers like Mosul. A large truck typically pays $400, while small trucks are charged $100 and cars $50 if they are also carrying goods.[56] As part of their broader effort to increase civilian-ISIS mutual dependence, ISIS has seized up to 40% of Iraqi's wheat production, including 16 silos. Farmers are forced to pay a tax, either in cash or wheat, much higher than what they sell their product for. For example, a kilo of wheat used to sell for 10,000-

---

[51] Alice Fordham, "For Extremists In Syria, Extortion Brings Piles Of Cash From Iraq," *NPR*, April 21, 2014, http://www.npr.org/blogs/parallels/2014/04/21/304542370/for-extremists-in-syria-extortion-brings-piles-of-cash-from-iraq.

[52] "Making themselves at home: al-Qaeda ups mafia-style extortion in Mosul," *Niqash*, July 11, 2013, http://www.niqash.org/articles/?id=3321.

[53] Nawzat Shamdeen, "Money-making plots: Extremists now in real estate business in Mosul," *Niqash*, September 10, 2014, http://www.niqash.org/articles/?id=3552.

[54] Khales Joumah, "Paying for the caliphate: When extremists become bad bank managers in Mosul," *Niqash*, April 9, 2014, http://www.niqash.org/articles/?id=3531.

[55] Richard Spencer, "Militant Islamist group in Syria orders Christians to pay protection tax," *Telegraph*, February 27, 2014, http://www.telegraph.co.uk/news/worldnews/middleeast/syria/10666257/Militant-Islamist-group-in-Syria-orders-Christians-to-pay-protection-tax.html.

[56] Rasheed, "Oil smuggling," http://www.reuters.com/article/2014/07/23/iraq-security-oil-idUSL6N0PX1KH20140723.

11,000 dinars, but now goes for 4,000-5,000, primarily because it was stolen and advertised on the black market.[57]

More than a third of Iraq's 12,000 archaeological sites are under ISIS control. Excavating and selling artifacts that date back to 9,000 BCE has provided ISIS its second-largest revenue stream after illicit oil sales. Many of these items are smuggled into Europe via Turkey, Iran, and Syria. While it is nearly impossible to estimate the total profits of selling these artifacts, it is known that one lion sculpture from the region sold for more than $50 million in New York in 2007.[58] Most of ISIS's captured historical gems have not been publicized, but could fetch similarly hefty sums.

Lastly, ransom payments from kidnappings may comprise nearly 20% of ISIS's revenue.[59] Treasury Undersecretary David Cohen has estimated that ISIS has received $20 million in ransoms this year alone.[60] Kurdish forces estimate the group takes in $10 million a month from kidnapping.[61] France may have paid $18 million for four of its captured journalists in April.[62] Internally, ISIS manages a thriving sex-trafficking industry. Estimates of the number of kidnapped Yazidi women and girls forced into marriage or sex slavery range from 2,500 to 4,000.[63] Women are sold at a low price, however, often as low as $10, mainly to attract more ISIS recruits, not as a fundraising mechanism.[64]

Policy prescriptions

There is no silver bullet to disrupt ISIS financing, let alone to ultimately defeat the organization. ISIS presents a unique set of circumstances and Treasury should continue to do what it does best: assess the situation and develop new tools and techniques to deal with an evolving illicit finance threat.

Indeed, there is circumstantial evidence Treasury's full-court press approach against ISIS is already working far away from Iraq's borders. Consider the case of a jihadist on trial in Germany for joining a group in Syria allied to Islamic State who struggled to send funds to the

---

[57] Maggie Fick, "Special Report: Islamic State uses grain to tighten grip in Iraq," *Reuters*, September 30, 2014, http://www.reuters.com/article/2014/09/30/us-mideast-crisis-wheat-idUSKCN0HP12J20140930.
[58] David Kohn, "ISIS's Looting Campaign," *New Yorker*, October 14, 2014, http://www.newyorker.com/tech/elements/isis-looting-campaign-iraq-syria.
[59] Giovanni, Goodman, and Sharkov, "Reign of Terror," http://www.newsweek.com/2014/11/14/how-does-isis-fund-its-reign-terror-282607.html.
[60] Cohen, "Attacking ISIL's Financial Foundation," http://www.treasury.gov/press-center/press-releases/Pages/jl2672.aspx.
[61] Dexter Filkins, "The Fight of Their Lives," *New Yorker*, September 29, 2014, http://www.newyorker.com/magazine/2014/09/29/fight-lives.
[62] Ian Black and Julian Borger, "British government faces dilemma by refusing to pay hostage ransoms to Isis," *Guardian*, September 2, 2014, http://www.theguardian.com/world/2014/sep/02/british-government-dilemma-refusing-pay-hostage-ransom-isis.
[63] Ivan Watson, "'Treated like cattle': Yazidi women sold, raped, enslaved by ISIS," *CNN*, November 7, 2014, http://www.cnn.com/2014/10/30/world/meast/isis-female-slaves/.
[64] Fiona Keating, "Iraq Slave Markets Sell Women for $10 to Attract Isis Recruits," *International Business Times*, October 4, 2014, http://www.ibtimes.co.uk/iraq-slave-markets-sell-women-10-attract-isis-recruits-1468506.

Middle East, largely because of measures Treasury and others have already put in place. Sent to Germany to shop for supplies for fellow fighters, Ismail Issa is on trial in Stuttgart. The court proceedings and local media reports "painted a picture of jihadists forced to send a member to Europe for supplies because it had become too hard for them to transfer money without being traced." But that's not all: "The extremists used the wire transfer service Western Union to send money around the world, but had become so nervous of transactions being monitored they were afraid to pick up the money."[65]

But there is certainly much more to be done. To combat ISIS financing, Treasury and its interagency and international partners should consider the following:

1. Continue airstrikes targeting ISIS financial hubs, including oil refineries large and small, as well as smuggling routes known to be used to move oil and other contraband.

2. Leverage financial and other intelligence to target criminal middlemen moving ISIS oil to market, as well as those who transport, refine or otherwise facilitate this process. This is something Treasury has already talked about and actions should be forthcoming. When they do, these should come in waves not as infrequent, one-off actions.

3. Together with other governments and international bodies like MENA-FATF, help countries like Qatar and Kuwait build up their CFT capacity and hold their feet to the fire to actually implement the AML/CFT laws they have passed. Should change not be forthcoming, consider use of 311 or other tools to prevent these jurisdictions from facilitating illicit conduct and undermining legitimate financial systems.

4. Work to isolate ISIS from the international financial system, including blocking banks located in areas of Iraq that are under ISIS control from the international financial system.

5. Continue to press for an international consensus against the payment of ransoms to terrorist groups.

---

[65] Justin Huggler, "German jihadi trial shows Islamic State's money transfer struggle," *Telegraph*, November 5, 2014, http://www.telegraph.co.uk/news/worldnews/europe/germany/11210325/German-jihadi-trial-shows-Islamic-States-money-transfer-struggle.html

6. As part of any air campaign, prioritize pushing ISIS back from areas it controls to deny the group the ability to profit from extortion, taxation, looting artifacts and natural resources, and other criminal activities in those areas.

7. Over the long run, press Iraqi government to put in place real political reforms and create a credible, trusted law enforcement body able to move in to liberated areas and other areas under government control and investigate and prosecute the criminal enterprises financing ISIS or other illicit actors.

8. Expand efforts to counter ISIS finance beyond Iraq into Syria as well.