



## **U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS**

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**Before the Senate Committee on Banking, Housing and Urban Affairs**

### **I. Introduction**

Chairman Shelby, Ranking Member Sarbanes and distinguished members of the Committee, thank you for the opportunity to speak to you today about the Treasury Department's efforts and achievements in the financial war on terrorism, and to discuss the challenges that lay ahead. This Committee has played an important role in ensuring that we have the authorities to combat terrorist financing. As we take a moment to assess how far we have come since that pivotal September day in our nation's history, we recognize that there is still work to be done. The Treasury Department has been an integral player in the battle against terrorism and we will continue to use every tool at our disposal to stop the flow of illicit money to those who would seek to harm our citizens.

Over the last five years we have increased substantially our understanding of vulnerabilities in the international financial system, and how terrorist and other illicit financial networks exploit those vulnerabilities. At the same time, we have steadily enhanced our skill and sophistication in applying the financial tools that we have at our disposal to close those vulnerabilities, disrupt and dismantle illicit financial networks, and apply pressure on the states that provide terrorists support and comfort. We have begun to understand how – by communicating with the international private sector – we can make the international financial system a hostile environment for terrorist financiers and other illicit actors.

Indeed, over the last five years we have witnessed a revolution in the role that finance ministries can play in international security affairs. Counterterrorism and security policy has traditionally been the province of foreign affairs, defense, intelligence, and law enforcement officials – not Finance Ministers. But we have demonstrated why finance ministries worldwide should become integral components of national security communities.

The U.S. has led the way in this development through the establishment of the Treasury Department's Office of Terrorism and Financial Intelligence (TFI) – the first office of its type in the world. TFI's mission is to marshal the Treasury Department's policy, enforcement, regulatory, and intelligence functions to sever the lines of financial support to international terrorists, WMD proliferators, narcotics traffickers, and other threats to our national security. We seek to meet this responsibility by striving to achieve two overarching goals:

- Identifying and closing vulnerabilities in the U.S. and international financial systems; and
- Identifying, disrupting and dismantling the financial networks that support terrorists, organized criminals, WMD proliferators, and other threats to international security.

In my testimony today, I will: (i) outline how we work to achieve these goals; (ii) articulate some of our successes; and (iii) explain the challenges that we continue to face.

## **II. Safeguarding the Financial System by Identifying and Closing Vulnerabilities**

One of Treasury's core missions is to safeguard the domestic and international financial system from abuse by identifying and closing vulnerabilities that terrorist organizations, WMD proliferators, money launderers, drug kingpins, other international criminals and their support networks exploit. We work with our interagency partners, international counterparts and directly with the private sector to advance this fundamental interest by systematically pursuing the following strategic objectives:

- a. identifying typologies of terrorist and illicit financing that present systemic threats to the domestic and international financial system;
- b. strengthening and expanding international standards to address these vulnerabilities and to enhance transparency across the international financial system;
- c. facilitating compliance with international standards through comprehensive international anti-money laundering/counter-terrorist financing (AML/CFT) assessments and technical assistance;

- d. taking appropriate protective actions against those jurisdictions and financial institutions whose AML/CFT and enforcement deficiencies represent substantial threats to the domestic and international financial system; and
- e. conducting private sector outreach to the international banking and other financial service industries, as well as to the charitable sector.

This comprehensive strategic approach, described in greater detail below, safeguards the financial system from terrorist and criminal abuse by effectively promoting transparency, particularly across those higher risk elements of the financial system. Such transparency in the financial system is essential in allowing financial institutions, law enforcement, regulatory and other authorities to identify sources and conduits of illicit finance, as well as those individuals and entities that comprise terrorist, WMD and criminal support networks.

Identifying such illicit behavior and terrorist and criminal support networks allows financial institutions and government authorities to adopt appropriate protective measures to prevent these nefarious elements from corroding the financial system. In turn, protective measures deny them access to the financial system, forcing terrorist organizations and criminal interests to adopt alternative financing mechanisms and support structures that present higher costs and greater risks. Finally, the transparency created by our systemic efforts to protect the financial system from abuse is an essential pre-condition for developing and applying targeted financial measures to attack and disrupt specific threats to our national security, foreign policy and criminal justice interests.

#### **A. Identifying Typologies of Abuse and Vulnerabilities to the International Financial System**

A critical strategic objective in our mission to safeguard the financial system is identifying systemic vulnerabilities that terrorists and other criminals can exploit to finance their operations and interests. We have collaborated with our partners across the interagency and international community on several projects to identify these vulnerabilities:

- Recently, Treasury worked closely with 16 federal bureaus and offices from across the law enforcement, regulatory, and policy communities to produce the U.S. Government's first-ever Money Laundering Threat Assessment. This working group pulled together arrest and forfeiture statistics, case studies, regulatory filings, private sector and government reports, and field observations. The report analyzes more than a dozen money laundering methods and serves as a first step in a government-wide process to craft strategic ways to counteract the vulnerabilities identified.
- Treasury collaborated with its partners at the Department of Homeland Security's Immigration and Customs Enforcement (ICE) to help produce a comprehensive

report on trade-based money laundering, released by the Financial Action Task Force (FATF) in June 2006.

- Treasury is leading an international working group studying the vulnerabilities that new payment products such as stored-value cards and internet-based payment systems introduce to the international financial system. This study includes an initial assessment of the exploitation of these new payment products by criminal organizations.
- Treasury is now working with its partners across the USG to contribute towards the development of international typology studies on money laundering through the real estate industry and casino industries, and terrorist financing more broadly.

We will continue to pursue these and other initiatives to help us identify systemic threats to the international financial system and focus our efforts in developing appropriate policies to protect the financial system from terrorist and criminal abuse.

## **B. Strengthening and Expanding International AML/CFT Standards**

Because of the growing international nature of the financial system, we must work continuously with other financial centers around the world to establish and maintain effective international standards to protect the international financial system from various sources and conduits of illicit financing. In coordination with the interagency community, Treasury primarily advances this strategic objective through the FATF, and also supports the progressive development of international standards against terrorist and illicit financing at the United Nations (UN).

The FATF sets the global standard for combating terrorist financing and money laundering and provides us with a unique opportunity to engage our international counterparts in this effort. Treasury – along with our partners at State, Justice, Homeland Security, the Federal Reserve Board, and the Securities Exchange Commission – continues to assume an active leadership role in the FATF, which articulates standards in the form of recommendations, guidelines, and best practices. These standards aid countries in developing their own specific anti-money laundering and counter-terrorist financing laws and regulations that protect the international financial system from abuse.

Since before the terrorist attacks of September 11, 2001, we have consistently engaged the FATF to expand and strengthen these international standards to address the systemic vulnerabilities that terrorists and other criminals exploit, including through the development of Nine Special Recommendations on Terrorist Financing and the revision and strengthening of the FATF 40 Recommendations. Most recently, we have successfully engaged the FATF to adopt a new international standard to combat the illicit use of cash couriers, and we have enhanced the international standard for combating terrorist abuse of charities. We have also recently finalized a number of technical but critical aspects to the international standard governing the availability and integrity of originator information on cross-border wire transfers. Moving forward, we intend to

discuss in the FATF how the existing AML/CFT international standards should be supplemented, amended or applied to address the vulnerabilities associated with trade-based money laundering.

At the UN, Treasury has supported interagency efforts led by the State Department to develop progressive international standards for combating terrorist financing and WMD proliferation. Most recently, these efforts have successfully led to the issuance of UN Security Council resolutions that:

- elaborate expansive criteria for issuing terrorist financing designations against individuals and entities associated with al Qaida or the Taliban (UNSCR 1617); and
- require member states to prevent the transfer of any financial resources in relation to North Korea's missile or WMD programs (UNSCR 1695).

These standard-setting efforts at the FATF and the UN create an international obligation and framework for countries to implement AML/CFT regimes that effectively protect the international financial system from various forms of illicit finance.

### **C. Facilitating Compliance with International AML/CFT Standards**

To give full effect to these international standards, Treasury has worked continuously and closely with interagency partners and international counterparts to establish a comprehensive global system of AML/CFT assessments through the FATF, the various FATF-Style Regional Bodies (FSRBs), and the World Bank and International Monetary Fund. This system has facilitated compliance with the international AML/CFT standards by auditing the AML/CFT regimes of over 150 countries around the world to assess whether these international standards have been effectively implemented.

Most recently, the U.S. underwent such an assessment through the FATF's Mutual Evaluation Review (MER) process. All members of FATF periodically undergo a mutual evaluation and each jurisdiction is subject to the same methodology and set of standards. In all such assessments, the FATF identifies strengths and weaknesses in a jurisdiction's AML/CFT regime and follows up to ensure that significant deficiencies are addressed.

Through the FATF and FSRB mutual evaluation process, Treasury has directly participated in the assessments of several strategically important countries in the campaign against terrorist financing, including Saudi Arabia, Pakistan, India and Switzerland. At the moment, a Treasury regional policy advisor is participating in the FATF mutual evaluation of Turkey, another strategically important country in our global counter-terrorist financing efforts.

In recent years, Treasury has worked continuously through a number of channels to globalize this assessment process by facilitating: (i) the development of new FSRBs that now cover all regions around the world, and (ii) a partnership between the FATF and the World Bank/IMF whereby AML/CFT assessments are now incorporated into every

financial sector assessment conducted by these international financial institutions. These developments ensure the identification of systemic vulnerabilities created by jurisdictional deficiencies and allow for governmental authorities and the international financial community to take appropriate responsive actions.

One potentially appropriate governmental response to systemic vulnerabilities created by jurisdictional AML/CFT deficiencies is providing technical assistance to facilitate compliance with international standards. Treasury provides significant technical assistance to support the broader USG technical assistance mission in combating terrorist financing and to facilitate the development of transparent and accountable financial systems in strategic countries of concern.

In summary, Treasury's ongoing efforts to globalize AML/CFT assessments, participate in strategically important assessments, and provide meaningful technical assistance collectively advance our core mission of closing down systemic vulnerabilities by promoting compliance with AML/CFT international standards.

#### **D. Taking Protective Action against Systemic Vulnerabilities**

##### *Overview of Section 311*

In those instances where jurisdictional or institutional deficiencies present ongoing systemic vulnerabilities that create substantial money laundering or terrorist financing threats to the international financial system, Treasury can take appropriate protective action under Section 311 of the USA PATRIOT Act. Section 311 authorizes Treasury to designate a foreign jurisdiction, foreign financial institution, type of account or class of transactions as a primary money laundering concern, thereby enabling Treasury to impose any one or combination of a range of special measures that U.S. financial institutions must take to protect against illicit financing risks associated with the designated target. These special measures range from enhanced due diligence, recordkeeping, and reporting requirements up to and including termination of any and all correspondent accounts or activities with the designated target.

We are grateful to Congress for granting us this powerful and flexible authority. Treasury has utilized Section 311 in a variety of ways to protect the U.S. financial system from money laundering and terrorist financing threats associated with three foreign jurisdictions and eight foreign financial institutions designated as primary money laundering concerns under Section 311. On each of these occasions, our Section 311 designation has had a significant effect in protecting not only the U.S. financial system, but also the international financial system, as international financial markets have taken independent protective financial actions in response to the systemic vulnerabilities associated with the designated target. In some instances, designation under Section 311 has even facilitated the development of rehabilitative measures that effectively addressed the underlying systemic vulnerability such that withdrawal of the 311 designation has been warranted.

### *Case Study: 311 Actions against Latvian Financial Institutions*

Treasury's Section 311 designation of two Latvian financial institutions – Multibanka and VEF Banka – in April 2005 provides an excellent example of the effectiveness of this authority in eliminating systemic vulnerabilities in the financial system. Treasury's designations were grounded in a number of jurisdictional and institutional AML/CFT deficiencies and specific money laundering concerns that created substantial vulnerabilities for the U.S. and international financial systems. Concomitant with these designations, Treasury issued rulemaking notices that proposed prohibiting U.S. financial institutions from opening or maintaining correspondent accounts with the designated Latvian financial institutions.

In reaction, numerous U.S. financial institutions cut off all financial dealings with both Multibanka and VEF Banka and generally exercised greater caution in dealing with Latvian-based transactions, accounts and relationships. Moreover, the international financial community also subjected Latvian-based financial dealings to greater scrutiny in light of the jurisdictional and institutional deficiencies and concerns identified in the 311 actions.

Treasury's 311 designations also spurred various Latvian governmental and financial authorities to cooperate with a broad array of U.S. authorities. Treasury worked together with the State Department, law enforcement and federal banking regulatory authorities to develop a conference series of workshops to discuss AML/CFT concepts and to address a number of the AML/CFT deficiencies identified in the 311 designations. Owing to several significant jurisdictional and institutional remedial steps taken by the Latvian authorities and Multibanka, Treasury subsequently withdrew its finding of primary money laundering concern and its associated notice of propose rulemaking against Multibanka in July 2006. On the other hand, continued institutional deficiencies and ongoing money laundering concerns associated with VEF Banka led Treasury to issue a final rule prohibiting U.S. financial institutions from initiating or maintaining any correspondent relationship with that concern.

Both of these Section 311 designations against Latvian financial institutions succeeded in protecting the financial system from jurisdictional and institutional vulnerabilities, in part by facilitating appropriate remedial actions by the Latvian authorities and Multibanka, and in part by cutting off U.S. financial institutions from ongoing vulnerabilities associated with VEF Banka. These examples help demonstrate the effectiveness of Section 311 in helping Treasury safeguard the financial system by closing down or taking protective action against ongoing systemic vulnerabilities.

#### **E. Conducting Private Sector Outreach**

Treasury has also advanced its core mission of safeguarding the financial system and vulnerable industries from abuse by launching comprehensive outreach campaigns with the private sector. Treasury's efforts in this regard are primarily focused on the international banking and financial service industries and the charitable sector.

### *Outreach to the International Banking Community*

In accordance with its international private sector outreach strategy, Treasury has initiated private sector AML/CFT dialogues linking the U.S. banking sector together with those from the Middle East/North Africa (MENA) region and the Latin American region, with the support of relevant financial and regulatory authorities. The purpose of these dialogues is to:

- (i) raise awareness of domestic and regional money laundering and terrorist financing risks, international AML/CFT standards and regional developments, and U.S. government policies and private sector measures to combat terrorist financing and money laundering;
- (ii) assess the impact of AML/CFT international standards and U.S. law and regulation on AML/CFT development and implementation in the U.S. and foreign banking and financial service industries; and
- (iii) strengthen development and implementation of effective AML / CFT measures, particularly in regions of strategic importance and jurisdictions that lack fully-functional AML/CFT regimes.

In collaboration with its interagency and regional partners, Treasury successfully facilitated the launch of the U.S.-MENA Private Sector Dialogue on AML/CFT with an initial AML/CFT Conference in Cairo in March 2006. Bankers and financial and regulatory authorities from the U.S. and the region discussed a range of challenges associated with the development and implementation of effective AML/CFT jurisdictional and institutional measures. We are now collaborating with our partners in this effort to finalize the agenda for a follow-on conference at the Federal Reserve Bank of New York in December 2006.

Treasury has initiated a similar dialogue with the Latin American banking community, hosting a roundtable discussion of U.S. and regional interests at Treasury in June 2006 to help frame this initiative. We are collaborating with these regional interests to plan an initial AML/CFT conference in the region in early 2007.

This direct private sector outreach to the international financial community complements our other work to address vulnerabilities in the international financial system by providing a mechanism to explain our money laundering and terrorist financing concerns, assess and facilitate AML/CFT progress and implementation, and receive feedback on the effectiveness of our efforts from key regional participants in the international financial system.

### *Outreach to the Charitable Sector*



Outreach to the charitable sector represents a fundamental objective for Treasury in its broader campaign to combat terrorist financing. Treasury's ongoing engagement with the charitable community strives to *protect charities* from terrorist abuse and *empower the sector* to adopt and implement effective safeguards against terrorist exploitation. I will describe Treasury's protective efforts – advanced largely through designation of those charities that support terrorist organizations and activities – in a few moments.

Treasury's efforts to empower the charitable sector require a sustained interagency outreach campaign to communicate and advance the following fundamental points:

- the U.S. government and the charitable community share common fundamental interests in (i) promoting humanitarian relief and charitable works, and (ii) protecting charitable giving from terrorist abuse;
- Terrorist abuse includes direct support of terrorist activity and broader terrorist exploitation of charitable funds and services to radicalize vulnerable populations and cultivate support for terrorist organizations;
- Terrorist abuse is ongoing, pervasive and particularly difficult in conflict zones where terrorist groups operate and needy populations require humanitarian support;
- Combating terrorist abuse of the charitable sector requires a comprehensive approach, including oversight, outreach, enforcement, and international actions designed to: (i) empower the sector to protect against terrorist abuse, and (ii) identify and disrupt terrorist abuse of the sector;
- Actions to empower the sector include: (i) providing guidance for the sector to consider in developing and applying measures to safeguard operations from terrorist abuse, and (ii) providing information about the nature of the ongoing terrorist exploitation threat to inform the sector in developing and applying appropriate safeguards; and finally
- Actions to disrupt terrorist abuse of the sector include law enforcement investigations and prosecution, as well as financial and economic sanctions such as designations -- these tools are mutually reinforcing but distinct from one another.

Moving forward, Treasury will continue to underscore these fundamental points and provide additional guidance to the charitable community about appropriate protective measures against terrorist abuse. Treasury is currently finalizing the revised version of its Anti-Terrorist Financing Guidelines: Best Practices for U.S.-Based Charities, originally issued in November 2002 and revised and reissued for public comment in December 2005. Treasury will also continue to provide additional information on the risks and typologies of terrorist abuse, such as those discussed in Treasury's paper on the risks

associated with terrorist exploitation of post-earthquake relief efforts in Pakistan, available together with other materials on the Treasury website.

### **III. Disrupt and Dismantle**

In addition to identifying and closing vulnerabilities in the financial system, Treasury is working to aggressively disrupt and dismantle the networks that support and facilitate some of the gravest threats the U.S. faces.

The first step in disrupting and dismantling illicit financial networks is identifying those networks. For that reason, the intelligence component of our efforts is particularly important. Recognizing that importance, in close collaboration with Congress we have become the first finance ministry in the world with an internal intelligence analysis office. The Office of Intelligence and Analysis within the Treasury Department brings the knowledge of the intelligence community to bear on the evolving threat of illicit finance. Having an intelligence analysis office at the Treasury is a tremendous innovation. Financial intelligence is uniquely reliable; it allows us to track threats, as well as to deter and disrupt them.

We are learning that the targeted financial measures we have developed since 9/11 to combat terrorist support networks can and should be used to disrupt and dismantle the networks that support other threats. We have shown that these types of financial measures can be quite effective, in part because they unleash market forces by highlighting risks and encouraging prudent and responsible financial institutions to make the right decisions about the business in which they are engaged. As we have seen in the terrorism context, they also give us a concrete way in which to target directly those individuals and entities we know are bad actors and to strike at the heart of their operations.

Today, I would like to highlight Treasury's use of these targeted financial measures to address threats posed by:

- a. Terrorists and their support networks;
- b. WMD proliferators and their supporters, and
- c. State sponsors of terrorism.

Each day, we are working to use financial measures to actively complement broader U.S. strategies to address these threats. We are also focusing on seeking similar actions from our international partners, working collaboratively with other countries and international organizations to develop the multilateral authorities and capabilities that are needed to support the financial actions we are taking. We have seen that these efforts are beginning to reap benefits in the form of growing international recognition of the effectiveness of financial measures. Not only do multiple international organizations such as the Financial Action Task Force, the United Nations, and others recognize that financial measures have an important role to play in the maintenance of global security, multiple

UN Security Council resolutions make reference to financial measures in the context of a variety of specific threats.

## **A. Combating Terrorism with Financial Authorities**

### *Attacking Terrorists Through the Use of Targeted Financial Sanctions*

Since September 11, 2001, we have made significant progress in creating and deploying financial tools to identify, disrupt and dismantle the financial networks that facilitate and support terrorism. Through the adoption of UNSCR 1267 and 1373, the U.S. has facilitated the establishment of an effective international framework with obligations to ensure that the international financial system is a hostile working environment for those who support terrorist networks.

Treasury continues to work to refine and focus U.S. implementation of those obligations, predominantly through the application of targeted financial sanctions and our primary financial tool for combating terrorists and their support networks: Executive Order 13224. OFAC Director Szubin will testify to in greater detail this powerful authority freezes the assets of terrorists and terrorist support entities and isolates them from the U.S. financial and commercial systems. This authority also allows Treasury to expose terrorists' true sources of funding, crippling their ability to raise and move money under the guise of legitimate activities, such as charitable fundraising or the provision of financial services.

To date, the U.S. has designated a total of 460 individuals and entities pursuant to E.O. 13224, of which 375 were named by Treasury. Director Szubin will describe some of these designations in greater detail in his testimony. Through mentioning several key actions, he serves to highlight the breadth of terrorist entities that we have been able to expose and disrupt:

- **Financial Institutions.** Treasury last week designated **Bayt al-Mal** and **Yousser Company**, which are financial institutions that functioned as Hizballah's unofficial treasury in Lebanon.
- **Charities.** Treasury has designated in whole or in part more than 40 charities worldwide as supporters of terrorism, including the designation of the **Islamic Resistance Support Organization (IRSO)**, a key Hizballah fundraising organization, two weeks ago. In August, Treasury designated the Philippine and Indonesian branches of the Saudi-based **International Islamic Relief Organization (IIRO)** for facilitating fundraising for al Qaida and affiliated terrorist groups.
- **Financiers and Fundraisers.** Financiers and fundraisers have been significant targets of designation, disrupting their ability to tap into their personal financial reserves and network of donors. Recently designated financiers include al Qaida donor **Abd al Hamid Sulaiman Al-Mujil**, who has been called the "million

dollar man” for supporting Islamic militant groups, and **Bilal Mansur Al-Hiyari**, who provided financial support to the Zarqawi Network in support of its brutal attacks in Iraq against the Iraqi people, U.S. troops and coalition partners.

Treasury’s implementation of targeted financial sanctions against these types of support network individuals and entities achieves multiple objectives, including:

- Deterring entities who might otherwise be willing to finance terrorist activities;
- Exposing “money trails” that may generate leads to previously unknown terrorist cells and financiers;
- Dismantling terrorist support networks by encouraging members of the support network to disassociate themselves from individuals or entities that are the targets of the sanctions;
- Terminating terrorist cash flows by shutting down the pipelines used to move terrorist funds or other assets;
- Forcing terrorists to use more costly and higher risk means of financing their activities, which makes them more susceptible to detection and disruption; and
- Fostering international co-operation and compliance with obligations under relevant UNSCRs, including UNSCR 1267, 1373, and 1617.

#### *Encouraging Multilateral Action*

A significant part of Treasury’s mission is devoted to U.S. government efforts to secure international support and implementation of targeted financial sanctions actions like those I have described. In the five years since Sept. 11, we have learned all too well that the effectiveness of these authorities is significantly enhanced when other countries support U.S. efforts by freezing terrorist assets in their own jurisdictions, and prohibiting their nationals from dealing with terrorists. In coordination with the Department of State, Treasury facilitates such action through a variety of activities, including by maintaining a dialogue with other countries regarding the financial actions that are needed to disrupt specific terrorist cells or networks. However, we are also working to strengthen other countries’ capacity and ability to implement targeted financial sanctions.

Through U.S. government’s efforts with the EU, the Financial Action Task Force, the G7 and others, we have succeeded in assisting other countries to develop national sanctions authorities similar to our own and to improve cooperation in implementing asset freezes. In many cases, countries have joined us in imposing sanctions on U.S.-designated individuals and entities, either independently or through action at the United Nations. We have seen an increase in the number of countries approaching the UN Security Council to seek the designation of terrorist supporters. This global designation program, overseen by the UN’s 1267 Committee, is a powerful tool for global action against supporters of al Qaida. It envisages 191 UN Member States acting as one to isolate al Qaida’s supporters, both physically and financially. In 2005, 18 Member States submitted names for the Committee’s consideration, many for the first time, and we will continue to support this process and encourage others to do so as well.

## **B. Using Financial Authorities to Combat WMD proliferation**

### *Attacking WMD Proliferators Through the Use of Targeted Financial Sanctions*

Related to our effort to combat terrorism is the effort to disrupt WMD proliferation, to prevent the possibility that nuclear, chemical or biological weapons could fall into the hands of terrorists. In fact, the financial tools we are using to combat terrorist support networks have proven to be effective in disrupting WMD proliferation as well. The international community also has recognized the need to combat WMD proliferation through financial measures, as reflected in UNSCR 1540, which calls on all states to develop and implement authorities to combat proliferation, including by denying proliferators and their supports access to the financial system. More recently, the UN Security Council adopted resolution 1695 -- passed in response to North Korea's launching of seven ballistic missiles in violation of the September 2005 Joint Statement of the Six-Party Talks, as well as North Korea's 1999 agreement to a moratorium on testing long-range missiles -- requiring all member states to prevent the transfer of financial resources associated with North Korean proliferation and missile programs.

We are implementing UNSCR 1540 and UNSCR 1695 obligations through Executive Order 13382, issued by the President in June 2005. E.O. 13382 adds powerful tools similar to those we have in the counter-terrorism realm -- a broad-based transactions prohibition and an asset freeze -- to the array of options available to the U.S. government to combat WMD trafficking. As part of issuing Executive Order 13382, the President identified and targeted eight entities in North Korea, Iran, and Syria, thereby prohibiting U.S. persons from engaging in transactions with them and requiring any assets of those entities within the control of U.S. persons to be frozen. The President also authorized the Secretary of State and the Secretary of the Treasury to designate additional proliferators of WMD and their supporters under the new authorities provided by the Order.

In addition to the eight entities named in the annex of E.O. 13382, the Treasury Department has designated 19 entities and one individual as WMD proliferators. These actions described in greater detail in Director Szubin's testimony, have exposed some of the front companies, suppliers, financial institutions and individuals that facilitate their WMD proliferation, including:

- **Sanam Industrial Group** and **Ya Mahdi Industries Group**, both subordinates to Iran's **Aerospace Industries Organization (AIO)**, which manages and coordinates Iran's missile program and oversees all of Iran's missile industries.
- Chinese companies **Beijing Alite Technologies Company, Ltd. (ALCO)**, **LIMMT Economic and Trade Company, Ltd.**, **China Great Wall Industry Corporation (CGWIC)**, and **China National Precision Machinery Import/Export Corporation (CPMIEC)**, as well as a **U.S. office of CGWIC** located in California. These companies supplied Iran's military and Iranian proliferators with missile-related and dual-use components.

- Swiss company **Kohas AG**, which acted as a technology broker in Europe for the North Korean military and procured goods with weapons-related applications, and its president, Swiss national **Jakob Steiger**.

By prohibiting U.S. persons from engaging in transactions with these front companies and individuals, we can effectively deny proliferators access to the U.S. financial and commercial systems, cutting them off from the benefits of our economy and trade. Our actions also expose their links to proliferation activity, and put unwitting facilitators on notice to cease their dealings with them. Ultimately, we believe that these targeted actions will remove the profit incentive from this dangerous trade and degrade proliferators' ability to conduct business worldwide.

#### *Creating Global Action to Disrupt Financial Underpinnings of Proliferation Networks*

Although the U.S. has taken initial steps to implement UNSCR 1540 and UNSCR 1695, many countries have not. Treasury, in conjunction with the State Department and other agencies, has begun outreach initiatives on a variety of fronts to encourage other countries to fulfill these international obligations by developing and utilizing authorities similar to E.O. 13382 in their own jurisdictions. Alternatively, we are urging countries to consider how they may be able to use existing authorities to freeze WMD proliferators' assets and prohibit their nationals from having dealings with them.

- **Proliferation Security Initiative.** Treasury is working to encourage the more than 70 countries that participate in the Proliferation Security Initiative (PSI) to use financial measures to combat proliferation support networks. This initiative, which was established by the President in May 2003, aims to stop shipments of weapons of mass destruction, their delivery systems, and related materials worldwide. I personally attended the PSI's High Level Proliferation Meeting in Warsaw, Poland in late June and was encouraged by the strong response to the U.S.-led discussion of ways in which countries could address the financial underpinnings of WMD proliferation. We plan to continue to support dialogue on this issue within the PSI's Operational Experts Group, which meets several times annually to discuss practical aspects of combating WMD trafficking.
- **Global Initiative.** We will also support activities associated with the Global Initiative to Combat Nuclear Terrorism, announced by President Bush and President Putin in July. This initiative goes to the heart of the threat that is most concerning – the possibility that nuclear weapons could fall into the hands of terrorists – and opens up new possibilities for the effective use of financial authorities.

#### **C. State Sponsors of Terrorism**

In the post-9/11 era, the world faces two unique, but overlapping, problems. We face the threat of the global *ihadists*, who survive in states but are not always directly supported by them. We also face the threat of state sponsors of terrorism dedicated to acquiring

weapons of mass destruction. With respect to states, it is a particular challenge to limit or, preferably, halt altogether their ability to use the international financial system to support their threatening behavior. They hide behind a veil of legitimacy, disguising their activities, such as weapons sales or procurement, through the use of front companies and intermediaries. In some cases, they intentionally obscure the nature of their financial activities to avoid suspicion and evade detection. The strategies we have employed to combat the threats posed by North Korea, Iran and Syria are good examples of the ways in which financial authorities are effective in dealing with state sponsors of terrorism.

### *Iran*

As we continue to deal with the challenge presented by Iran's pursuit of a nuclear weapons program, we must also confront its support for terrorism. We have already begun to take steps to do so.

First, while Iranian financial institutions are prohibited from directly accessing the U.S. financial system, they are permitted to do so indirectly through a third country bank for payment to another third country bank. Last week, we took actions to completely cut off one of the largest Iranian state-owned banks, Bank Saderat, from the U.S. financial system. This bank, which has approximately 3400 branch offices worldwide, is used by the Government of Iran to transfer money to terrorist organizations such as Hizballah, as well as Hamas, the Popular Front for the Liberation of Palestine-General Command and Palestinian Islamic Jihad. For example, since 2001, a Hizballah-controlled organization received \$50 million directly from Iran through Saderat. Hizballah uses Saderat to send money to other terrorist organizations as well. Hizballah has used Bank Saderat to transfer funds, sometimes in the millions of dollars, to support the activities of other terrorist organization such as Hamas in Gaza. We will no longer allow a bank like Saderat to do business in the American financial system, even indirectly.

Moreover, we have begun to engage with the international financial community to discuss the risks of doing business with Iran. In fact, Treasury Under Secretary Stuart Levey is engaged in precisely such consultations in Europe this week. We are already seeing private institutions – particularly those in the financial community – responding to Iran's provocative behavior and reassessing their relationships with Iran. Earlier this year, the Swiss bank UBS cut off all dealings with Iran. HSBC and Credit Suisse have also limited their exposure to Iranian business. According to the banks, these were business decisions, pure and simple – handling Iran's accounts was no longer good business. As further evidence of the change in tide, a number of foreign banks are refusing to issue new letters of credit to Iranian businesses. And earlier this year, the OECD raised the risk rating of Iran, reflecting this shift in perceptions and sending a message to those institutions that have not yet reconsidered their stance.

### *North Korea*

Treasury has undertaken two broad initiatives to counter illicit North Korean activity. First, we have applied targeted financial sanctions to a number of North Korean

proliferation firms under the WMD proliferation Executive Order, E.O. 13382. As I've discussed, a designation under this E.O. cuts the target off from access to the U.S. financial and commercial systems and puts the international community on notice about a particular threat.

Second, we took a regulatory action to protect our financial system against Banco Delta Asia (BDA), a Macau-based bank that was handling North Korea's dirty business without any pretense of due diligence or control. BDA was a willing partner, actively helping North Korean agents conduct surreptitious, multimillion dollar cash deposits and withdrawals without questioning the basis of these transactions. Indeed, BDA officials had negotiated a lower standard of due diligence with their North Korean clients. As I previously discussed, using our Section 311 authorities, Treasury designated Banco Delta Asia as a primary money laundering concern. This action has had a profound effect, not only in protecting the U.S. financial system from abuse, but also in notifying financial institutions and jurisdictions globally of an illicit finance risk.

As a result of these actions and public revelations about North Korea's conduct, responsible foreign jurisdictions and institutions have taken steps to ensure that North Korean entities engaged in illicit conduct are not receiving financial services. Press reports indicate that some two dozen financial institutions across the globe have voluntarily cut back or terminated their business with North Korea, notably including institutions in China, Japan, Vietnam, Mongolia, and Singapore. The result of these voluntary actions is that it is becoming very difficult for the Kim Jong-II regime to benefit from its criminal conduct. UN Security Council Resolution 1695 has accelerated the trend. It requires all countries to prevent the transfer of financial resources in relation to North Korea's WMD and missile programs.

Indeed, the line between North Korea's licit and illicit money is nearly invisible. Financial institutions around the world should think carefully about the risks of doing North Korea-related business.

### *Syria*

As in North Korea, we have taken a combination of steps to address Syria's problematic behavior and the threats posed by Syria. First, under Executive Orders 13399 and 13338, Treasury is applying targeted financial sanctions that, among other things, freeze the assets of individuals and entities that contribute to Syria's support of international terrorism or were involved in the assassination of the former Lebanese Prime Minister Rafik Hariri. In addition, Syria's Scientific Studies and Research Center (SSRC) is subject to an asset freeze under the WMD proliferation sanctions program, having been named by the President in the annex of Executive Order 13382 establishing the program in June 2005. SSRC is the Syrian government agency responsible for developing and producing non-conventional weapons and the missiles to deliver them. While it has a civilian research function, SSRC's activities focus substantively on the acquisition of biological and chemical weapons.



Second, we took action under Section 311 to protect the U.S. financial system against the Commercial Bank of Syria (CBS), which has been used by criminals and terrorists to facilitate or promote money laundering and terrorist financing, including the laundering of proceeds from the illicit sale of Iraqi oil and the channeling of funds to terrorists and terrorist financiers. In March 2006, Treasury issued a final rule, pursuant to Section 311, designating CBS as a primary money laundering concern and requiring U.S. financial institutions to close correspondent relationships with CBS. Consequently, prominent international financial institutions have begun to reassess their relationships with Syria and a number of Syrian entities.

#### **IV. Conclusion**

I am hopeful that my testimony today has provided a broad view of how Treasury's efforts are safeguarding the financial system and helping to advance the overarching efforts of our government to combat terrorism and various other threats. As we review the developments at Treasury since 9/11, it is clear that we have come a long way in reshaping Treasury's role to focus on closing down vulnerabilities to the financial system and applying financial measures to disrupt and dismantle the networks that support terrorists, WMD proliferators and state sponsors of terrorism.

It is also clear that we have considerable challenges ahead of us. We must continue to work with our interagency partners and the private sector to ensure that we are collecting, sharing and applying useful financial information to combat terrorism and other threats. We must also work with our interagency partners and the private sector to advance the effectiveness and efficiency of our financial actions, including our systemic regulatory efforts and our targeted and economic financial measures, in preventing terrorist activity and in disrupting these threats. We must also continue to work with our international counterparts to develop and share meaningful financial information and to achieve broader multilateral capability and support for our financial actions. And we must adjust the development and application of our financial tools as terrorists and other threats adapt their financing methods and as we continue to learn how to improve our efforts. With the comprehensive strategic approach that I have outlined here today, we will move forward to attack these challenges.

Finally, I am grateful for the support that the Congress has provided to us as we have refined our mission under the development of TFI at Treasury. I am honored to be a part of such an important mission at Treasury and am particularly grateful for the support and leadership that our mission continues to receive from across the interagency community and from within Treasury, particularly from Undersecretary Stuart Levey, Assistant Secretary Pat O'Brien, FinCEN Director Werner and OFAC Director Szubin, and others whom I work with every day. Such unwavering support and leadership will ensure that we continue to advance our mission as we tackle the challenges that lie ahead.

I would now be happy to answer any questions that you may have.