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## United States Senate

COMMITTEE ON BANKING, HOUSING, AND  
URBAN AFFAIRS

WASHINGTON, DC 20510-6075

October 2, 2024

The Honorable John C. Williams  
President and Chief Executive Officer  
Federal Reserve Bank of New York  
33 Liberty Street  
New York, NY, 10045

The Honorable Jerome H. Powell  
Chair  
Board of Governors of the Federal Reserve  
System  
20<sup>th</sup> Street and Constitution Ave NW  
Washington, DC, 20551

Dear President Williams and Chair Powell:

We write regarding recent reporting by the Wall Street Journal (WSJ) about the Federal Reserve Bank of New York's (NY Fed) troubling failures to implement basic anti-money laundering controls on account relationships with the Central Bank of Iraq, resulting in potentially billions of dollars flowing to Iran and its terror proxies.<sup>1</sup> According to the report and U.S. officials, "as much as 80% of the more than \$250 million in dollar wire transfers flowing through them [the Iraqi banks] on some days were untraceable and some portion of that amount went secretly to Iran's Islamic Revolutionary Guard Corps and the anti-U.S. militias it supports." If accurate, this would represent one of the single greatest failures of the U.S. financial regulatory regime. This reporting is especially troubling as we approach the anniversary of October 7<sup>th</sup> and the horrific attacks carried out by Iran's terror proxy, Hamas, against our great ally, Israel.

According to the WSJ report, for over two decades, the NY Fed processed wire transfers and transactions originating from private banks in Iraq to various banks across the globe without conducting or requiring basic Bank Secrecy Act (BSA) and Anti-Money Laundering (AML) "know your customer" compliance. Reportedly, these transactions were facilitated without any disclosure of where the funds originated or the intended recipients—which if true, is astounding. As you know, if these actions were carried out by a commercial bank, the bank and its executives would likely be subject to severe civil and criminal penalties, including permanent closure.

Most concerning, however, are the purported unheeded warnings of potential corruption and fraud at the Central Bank of Iraq from the Department of Defense Inspector General dating back to 2012.<sup>2</sup> It appears that it was not until nearly a decade later, when a private sector audit

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<sup>1</sup> Cloud, David, *Iraqi Banks Used U.S.-Created System to Funnel Funds to Iran*, Wall Street Journal, September 8, 2024, available at: <https://www.wsj.com/politics/national-security/iraq-banks-u-s-fed-iran-financing-0c3e740c>.

<sup>2</sup> Special Inspector General for Iraq Reconstruction Quarterly Report to the United States Congress, Office of the Special Inspector General for Iraq Reconstruction, October 30, 2012, available at: <https://apps.dtic.mil/sti/tr/pdf/ADA592233.pdf>.

identified this illicit activity, that the NY Fed made changes to its AML program for Iraq. This troubling situation raises questions as to why the NY Fed failed to ensure proper due diligence, why the program lacked appropriate oversight, and why safeguards were not put in place immediately following warnings from the Department of Defense Inspector General.

BSA and AML laws and regulations are amongst the most important pillars of the U.S. banking system. They have become a key part of defending the integrity of the global financial system and were designed to prevent this exact situation. Despite the Federal Reserve System's hand in crafting and implementing these regulations, as well as supervising for compliance with them, both the NY Fed and the Federal Reserve System appear to have failed to apply the same standards and expectations to their own operations.

Two decades of reported BSA/AML failures in a high-risk region must act as a catalyst for lasting change. As you implement these changes, I request that you provide answers to the following questions by no later than October 30, 2024:

1. Please confirm or provide any corrections to the Wall Street Journal's report released on September 8, 2024, referenced herein.
2. Please provide any communications, reports, or other correspondence from any U.S. government Inspector General, or other government official, relating to concerns regarding potential fraud or other BSA/AML concerns with any U.S. dollar programs involving the NY Fed in Iraq from 2003 to 2024.
3. Please provide a copy of the K2 audit of the NY Fed's program, including all findings and recommendations.
  - a. Please provide an accounting of all transactions which the NY Fed, K2, or other audit functions identified as potentially having ultimately flowed to an entity on any Treasury Office of Foreign Assets Control (OFAC) sanctions list.
4. Please provide an overview of the NY Fed's AML policies and procedures, if any, as they related to Central Bank of Iraq transactions from 2003 to 2022.
  - a. Please provide an overview of all NY Fed AML policies and procedures which have been updated since 2022.
  - b. Please provide an assessment of the NY Fed's compliance from 2003 to 2022 based on the FFIEC's BSA/AML Examination Manual.<sup>3</sup>
5. Following the K2 audit on Iraq, has the NY Fed reexamined its AML controls on any other high-risk countries that maintain accounts at the NY Fed?
  - a. If so, please note the country and any changes to the AML controls that the NY Fed has or intends to implement.

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<sup>3</sup> FFIEC, BSA/AML Examination Manual, available at: <https://bsaaml.ffiec.gov/manual>.

Thank you for your prompt attention to this matter.

Sincerely,



Tim Scott  
Ranking Member



M. Michael Rounds  
United States Senator

cc: Federal Reserve Vice Chair for Supervision Michael Barr  
U.S. Secretary of the Treasury Janet Yellen  
U.S. Treasury Acting Secretary for Terrorism and Financial Intelligence Bradley Smith