



DEPARTMENT OF THE TREASURY OFFICE OF PUBLIC AFFAIRS

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

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

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

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

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

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

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

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

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

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

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

Identifying, Disrupting and Dismantling Terrorist and Criminal Organizations

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

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

- Eleven additional branches of the Al Haramain Islamic Foundation – a charity that had been exploited by al Qaida -- and two key leaders of the organization
- Shaykh Abd Al-Zindani – a significant al Qaida and Hamas fundraiser/facilitator based in Yemen;
- Three Bosnian charities (Taibah International, Al Haramain & Al Masjed al Aqsa, and Al Furqan) with significant ties to al Qaida;

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

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

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

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

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

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

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

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

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

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

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

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

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

Multi-lateral Efforts

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

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

Financial Action Task Force (FATF)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Role of the International Financial Institutions (IFIs)

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

Nor did their support stop with words. The IFIs quickly moved to help countries and jurisdictions improve their legal and regulatory frameworks. They began to examine financial sector vulnerabilities and provide technical assistance to members. These somewhat ad-hoc measures were made more systematic when the World Bank and IMF agreed to undertake a pilot program of collaboration with the Financial Action Task Force (FATF) to assess global compliance with the FATF Recommendations. Finally, in March 2004, the IMF/World Bank Boards evaluated the results of the pilot program and decided to make such assessments a regular part of their Financial Sector Assessment Program (FSAP) and Offshore Financial Center assessments, which provide comprehensive analyses of the strength of a jurisdiction's financial system.

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

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

Technical Assistance

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

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

Engagement with the European Union

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

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

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

Establishment of Financial Intelligence Units

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

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

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

Bi-Lateral Efforts to Promote Counter Terrorist Financing Goals

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

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

Saudi Arabia

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

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

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

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

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

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

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

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

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

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

Russia

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

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

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

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

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

Next Steps and Challenges

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

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

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

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

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

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

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

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

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

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