

## **Speech Prepared for Delivery at The Washington Institute for Near East Policy**

**Assistant Secretary of the Treasury Patrick O'Brien**

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### **I. Introduction**

Good morning, ladies and gentlemen. Thank you for your time and the opportunity to speak today. I also would like to thank the Washington Institute for hosting me. The Washington Institute and the Treasury Department have had a long and fruitful relationship. My colleagues and I continue to benefit significantly from your excellent analysis and research on a regular basis. In particular, I am pleased to be reunited with two outstanding former colleagues, Matthew Levitt and Michael Jacobson, two of my hosts today.

Last year, Treasury's Deputy Secretary Robert Kimmitt spoke to you about a Treasury Transformed. Today, I would like to build on those remarks and provide further detail on Treasury's Office of Terrorism and Financial Intelligence (TFI). I will explain TFI's perspective and strategic approach for combating not only terrorist financing, but also other threats to our national security, including WMD proliferation, rogue nations, kleptocracy, drug trafficking, money laundering, and organized crime more generally. I would then like to spend some time on TFI's efforts to combat terrorist financing and how those efforts advance the broader U.S. counterterrorism mission. Finally, I want to briefly update you on TFI's efforts to address the particular threats that we face from Iran, with respect to proliferation and its role as a state sponsor of terrorism. These efforts illustrate TFI's broad range of statutory authorities, its effective government and private sector relationships, and substantive expertise in developing a comprehensive strategy to disrupt the ongoing threat posed by Iran.

### **II. TFI – An Overview**

When Deputy Secretary Kimmitt spoke to you last year, he described the birth of TFI and broadly explained how TFI has given the Treasury Department and the Executive branch new and enhanced capabilities to combat borderless, asymmetric threats.

In the broadest sense, TFI has a threefold mission to:

- (1) safeguard the financial system from criminal and illicit activity;
- (2) produce financial analysis and information through the Bank Secrecy Act (BSA) to assist law enforcement and counter-terrorism authorities; and
- (3) take targeted economic and financial action against threats to our national security or foreign policy interests.

To advance this mission, TFI, led by Under Secretary Stuart Levey, relies upon several offices that fall under its authority – the Office of Intelligence and Analysis (OIA), the Office of Foreign Assets

Control (OFAC), the Financial Crimes Enforcement Network (FinCEN), the Executive Office of Asset Forfeiture (TEOAF), and my office, the Office of Terrorism Finance and Financial Crimes (TFFC).

### OIA

Allow me to begin with the Office of Intelligence and Analysis. As the 9/11 Commission and others have rightly noted, actionable and timely intelligence is required to combat terrorism and its financiers. Our intelligence office, led by Assistant Secretary Janice Gardner, was created to provide expert, all-source analysis on financial and other support networks for terrorist groups, proliferators, and other key national security threats. Matt Levitt and Mike Jacobson were instrumental in standing up this office and building its operational capacity to serve TFI and Treasury's growing intelligence needs.

Treasury relies on analysis from OIA to identify and take targeted economic or financial action against those who threaten our national security and seek to abuse our financial system. OIA analysis is the backbone behind the designation of individuals or entities engaged in terrorist activity, financing or support pursuant to Executive Order 13224. OIA is not simply the end-user of raw data, but informs the intelligence community's perspective on financial information, shaping the manner and type of information gathered. In combination with information and analysis from TFI partners, OIA's all-source intelligence analysis also contributes to:

- designation of those who threaten our national security pursuant to executive orders on proliferation and other national security threats;
- issuance of advisories to financial institutions to protect against heightened risks to the financial system;
- targeted outreach to jurisdictions or financial institutions about particular threats or bad actors; and
- actions under Section 311 of the Patriot Act to designate a jurisdiction, financial institution, class of transactions, or type of account as a "primary money laundering concern."

The Office of Intelligence and Analysis represents a Treasury asset that is unique among finance ministries around the world. In fact, one of the primary challenges we face in strengthening our global approach to combating terrorist financing and other threats lies in encouraging and assisting our allies to develop similar capabilities. Furthermore, the success of OIA serves as an example to our partners of the critical need for a designated competent authority, which has the capacity and willingness to utilize intelligence in support of targeted financial measures, based on clear national legal authority.

### OFAC

OFAC is another unique asset that is critical in advancing our efforts to combat terrorist financing and other national security threats. Led by Director Adam Szubin, OFAC is the office responsible for implementing, administering, and enforcing Treasury's wide range of economic sanctions programs

in support of the US Government's national security and foreign policy interests. With respect to terrorist financing, OFAC implements and administers Executive Order 13224, a principal authority by which the USG designates those individuals and entities engaged in or otherwise supporting terrorist activity. It has similar authorities for narcotics trafficking and proliferation.

While the immediate legal effect of these designations – freezing any assets the target has under U.S. jurisdiction and preventing U.S. persons from doing business with them – is relatively straightforward and largely understood, the actual impact of these targeted economic sanctions is less visible and often misunderstood. Broadly speaking, these sanctions are preventive in nature. In simplest terms, they prevent terrorists from obtaining the resources and support they require to conduct their operations and execute attacks. Targeted economic sanctions also serve the following purposes:

- (i) deterring non-designated parties who might otherwise be willing to finance terrorist activity;
- (ii) exposing terrorist financing “money trails,” which may generate leads to previously unknown terrorist cells and financiers;
- (iii) dismantling terrorist financing networks by encouraging designated persons to disassociate themselves from terrorist activity and renounce their affiliation with terrorist groups;
- (iv) terminating terrorist cash flows by shutting down the pipelines used to move terrorist related funds or other assets;
- (v) forcing terrorists to use more costly, less efficient and riskier means of financing their activities, which can make them more susceptible to detection and disruption; and
- (vi) fostering international co-operation and compliance with obligations under UNSCR 1267 and its successor resolutions, and UNSCR 1373.

To accomplish these objectives, targeted economic sanctions must be operationally implemented and enforced. OFAC is unique in that it is the only office in the world that is significantly resourced and dedicated exclusively to advancing these interests through licensing, outreach, compliance, and enforcement. As with TFI's intelligence office, encouraging our partners to set up administrative bodies similar to OFAC represents another crucial challenge that we face in effectively globalizing our campaign against illicit finance. Operational capability is an essential tool for the international community to identify, disrupt, and help dismantle illicit networks.

### FinCEN

Led by Director Jim Freis, FINCEN is primarily responsible for administering and enforcing the Bank Secrecy Act (BSA). This is one of the primary authorities that we rely upon to promote transparency in the U.S. financial system. Systemic transparency is a necessary precondition for advancing the threefold mission of TFI. In short, financial transparency provides the visibility required to safeguard

the financial system, identify and extract information useful to law enforcement and counter-terrorism authorities, and take targeted action against those threats that operate within the financial system.

FinCEN promotes transparency through the BSA by promulgating and enforcing regulations that generally require covered financial institutions to develop and implement customer identification, recordkeeping, reporting, and anti-money laundering (AML) programs. In addition, FinCEN conducts analysis of the information that it receives from financial institutions to assist law enforcement and counter-terrorism authorities in initiating or advancing financial investigations. Finally, FinCEN works with counterparts from over 100 countries through the Egmont Group to facilitate the cross-border exchange of financial information in support of financial investigations. FinCEN serves as a gateway to financial intelligence units (FIUs) in foreign jurisdictions to assist in these financial investigations.

Key challenges that we face in effectively globalizing our counter-terrorism campaign lies in better utilizing these FIU relationships to advance terrorist financing investigations and promoting multi-lateral implementation of financial measures against terrorist organizations and their support networks.

#### TEOAF

The Treasury Executive Office of Asset Forfeiture (TEOAF) serves as a mechanism for re-investing forfeited illicit proceeds by funding cooperative initiatives among federal, state, and local authorities. Funds administered by TEOAF can be used to test new ideas and approaches to combat illicit finance. It is important, particularly for developing jurisdictions, to adopt sound forfeiture authorities and management mechanisms that exploit the ill-gotten resources of money launderers and terrorist financiers and invest in much needed personnel, training, and equipment for AML/CFT supervision and enforcement.

#### TFFC

Finally, let me say a word about my office, the Office of Terrorist Financing and Financial Crimes. TFFC develops and implements policies, strategies, and initiatives to: (i) identify and address vulnerabilities in the U.S. and international financial system, and (ii) take targeted economic and financial action against security threats and their support networks. We also provide direct support to TFI's Under Secretary, Stuart Levey, and Treasury leadership on issues that implicate TFI's interests – particularly with respect to the activities of the National Security Council. In fulfilling these responsibilities, TFFC works closely with all elements of TFI and the Treasury, as well as with the inter-agency community, the private sector, and government ministries from around the world. We do this both bilaterally and through multilateral organizations such as the G7, the IFIs, the FATF, and the various FATF-Style Regional Bodies (FSRBs).

As I turn now to a specific discussion of our efforts to combat terrorist financing, I want to emphasize at the outset that these efforts are truly interagency and we are not in this fight alone. I'll focus on Treasury's role, but as the discussion will hopefully make clear, effective efforts to attack terrorist support networks involve all elements of the interagency working together: intelligence, law enforcement, diplomatic, and military. We benefit in this endeavor from strong relationships with our interagency partners, specifically the National Security Council's planning and coordination through

its Counterterrorism Security Group and its Sub-group on Terrorist Financing, and the efforts of the National Counterterrorism Center (NCTC).

### **III. Defining Terrorist Financing**

#### *Context and Scope of Terrorist Financing*

In order to combat terrorist financing, one must first understand what terrorist financing actually is in a broader context. Combating the financing of terrorism is part of the broader war on terrorism. As such, our counter-terrorist financing efforts must focus not only on the relatively narrow perspective of finance, but also on the wider landscape of terrorist support, including those structures and organizations that terrorists rely upon to execute their attacks and advance their agendas.

Such a broad view of terrorist financing and support is essential in understanding the importance of our work. We have all heard the arguments posed by those who question the effectiveness of counter-terrorist financing efforts. These critics point to the minimal costs and relative ease of procuring materials that are often used in terrorist attacks such as precursor chemicals or suicide belts. However, as many scholars in this room have pointed out, these arguments ignore the much larger and sustained expenses required to finance the terrorist life cycle – to include propaganda, radicalization, recruitment, and popular support gained through the delivery of welfare and social services and the development of organized media and political campaigns among vulnerable populations. They ignore the training, travel, and operational support that terrorists require to be successful. They ignore the costs of securing and protecting safe havens from which terrorists can plan and organize their operations. And perhaps most importantly, they ignore the massive devastation that terrorists could inflict if they were to have the financial and logistical means to acquire weapons of mass destruction.

#### *Elements of Terrorist Financing*

This understanding of the broader costs required to sustain and make operational the terrorist threat explains the USG's focus on terrorist organizations and their support networks. It also informs our perspective in focusing on the elements of terrorist financing. These elements can be roughly divided between sources and conduits of terrorist financing or support.

Experience indicates that terrorist operatives, cells, and organizations rely on three general sources of financing and support: (i) donors – particularly ideologically motivated individuals, but also funds raised by or through charities from witting or unwitting donors, (ii) criminal proceeds; and (iii) state sponsorship.

Experience also indicates that terrorist operatives, cells, and organizations – like many criminal organizations – exploit all three fundamental ways to move value as conduits of terrorist financing and support. These conduits include: (i) the formal financial system, (ii) the physical movement of currency, and (iii) the physical movement of goods through the trade system. In exploiting these three fundamental ways of transferring value, terrorist organizations and their support networks may employ several different mechanisms, including wire transfers, cash couriers, charities, and informal value transfer systems (IVTS), which include alternative remittance systems such as hawala. Hawaladars, like operators of other informal value transfer systems, may conduct transactions and

settlement activity through all three ways of moving value – the formal financial system, cash, or trade.

The challenge inherent in this broad recognition of how terrorist operatives, cells, and organizations raise and move funds and support is that it demonstrates the complex, dynamic, and global nature of terrorist financing. The various sources and conduits of funds also illustrate how interdependent our global financial system is, and the critical need to work with our foreign partners and the private sector, including in non-financial industries such as the charitable sector, and in traditionally unregulated sectors such as hawala and remittance systems. Terrorist financing is not static – it adapts and constantly seeks to exploit vulnerabilities in our financial and trade systems.

Nonetheless, this emphasis on the elements of various terrorist financing sources and conduits provides a useful framework for developing and applying TFI's general strategic approach to combating this threat.

#### **IV. Combating Terrorist Financing**

Consistent with our general strategic mission and perspective, TFI has adopted a comprehensive approach to combat the various sources and conduits of terrorist financing and support. This comprehensive approach includes:

- (i) developing, implementing, and globalizing measures and initiatives to close systemic vulnerabilities;
- (ii) targeting – identifying critical nodes of terrorist support;
- (iii) developing, implementing, and globalizing targeted actions and initiatives against those nodes; and
- (iv) enhancing implementation through private sector outreach.

##### *Systemic Measures and Initiatives*

Systemically, in order to better protect against, identify, and intercept terrorist support networks, TFI focuses on enhancing the transparency of the financial system and those industries and financing mechanisms particularly vulnerable to those networks.

Domestically, TFI has generally strengthened and expanded the BSA through FinCEN's implementation of Title III of the PATRIOT Act to promote greater transparency across the financial system since the terrorist attacks of 9/11. These efforts have included a host of regulations that strengthen pre-existing AML controls in banking and other financial sectors, as well as regulations that extend AML customer identification, recordkeeping, reporting, and AML programmatic requirements to new industries. This has improved our overall ability to identify not only terrorist-financing-related transactions, accounts, and actors, but also other illicit financing threats.

Internationally, through our leadership of the USG delegation at the FATF and the various FSRBs, TFI has assisted in substantially improving the global transparency of the financial system. These efforts have focused on setting standards – as evidenced by the adoption and development of the FATF Special Recommendations on Terrorist Financing – and creating accountability and capacity for implementing those standards through mutual evaluations, training, and technical assistance.

TFI has focused systemic efforts on the mechanisms and industries particularly vulnerable to terrorist financing – including cross-border wire transfers, charities, cash couriers, and trade-based systems.

For example:

- Cross-border wire transfers - TFI has collaborated with industry to improve the transparency of cover payments and Automated Clearing House payments. We have also led international efforts through the FATF to develop an international standard requiring the inclusion of originator information on cross-border wire transfers.
- Charities - TFFC has worked together with the IRS to promote greater transparency through stronger reporting requirements for those charities seeking tax-exempt recognition from the IRS. TFFC has also led TFI's engagement with the charitable sector and developed Treasury's *Anti-Terrorist Financing Guidelines: Voluntary Best Practices for U.S.-Based Charities*. More broadly, TFFC has led a USG and global approach through the FATF to combating terrorist exploitation of charities by developing an international standard, which includes strengthening oversight, enforcement, outreach, and international engagement. TFFC has also led USG and international efforts to publish ongoing threat information and typologies regarding this threat.
- Cash couriers - TFFC has worked with Immigration and Customs Enforcement (ICE) to promote transparency and detect the use of cash couriers by leading a global approach requiring cross-border declaration or disclosure of currency and bearer negotiable instruments. This is illustrated by the adoption of a new international standard and associated guidance by the FATF.
- Trade transparency - TFFC is also working with ICE to facilitate transparency across the global trade-based system by proposing a new international standard at the FATF. Moreover, TEOAF has funded the development of ICE's innovative trade transparency unit, which is working to establish similar counterparts in other countries to exchange trade data for purposes of detecting trade-based money laundering.

### Targeting

We are working constantly to focus Treasury's substantial authorities and resources on selecting terrorist financing targets that can have the most impact. Several times a week, staff of TFI offices gathers with TFI leadership to discuss specific targets. OIA, using all-source intelligence, develops a picture of the target complemented by OFAC and FINCEN data and analysis. The group then reviews what courses of action available to Treasury – administrative, regulatory, formal, or informal - could disrupt or shut down the threat. Courses of action are then developed and coordinated through the Sub-CSG on Terrorist Financing and other mechanisms, as necessary.

### Globalizing Targeted Actions and Initiatives

The U.S. is most effective in combating terrorist support networks when it can act multilaterally. On this front, OFAC and TFFC have led TFI's efforts to globalize targeted sanctions against terrorist financing by providing substantive expertise to the State Department in the successful development of global terrorist financing sanctions regimes through UN Security Council Resolution 1267 and its successor resolutions, as well as UNSCR 1373. TFFC has facilitated global implementation of these sanctions regimes by leading the development of an international standard and associated guidance at the FATF.

Challenges remain, however, in facilitating global compliance with these sanctions obligations. To address this, TFI has led the development of workshops at the FATF and the Asia Pacific Group – the largest FSRB – as well as with the European Union. These efforts have led to a better understanding of the operational components of a sanctions regime at a national level in accordance with UNSCR 1373. TFFC and OFAC are also engaged with the State Department to strengthen the 1267 sanctions regime at the UN. Additional challenges include how to strike the appropriate balance between due process concerns regarding independent review of UN designations with the need to generate more robust targeting submissions from member states. Lastly, efforts are continuing to streamline the execution of designations by the Al Qaeda and Taliban Sanctions Committee.

### Private Sector Outreach

The private sector is also a critical partner in the effective implementation of sanctions and thus outreach and dialogue with them is extremely important. Within TFI, OFAC conducts ongoing outreach across the U.S. financial system and vulnerable non-financial industries to facilitate sanctions implementation. FinCEN similarly engages in constant outreach to all financial industries covered under the BSA, through a variety of efforts, including through the Bank Secrecy Act Advisory Group (BSAAG). These ongoing efforts are essential to facilitating domestic implementation of the targeted and systemic authorities that TFI possesses.

Another example of our outreach efforts is Treasury and our USG partners' engagement with the charitable sector and affected communities in the United States concerning terrorist organizations' exploitation of charities. Almsgiving is an important expression of religious faith for Muslims throughout the world and charity is one of the pillars of Islam. It is also a core American value and integral part of American culture and society. It is a sad reality, but terrorist organizations continue to effectively exploit charity to finance their operations and to cultivate broader support from vulnerable populations. In response to this ongoing threat, TFI has worked with its interagency partners to develop a multi-pronged strategy to combat such exploitation, a key element of which is raising awareness of terrorist financing threats and risk mitigation practices in the charitable sector through comprehensive and sustained outreach.

Internationally, TFFC is working with a number of partners from the private sector, multilateral organizations, and bilateral counterparts to promote private sector implementation of sound AML/CFT controls in banking communities across the Middle East / North Africa (MENA) and Latin American (LA) regions. TFFC is advancing these efforts through the creation of Private Sector Dialogue (PSD) initiatives that bring representatives of U.S. banks together with private sector



counterparts from key regions. The PSD allows us to raise awareness of money laundering and terrorist financing risks; to facilitate a better understanding of effective practices and programs to combat such risks; to strengthen implementation of effective AML/CFT controls; and to exchange information and improve understanding of business cultures and norms.

## **V. Iran**

Given the Washington Institute's extensive work on Iran, I also wanted to take this opportunity briefly remark on some of the major developments that have occurred since Deputy Secretary Kimmitt's last visit. In May, the Deputy Secretary noted that the United States has employed a two-fold sanctions strategy utilizing domestic authorities and engaging in intense international outreach highlighting deceptive conduct by Iran and its state-owned banks.

To date, in addition to a variety of domestic U.S. actions, multilateral efforts have yielded critical success in the adoption of two Chapter VII UN Security Council Resolutions – Resolutions 1737 and 1747 – imposing significant sanctions on Iran. These resolutions target Iran's nuclear and missile programs and, among other requirements, obligate states to freeze the assets of named entities and individuals associated with those programs. Perhaps most significantly on the finance side, the Security Council recognized the role that Iran's state-owned banks have played in facilitating Iran's proliferation activities in particular with the designation of Bank Sepah.

As the Deputy Secretary noted, domestic and international actions have been accompanied by Treasury's unprecedented outreach to the international private sector, meeting with more than 40 banks around the world to share information and discuss the risks of doing business with Iran.

### *New Developments*

Since May, there have been some significant developments both on the domestic and international fronts.

### *FATF October 11 Actions:*

In October, FATF issued a public statement confirming the extraordinary systemic risks that Iran poses to the global financial system. FATF also issued guidance to assist countries in implementing the financial provisions of the UN resolutions on Iran. That guidance identified customers and transactions associated with Iran as representing a significant risk of involvement in proliferation finance. Consistent with the FATF statement, jurisdictions all over the world have begun issuing warnings to their financial institutions of such risks

## **VI. Conclusion**

Our financial enforcement efforts have come a long way from sanctions measures we have applied to threats in the past. As demonstrated by our recent experience in the context of Iran, we have learned that the most effective measures are carefully targeted at illicit conduct; are multilateral in scope; and are combined with private sector and foreign government outreach.

These principals hold true with respect to all illicit financing threats be they terrorism, proliferation, narcotics, or other criminal conduct. While in the past our broad-based country sanctions have been criticized by some as an inappropriate extension of U.S. law, these new targeted efforts have the effect of engaging our allies. Sanctions have the most comprehensive impact when applied cooperatively and collectively. We are working hard internationally, with governments and the private sector, to build consensus and capacity to do just that.

Thank you.