

**STOPPING TERROR FINANCE: A  
COORDINATED GOVERNMENT EFFORT**

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**HEARING**  
BEFORE THE  
TASK FORCE TO INVESTIGATE  
TERRORISM FINANCING  
OF THE  
COMMITTEE ON FINANCIAL SERVICES  
U.S. HOUSE OF REPRESENTATIVES  
ONE HUNDRED FOURTEENTH CONGRESS  
SECOND SESSION

\_\_\_\_\_  
MAY 24, 2016  
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Printed for the use of the Committee on Financial Services

**Serial No. 114-91**



U.S. GOVERNMENT PUBLISHING OFFICE

24-137 PDF

WASHINGTON : 2017

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## **STOPPING TERROR FINANCE: A COORDINATED GOVERNMENT EFFORT**

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**Tuesday, May 24, 2016**

U.S. HOUSE OF REPRESENTATIVES,  
TASK FORCE TO INVESTIGATE  
TERRORISM FINANCING,  
COMMITTEE ON FINANCIAL SERVICES,  
*Washington, D.C.*

The task force met, pursuant to notice, at 10:03 a.m., in room HVC-210, the Capitol Visitor Center, Hon. Michael Fitzpatrick [chairman of the task force] presiding.

Members present: Representatives Fitzpatrick, Pittenger, Ross, Barr, Rothfus, Schweikert, Williams, Poliquin, Hill; Lynch, Ellison, Himes, Foster, Kildee, Sinema, and Carney.

Ex officio present: Representative Hensarling.

Chairman FITZPATRICK. The Task Force to Investigate Terrorism Financing will come to order.

The title of today's task force hearing is, "Stopping Terror Finance: A Coordinated Government Effort."

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

Also, without objection, members of the full Financial Services Committee who are not members of the task force may participate in today's hearing for the purposes of making an opening statement and questioning the witnesses.

The Chair now recognizes himself for 5 minutes for an opening statement.

I want to thank everyone for joining us at this hearing of the House Financial Services Committee's Task Force to Investigate Terrorism Financing. I would like to again thank Chairman Hensarling and Ranking Member Waters, as well as my colleagues here, for their consistent and unwavering support as we continue to investigate the threat of terror finance.

During our term, this body has attended investigative hearings with policy experts and briefings by administrative personnel to better understand how terrorist organizations finance their activities around the world. In addition to investigating the evolution of illicit finance flows, we continue to review the rules and the regulations of the United States Government that we have in place in order to determine whether they are effective or whether those rules require modifications or whether modifications are necessary.

We know the United States is central to understanding and combating the funding of terror. The Treasury's June 2015 National Terrorist Financing Risk Assessment, which was the first of its

kind, clearly stated that the central role of the U.S. financial system within the international finance system, and the sheer volume and diversity of international financial transactions, that in some way pass through U.S. financial institutions, expose the U.S. financial system to terrorist financing risks that other financial systems may not face.

This task force continues to note that illicit actors are adaptive, constantly evolving their money laundering and financing techniques to better avoid detection. These techniques and practices, such as trade-based money laundering, or the narcotics trade, often cross the jurisdictions of several different U.S. Government agencies, making communication, coordination, and information sharing amongst agency personnel paramount. These findings have pushed us toward a common conclusion. In order to properly combat the financing of terrorism, government coordination is a necessity. Yet unbelievably, the Federal Government does not maintain a single strategic document or interagency implementation plan for combating the financing of terrorism.

Today's hearing will focus on Federal efforts to combat terrorism financing and explore how the U.S. Department of the Treasury coordinates with relevant agency and law enforcement personnel to fill this current gap.

At this time, I would like to recognize this task force's ranking member, my colleague, Mr. Lynch, from Massachusetts.

Mr. LYNCH. Thank you very much, Mr. Chairman, and Vice Chairman Pittenger. I really appreciate you holding this hearing. I also want to thank our witnesses today, Director Calvery and Deputy Assistant Secretary McDonald, for helping this task force with its work. And thank you for your good work every day.

I am pleased that we are holding this hearing so we can examine how to best coordinate a strategy within the Treasury Department and across government agencies to stop the flow of financing to terrorist organizations. Detecting and disrupting the flow of funding to terrorist groups is crucial in our fight against terrorism. While it has proven to be challenging work, I also think it is extremely worthwhile.

In March of last year, House Financial Services Committee Chairman Jeb Hensarling and Ranking Member Maxine Waters created a 21-member bipartisan task force and charged it with ensuring that our government is using every tool at its disposal to deprive groups like the Islamic State and Boko Haram and other terrorist organizations of the funds they rely on to advance their destructive ideology. Through this task force, we have learned that we must mentor and support Financial Intelligence Units in vulnerable countries that lack the rule of law. Some of my colleagues on this task force, both sides of the aisle, have recently returned from a congressional delegation to Latin America to examine these issues.

My own work in this field, along with many other members on this committee, has been focused on the Middle East, where I have had the opportunity to work on some ongoing counterterrorism financing efforts. In particular, we have been actively involved in establishing Financial Intelligence Units in Jordan, Afghanistan, and in Morocco. These FIUs have served as national centers that pro-



mote information sharing by receiving, investigating, and sharing financial intelligence with law enforcement agencies and international financial intelligence counterparts across the globe.

Given this focus on strengthening FIUs, I am pleased to learn more about the Treasury Department Office of Technical Assistance collaboration to strengthen FIUs in Guatemala and in Cambodia. As we are all aware, countries with weak financial institutions and ineffective financial sector oversight serve as a breeding ground for terrorist activity. They seek to raise and move funds without detection. And witnesses at our previous hearings have emphasized how the United States could play a more productive role in addressing these risks by providing technical assistance to countries that fail to implement adequate anti-money laundering and counterterrorism financing measures. This can be accomplished by thorough, robust, dedicated teams of Treasury attaches and contract advisers who are posted in relevant countries that are high-risk countries.

During a recent codel, Congressional Delegation Donnelly, Joe Donnelly over in the U.S. Senate, we visited Bahrain, Iraq, and the UAE. And I had the opportunity to meet with Bill Rich, one of our young Treasury attaches. He is one of only 17. I was very impressed with Mr. Rich and the good work he is doing in his field. Although he is a very bright and capable person, he is responsible for a very wide portfolio with many countries that cover many challenges, and a portfolio that I believe is too robust for one single person to properly manage. They need help, all of our attaches need help. And we need more of them.

In order to effectively combat terrorist financing threats both in the United States and abroad, it is imperative that the United States implements a cohesive strategy to determine the roles and responsibilities of Department of the Treasury attaches and contract advisers. We have to deploy these people more effectively, and they need more resources. And as I said, we need more of them.

My colleagues and I in Congress have an important role here too. Through the appropriations process we have to support the vital work the Treasury Department and the Financial Crimes Enforcement Network and other relevant agencies engage in to safeguard our financial system from illicit activity.

I look forward to this hearing, and the testimony of our witnesses today, so we can better understand the U.S. Government effort to combat illicit finance. I yield back the balance of my time. Thank you, Mr. Chairman.

Chairman FITZPATRICK. Thank you, Mr. Lynch. I now recognize for an opening statement the vice chairman of the task force, the gentleman from North Carolina, Mr. Pittenger, for 1 minute.

Mr. PITTENGER. Thank you, Chairman Fitzpatrick, Ranking Member Lynch, and our distinguished panelists, Ms. Shasky Calvery and Mr. McDonald, for your presence with us here today.

In my opinion, both panelists represent the most significant government agencies dedicated towards combating money laundering and illicit finance initiatives. And we thank you for your continued hard work. Through this task force, I have had the opportunity to travel and learn about both U.S. and foreign responses to terror financing. Recently, we traveled to Colombia, Panama, Paraguay,

and Argentina to meet firsthand with many South American officials, FIUs, and others tasked with combating money laundering and drug smuggling.

With the utmost confidence, I can say that every official we met with had a genuine interest in promoting and ending money laundering and smuggling initiatives. However, each official also echoed the financial and technological hurdles in place that prevent a foreign government from living up to their own capabilities and to FTF enforcement standards.

The Financial Crimes Enforcement Network and the Office of Technical Assistance provide critical capacities to track terrorism financing while improving financial institution infrastructures around the world. However, I truly believe we can do much more in certain areas around the world to educate and assist with anti-money laundering capabilities.

Thank you, Mr. Chairman, and to our distinguished panelists. I look forward to hearing from you, and I yield back.

Chairman FITZPATRICK. I now recognize the gentlewoman from Arizona, Ms. Sinema, for 1 minute.

Ms. SINEMA. Thank you, Chairman Fitzpatrick and Ranking Member Lynch.

The Islamic State is a serious threat to the United States and our allies. While coalition forces have succeeded in recapturing some IS-controlled territory, IS maintains a global network capable of funding and carrying out deadly attacks on civilians here and around the world. This task force has received testimony that the internal sale of oil is a significant source of income for IS, but it is the taxation, extortion, and theft throughout the entire supply chain that funds the organization.

As IS continues to diversify its revenue streams, we must have up to date information and a coordinated strategy to disrupt its funding sources and keep money and resources out of its control. This is why Chairman Fitzpatrick and I offered an amendment to the NDAA to direct the Secretary of Defense to establish a whole of government strategy to destroy their funding networks. This strategy must include a comprehensive assessment of IS's revenue sources, a valuation of best practices to combat IS financing, and clear ways to measure the effectiveness of efforts to weaken IS. DOD must also specifically address how it will deny IS revenue from the sale of Libyan oil.

I look forward to working with my colleagues on both sides of the aisle to keep money out of terrorists' hands and build on our progress to strengthen America's security.

Thank you, Mr. Chairman. I yield back.

Chairman FITZPATRICK. We now welcome our witnesses. Ms. Jennifer Shasky Calvery is the Director of the Financial Crimes Enforcement Network, or FinCEN, at the U.S. Department of the Treasury.

This will be Ms. Shasky Calvery's last congressional testimony for FinCEN. She is stepping down after having served as Director since September 23, 2012. Prior to joining Treasury, Ms. Shasky Calvery had a 15-year career at the Justice Department, where she focused on combating money laundering and organized crime. Notably, she was a prosecutor with the organized crime and racket-

earing section, and more recently Chief of the Asset Forfeiture and Money Laundering section.

Ms. Calvery holds a law degree from the University of Arizona College of Law. She graduated summa cum laude with an undergraduate degree in international affairs from George Washington University, where she was also an all-star basketball player.

And I just want to say as you conclude your work at FinCEN, we all appreciate your incredible work for our Nation, and that you would take some time at this point to brief our task force here on our issues of mutual concern. So we appreciate that.

Mr. Larry McDonald is Deputy Assistant Secretary for the Office of Technical Assistance, or OTA, at the U.S. Department of the Treasury. He oversees a program that provides financial technical assistance to approximately 50 countries. In 2004, Mr. McDonald received the Secretary's honor. Mr. McDonald has served in several senior roles at Treasury since joining the Department in 1987. Previously, Mr. McDonald worked at the Organization for Economic Cooperation and Development. Mr. McDonald has a master's degree from the Fletcher School of Law and Diplomacy and an undergraduate degree from Middlebury College.

The witnesses will now have 5 minutes to give an oral presentation of their testimony. And without objection, the witnesses' written statements will be made a part of the record.

Once the witnesses have finished presenting their testimony, each member of the task force will have 5 minutes within which to ask questions.

For the witnesses, on your table there are three lights: green; yellow; and red. Yellow means you have 1 minute remaining, and red means your time is up.

And with that, Ms. Shasky Calvery, you are recognized now for 5 minutes.

**STATEMENT OF JENNIFER SHASKY CALVERY, DIRECTOR, FINANCIAL CRIMES ENFORCEMENT NETWORK (FinCEN), U.S. DEPARTMENT OF THE TREASURY**

Ms. CALVERY. Chairman Fitzpatrick, Ranking Member Lynch, and distinguished members of the task force, I appreciate the opportunity to appear today to discuss FinCEN's role in countering the financing of terrorism. We value the committee's attention to this issue.

Today, I will discuss FinCEN's view of the terrorist financing landscape and ways that we understand current and future threats, risks, and vulnerabilities. FinCEN's mission is to safeguard the financial system from illicit use, combat money laundering, and promote national security through the collection, analysis, and dissemination of financial intelligence and strategic use of financial authorities.

We serve two roles> First, as the Financial Intelligence Unit, or FIU of the United States, we collect, analyze, and disseminate financial intelligence to help fight money laundering and the financing of terrorism. Second, we serve as the lead anti-money laundering countering the financing of terrorism regulator for the Federal Government.

The Treasury Department combats terrorist financing by identifying and disrupting the flow of financial resources to terrorists and terrorist organizations and hardening the international financial system from abuse by illicit actors. FinCEN supports these broader efforts by identifying sources of revenue for terrorist organizations and identifying their attempts to access the international financial system.

FinCEN then uses its authorities to eliminate these access points. ISIL, of course, is one of the primary terrorist threats we are focused on today. FinCEN receives approximately 55,000 financial institution filings each day. Most of this financial intelligence comes from two reporting streams: large cash transactions exceeding \$10,000; and suspicious transactions identified by financial institutions. To manage this collection, we use business rules or algorithms to identify reports meriting further review.

Currently, we run 22 rules aimed at: one, cutting off ISIL's sources of revenue and attempts to access the international financial system; and two, identifying potential foreign terrorist fighters. These rules generate over 1,000 matches each month, and about 10 percent of those matches result in reports sent to domestic authorities and foreign FIUs.

FinCEN also employs its unique regulatory authorities to obtain special collections of financial intelligence from industry, which has been used to inform government efforts to counter ISIL's financial activities. This work confirms our belief in industry's desire to assist our efforts, not merely out of a sense of obligation, but as active participants.

Financial intelligence plays an important role in preventing terrorist attacks. Authorities worldwide have an interest in identifying potential foreign terrorist fighters, many of whom have engaged in terrorist acts in jurisdictions outside the conflict zone.

FinCEN shares its financial intelligence through secure channels to authorized stakeholders on the widest possible basis. We disseminate information to our law enforcement partners, intelligence authorities, and border police. For example, financial intelligence has allowed us to assist U.S. Customs and Border Protection with the watch listing of potential terrorists, as well as identifying individuals of concern that have subsequently had their visas revoked or denied, or have been placed on the U.S. no-fly list.

We also share with relevant foreign FIUs. We do this because terrorists and terrorist facilitators move from one jurisdiction to the next, and we do not hold all the pieces of the puzzle. The feedback suggests we are taking the right approach. Over the past 8 months, we have received 354 positive responses from 41 foreign FIUs that the financial intelligence we provided either corroborated information related to an ongoing investigation or provided new investigative leads.

Financial transparency is also key to our counterterrorist financing efforts. On May 6th, the President announced several developments to strengthen our work in this area, including a customer due diligence, or CDD rule, and proposed beneficial ownership legislation. The CDD rule requires that covered financial institutions know and verify the identities of the natural persons who own, con-

trol, and profit from the legal entities the financial institutions service.

Treasury also sent beneficial ownership legislation to Congress that would require companies to know and report adequate, accurate, and current beneficial ownership information at the time of a company's formation and transfer. These two initiatives actually dovetailed together, and are critical to aid law enforcement efforts to safeguard the financial system. Being able to identify who the real people are that are involved in a transaction is critical to our work to combat money laundering and terrorism.

The terrorist financing landscape is complex and dynamic. We must continue our dialogue to ensure we have the right regulatory and statutory structure to prevent abuse of our financial system, while striking the right balance between personal privacy and financial transparency.

Thank you for the opportunity to testify, and I welcome your questions.

[The prepared statement of Director Calvery can be found on page 48 of the appendix.]

Chairman FITZPATRICK. Thank you. Mr. Larry McDonald, you are now recognized for 5 minutes.

**STATEMENT OF LARRY MCDONALD, DEPUTY ASSISTANT SECRETARY, OFFICE OF TECHNICAL ASSISTANCE, U.S. DEPARTMENT OF THE TREASURY**

Mr. MCDONALD. Chairman Fitzpatrick, Ranking Member Lynch, and members of the task force, thank you very much for the opportunity to testify today. It is a pleasure to participate with my colleague, Jennifer Calvery.

Treasury's technical assistance program, specifically the Economic Crimes Team within that program, has a close and effective partnership with FinCEN based on our institutional mandates and our special expertise. We are, respectively, the capacity building and the operational arms of the Treasury's work to combat terrorist financing and financial crimes. Together, we are part of a coordinated, overall U.S. Government effort.

Treasury's Office of Technical Assistance, or OTA as we call it, is comprised of five teams: economic crimes; banking; revenue; budget; and debt management. OTA's economic crimes team promotes compliance with international standards and best practices, in particular the Financial Action Task Force recommendations. The crimes team partners with foreign Financial Intelligence Units as well as regulatory, analytical, law enforcement, and judicial authorities tasked with developing effective AML/CFT regimes.

OTA is a relatively small program, and the Economic Crimes Team is smaller still. Total OTA funding is approximately \$50 million per year, which supports about 100 projects in 50 countries. Total funding for the Economic Crimes Team is about \$7.5 million per year, which currently supports 15 projects in Asia, sub-Saharan Africa, Latin America and the Caribbean, and the Middle East. While small, OTA is, we believe, a cost-effective program that punches above its weight.

As Secretary Lew put it during this committee's March hearing on the international financial system, Treasury gets, "more bang

for the buck” out of OTA than anything else. I refer you to my written testimony and to OTA’s annual report to Congress for examples of successful engagements by the Economic Crimes Team and other parts of OTA.

Let me share with you a few lessons from our experience regarding effective technical assistance. Effective technical assistance depends on many things. Assistance providers for their part must show some restraint, allowing potential country partners to step forward of their own volition with clear expressions of interest. Once interest has been manifested, technical assistance providers must be good listeners and patient analysts in order to understand the real underlying problems and the capacity of the requester to absorb assistance. This is the essence of demand-driven assistance.

Technical assistance providers must also demonstrate a commitment to coordination. Coordination may entail doing a project differently or not doing it at all depending upon what other assistance providers are doing. There are cases when OTA changes its project or even declines a request to provide technical assistance when we determine that another provider is already involved and our work would be duplicative. Effective coordination is also facilitated when assistance providers focus their work on areas where they have special expertise and an institutional mandate.

OTA’s Economic Crimes Team has special expertise in building the human capacity of Financial Intelligence Units and working through those Financial Intelligence Units to enhance the effectiveness of other AML/CFT regime stakeholders. For AML/CFT assistance to be effective, recipients for their part must be genuinely committed to a systemic approach to AML/CFT development. The weak link breaks the chain. Effective AML/CFT regime development requires strengthening and integrating the work of the entire spectrum of AML/CFT stakeholders. The goal is a system in which both prevention and enforcement measures are mutually reinforcing.

Governments that receive technical assistance must show a commitment to creating and retaining a core of professionals, career professionals. It is disheartening when a change of government in our partner countries results in the departure of our technical level colleagues.

Finally, and most importantly, technical assistance must be backed up in our partner countries by a commitment at the policy and the political levels to push forward transparency and accountability in public finance when, inevitably, entrenched interests resist.

In conclusion, let me reemphasize that combating terrorist financing, money laundering, and other financial crimes is a top priority for the Treasury Department and the U.S. Government.

I want to thank you for the opportunity to testify today. I appreciate your support and interest, and welcome your questions.

[The prepared statement of Deputy Assistant Secretary McDonald can be found on page 43 of the appendix.]

Chairman FITZPATRICK. We thank the witnesses for their opening statements.

The Chair now recognizes himself for 5 minutes for questions. Ms. Calvery, could you talk to us about the impact that technology

has had on the fight against terror finance and how Treasury and FinCEN plan to adapt?

Ms. CALVERY. Yes. I think there has been both positive and negative ramifications of advances in technology. On the positive end, we are using advanced analytics at FinCEN to comb through the data we receive. As I mentioned earlier, we receive 55,000 filings on average from financial institutions each day.

So the idea that we would have human beings able to comb through all of that information and understand it is I think beyond our capacity for sure. And we need technology to help us go through that data. We use advanced analytics and business rules to help us understand what is important and get it to law enforcement in a timely manner.

So now, from the time that a bank files a suspicious activity report, to the time we get it in the hands of law enforcement, may be 24 to 48 hours. If it is a terrorism-related issue, they will call our hotline and we will get it to them even faster. But for just things going through the normal system, it takes 24 to 48 hours for us to get it in the hands of people who can take action. So that is the positive benefits of technology.

Of course with technological innovation we also have advances in the finance industry and new products and services coming onboard. Many of those products and services provide potential opportunities for greater efficiencies, lowering costs, and providing better services. But we also need to keep abreast of what financial crimes risks they pose. And are they covered by regulations? Are we still going to be able to collect information? So that is one of the challenges we take on at FinCEN to try to stay abreast of the ever-changing technology in the fintech arena.

And we have also attempted to reflect some responsibility back on industry itself, encouraging the developers of fintech to also be thinking about compliance and thinking about information sharing when they are developing their products and services so that they can accomplish those ends as well.

Chairman FITZPATRICK. Thank you.

Mr. McDonald, can you comment on the role that the National Security Council plays in prioritizing and directing interagency efforts, the role of the Treasury with respect to the Council? And Ms. Calvery, you might want to also comment.

Mr. McDONALD. The National Security Council plays a role in both the setting of what I would call the strategic outlines of our technical assistance strategy and also, in cases where it is required, helping to break through instances where there might be a lack of mutual understanding among agencies about what is a priority country, what is a priority region, what is a priority engagement.

Our coordination work truly begins before it gets to the National Security Council within the Treasury Department, working with our colleagues on terrorist financing and financial crimes in the first instance, working with the State Department, both its regional bureaus, with INL, the international narcotics and law enforcement part of the State Department, working with the State Department's office on counterterrorism.

So in most instances, I would say, we are able to agree on a plan of action and a game plan without necessarily involving the Na-

tional Security Council. But there are instances, certainly at the beginning, the very beginning of that process when you are looking at the broad outlines of a strategy, and then in those instances where there is something that needs to be worked out and the NSC's participation is important or essential.

Chairman FITZPATRICK. Director Calvery?

Ms. CALVERY. I think Larry put it well. Essentially, the National Security Council sets the strategic direction based on the coordinated input of all of the agencies, and then holds us accountable for actually implementing what we said we would do.

Chairman FITZPATRICK. Director, can you comment on the methodologies that FinCEN uses in looking for or spotting trade-based money laundering schemes, particular methodologies?

Ms. CALVERY. Sure. I think most recently the methodologies we have employed have been with the use of our Geographic Targeting Order, which is an authority that enables the Director to put in place a special collection of information for a limited time period, 120 days. So we have been using that most recently in California and in south Florida, where from working closely with our law enforcement partners, we understood that there was an issue of trade-based money laundering in the garment district in LA and the electronics district in south Florida. And essentially law enforcement believed that drug cash was making its way into businesses and then back down to Mexico and/or Colombia.

So we used the Geographic Targeting Order to collect additional information. Law enforcement was able to see how the criminal actors diverted their actions, what evasive steps they took. And most recently it resulted in over 20 arrests in south Florida, and has really helped both us and law enforcement to understand the typologies much better.

Chairman FITZPATRICK. Thank you. I recognize Mr. Lynch for 5 minutes.

Mr. LYNCH. Thank you. And Ms. Calvery, I want to join the chairman in thanking for your service to your country and wishing you well. Let's stay right on that topic. I know that one of the things that we are working on with my staff and with Treasury is to work on legislation to expand that Geographic Targeting Order. Would you elaborate a little bit on why that would be helpful?

Ms. CALVERY. Sure. And thank you for the question. So right now the Geographic Targeting Order enables us to collect information when there is a transaction involving monetary instruments like cash, currency, or checks. We would propose expanding that for us to collect information when there is a transaction involving funds, the more broad definition. So that would include, for instance, wire transfers. And an example of where that is important is with our real estate GTO. There we are focused on criminals who are taking their illicit proceeds and using them to purchase luxury residential real estate.

Right now we have GTOs focused in Manhattan and in Miami County. And with those two geographic targeting orders, we are able to collect information when someone uses cash or a check to purchase real estate, some portion of real estate. We are not able to do it, however, when someone wires funds to purchase real es-



tate. And that is becoming the more and more common way that people engage in transactions.

Mr. LYNCH. Right. Let me ask—and this is for both of the witnesses—the Panama papers, that whole incident. It just shed light on the role of offshore financial mechanisms to move and store money anonymously. That issue, along with the beneficial ownership issue, creates a real problem for all of us on this committee and law enforcement as well.

To what extent, as far as it has been reported—I am not sure how to put this. What role, if any, do you think FATF might have in verifying the information contained in the Panama papers? And how might we use this information to address the terrorism-related issues?

Ms. CALVERY. All right. I would be happy to field that one. I would not look to FATF in the first instance as the body to engage in the investigation and operational activity surrounding the Panama papers.

Mr. LYNCH. Maybe I am just looking for lessons learned from what we understand what has been going on. And I understand it is powerful individuals being able to move their money offshore. Well, they could do that for terrorist financing as well if they are coming out of the Gulf or something like that. So are there some lessons learned that we might use in our context, which is terrorist financing?

Ms. CALVERY. Yes. Actually, now that I better understand the question, FATF does have a role. And I think they have been playing it. First, they have set an international standard around the collection of beneficial ownership information. They have made it clear that countries should be collecting beneficial ownership information to better enable their ability to fight money laundering and terrorist finance. So that is the international standard.

Here in the United States, we have made some progress but have some work to do on that front. The CDD rule I think was a definite step forward in terms of the collection of beneficial ownership information. What that enables us to do is to have our banks collecting information on legal entities when their customers, or when they are providing them services, no matter where that legal entity was formed, whether it was formed in the U.S., the B.V.I., et cetera, et cetera.

The beneficial ownership information that we recently proposed dovetails with that, because that would require the collection of beneficial ownership information at the time a U.S. legal entity is formed in the United States or when it is transferred. And that is important because we often will see illicit actors take U.S. legal entities outside of the United States to use them to establish bank accounts. And that money ends up right back in the U.S. financial system indirectly through correspondent accounts. And so to be able to deal with both risks, we need both authorities in place.

Mr. LYNCH. Thank you. And in closing, I just want to say—and Mr. McDonald, you could obviously add to this if you wish.

From a lot of people that we talked to in this area, the United States facilitates some of this because of our laws, because of our unwillingness to deal with the beneficial ownership issue. We basi-

cally turn a blind eye to this and let this happen. Is that correct? Is that your—

Mr. McDONALD. What I was going to do was add just quickly to Jen's point about Panama to say that the technical assistance program is engaged in Panama. I have visited myself the Financial Intelligence Unit there and met with their team. They are not the worst. They are not the best around the world. They do have a Financial Intelligence Unit that has good leadership. But they are still in the relatively early stages of implementing improved laws related to reporting requirements.

And we are still in sort of the middle ground of trying to build their capacity to make them more effective in that role.

Mr. LYNCH. Thank you, Mr. Chairman. I yield back.

Chairman FITZPATRICK. The Chair now recognizes the vice chairman of the task force, Mr. Pittenger, for 5 minutes.

Mr. PITTENGER. Thank you, Mr. Chairman. Thank you to each of you again. My question relates to our collaborative efforts with our partners around the globe. In our meetings in South America with Colombia, and Paraguay, and Panama, and Argentina, we found, as I said earlier, willing partners. But Mr. McDonald, as you said earlier in your statement, that we are only as strong as our weakest link. And in the discussions I have had previously with President al-Sisi and other foreign leaders, they have also expressed a willingness, but did not have the capacity to really be a strong asset in our efforts.

How do you all work together? Kind of walk through with me assessing the needs and what needs to be done through OTA, and the role that you play with FinCEN, Ms. Calvery. How do you all address that? And then how do we establish that relationship with them and then provide them the leadership and the support that they need?

Mr. McDONALD. I will kick it off. Central America is a good place to look at as an example of this. Our technical assistance efforts begin in most regions, including in Central America, with an expression of interest, a request by the potential counterparts. It might be from the Financial Intelligence Unit, it might be at a more senior level when a finance minister or central bank governor is in Washington talking to the Secretary at the time of IMF-World Bank annual meetings or something like that, and for one reason or another, they have a recognition that they need to do better. It might be because they are aware, more aware of the threat of illicit finance.

It might be that they are seeing the departure of foreign banks who are trying to deal with this problem of derisking. And they will ask us if we can be helpful to them in strengthening their system. We will typically get in touch with the State Department both in Washington and with the embassy. In Central America, I can tell you that there is a particularly good collaboration between the State Department, INL responsible for Central America. The Central American Regional Security Initiative is one in which we co-fund projects in Central America and talk to each other about a game plan for TA.

Then ultimately, it does require a follow-through on the part of leadership in our partner countries to implement the strength and capacities that we try to help them build.

Guatemala is an interesting case in point. They, over a number of years, built their capacity to identify and address money laundering cases. In 2014, they took down a money laundering operation and sentenced the ringleader and seven of their participants to a number of years in jail.

I would just say one last point about our collaboration with FinCEN. While FinCEN is really the operational arm of the Treasury's efforts, as I said earlier, and OTA is the capacity-building arm, we know that FinCEN has expertise that we can benefit from. So at a staff level, we are frequently in interaction with each other about things that FinCEN knows a lot about. Thank you.

Mr. PITTEMBERG. Thank you. Ms. Calvery?

Ms. CALVERY. Yes. I think to just give a real practical example in the area of terrorist financing of how we help some of the FIUs that might have less capacity to do their job, recently, in this last year, we brought 40 FIUs together. The United States FinCEN and the Netherlands FIU led an effort where 40 FIUs focused on the issue of foreign terrorist fighters and trying to understand what they look like in financial data.

What are their financial patterns? What do they look like before they get to the conflict zone? What do they look like when they are in transit? And what do they look like when they get back? Because we all have an interest in identifying these individuals. So 40 countries came together. We looked at patterns all across the world. We came up with red flags for industry of what type of activity they should be looking out for. We then drafted an advisory to financial institutions. Here in the United States, we issued it securely to our financial institutions. And then we provided a sample to over 150 FIUs of that same advisory for them to issue to their financial institutions.

So in that way you have 40 FIUs that are better situated to perhaps understand the threats, articulate the threats, help the other members of the Egmont Group of FIUs to take information and get it out to their industry and thereby get better reporting from industry back to FIUs.

Mr. PITTEMBERG. My time has expired.

Chairman FITZPATRICK. I now recognize the gentleman from Illinois, Mr. Foster, for 5 minutes. Thank you.

Mr. FOSTER. Thank you, Mr. Chairman.

And thanks to both of our witnesses for their very important service to our country.

As you are certainly aware, one of the issues in the Iran nuclear deal was the possibility of Iran diverting some fraction of their funds that were released under the JCPOA for terrorist purposes. So I actually have a pair of related questions.

The first one is how specifically does FinCEN guard against Iran illicitly accessing the U.S. financial system? And secondly, recently the Secretary of State and the Secretary of the Treasury both stated that Iran at that time had access to only about \$3 billion of the amount made available to it under the JCPOA.

And so I was wondering, has that number increased since those statements were made? Do we have the ability to track actually how much they have received? And could you explain how that funding is being made available to Iran so far and how we are able to follow it under the state sponsorship of terrorist sanctions?

Ms. CALVERY. Sure. Let me focus on FinCEN's role in understanding and tracking financial transactions from Iran.

Our data is collected from U.S. financial institutions, and of course U.S. financial institutions are still embargoed from dealing with Iran in almost all circumstances. So we don't tend to have a lot of direct open data about Iranian financial transactions. We do, however, receive information and keep on alert for any type of front companies that might be used to access the dollar, the U.S. financial system, and work very closely with our colleagues at OFAC to understand those financial transactions and to follow their funds.

In terms of some of your more specific questions about the amount of money that Iran has at its disposal at this moment, I really would have to defer to some of my colleagues at OFAC to help me answer that question. So I would be happy to take that back and get you—

Mr. FOSTER. I would appreciate it. That is a number that I think Congress will have a great interest in tracking. And so if there was some information channels so we could have some authoritative statement about what that number was, that would be very useful.

Second question, sort of unrelated, many of the financial services players that are involved in the payment chain are actually regulated and supervised at the State level. And so could you describe the coordination between FinCEN and the States since it is obviously critical to ensuring the financial services sector is not used for illicit purposes?

Ms. CALVERY. Sure. This is an issue that we focus on quite a bit at FinCEN, and particularly in the last year we really have been focused on money services businesses and their supervision. So they are licensed by States, money services businesses in this country are licensed by States, and supervised both by States and the IRS. And then FinCEN is responsible for any enforcement actions that might come out of that.

So as a result of the Money Remittances Improvement Act of 2014, we have been coordinating more than ever between the Federal and the State system. So the States have, for instance, a data system in which they can collect licensing information and put their supervisory exams and all of this type of information to one data system. And we have signed a memorandum of understanding so that we too now get access to that data. And together, the Federal Government and the States—there are about 30 States that participate at this point—are able to look at trends and identify risks and better focus our exams.

We are doing coordination of our exams. We are doing joint exams. And that is in the money services business arena, but we also coordinate quite closely across depository institutions, and other types of financial institutions.

Mr. FOSTER. Thank you. So you view the situation as improving at a satisfactory rate in terms of the State-regulated—

Ms. CALVERY. I do think it is improving. Actually, a major area of focus has been to communicate to our banks and to our Federal banking agencies the supervision that is in place for money services businesses. I think there had been a lack of understanding and a lack of communication on how well they are regulated and what that regulation looks like in detail so that there could be some understanding of how that works.

Mr. FOSTER. All right. Thank you.

And I was also interested in your comments about shell corporations and real estate transactions.

First, I am wondering if you have any comments on proposals that have been floating around in Congress for a while to basically pierce the corporate veil in the United States, to just not allow anonymous shell corporations to be made, which I guess is what many countries have.

Would that have a big influence on your ability to do your job?

Ms. CALVERY. It would have a very large influence on our ability to do our job. I think this is actually the fourth time over 8 years that I have testified in front of Congress on this issue. And the one thing that I think has been consistent throughout—and some of that was at the Department of Justice and some of that has been with Treasury—is that criminals, terrorists, and other illicit actors use shell companies and hide behind the corporate veil as a means of engaging in illicit transactions anonymously. And so anything we can do to take that away and provide greater financial transparency would be of great aid to law enforcement and to combating money laundering and terrorist finance.

So the beneficial ownership legislation that the President sent up to Congress recently I think sets out a good plan on how to do that. But we are certainly interested in working with Congress on a proposal that will work.

Mr. FOSTER. Thank you. I guess at this point I am out of time, so I will yield back.

Chairman FITZPATRICK. The gentleman from Maine, Mr. Poliquin, is recognized for 5 minutes.

Mr. POLIQUIN. Thank you, Mr. Chairman. And thank you, Ms. Calvery and Mr. McDonald, for being here. We appreciate your leadership on this issue and your service to our country. I think everybody knows with the activities we have seen around the globe over the past couple of years that it is absolutely critical for our own national security that we win this war on terror. And part of that is making sure we stop the money flows to terrorist organizations around the world.

In particular, I would like focus a little bit here on the Patriot Act and Section 314(b) that deals with information sharing, financial information sharing among financial institutions. So my question to you, Ms. Calvery, first, is I am sure you are familiar with that section of the law. Do you see those rules as being too restrictive for financial institutions to be able to share this information such that they can see patterns of money flows around the world such that they can pinpoint a way to interrupt this flow of funding?

Ms. CALVERY. Thank you, Congressman, for the question. I am very familiar with Sections 314(b) and 314(a). We use them quite extensively at FinCEN. I think there are some improvements that

could be made to the statute, and in particular clarifying right now so 314(b), of course, allows financial institutions to share information with one another concerning suspicious activity related to money laundering and terrorist finance. It would be helpful to clarify that that authority extends beyond a strict reading of money laundering and terrorist finance, but applies to all crimes.

Money laundering, of course, has many, many predicates to it. And we think it would be helpful to make it clear that financial institutions can share information with one another about suspicious activity involving violations of criminal law and regulations.

Likewise, there have been some issues in the courts and there is now an inconsistency in the court rulings on whether or not the safe harbor that financial institutions get when they file a suspicious activity report, whether they had to have a good faith belief that the criminal activity occurred. And we see that as chilling on financial institutions. And we would certainly support a change to make it clear that a good faith belief that criminal activity has occurred is not required to file a SAR.

Mr. POLIQUIN. Let's drill down a little bit deeper, if I can, Ms. Calvery. Talk to me a little bit about the sharing of information, of course with relevant safeguards, among financial institutions in the Federal Government.

Could you please comment on that? How is that working? Can you see any changes that government can make to make that better? You have listed a couple when it comes to dealing with financial institutions themselves. Now, let's throw the government in.

Ms. CALVERY. Yes, so there is less needed in terms of authorities to make that better, and more needed in terms of innovation and activity on the ground. And I think that is happening. It has really been an exciting development over the last year. We have been partnering, FinCEN has been partnering with law enforcement and financial institutions, using the 314(a) and (b) authorities, to share information on a more real-time iterative basis, where FinCEN will have a meeting with specific financial institutions that can help on a specific problem and provide context of the request we are about to make to them, to enable them to go back and look in their data and do a better job of finding relevant information.

It also enables them to talk amongst themselves, the financial institutions to talk and share information amongst themselves. And that type of joint iterative activity, we found to be much more productive.

Mr. POLIQUIN. Great. I represent a very highly rural part of America. We have the largest congressional district in Maine east of the Mississippi River. Is this problem of funding or stopping the flow of funds to terrorist organizations unique to large money center institutions? What advice can you give our folks back in Maine who deal with small financial institutions and mostly in rural areas that they can be on the lookout for these sort of activities that ordinarily they might not catch?

Ms. CALVERY. Unfortunately, I think we have seen that individuals have been radicalized in all different types of communities of different sizes in cities, in rural areas. And so then the money flows also follow where the radicalization occurs. To put it more concretely, of those business rules I was talking about earlier and

the alerts that we get on activity related to potential terrorist activity, ISIL activity specifically, most of that reporting comes from depository institutions. About 60-some percent comes from depository institutions, maybe 37 percent from money services businesses. Most of it comes from large financial institutions, which by the way are also in smaller areas at the retail level. But some of it is also coming from small community banks and small MSBs.

I recall seeing at least one report where it was a mom-and-pop money services convenience store/money services business operation, and they provided some very important reporting for law enforcement.

Mr. POLIQUIN. Mr. Chairman, I am just about out of my time, but if I could ask one more question. Is that possible, sir?

Chairman FITZPATRICK. Your time has expired.

Mr. POLIQUIN. My time has expired. Thank you, Mr. Chairman.

Chairman FITZPATRICK. Thank you, Mr. Poliquin. The Chair now recognizes Mr. Kildee of Michigan for 5 minutes.

Mr. KILDEE. Thank you, Mr. Chairman. And I thank the witnesses for their participation.

I would like to start with Ms. Calvery, if you could offer some comments on the basic subject of Iran and sanctions. And I refer to a speech that Secretary Lew gave back in March, where he indicated it was his view that the credibility of sanctions themselves is at stake if the promise of sanctions relief can't be fully realized.

So I guess I am curious to what extent you think that criticism is valid, how it might apply more broadly than just to Iran's sanctions, and how effective you think Treasury's sanctions regime has been effective? If you could comment on that, I would appreciate it.

Ms. CALVERY. I have not left government service yet. That will be next week. So I am going to start by saying that whatever the Secretary said, I agree with. Actually, I do agree.

Mr. KILDEE. I am sure he will be very much encouraged by that.

Ms. CALVERY. Even next week, he will get that same answer. But joking aside, at FinCEN, we are not the sanctions experts. We support our colleagues at OFAC in their investigations by getting them the financial intelligence they need.

What I can tell you is I am very impressed by their seriousness of effort and their ability to fashion sanctions in a very targeted manner, their ability to work with a changing scenario on the ground, a changing diplomatic situation on the ground to impose sanctions and to be flexible in moving those sanctions as needed. But in terms of the specifics, I really need to refer you to my colleagues at OFAC.

Mr. KILDEE. Then if I could zero in on something where FinCEN would clearly have some role, and that is implementation of the Hezbollah International Financing Prevention Act. Could you comment on the extent to which that is being implemented and how you feel it is succeeding in limiting the ability of Hezbollah to raise, to move, to use funds in pursuit of their terrorist aims?

Ms. CALVERY. Yes. FinCEN's role when it comes to the financing of Hezbollah is, again, in the collection of information and sharing that, whether it is with OFAC to focus on the sanctions side, or the implementation of the Act, sharing it with law enforcement and the

intelligence community. We have used both our traditional authorities to collect that information, so the suspicious activity reporting and that type of thing, but we have also used some of our targeted authorities.

We have used, for instance, Section 311 of the Patriot Act to focus on foreign financial institutions that we believed were moving funds on behalf of Hezbollah, and to cut them off from the U.S. financial system, and to collect additional information.

We did that in the case of the Lebanese Canadian Bank, and in the case of a couple of money services businesses, Halawi and Rmeiti. So that is where we kind of fit into this bigger Hezbollah picture.

Mr. KILDEE. And the last question I have returns to the issue I think Mr. Foster had raised to a certain extent. And coming from Michigan, one of my long-time mentors is former Senator Carl Levin, who has spoken out pretty clearly on this issue of beneficial ownership and various methods that have shielded true ownership or true beneficiaries of ownership. I dealt with it on a much smaller scale. For many years, I was a county treasurer trying to deal with abandoned properties and trying to locate owners through various clouds of ownership and shell corporations.

And I am just curious if you would comment on what you think, either of you or both of you, would be the essential elements of beneficial ownership legislation that would actually get at the question? I know Senator Levin had some concern that, from a regulatory standpoint, allowing only managers to be named rather than true owners might really be a step backward rather than a step forward. I wonder if you would comment.

Ms. CALVERY. Sure. I, too, am from Michigan. I grew up in Michigan, and Senator Levin spoke at my eighth grade Constitutional Convention Day. So I look at Senator Levin a bit as a mentor myself.

However, I do disagree with him on the characterization of the definition of beneficial ownership in the CDD rule in a fairly fundamental way. The definition requires—it has two prongs to it. It would require individuals to provide information about someone who controls a company. So that could be the manager, director, et cetera, someone who has actual control over the company, and those individuals who have an equity stake in the company, at least 25 percent of an equity stake in the company. So it requires both of those things. And the reason that we went in that direction—and I first got involved in this definition when I was at the Department of Justice and I was being asked personally, what does law enforcement need? We know that criminals are going to try to hide. They will never actually give their names. So what does law enforcement need to actually be able to take the next step in their investigation? And our response, my response, was we need something more than a nominee. When law enforcement looks at a name on a piece of paper, they need to be able to go out, knock on someone's door, and that person has to have some connection to the bad guy, because now they have something to work with. If it is a nominee who doesn't know the bad guy, it is a dead end. And that is the situation we have been in, a dead end.



Now there is someone for law enforcement to go talk to, someone who controls the company and someone who has an equity interest in the company on paper. No bad guy is going to stay very far away from the person who is actually able to control their money day to day. They are going to have some connection back and forth, and that enables law enforcement to take the next step in their investigation. And that is why I think that definition will prove helpful and effective in the CDD context. But through the beneficial ownership legislation that we have proposed, it requires a rulemaking process. And I think it is fair game to again examine, is that the right definition in that context, or is there a better definition that we should put in place? And that is what the rulemaking process is for.

Mr. KILDEE. All right. I see my time has expired. I do think it is a subject that requires a lot more exploration. My experience has been that it is difficult sometimes to separate a designated manager from an equity owner. And I have seen it where it might appear as if you are dealing with someone who has a real stake but often—and this again is in a limited scale, but I can't imagine it is less complicated in terrorism financing. I think it is a difficult area that we need to explore further.

With that, Mr. Chairman, I thank you for your flexibility.

Chairman FITZPATRICK. Thank you.

Mr. Rothfus of Pennsylvania is recognized for 5 minutes.

Mr. ROTHFUS. Thank you, Mr. Chairman.

Mr. McDonald, I wondered if I could ask you a couple of questions. From your position at OTA, can you tell us how receptive developing countries are, particularly in Africa and the Middle East, to integrating efforts to block terrorist financing as a priority concern and accepting assistance from the United States, other G-20 countries, or the IMF, or development banks to identify and address issues in their nation?

Mr. McDONALD. Africa and the Middle East cover a lot of territory. There are a lot of different countries and very different circumstances. So I will try—I am going to avoid giving you just one paintbrush description of it. In Africa—in sub-Saharan Africa, in particular, I think the overriding challenge and problem is not so much one of a lack of willingness to give attention to this issue and to try to do better. It is fundamentally and primarily one of very low capacity, very limited, sometimes nonexistent, technology. We talked earlier about the role of technology.

I will give you an example. In Liberia, where we are engaging, our Economic Crimes Team in their assessment mission went to the financial intelligence unit. It was ankle deep in water. There were plastic chairs. Maybe one computer. It is really unbelievably limited in terms of the human and kind of material capacity to do that job. That is an extreme example. There are other parts of sub-Saharan Africa that are far better. We work, for example, in Kenya and Tanzania, different picture. But, by and large, in sub-Saharan Africa, it is fundamentally a challenge of having the resources and the capacity.

In the Middle East, I don't want to say that capacity is not an issue; it certainly is. Depending on the country you are talking about, whether it is Saudi Arabia, where we have an engagement,

or Iraq, where we are resuming engagement, it is a very mixed picture. It is a combination of limited capacity. Certainly, it is the case in Iraq. But, also, in Iraq in particular, a very—a political and security environment that is turbulent, to say the least. So our technical assistance efforts in a country like Iraq, where I went on mission in November to try to re-establish our engagement, is one where there are some improvements. The legal regime has been strengthened by passage of new legislation. There has been a kind of a—there have been some changes within the central bank and the financial intelligence unit that are promising. But it is a region that is characterized by tremendous political and security—

Mr. ROTHFUS. You mentioned a willingness on the part of sub-Saharan African countries to look at these issues, but there is a capacity issue. In the Middle East, there are some capacity issues. But can you address the willingness issue with those Middle East countries, Gulf states, other countries in the Middle East?

Mr. McDONALD. I would hesitate to characterize the willingness of all the countries in the Middle East. The ones that I am the most familiar with are Iraq. We almost had an engagement in Yemen until things went in a different direction there. We have worked in Jordan, where I think one of the other members of the panel noted there have been improvements in their FIU work and their AML/CFT regime. So it really depends on the country. I would just say that it is highly country-specific.

Mr. ROTHFUS. I would like to ask maybe about the impact on the willingness of countries, whether in Africa or the Middle East, with respect to recent activity. Do you think that these countries are more or less receptive to working with us when they see the Secretary of State holding public meetings with some of the biggest banks in Europe to encourage investment and business in Iran, the world's largest state sponsor of terror? Is there an inconsistency there?

Mr. McDONALD. I haven't talked to them about that. I couldn't say that is a—let me put it this way: I have never had any of my interlocutors in the Middle East tell me that they felt differently about the issue because of the factor that you mentioned.

Mr. ROTHFUS. Ms. Shasky Calvery, I just commend you on your work and congratulate you and wish you well in your next endeavor.

As you look back on your service, where do you think the United States has failed with respect to the prevention of terrorism financing? And where do you see the biggest vulnerabilities going forward?

Ms. CALVERY. I don't know if I would characterize it as failure as much as needing to consistently improve. So I think it was Winston Churchill who said something to the effect of change is good, and constant change is to be perfect. We need to constantly be changing in the government and evolving with the threat. And the threat—you have state actors. You have illicit actors who have billions of dollars at their disposal to be able to pay the best attorneys, the best accountants, the best bankers to come up with the most sophisticated schemes to hide illicit assets. And that is the charge we have, to keep up with that. So we need to remain vigi-

lant with a determined adversary and ensure that we keep changing with the times and understanding the risks.

That is not easy to do. What I see as the primary risks going forward are really what we had in the threat assessment, the threat assessment that we handed in to FATF. This idea that the chairman raised at the beginning that we have an incredibly complex financial system, the largest financial system, brings with it unique threats. We need to understand the full gamut of how all our financial industry works, all the different aspects of it, the various products and services, and then understand that the volume of transactions that go through the U.S. financial system is immense. So it is trying to remain focused on a big field of vulnerabilities to find a very narrow stream of illicit activity that is flowing through it. That is probably our biggest challenge moving forward.

Mr. ROTHFUS. Thank you, and I yield back.

Chairman FITZPATRICK. The gentleman from Arizona, Mr. Schweikert, is recognized for 5 minutes.

Mr. SCHWEIKERT. Thank you, Mr. Chairman.

And, Ms. Shasky Calvery, so only a week left?

Ms. CALVERY. 3 days.

Mr. SCHWEIKERT. Okay. So let's, actually, because I think we always make a mistake of—in some of these discussions, at one point, we are talking about our sort of formal networks and informal and terrorism financing and other bad actors and these dollar scales. So let's just do a quick thought experiment. You have been doing this for how long?

Ms. CALVERY. Almost 20 years.

Mr. SCHWEIKERT. Okay. So you have seen lots of creativity and things you never thought of all of a sudden appearing. So if I took you and put on the other side of the world tomorrow and said, "Here is a half million dollars in cash," because that is the type of threat that we often worry about because that buys people who mean harm to us, and said, "You are on the other side of the world; here is your half million dollars; give it to someone somewhere in North America, and you have 10 days to do it," you could do that.

Ms. CALVERY. I am not offering those for sale, but yes.

Mr. SCHWEIKERT. No, no, I am not saying how. We are not going to put on the "how." But look, I sit here on this committee, and I know I could do it.

Ms. CALVERY. Yes.

Mr. SCHWEIKERT. Through breaking it up and all sorts of different networks, and some in hard commodities, some in this, some in that, some in a DHL package. It is quite doable, isn't it?

Ms. CALVERY. Potentially, yes.

Mr. SCHWEIKERT. Potentially, or just it is doable?

Ms. CALVERY. It is doable.

Mr. SCHWEIKERT. And there becomes sort of my concern of some—so much of our resources we fixate on: Okay. We are going to watch the SWIFT system. We are going to track this, track that.

At the same time, a handful of diamonds shoved into a package is being sent to—there are lots of ways to move resources to finance bad actors.

And so I want to sort of bounce on to the next concept. Someone in a very similar position for another three-letter agency who is an

acquaintance talked me through saying that some of the networks that wash money for someone selling copyright violations or illicit drugs also, that these networks are basically for sale. So they don't really care where you got the money. If you are moving money for terrorism, if you are moving money for a cartel, if you are moving money for this, there are entire networks basically that sell their services. Is that a fair characterization?

Ms. CALVERY. That is a fair characterization.

Mr. SCHWEIKERT. So, functionally, money laundering, money movement, asset movement is actually a formal business in a corrupt sector.

Ms. CALVERY. Yes. I would call them professional money launderers.

Mr. SCHWEIKERT. Okay. So, in many ways, isn't that one of our mistakes? Being someone from a border State, some of the crazy things that we have come across—in a previous life when we were rehabbing houses, we walked into a house that had a bundle of cash in it that was getting ready to be loaded up and taken back south. I mean, the things you come across. So my concern is, do we spend too much in the way of our resources saying, "We are going to monitor and build algorithms and look at the SWIFT system," and not us understanding that there are hundreds and hundreds of different ways to be creative or break it up or use parts—so much of our focus on the formal banking sector, that there is massive leakage around us.

Ms. CALVERY. I think you need financial intelligence to identify those professional money launderers and facilitators to be able to go after them. And I think they in turn ultimately need the formal financial system to be able to move money globally, particularly when you start talking about large sums of money. So when you are talking about something like a Sinaloa Cartel that by all estimates has billions of dollars that it needs to launder, they need to do that through the formal financial system.

Mr. SCHWEIKERT. You just moved to where I was trying to do this. So it is the very large scale amounts of money that are going to use—try to access our more formal networks because of the efficiencies.

Ms. CALVERY. Not necessarily. We also see it, for instance, in the case of foreign terrorist fighters who have extremely small amounts of money. They are essentially trying to pay for their travel to the conflict zone or perhaps for the weaponry that they are going to need when they are in the conflict.

Mr. SCHWEIKERT. But they also have access to the ability to move small dollars in lots of informal sort of networks.

Ms. CALVERY. But they are doing it through the formal financial system.

Mr. SCHWEIKERT. So, in the formal sector, how many—let's just use an example. How many Iranian institutions now have access to SWIFT?

Ms. CALVERY. I don't know the answer to that question.

Mr. SCHWEIKERT. Okay. Because that is one of the things we have been tracking, because I believe there now are some SWIFT relationships with some Iranian institutions to European banks. And once that money hits a European institution, the ability to

move money back into North America, even if we still have—what is it—311 sanctions on that institution, they still basically have access to the world's backbone. Is that sort of—am I heading in the right direction there?

Ms. CALVERY. Not necessarily. I think we have—in terms of Iran's access to the U.S. financial system, I don't think they have—

Mr. SCHWEIKERT. But if they have access to Europe and the ability, then—so if I can SWIFT money through a European institution, strawman it out, wash it back out, and then send it SWIFT back through under a different sender, I am just—my concern is our resources seem to focus on formal networks. And my understanding is the scale of what we will refer to as sort of informal networks are also massive. And in our example, if I give you the half million and put you on the other side of the world, you might mix it up and use all sorts, and then when it hits the other side, it comes back together.

And I have always—and I know I am way over time—but I thought it was absurd that we have a system where if I do \$9,999, I don't get reported, but if I do \$10,000, I do get reported. So bad actors just do \$9,999 and use the other alternatives instead of just the fixation of, let's just use an algorithm system to look for a dollar—because a dollar threshold in some ways is absurd.

Ms. CALVERY. So there are a lot of things—

Mr. SCHWEIKERT. Yes, I know. A lot of moving parts there. And we are way over time. But—

Ms. CALVERY. Let me perhaps try to address some of it. We seek to collect financial intelligence and have transparency over those parts of the financial system that we think are the most vulnerable to illicit finance. And when you start talking about things like cash and following a bare instrument like cash, we have focused on thresholds. But even with a threshold, we still have the suspicious activity reporting regime to support it. So if someone is doing transactions at \$9,999, we expect to have a suspicious activity report. If someone is structuring several different transactions to get above \$10,000, we expect to get a suspicious activity report.

Mr. SCHWEIKERT. Thank you, Ms. Calvery.

Mr. Chairman, thank you for your patience. I know we are way over time.

Chairman FITZPATRICK. Thank you.

The gentleman from Texas, Mr. Williams, is recognized.

Mr. WILLIAMS. Thank you, Chairman Fitzpatrick. And thanks to both of you for being here today.

Mr. McDonald, one of the key themes of these task force hearings has been international cooperation. We in the United States can only do so much on our own. While I believe our country is making great strides in combating the financing of terrorism, we still can do more, and we need to do more. In previous task force hearings, the committee has explored the idea of trade transparency units which seek to identify trade-based money laundering trends and conduct ongoing analysis of trade data provided through partnerships with other countries. One of our past witnesses, John Cassara, who is a former U.S. intelligence officer and Treasury special agent, testified that having TPP signatories agree to these TTUs would promote trade transparency. It would also be a rev-

enue enhancer and, in his opinion, not derail implementation of current or future trade deals. I wanted to get your thoughts on this idea of making sure that our trading partners are following the same set of rules as we do.

Mr. McDONALD. Let me kick it off. And I think Ms. Calvery has something that she could add to that. So certainly the trading system, the international trading system, is one of the vehicles for money laundering and transmitting terrorist financing. And it is one of the areas where we work with our partner countries to try to get them better positioned to be the front line of shutting that off. So we work with customs officials. We work with officials in countries that are responsible for managing and overseeing the trading—trade flows in those countries to try to strengthen their capacity—and I think this is part of your question—for them to work more closely with others in the United States and in other countries who are involved in trying to combat trade-based money laundering. So that is part of our work.

Jen, I don't know if you have something you would like to add to that?

Ms. CALVERY. Sure. FinCEN works very closely with Homeland Security investigations on a number of different matters—and CBP—on trade-based money laundering. So we are very familiar with the TTUs and think that they have really done a good job over the years. So a good example is the TTU that we have here and the relationship we have with Mexico. They are able to share trade information, extensive trade information, to find where there has been over-invoicing or under-invoicing of export and import trade between the two countries and thereby find money that is being laundered. When you put that type of data together with the data we collect at FinCEN, we are really able to start to hone in on some professional money launderers and facilitation networks and to take action.

Mr. WILLIAMS. Thank you.

Mr. McDonald, last week I was encouraged to see G7 members agree to enhanced information sharing and cooperation when it comes to terror financing. This follows a similar agreement by the G-20 nations. But when it comes to TPP, not all of the current signatories are part of the larger discussion. How receptive are developing countries to integrating efforts to block terrorist financing as a priority concern and in turn accepting assistance from the United States? In other words, when it does—or in other words, does it become beneficial for them to actually engage in this topic instead of turning a blind eye to it?

Mr. McDONALD. So, broadly, I would say that developing countries are receptive to assistance and interested in strengthening their AML/CFT regimes in different ways. Part of it is a growing recognition on their part that terrorist financing, dirty money of different kinds, can harm them. Terrorist financing or funding that is being laundered in the direction of the United States doesn't always end up only here. The countries of Central America, South America, and other parts of the developing world, I think, are increasingly aware of their stake in trying to address this issue.

As I said earlier, it is not only their concern about funding of criminal activity within their own countries but also the loss of cor-

respondent banking accounts upon which their financial system depends. So I do believe that they do recognize the importance of this issue. And while I can't speak for the—it is on a country-by-country basis whether they want to have a technical assistance program with us—they are interested.

Mr. WILLIAMS. Really quickly, should TTU be a part of the TPP agreement?

Mr. McDONALD. I don't know the answer to that question.

Mr. WILLIAMS. That is why I ask it.

Mr. McDONALD. I will find out. Can I find out and get back to you?

Mr. WILLIAMS. Would you do that for me?

Mr. McDONALD. We will do it today.

Mr. WILLIAMS. Thank you. I appreciate it.

Mr. Chairman, I yield back.

Chairman FITZPATRICK. The gentleman from Arkansas, Mr. Hill, is recognized.

Mr. HILL. Thank you, Mr. Chairman. I appreciate you and Ranking Member Lynch for your steady leadership of our task force.

Director Calvery, best wishes to you in your next step in your career.

And, Mr. McDonald, thank you for your service at Treasury. As a former Deputy Assistant Secretary of the Treasury, I always appreciate hearing from a fresh one. And I appreciate your work.

I led the technical assistance design to all of Central and Eastern Europe to the Finance Ministries from the Treasury back a quarter century ago. So it is good to see you continuing to do that good work.

I am grateful to both of you for your leadership around the world to make our efforts to fight terror finance more robust, more coordinated, and more successful.

This information sharing and collecting, one thing in your testimony, Director Calvery, I was interested in your discussion about sharing with other financial intelligence units around the world—and that makes complete sense to me—and sharing with other public entities in the United States like your work with Homeland Security and border security. Excellent work. But whenever I talk to people in the private sector, they always seem more interested in targeting rather than sharing. And so the question I have for you is, how can we focus on targeting rather than just funneling terabytes of information into Treasury's IT center and analytics center? It seems like we are missing the power of hundreds of people out there on the front lines every day in our biggest banks around the globe.

So can you reflect on sharing essentially with the private sector's financial intelligence units and our biggest banks in the world and also how we can better target getting them engaged on the front lines of terror finance?

Ms. CALVERY. Sure. I think there has been some real innovation in this space over the last year, which I referenced briefly earlier. Both in the United States, and the United Kingdom as well, there has been a fair amount in the press about the JMLIT, the joint money laundering task forces that they are operating. But both are doing essentially the same thing, and that is doing targeted infor-

mation sharing between government and industry, financial institutions. So focusing on a very specific problem set—maybe it is something related to ISIL; maybe it is something very targeted and specific, not the broad topic—and sharing targeted information and then seeing what each side, what government can do, what industry can do, what industry can do by speaking to one another and sharing information, by putting all of our efforts together, what kind of progress can be made in targeting some of the financial facilitators that we are trying go after? We are seeing promising results. Many of those efforts are still ongoing and in investigative stages. So I can't speak to the specifics. But I can tell you there is a lot of excitement on this topic right now. There is a lot of excitement in industry. This is what they would prefer to be doing, the people who staff their financial intelligence units. And it is what government and the law enforcement area would like to be doing. So I am expecting that there is going to be great development in this area just because of the concentration of effort of some very talented people in the year ahead.

Mr. HILL. Thanks.

On the subject of beneficial ownership, I congratulate Treasury for finding and plugging the gap in single member non-citizen-owned LLCs. I think that was a good proposal you made to Congress in your disclosure in the recent days. But I still have trouble, and we have had this discussion at a number of these hearings, understanding your push for bank collection of beneficial ownership at the 25-percent ownership level through the normal customer ID process, when instead under the Code, Section 6103, why don't we grant FinCEN the ability to get IRS data, which has much more up-to-date, much more accurate beneficial ownership for C corps and LLCs, particularly if you plug the foreign single member question. Why do we keep going back to something that is dated and not very reliable, frankly?

Ms. CALVERY. Sir, I think that is an important question. And it is important to understand the distinction between—government understanding beneficial ownership to help it with its investigations. So, like the proposed legislation to collect information at the time of company formation, that would help law enforcement. It is important to distinguish that from a bank's responsibilities as well to understand who their customers are and to be able to assess whether there is a suspicious activity occurring within those accounts. It is only a financial institution that is going to have insight into whether their customer is engaged in suspicious activity and file those reports that will get to law enforcement and potentially initiate an investigation.

So, for instance, if they know who the beneficial ownership is of a legal entity customer, they are going to be better positioned to implement their sanctions obligations. They are going to be in a better position to understand whether the activity is the type of activity they should expect from that customer.

Mr. HILL. Yes. I am out of time, Mr. Chairman, and I understand that. But the issue is they already have that obligation under the Bank Secrecy act now on filing a SAR. They don't need more directives about documenting beneficial ownership when they gather that information a lot now, both on the deposit side and the loan



side, including who is responsible for filing the tax return for the LLC, et cetera. Banks know that information, and they have an obligation if there is something suspicious to report it.

I am talking about the timeliness and accuracy of actual beneficial ownership that you want to try to sort through. And I am arguing that the IRS has a much better source of that data, that it is much more current, much more accurate than Secretaries of State or bank credit files. That is the argument I am making. And that it is a much more robust source of that data if you had access to it as a law enforcement agency under something like 6103's normal power arrangements for IRS data.

Ms. CALVERY. So I think when—that seems to be more of a reference to the beneficial ownership legislation proposal. And there we are focused on having FinCEN collect the information or have the information because it is a part of our statutory mandate to make that information available to law enforcement more broadly, State, Federal, law enforcement, to enable them to do their jobs, to provide it to regulatory authorities and to provide it as appropriate to the intelligence community to fight international terrorism and other national security threats. Whereas, in the tax context, there is much more limited abilities to be able to share that information with the broader community. And so that is the—

Mr. HILL. But that is a problem I think you need to solve.

Thank you, Mr. Chairman, for the extra time.

Chairman FITZPATRICK. Sure.

The gentleman from Florida, Mr. Ross, is recognized for 5 minutes.

Mr. ROSS. Thank you, Mr. Chairman.

And I want to thank our witnesses today for being here, Ms. Shasky Calvery, especially, for your service, as well as Mr. McDonald.

I want to focus on something, because you hit on something in your opening statement, Mr. McDonald. You stated that the goal is a system in which both prevention and enforcement measures are robust and mutually reinforcing. It would seem to me that, absent enforcement, you won't have prevention, because one would lead to the deterrent of the other and hopefully be a good system. It reminds me of a commercial that I saw on TV for LifeLock where you have a bank guard standing in the middle of a robbery and one of the victims says, "Do something," and the bank guard says, "I am just a monitoring guard; I don't do anything to prevent the actual robbery." My focus here is going to be on enforcement.

Ms. Shasky Calvery, are we doing enough in enforcement?

Ms. CALVERY. I think we are. The United States is doing more than any other country around the world in terms of enforcing the Bank Secrecy Act. If anything, the criticism internationally is that we are doing too much. But—

Mr. ROSS. But are other countries cooperating with the enforcement? In other words, are we just—we are gathering data. We are monitoring. We find specific targets. We find dynamic targets that require some of the developing countries to assist us. Do they enforce to the level that we need them to enforce in order to lead to prevention?

Ms. CALVERY. There is not one answer—because there are so many countries out there, I can't answer one way for all of them. Each is a different situation. But I think we are seeing a trend moving in a positive direction where more and more of our partners around the world are enforcing their anti-money laundering provisions. And now, in FATF, there has been a move. Before it was enough just to have laws on the books criminalizing or otherwise prohibiting money laundering in terrorist finance. Now there is a move when we do mutual evaluations, when we do assessments of other countries as peers, to say whether they are in compliance with the international anti-money laundering standards. Now we are looking at the effectiveness. It is not enough just to have rules on the books. Are you actually implementing them, and are they effective?

Mr. ROSS. And what can we do if they are not implementing them? If they are not—

Ms. CALVERY. At least in the FATF context, there is a system to have kind of increasing sanctions on countries for failing to comply with those standards.

Mr. ROSS. That is what I would ask you, especially as you reflect on 20 years there, what would you suggest we need to do more in terms of what resources or tools would be necessary to strengthen enforcement, not so much with us as a country but with our allies in trying to stop the money laundering in the terrorist financing?

Ms. CALVERY. Well—

Mr. ROSS. Do the sanctions work?

Ms. CALVERY. So, two separate questions. The first one in terms of enforcement of our AML/CFT regime, what more do we need to do there? I think we need to give the push on effectiveness in FATF a chance to work. There are going to be some very important conversations that are going to come out of that. We are in the first round of those reviews right now, and already, it is starting to highlight some issues for us to be focused on in the years ahead.

In terms of the sanctions regime and whether that works, I really would have to refer you to my colleagues at OFAC who do that for a living every day.

Mr. ROSS. Okay. Mr. McDonald, would you say that there are obstacles to cooperation that Congress should know about with some of our cooperating countries?

Mr. McDONALD. Could you repeat the question?

Mr. ROSS. Yes. Would you say that there are obstacles to cooperation, and if so, what could we do to try to overcome those obstacles?

Mr. McDONALD. So, certainly, there are obstacles. I already mentioned and won't repeat, the obstacle of there being extremely, extremely low capacity and just terribly rudimentary work spaces and technology in the countries where we work. Another obstacle is, as I sort of alluded to in my oral remarks, the inevitability that entrenched interests will manifest themselves at some point when you get to the point where—

Mr. ROSS. Can we provide them any incentives? Can we provide them any incentives to invest more on their end without having to appropriate more on our end?

Mr. McDONALD. I think I will piggyback on a couple of things that Jen referred to. I do think that there is evidence that the FATF procedures and the FATF monitoring process does, if you will accept the expression, put the squeeze in a positive way on countries that are subject to that. An example is Cambodia. They were in the FATF ICRG review process not doing well. They saw the writing on the wall. They asked us for technical assistance to help them build the capacity to do better. It took years, but they did emerge from that process. Of course, it will be important for them to sustain it. Getting out of the ditch is just the first step.

But I do think that there are examples—there is evidence that the FATF process can be an effective way of focusing attention. Case in Panama, another country that we have been talking about.

Mr. ROSS. Thank you.

And I see my time is up. I yield back.

Chairman FITZPATRICK. The gentleman from Kentucky, Mr. Barr, is recognized.

Mr. BARR. Thank you, Mr. Chairman.

And, to Ms. Calvery and Mr. McDonald, thank you for your testimony today. Thank you for your service. Thanks to the work of the Office of Technical Assistance and FinCEN. It's very critical work in terms of coordinating the government's efforts to stop terror financing.

I wanted to start with Treasury's monitoring of the implementation of the Iran nuclear deal and specifically the data on any Iranian sanctions relief moving to terror proxies.

I know, Ms. Calvery, you indicated that FinCEN really is not doing a whole lot of that, that you would defer to the Office of Foreign Asset Control (OFAC). But to either of you, has Treasury made a finding about whether any sanctions relief has found its way into the hands of terrorists?

Ms. CALVERY. I don't believe that there has been a finding one way or the other. But I am not certain.

Mr. BARR. And from the Office of Technical Assistance, same conclusion?

Mr. McDONALD. Yes. I do not know the—

Mr. BARR. What about with your colleagues with OFAC? Any communications within Treasury from OFAC about their monitoring of the implementation of the agreement?

Ms. CALVERY. I would have to defer to OFAC on that.

Mr. BARR. The reason why I would ask, and it is kind of a fundamental question in terms of Congress' oversight of the agreement, is that Secretary Kerry, about 5 months ago, in Switzerland, at the World Economic Forum, acknowledged that sanctions relief will likely go to terrorists. That is our own Secretary of State defending the agreement acknowledged that maybe one of the core weaknesses of the agreement that he negotiated was that some of the sanctions relief would end up in the hands of the Iran Revolutionary Guard Corps or other terrorist proxies. And so it is troubling that Treasury, which is charged with the mission of monitoring terror financing, doesn't really have an answer to that basic and fundamental question.

And by the way, the Secretary of State in making that declaration indicated that there would be consequences if Iran uses the

money to fund terrorism. How can we know to impose consequences if we don't know whether or not any of the sanctions relief has in fact found its way into the hands of terrorists?

Ms. CALVERY. Congressman, I want to make sure that I didn't misspeak. I did not mean to suggest that Treasury does not have answers to these questions. Instead, as the Director of FinCEN, I don't have answers to those questions, but I would be happy to take them back.

Mr. BARR. Thank you.

Mr. McDONALD. The same for me. It is just not in my area of responsibility. But I feel confident that there is an answer to that question in Treasury.

Mr. BARR. We would like to know. And so thank you for—and I recognize that Technical Assistance and FinCEN are not at the core of that question. But, presumably, the Office of Foreign Assets Control would be. Someone at Treasury—this is a pretty critical question that Treasury should be well aware of, everyone within Treasury in the area of countering terror finance.

Let me quickly move on to the Office of Technical Assistance specifically. And, Mr. McDonald, in your testimony, you indicated that OTA has a relatively smaller footprint in the Middle East. Given that the locus of most terrorism activity is in the Middle East, shouldn't we be more—and I understand that you have to have a willing government as a partner here—but shouldn't we be more proactively and aggressively interjecting ourselves into those Middle Eastern embassies?

Mr. McDONALD. When I made my remarks about the importance of demand-driven technical assistance, I did not mean to suggest that we should be sitting back on our heels and waiting for others to come to us and not doing anything on our own. So, certainly, part of my job is to make sure that potential partners for our technical assistance program are aware of our program, of how it relates to U.S. national interests and their interests. And I would also say that an important part of the role of the Treasury's attaches overseas is to serve as advocates for this kind of awareness. So, certainly, that is—

Mr. BARR. Just in terms of prioritization of the scarce resources that Treasury has in this area, and maybe it is too scarce, but do we have enough attaches in our Middle Eastern embassies?

Mr. McDONALD. I asked this question before I came up today. What is the answer if the question is, are there enough attaches out there? And, certainly, we would welcome and benefit from additional resources, not only to support additional attaches but even the ones that we have. So the rising cost of doing business at embassies internationally, which is affecting all agencies, not just Treasury, is one of concern just for our existing footprint. And in order to do more, certainly additional Treasury attaches would be helpful. I am very aware of the benefit that I get out of our attaches in Afghanistan and Iraq and in many, many countries. Well, not that many. Actually, 17 countries where we have attaches. But, certainly, that would be a helpful addition to the picture.

Mr. BARR. Thank you.

I yield back.

Chairman FITZPATRICK. The gentleman from Minnesota, Mr. Ellison, is recognized.

Mr. ELLISON. I thank the chairman and the ranking member.

And I also want to thank our witnesses today.

I represent Minneapolis, Minnesota, which is home to probably the most Somali-Americans in our country, in North America, perhaps. We have as many Somali-Americans in the Minneapolis area as they do anywhere outside of Somalia. I could tell you, and I think you are well-aware, that there is a crisis going on, and it is not getting better. Many U.S.-based Americans who find their roots in that part of the world are unable to provide critical assistance to their loved ones. Some of this is food. Some of this is school fees. A lot of it is just the basic sustenance of life. Upwards of 40 percent of the GDP of Somalia is foreign remittance. Now, licensed money remitters, as you know, are known as money service businesses, or MSBs. And I am sure you all are aware that they are losing their ability to open bank accounts and send money overseas.

Increasingly, correspondent banks are declining to provide wire transfers to many nations, including Somalia, and many who have opened up these accounts are having them closed. And every day, it feels like the window is a little smaller and smaller.

And I can tell you I have talked to these banks and these credit unions, and they don't have a problem remitting money. But they feel that the financial and liability risks are so great to them that it just doesn't cost out for them. So they are making a business decision to close accounts and to not open them.

In November 2014, FinCEN published a statement on providing banking services to money services businesses. I found the statement very clear. But since then, the situation really hasn't improved very much. And I guess my first question is, why did FinCEN's 2014 statement not really turn the trick? Why didn't it provide necessary assurance to bankers that they can meet their requirements and still provide services to regulatory compliant MSBs?

Ms. CALVERY. Ultimately, the banking industry has to assess the risks, what controls it can put in place, and what its appetite is to deal with those risks. And I think, as Larry can tell you from the work that he and his team do in Somalia, that Somalia presents a lot of challenges around the illicit finance risks present in the country and the state of its financial system and its ability to control those risks. Here in the United States, what FinCEN is able to do and what we have been doing beyond issuing the statement in 2014 is to move on the Money Remittances Improvement Act that you proposed and President Obama signed into law in 2014 to ensure that there is good supervision of the money services business industry and that banks and banking regulators, examiners, know that supervision system is strong so that we have the conditions on this side to ensure that banks can have comfort that MSBs operating in the United States and how they are examined and supervised in the United States is something they can be comfortable with.

That doesn't necessarily help them with the risks on the side in Somalia.

Mr. ELLISON. Okay. Would you like to respond, Mr. McDonald?

Mr. McDONALD. Only to mention that our technical assistance program is working with the Somalia authorities, in particular in the area that Jen mentioned, to strengthen bank supervision capacity in the central bank. We are fortunate to have the collaboration of the U.S. Embassy in Kenya and the Kenyan School of Monetary Studies, where we conduct those training activities because the security environment doesn't allow us to do so in Somalia. So it is a tough undertaking, but it is one that we are committed to.

Mr. ELLISON. I want to thank you for doing what you are doing. And I just want to encourage you to do more because if our effort is to thwart and stop the terrorists and Al Shabaab, if we drive the money underground, it is just more opaque. It is not a better situation.

Let me see if I can squeeze one more question in. I have heard from banks that their regulators do not acknowledge that MSBs are regulated by State banking supervisors and the IRS. So banks feel that they must not only know their customer, but their customer's customer. Do you see this phenomenon? Is there a way we can get through this? How do you see this?

Ms. CALVERY. That is the effort that we have been particularly focused on I would say over the last 6 months. And I do see improvements. And that is the communication between money services businesses, their trade associations, their regulators, the States themselves, the IRS, communicating to banks and their supervisors about how that supervision regime works. I think there was a fair amount of surprise among some of the banks and banking supervisors to see how much they are actually supervised. And we are also working with money services businesses on putting together a best practices guide for them so that they can give even further comfort.

Mr. ELLISON. Let me tell you, I am about 40 seconds past my time. But if there is another round, I have a few more questions for you. Thank you.

I yield back.

Chairman FITZPATRICK. The gentleman from Delaware, Mr. Carney, is recognized.

Mr. CARNEY. Thank you, Mr. Chairman and Mr. Ranking Member, for this hearing today and for your very good work on this task force. Thank you to both of you for coming in and for your work for our country.

I am not a member of the task force, so I appreciate an opportunity to be here and to listen to the testimony and to ask a few questions. And I will try to end with just a general question, which is if both of you could kind of underscore after this full discussion the top three threats that keep you up at night in this area.

Mr. McDONALD. We were going to flip a coin to see who went first. But so, certainly, Iraq is a country, an area of concern. It is part of a broader region of concern. I am hopeful that our technical assistance engagement there as part of a broader, significantly broader, set of steps on the security front will be beneficial and be fruitful. So Iraq is a country of concern.

Mr. CARNEY. Is it getting better or worse?

Mr. McDONALD. Pardon me?

Mr. CARNEY. Is it getting better or worse?

Mr. McDONALD. I think on the—we are having to postpone our scheduled mission, next mission, because of the very—the recent unrest in the international zone. So that is not better.

Afghanistan, a country that I have visited many times, where we have resumed a technical assistance engagement, is a very important part of the world, that keeps me up at night in some respects. I do have a feeling, a sense of hope that the current leadership, President Ghani, whom I know well from when he was the Finance Minister of Afghanistan, understands the issues, understands the importance of building institutional capacity. But he obviously has a tremendous number of security, political, and other challenges he is confronting.

Mr. CARNEY. I am running out of time. Number three?

Mr. McDONALD. So I will—why don't I just—

Mr. CARNEY. Anything else that you would like to add to that? And I have one other point I would like to make.

Ms. CALVERY. I will go quickly: number one would be the idea that ensuring that we get, collect, and share any information we possibly can to prevent a foreign terrorist fighter or a homegrown violent extremist from engaging in violent activity in this country; number two, that we are doing everything within our power at FinCEN to protect the financial system from cyber actors, illicit cyber actors; and number three, that we at the same time stay focused on professional money-laundering networks that are responsible for laundering billions of dollars for organized crime and other illicit actors.

Mr. CARNEY. So it doesn't sound like you guys sleep very well at night with those concerns.

I am disappointed that Mr. Hill is not here because I would like to follow up on the last point that he made. I represent the State of Delaware. Most corporations, LLCs, are formed in Delaware, and the concerns raised about beneficial ownership concern elected officials and leaders in Delaware as well as elsewhere. Mr. Hill talked about and Senator Carper on the other side of the Capitol is working on legislation that would give access to law enforcement agencies to the data that is already being collected at the IRS and to expand on some of that data so that law enforcement had better tools around beneficial ownership to kind of get beyond the so-called corporate veil.

Do you have a view of that? You had a back-and-forth, but I wasn't clear on what your view was on using that IRS data and making it available to law enforcement agencies.

Ms. CALVERY. Yes. Treasury and the Administration set up a proposal just a few weeks ago—a legislative proposal—on the collection of beneficial ownership information that we think is the right solution. We are definitely open to continuing the conversation to come to a solution on this issue. But that proposal would focus on FinCEN collecting information. One of the benefits to that proposal over some of the others I have seen over the years that would have put the onus on the States to collect information and make it available is that it doesn't require States to do anything extra. It also has a 50-State solution, so to speak, in the sense that you can't have arbitrage between different States if they do things differently. But that is the proposal that we have been pushing.

Mr. CARNEY. Thank you very much.

Again, to the Chair and the ranking member, thanks very much for the opportunity to sit in.

Chairman FITZPATRICK. With that, we are going to proceed to a second round of questions. There shouldn't be too many. I just actually have—I want to recognize myself first for 5 minutes.

One particular issue has to do with asset forfeiture. So my question would be to you, Mr. McDonald. Recently, there was a series of meetings in South and Central America that Representative Pittenger and Representative Ellison and I attended with a number of others. And as we traveled and met with different governmental and FIU professionals in those countries, there was an area of common concern. I think we take for granted sometimes that, in this country, most States have asset forfeiture laws in place. And so you find a bad actor, a law breaker, you can not only let the prosecution take their liberty, but you can hurt them a second time by getting to their assets. Most of the times those assets were had with ill-begotten gains. You can convert them to cash. You can, using our laws, take that cash and pay things like police overtime at the local level or the State level or Federal to investigate the next law breaker.

So one of the things we noticed and, specifically, when we were in Paraguay, and I will just give you an example: The plane landed on a tarmac in Ciudad del Este near the tri-border area. And there was a somewhat legendary jet that was sitting there, that had been, I guess, forfeited. And it looked like it had been there for about 10 years or so. It was covered with moss. And so we questioned, and the answer was: We don't really have the process or the ability, technical assistance, I guess, to actually complete the forfeiture process. So what was a valuable asset at one point in time is just wasting away. It is probably going to cost the government funds and resources to get rid of it, as opposed to actually using it against the terrorists or the money launderers or the narcotraffickers or wherever it came from.

So does OTA—what can you tell us about some of these countries that we work with and their ability to use asset forfeiture and our assistance to help them get their job done?

Mr. McDONALD. First, we do provide technical assistance to help countries establish and implement asset forfeiture regimes.

You are right that it is an unattended area or a nonexistent area. And in a number of countries, it is one of the important areas of the work of our Economic Crimes Team. It is something that I think if we had been there when the plane first got to that tarmac and became possibly available for being part of an asset forfeiture action, it would have been a good thing.

But we are working with—I am going to confirm this—but part of our work in Paraguay is, I believe, on asset forfeiture. It is certainly part of our work in other countries and Central America, Latin America, and the Caribbean. In Haiti, frankly, one of our—and it is, unfortunately, not a long list—one of the examples of progress that we made in our engagement in Haiti was on asset forfeiture.



So, bottom line, you are absolutely right. That is an important part of the AML/CFT regime-strengthening effort. It is something that we do.

So, in a demonstration of OTA efficiency, the head of OTA's enforcement—Economic Crimes Team, Erin Schenck, just reminded me that we began asset forfeiture management work in Paraguay. There was a mission, a TDY, earlier this month, and it is an area of high demand. I don't think that—I have actually seen that plane. And I don't think that we are going to get much money out of that plane. But we are going to fix the asset forfeiture regime so that sort of thing is not repeated.

Chairman FITZPATRICK. There won't be much money out of that plane at this point in time. It has been sitting there—appears as though—a long time, a decade or more. But it is just an example where sometimes you have to invest money to get money back. And if you want to suggest some additional resources OTA could use, I would like to see funds properly invested in providing technical assistance to some of these countries so they can get more of their own resources, and we can do a better job together.

But I appreciate the fact that you guys are on top of that particular case, which, as I said, was somewhat legendary there. We spoke to the prosecutor about it, and we couldn't really get a clear answer.

Mr. McDONALD. If I may, just quickly, note that in addition to technical assistance in the asset forfeiture area, a big part of our work across other teams is domestic resource mobilization more generally, so trying to help these countries mobilize more resources in their own country to the benefit of efforts to combat money laundering and terrorist financing but also so that they can provide basic public services more effectively than they are able to do now.

Chairman FITZPATRICK. I recognize Mr. Lynch.

Mr. LYNCH. Thank you, Mr. Chairman.

Let me just follow up. We had a situation here several months ago where we had cyber hackers get into the central bank in Bangladesh and send instructions to the New York Federal Reserve Bank to wire—actually, they requested \$951 million to be sent to various locations around the globe. They ended up successfully getting the New York Fed to wire \$81 million to certain casinos in the Philippines. And they successfully stole the \$81 million. It was a payout. I know we have Abu Sayyaf operating there out in the smaller islands in the Philippines.

Is there any indication—this is a pretty sophisticated operation. I know that the Philippine government has issued—or taken away people's passports because they think it was an inside job. I am not so sure it was. But are you folks involved in that? And what can you tell us about it?

Ms. CALVERY. I can't say a whole lot in this forum because there are ongoing investigations and so forth happening. What I can tell you is, at the highest level, the threat of malicious cyber actors is a top priority of the U.S. Government. The idea that they are going to attack our financial institutions or financial infrastructure is a top priority of the Treasury. And there are many people at Treasury who are working on this issue every day.

At FinCEN specifically, our role is to collect information through suspicious activity reports, and we do get a lot of information in those SARs on different cyber threats.

Mr. LYNCH. A little wrinkle here because the Philippine senate had a bill to require reporting of suspicious transactions, the suspicious activity reports, and the casinos lobbied against them in the Philippine legislature and defeated the amendment. So they don't have that. So we have this gap in the Philippine anti-money laundering protocols. And here we are in the meantime basically signing a trade agreement with these folks. So it is problematic.

Are there other measures that we might—we have this vulnerability in the Philippines because of the lack of this anti-money laundering legislation. Are there other ways that we can fill that gap to help you do your job?

Ms. CALVERY. One of the things that we are currently doing to fill that gap is, at FinCEN, we have a program known as the Global Rapid Response Program. We work it together with the FBI, the Secret Service, and I believe Homeland Security just signed on. And what we have been doing is when there are cyber incidents like this and the money moves—it moves very quickly, and of course, it is moving internationally—is law enforcement gets information from the victim, usually a big business, and they get that information to us. We work with our partner FIUs around the world to get that money either refused, turned around, or arrested before the bad guy actually gets his hands on it. In the last 18 months, I believe we have recovered around \$186 million on behalf of U.S. businesses. And it is a program that, unfortunately, I think is going to keep increasing.

Mr. LYNCH. Mr. McDonald, do you have anything to add?

Mr. McDONALD. No, not on this topic.

Mr. LYNCH. Okay. This was all done via SWIFT, which is a huge problem for us. You mentioned the recovery that we have had on behalf of U.S. businesses. Was that with international partners where SWIFT would be involved, or are those internal within the United States where SWIFT would not be involved?

Ms. CALVERY. It was with international partners where wire transfers would have gone, yes, internationally.

Mr. LYNCH. Okay. All right. Thank you.

I yield back.

Chairman FITZPATRICK. I recognize the vice chairman, Mr. Pittenger, for 5 minutes.

Mr. PITTENGER. Thank you, Mr. Chairman.

Sometime back, we had a briefing with the four major banks, who came to discuss their role in our combined efforts. And in that discussion, of course, these 4 banks receive 90 percent of the foreign funds that come into our country, and they shared with us the problems that they have under 314(b) in sharing information with each other but also in 314 in receiving information from the government.

And one thought that came out at that time was establishing some type of nonprofit which could be in receipt of data. I am aware that in Pittsburgh, Carnegie Mellon, the government, and the financial institutions have joined together, and there is a 501(c)(3) that has been established. Do you envision something like

that for cyber? That is for cybercrimes. Do you envision that something like that could be established?

Ms. CALVERY. I am familiar with the outfit in Pittsburgh, and I have certainly been involved in many of these discussions with our big four financial institutions as we and others have been exploring ideas of how best to share information and what we might want to try to set up. I think the thinking—we will see—but my sense is that the thinking has evolved a bit away from this idea of establishing a nonprofit. As some of these institutions are trying out different mechanisms for sharing information with one another under 314(b) and 314(a), they are kind of learning by doing in terms of, what are going to be the most effective ways to share information?

And we at FinCEN are supporting them. We have had a number of meetings and discussions about it, and we have been very open to issuing guidance or administrative rulings on any questions that industry might have.

Mr. PITTENGER. Clearly, we need to modify 314 in terms of the safe harbor rules, because they feel the impediments there in terms of receiving data from the government that they feel like is important for them.

Regarding FATF, do you envision that the TTUs could be or should be incorporated as the recommendations with FATF?

Ms. CALVERY. Wow. I haven't been privy to much of this discussion of whether TTUs are going to be incorporated into FATF, so I just don't know the answer to that question.

Mr. PITTENGER. From your experience of 20 years, do you feel like that is a valid option that we should be looking at?

Ms. CALVERY. I think it is worth continuing to explore information sharing in all its forms. I do know the FATF is very focused on that. They are interested not just in how our FIU is sharing with one another, but how also is law enforcement doing that? And I would put it under that kind of rubric. So I wouldn't be surprised, with some of the efforts that they have ongoing to look at that issue, whether TTU isn't a part of it or whether it couldn't be a part of it.

Mr. PITTENGER. Ms. Shasky Calvery, how many members are there in Egmont?

Ms. CALVERY. I believe it is 151.

Mr. PITTENGER. 151.

And, Mr. McDonald, the OTAs, how many countries do we serve or work with?

Mr. McDONALD. In the economic crimes area, we work in 15 countries.

Mr. PITTENGER. Fifteen countries?

Mr. McDONALD. Fifteen, one-five.

Mr. PITTENGER. One-five. What do you say would be the ideal number to get a complete—the best communication, establish relationships, the best collaboration, the best impact? What number would you like to see our working relationship with in terms of countries?

Mr. McDONALD. We did an exercise along those lines internally once, and we kind of thought, setting aside all financial considerations, what would be our dream—

Mr. PITTENGER. Yes, sir, that is what I want to hear.

Mr. MCDONALD. —footprint for the whole program. And we are at, overall, about 50 countries for the whole program, 15 in the economic crimes area. Ultimately, we did not come down to a specific number. And the reason is it really doesn't matter if you are not in a country that is determined to use your assistance well. And it is very difficult to know that ahead of time. We do our best to do good assessments.

I would say, look, if I had to pull a number out of my back pocket here, we certainly see an increasing number of demands, requests for our technical assistance on AML/CFT matters, whether it is because Central American or other countries know that criminality in their own countries is a great threat to them, and so they want to do more to reduce the financing of that, or because they see banks picking up and decamping. So we have their attention.

Mr. PITTENGER. Excuse me. How many cooperating countries would you say that there are out there? You stated that, clearly, there are those who would be difficult and a challenge to work with. But what is the universe of those whom you believe would be willing to cooperate with us?

Mr. MCDONALD. I could easily see us working with 20 to 25 countries in the AML/CFT area. But that is based on what we know now about emerging needs.

Mr. PITTENGER. What is the distinction, please clarify for me, Ms. Shasky Calvery and Mr. McDonald, the 150 members, FIUs, members of Egmont, and the more limited numbers of countries that are engaged with us with OTA?

Mr. MCDONALD. Well, OTA—Egmont includes member countries from the entire globe.

Mr. PITTENGER. I understand.

Mr. MCDONALD. We are authorized by statute to work in developing countries and transitional countries. The “transitional country” term goes back to when we were created, the former Soviet Union, and so on transitioning. So we are only a subset of the total membership potential of Egmont.

Mr. PITTENGER. I got that. Would you say that your major impediment then is financing? Is it resources on your part? Is it talented people that we could send in, attaches?

Mr. MCDONALD. We would definitely benefit from additional resources in terms of financing to support our technical advisory work in terms of attache presence. But I would also—so the answer to that is yes; that is an impediment that we would benefit from more resources. But we have to be judicious in how we use those resources and to focus it on those countries where we think we are going to be able to get something done.

Mr. PITTENGER. You mentioned one cooperating country, that they had a computer and a chair in a room. That was—

Mr. MCDONALD. Liberia.

Mr. PITTENGER. How do we support them financially? What are the entities that would participate? Is it us or our State Department, the World Bank, IMF?

Mr. MCDONALD. In a place like Liberia, where there is pretty much everything to be done, we would focus our efforts on just getting the financial intelligence unit functioning in a basic way. We would reach out to the World Bank, possibly USAID, to see if they

could finance the acquisition of basic information technology, basic stuff that would allow banks to report suspicious transactions electronically rather than on written pieces of paper. We might reach out to other bilateral providers—the U.K. is active in this area—to see if they could complement our work. So, in a country like Liberia, where there is everything to be done, we would be reaching out to a number of different parties.

Mr. PITTENGER. Thank you.

I appreciate both of you.

Ms. Shasky Calvery, I look forward to continued dialogue with you in the private sector.

Ms. CALVERY. Thank you.

Mr. PITTENGER. And, Mr. McDonald, in your position now, I look forward to more dialogue. Thank you.

Mr. MCDONALD. Thank you very much.

Chairman FITZPATRICK. I would like to thank our witnesses again for their time and their testimony to the task force here today.

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

With that, the task force is adjourned.

[Whereupon, at 12:14 p.m., the hearing was adjourned.]



# **A P P E N D I X**

May 24, 2016

Peter T. King Statement for the Record  
Task Force to Investigate Terrorism Financing hearing titled “Stopping Terror  
Finance: A Coordinated Government Effort”  
May 24, 2016

I would like to thank the Chairman for holding this important hearing and thank the witnesses for sharing their unique perspective. I applaud FinCEN on the final Customer Due Diligence rule – the rule is an important step in combatting terrorist financing and I was pleased to see that the final rule incorporated many comments from stakeholders. I also agree with the Treasury Secretary that Congress should pass meaningful beneficial ownership legislation to ensure that terrorists do not use shell corporations established in the U.S. to set up accounts in other countries. While protecting privacy is important and there are legitimate business reasons that “beneficial owners” of companies remain undisclosed, we need legislation to ensure that law enforcement can stop criminals and prevent attacks. Specifically, I believe that legislation should:

- first, require that companies report their true beneficial ownership information - not just a lawyer or a nominee;
- second, should allow for law enforcement to obtain the information quickly when they are investigating terrorist threats or criminal activities;
- third, it should not put new burdens on states and should minimize any burden on businesses; and
- fourth, any information filed with the federal government should not be disclosed to the public – this isn't an effort to target business with legitimate privacy concerns, it is an effort to stop drug traffickers, criminal organizations and terrorists.

I'm proud to be the lead Republican on Congresswoman Maloney's H.R. 4450, the Incorporation Transparency and Law Enforcement Assistance Act of 2016, which is currently the only bill in the House that addresses the issue of beneficial ownership. I think the bill general adheres to the principles that I just outlined, but I know that there are stakeholders that have concerns with that bill as currently written and I welcome suggested changes or alternative proposals that also adhere to those principles. I applaud Congresswoman Maloney on her bill and thank her for her leadership on this issue and look forward to working with my colleagues on the Task Force to stop terrorist financing.



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**Testimony of Treasury Deputy Assistant Secretary for Technical Assistance and  
Afghanistan, Larry McDonald  
United States House of Representatives Committee on Financial Services  
Task Force to Investigate Terrorism Financing  
“Stopping Terror Finance: A Coordinated Government Effort”  
May 24, 2016**

Chairman Fitzpatrick, Ranking Member Lynch, and Members of the Committee, thank you for the invitation to testify today. I appreciate the opportunity to discuss the role of Treasury’s technical assistance program in the overall U.S. Government effort to combat terrorist financing and financial crimes. Following a brief description of Treasury’s Office of Technical Assistance (OTA), I will highlight the important work of OTA’s Economic Crimes Team.

**Overview of OTA**

The mission of the Department of the Treasury’s Office of Technical Assistance (OTA) is to help developing and transitional countries strengthen their ability to manage public finances effectively and safeguard their financial sectors. OTA is comprised of five teams – Economic Crimes; Banking and Financial Services; Revenue; Budget; and Debt Management. OTA’s work supports the Treasury Department’s strategic goals to promote international financial stability and more balanced global growth, to safeguard the U.S. financial system, and to use financial measures to counter national security threats.

OTA is a relatively small program. Currently, OTA implements approximately 100 projects in 50 countries. Most projects are located in Latin America, Africa and Asia. OTA has a relatively smaller footprint in the Middle East and Central and Eastern Europe. Total OTA funding is approximately \$50 million, of which \$23.5 million is from direct appropriation and roughly \$25 million is from transfers from other U.S. government agencies. OTA is often referred to as a small, cost-effective program that punches well above its weight. As Secretary Lew put it during this Committee’s March hearing on the international financial system, Treasury gets “more bang for the buck out of OTA than anything else.”

OTA’s proven effectiveness is a result of a disciplined approach to technical assistance – one that emphasizes: (i) providing assistance in areas where Treasury has real expertise and an institutional kinship with foreign counterparts; (ii) a commitment to building capacity in partner countries, with the goal of achieving self-reliance; (iii) working side-by-side with recipient country counterparts to provide sustained, on-the-job mentoring and training; and (iv) selectivity, by identifying governments that need help and are committed to using our assistance productively.

Financial sector weaknesses are typically systemic in nature. Accordingly, OTA encourages partner governments to take a systemic approach in strengthening public financial management and safeguarding the financial sector. To the extent possible, OTA country engagements are comprised of several inter-related projects. Paraguay is an example of particularly robust OTA engagement, with mutually reinforcing projects in the areas of economic crimes, financial sector supervision, tax administration, budget execution, debt management, and infrastructure finance.

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**Economic Crimes Team and AML/CFT Technical Assistance**

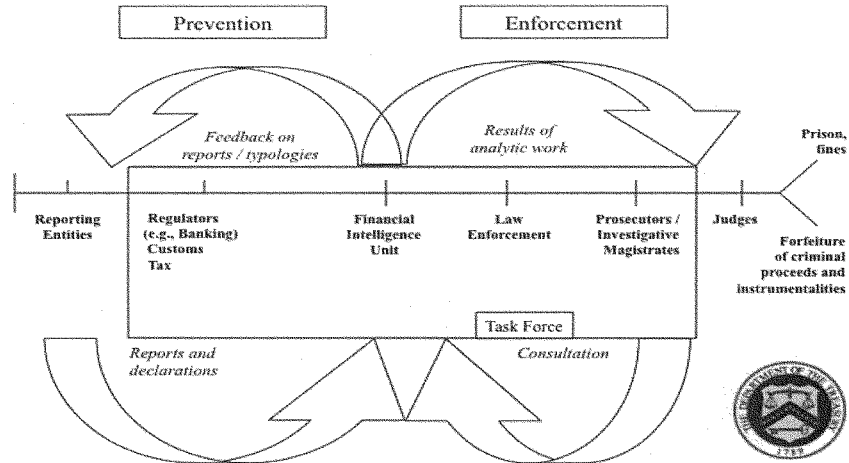
OTA's Economic Crimes Team (ECT) plays a vital role in the Treasury Department's and the U.S. Government's effort to combat terrorist financing and financial crimes. ECT promotes compliance with international standards and best practices -- in particular the Financial Action Task Force (FATF) Recommendations -- aimed at the development of effective Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regimes. ECT partners with foreign counterpart regulatory, analytical, law enforcement and judicial authorities tasked in their country with: ensuring a safe, sound and transparent financial system; targeting transnational criminal organizations and networks, including their illicit proceeds; and upholding the rule of law.

At present, the ECT footprint includes 15 programs operating in Asia (Afghanistan, Burma), Sub-Saharan Africa (Cabo Verde, Liberia), Latin America and the Caribbean (Cost Rica, Dominica, El Salvador, Grenada, Guatemala, Jamaica, Panama, Paraguay and Peru) and the Middle East (Iraq and Saudi Arabia). ECT programs for 2016 are funded both from Treasury's direct appropriation (\$2.8+ million), State Department and USAID funding (\$4.5+ million), as well as limited self-funding by counterparts.

As depicted below, AML/CFT regime development entails strengthening and integrating the work of the entire spectrum of AML/CFT stakeholders. They include reporting entities, regulators, financial intelligence units, law enforcement agencies, investigators, prosecutors and judges. The goal is a system in which both prevention and enforcement measures are robust and mutually reinforcing. ECT assistance tends to be anchored in the counterpart's financial intelligence unit, though ECT works proactively with both downstream and upstream stakeholders.

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## AML / CFT REGIME DEVELOPMENT



While AML/CFT regime improvement is a never-ending process, OTA can point to many engagements where assistance has made a difference. Here are three examples:

*Ghana.* With OTA support, the Bank of Ghana sanctioned five banks in 2015 for non-compliance with legal and regulatory obligations, including involvement in international transactions. OTA helped the Bank of Ghana strengthen its bank examination manuals and practices, adopting a risk-based approach, to incorporate international standards for non-compliance with AML/CFT obligations.

*Guatemala.* In October 2014, OTA's multi-year collaboration with Guatemala's financial intelligence unit (FIU) contributed to a ruling that a criminal organization operating through a shell import/export company had laundered more than \$48 million. The ringleader and seven currency exchange operators were sentenced to six to 10 years in prison. OTA helped to strengthen the FIU's financial intelligence, analytic, and investigative capabilities, and worked closely with prosecutors in the Public Ministry to better understand and present in the court this complex case.

ECT work in Guatemala and elsewhere in Central America is part of a State/Treasury collaboration – the Central America Regional Security Initiative (CARSI) – involving joint planning and co-funding.

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*Cambodia.* Reflecting broad based improvements in its AML/CFT regime, in 2015 Cambodia was removed from the Financial Action Task Force monitoring process and, separately, was invited to join the Egmont Group of Financial Intelligence Units. OTA played a major role by providing assistance over several years to develop the operational capabilities of Cambodia's FIU. In addition, the FIU and the Supervision Department at the National Bank of Cambodia signed an information sharing and cooperation memorandum of understanding to strengthen the allocation of supervisory responsibilities and coordination of examinations. OTA provided assistance in the drafting of the Memorandum of Understanding and worked with both parties to resolve ambiguities in Cambodia's Anti-Money Laundering Law.

**Effectiveness and Lessons Learned**

Effective AML/CFT technical assistance – indeed, all effective technical assistance -- depends on many factors, some of which are the responsibility of assistance providers and some the responsibility of recipients. In the first instance, providers must show restraint, allowing potential country partners to step forward of their own volition with clear expressions of interest. Once interest has been manifested, technical assistance providers must be good listeners and patient analysts in order to understand not only the underlying problems, but also the capacity of the requestor to absorb assistance. This is the essence of “demand driven” assistance.

Technical assistance providers must also demonstrate a commitment to coordination that goes beyond information-exchange. Coordination may entail doing a project differently, taking into account what other assistance providers are doing, or not doing the project at all. There are cases when ECT has declined a request to provide assistance when an assessment visit determined that another provider was already involved and our work would be duplicative. Effective coordination is also facilitated when assistance providers focus their work on areas where they have special expertise. The ECT has special expertise in building the human capacity of financial intelligence units and, working through the financial intelligence unit, to enhance the effectiveness of other AML/CFT regime stakeholders.

Recipients of technical assistance must be genuinely committed to implementing change, and willing to engage in a collaborative learning process and then to apply the lessons learned in day-to-day job functions. An additional critical component is a commitment at the policy and political levels to push for transparency and accountability in public finance when, inevitably, entrenched interests resist. Finally, governments that receive technical assistance must show a commitment to creating and retaining a corps of career professionals. It is disheartening when, with a change of government in our partner countries, OTA's technical level counterparts are replaced and capacity building efforts need to begin anew.

Within the U.S. government, Treasury works closely with the Departments of State, Justice, Homeland Security, and Defense, as well as USAID, on technical assistance related to AML/CFT regime development. Coordination takes place both in Washington, D.C., by staff at each agency's headquarters, and in the field, both during the project development phase and subsequently during implementation. In the field, the respective U.S. Embassies are the locus for coordination work. OTA, as a U.S. government assistance provider, comes under Chief of

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Mission authority and, as such, coordinates with U.S. government departments and agencies, such as the State Department, to support U.S. initiatives in host countries.

OTA also coordinates with multilateral and bilateral assistance providers. Regarding AML/CFT assistance, the ECT coordinates with the IMF, the World Bank, the United Nations Office on Drugs and Crime (UNODC), as well as bilateral providers such as the United Kingdom. Coordination of multilateral or bilateral assistance usually also occurs in the field during the project development phase and during implementation. OTA encourages the governments of recipient countries to play a proactive role in coordinating the assistance they receive.

**Conclusion**

Combating terrorist financing, money laundering and other financial crimes is a top priority for the Treasury Department and the U.S. Government. OTA's ECT is a, small but important, part of the broader U.S. Government and international effort to build the capacity of developing and transitional countries in monitoring and combating illicit financing through safe, sound, and transparent financial systems.

Thank you again for the opportunity to testify today regarding OTA's important work on AML/CFT and coordination efforts. I appreciate your support and interest, and welcome your questions.

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**Testimony of Jennifer Shasky Calvery, Director Financial Crimes Enforcement Network,  
United States Department of the Treasury  
United States House of Representatives Committee on Financial Services  
Task Force to Investigate Terrorism Financing  
“Stopping Terror Finance: A Coordinated Government Effort”  
May 24, 2016**

Chairman Fitzpatrick, Vice-Chairman Pittenger, Ranking Member Lynch, and distinguished Members of the Committee on Financial Services Task Force to Investigate Terrorism Financing, I am Jennifer Shasky Calvery, Director of the Treasury Department’s Financial Crimes Enforcement Network (FinCEN), and I deeply appreciate the opportunity to appear before you today to discuss FinCEN’s role in countering the financing of terrorism. We value the Committee’s sustained attention on far-ranging threats to the U.S. and global financial systems and, in particular, this Task Force’s comprehensive examination over the past two years of the myriad issues posed by terrorist financing that those of us at FinCEN encounter on a daily basis. We are fortunate for the Committee’s continued support of our efforts to deter, detect, and disrupt terrorist financing and other forms of illicit financial activity.

Today, I want to share with you FinCEN’s view of the terrorist financing landscape and ways that we understand current and future threats, risks, and vulnerabilities. I have seen time and time again how bad actors such as terrorist financiers, weapons proliferators, drug traffickers, human smugglers, organized crime syndicates, professional money launderers, cybercriminals, tax evaders, rogue regimes, and corrupt officials use the same types of mechanisms to evade detection by the authorities and abuse the financial system. As we continue to adapt to ever-evolving threats, we must have the proper legal and regulatory foundation, both in substance as well as process, to ensure that our law enforcement and intelligence professionals, as well as private sector and international partners, have the tools that they need to get the job done. Such a framework must also be appropriately balanced with the legitimate interests of individual privacy and the protection of data.

**I. FinCEN’s Strategic Approach to Financial Intelligence**

FinCEN is a bureau within the Department of the Treasury, and our mission is to safeguard the financial system from illicit use, combat money laundering, and promote national security through the collection, analysis, and dissemination of financial intelligence and strategic use of financial authorities. FinCEN serves in two roles. First, we are the Financial Intelligence Unit (FIU) for the United States. Most countries around the world have an FIU that is responsible for collecting, analyzing, and disseminating financial intelligence to law enforcement and other relevant authorities to help fight money laundering and the financing of terrorism. Second, we are the lead anti-money laundering/countering the financing of terrorism (AML/CFT) regulator for the federal government.

At its broadest level, the Treasury Department seeks to counter terrorist financing by identifying and disrupting the flow of financial resources to terrorists and terrorist organizations, and working to harden the international financial system from abuse by these and other illicit actors. And, of course, ISIL is one of the primary terrorist threats that we are focused on today. FinCEN

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supports the broader Treasury effort against ISIL by identifying sources of revenue for organizations such as ISIL and their attempts to access the international financial system. FinCEN then uses its authorities, both independently and in conjunction with other interagency and international partners, to eliminate those access points.

At FinCEN, we receive approximately 55,000 new financial institution filings each day. The majority of the financial intelligence FinCEN collects comes from two reporting streams: one on large cash transactions exceeding \$10,000, and the other on suspicious transactions identified by financial institutions. To manage this data collection, FinCEN uses “business rules” to search the reporting daily for key terms, entities, or typologies of interest. The rules screen daily filings and identify reports that merit further review by analysts. Currently, we are running 22 business rules related to ISIL.

We are running several rules designed to identify reporting helpful to cutting off ISIL's sources of revenue. Additionally, we are running rules aimed at identifying reporting showing attempts by ISIL to access the international financial system.

We are also running rules aimed at identifying potential foreign terrorist fighters who support ISIL, al-Qa'ida, and their affiliates in Iraq and the Levant region. This work is less focused on cutting off ISIL's sources of revenue and more directed at efforts to prevent foreign terrorist fighters from traveling to the conflict zone to fight or traveling home or to a third country to engage in terrorist attacks.

Our rules related to ISIL generate over 1,000 matches each month for further review. After a careful review by our analysts, FinCEN converts about 10 percent of these matches into analytical reports, which are then disseminated to domestic authorities and foreign FIUs.

In response to growing requirements for information on the financing of terrorism, FinCEN in 2014 stood up a completely new intelligence product line, called the Flash Report. Flash Reports rapidly provide critical financial intelligence to members of the U.S. law enforcement and intelligence communities, and FinCEN's counterpart FIUs around the world. We disseminated more than 300 ISIL-related Flash reports in 2015 to domestic and international partners: approximately 15 percent resulted from our business rules aimed at cutting off ISIL's sources of revenue, 37 percent from business rules aimed at preventing ISIL from accessing the international financial system, and 48 percent from business rules aimed at identifying previously unknown foreign terrorist fighters. Approximately 61 percent of the ISIL-related Flash reports were based on filings from banks and other depository institutions, 37 percent from money services businesses, and 2 percent from securities broker/dealers. Although the largest banks and MSBs were the leading filers of reporting disseminated in these Flash Reports, it is important to note that many smaller banks, credit unions, and MSBs, as well as payment processors and U.S. branches of international banks, submitted reporting that was disseminated in Flash Reports.

Our business rules provide red flag alerts on BSA filings and have become extremely valuable to the intelligence and law enforcement community. In order to address emerging issues and provide the level of support that law enforcement and the intelligence community have come to

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rely on, FinCEN needs additional funding to continue the current support. Expanding our processing capabilities for Flash and other types of reporting is why we have requested an additional \$1.5 million in our FY17 budget, as the demand for FinCEN's financial intelligence has solidified the need for the bureau to continue to support critical national security activities whenever they arise.

FinCEN has also successfully employed some of its unique regulatory authorities to obtain special collections of financial intelligence from industry, which has been used to inform government efforts to counter ISIL's financial activities. When exercising these special collection authorities, we've found that proactive engagement with industry to provide them with relevant context and an understanding of the value of the information that they can provide leads to a very productive relationship. These efforts have once again confirmed our belief in industry's desire to assist in our efforts, not simply out of a sense of obligation, but rather as active participants in our critical mission to counter terrorist financing.

Financial intelligence can also play an important role in preventing terrorist attacks. Authorities worldwide have an interest in identifying potential foreign terrorist fighters (FTFs), many of whom have engaged in terrorist attacks in jurisdictions outside of conflict zones. The financial reporting provided by industry, as well as financial reporting shared by our foreign FIU partners, has been critical to this work.

The analytical task is quite straight-forward. Financial transactions can be used to identify connections between individuals. A financial transaction between two individuals indicates an association between those two individuals. If one of those individuals is a known terrorist because, for instance, he was identified as an attacker in a completed terrorist attack or the planner of a thwarted terrorist attack, the associates of this known terrorist become important.

Those associates may also be terrorists who could carry out or facilitate a future attack in the jurisdiction where they are currently located or a different one. Once associates are identified, law enforcement and intelligence partners can further work to identify whether any of those individuals are also engaging in activity indicative of being a terrorist, terrorist financier, or another type of terrorist facilitator.

**Importance of Information Sharing**

Making connections between associates is where information sharing becomes especially important. FinCEN disseminates its financial intelligence through secure channels to authorized stakeholders on the widest possible basis both domestically and internationally. The breadth of dissemination is particularly critical in the anti-terrorism context. We disseminate our information to our law enforcement partners, intelligence authorities, and border police. For example, financial intelligence has allowed us to assist U.S. Customs and Border Protection with the watch listing of potential terrorists, as well as identifying individuals of concern that have subsequently had their visas revoked or denied or have been placed on the U.S. no-fly list.

Importantly, we also share information with relevant foreign FIUs and pre-authorize those FIUs to further share it with their domestic law enforcement and intelligence agencies. We do this in recognition of the fact that terrorists and terrorist facilitators move from one jurisdiction to the



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next, and we, as the FIU for the United States, do not hold all the pieces of the puzzle. The receiving jurisdiction may have its own information that adds another piece to the puzzle, either right away or over time. And we never know which agency within a jurisdiction might hold the next piece of the puzzle so we promote broad information sharing between FIUs, law enforcement, intelligence agencies, and border police.

Feedback from the receiving jurisdictions suggests we are taking the right approach in sharing financial intelligence. We have received 354 positive feedback responses from 41 FIU partners that the financial intelligence we provided to them over just the last eight months either corroborated information related to an ongoing investigation or provided new investigative leads.

FinCEN is not the only FIU actively working to stimulate the collection, analysis, and dissemination of financial reporting on FTFs and ISIL financing. Indeed, over the last year FIUs from 40 countries came together as part of a multilateral effort to share information and produce an operational analysis of FTFs, their networks, and common financial indicators. This project team, which was co-led by FinCEN and the FIU of the Netherlands, also produced a complementary paper outlining the obstacles faced by FIUs in doing this type of operational work. Participating team members recommended solutions for obtaining reporting from their financial institutions, analyzing the material, and sharing it on the broadest basis possible both domestically and internationally. Further, the Egmont Group, a 154-member jurisdiction strong group of FIUs, adopted a series of recommendations for its members in February that were informed by this team's work, including in particular sharing information with industry to assist financial institutions in identifying suspicious financial activity.

These examples provide a sample of the type of work that FinCEN and its partners conduct on a daily basis to combat terrorist financing threats from ISIL and others. This current paradigm of information collection, analysis, and sharing demonstrates a profound and ongoing evolution since 9/11 in how FinCEN and the Treasury Department approach the threats, risks, and vulnerabilities posed by terrorist financing, as well as the resources that we bring to the fight.

## **II. Regulatory Framework to Combat Money Laundering and the Financing of Terrorism**

As we examine the methods used, we have seen repeatedly that terrorist financing thrives in the same space where other forms of illicit financial activity occur. To effectively counter money laundering and the financing of terrorism, we must understand the threats, risks, and vulnerabilities posed to the U.S. and global financial systems by the broad array of illicit financial activity. We also must always strike a balance between the transparency that allows us to detect and combat these threats and the personal privacy that we cherish in the United States. While FinCEN's financial intelligence work thrives on data, our regulatory role serves to ensure that we obtain the right data while carefully balancing privacy interests of citizens and costs to industry.

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### **Financial Transparency**

Over a nearly two-decade career as a Department of Justice prosecutor and now a senior leader in the Treasury Department, I have witnessed firsthand how the facilitators of terrorist financing benefit from the same legal and regulatory loopholes that other criminals exploit such as shell companies, professional enablers, secrecy jurisdictions, and lax enforcement for certain illicit activities. Targeting third-party money launderers, the intermediaries who help turn dirty money clean, remains a top priority for FinCEN. While terrorist financing facilitators often seek to move money in the other direction, i.e. by making clean money dirty, they still make use of these same mechanisms. Therefore, in order to deter, detect, and disrupt terrorist financing, we must root out the gaps that allow illicit actors and activities to thrive.

It is within this context that I would like to address the issue of financial transparency. While we have been dealing with gaps in financial transparency for a long time, in recent weeks the disclosure of the so-called “Panama Papers”—millions of leaked documents reportedly revealing the use of anonymous offshore shell companies—has brought the issues of illicit financial activity and tax evasion into the public spotlight. For both government and industry, it is in our mutual interest to create an environment in which it is harder for illicit actors to hide their financial activities behind legal entities. On a daily basis, I see how individuals, organizations, and jurisdictions seek to evade and thwart lawful attempts to collect information about their activities, including through the use of shell companies and similar legal entities. For example, a shell company is registered with the state as a legal entity, but has no physical operations or assets. Shell companies can serve legitimate purposes such as holding property rights or financial assets. But shell companies can also be used to conceal the source, ownership, and control of illegal proceeds by concealing the identity of the natural people who control the entity.

As many of you know, on May 6th, the President announced several developments focusing on strengthening financial transparency. Key among these initiatives, were the rollout of the Customer Due Diligence (CDD) rule and proposed beneficial ownership legislation.

The CDD rule amends existing Bank Secrecy Act (BSA) regulations to clarify and strengthen obligations of covered financial institutions, specifically banks, brokers or dealers in securities, mutual funds, futures commission merchants, and introducing brokers in commodities. The CDD rule adds a new requirement that these financial institutions know and verify the identities of the natural persons who own, control, and profit from the legal entities the financial institutions service. The rule requires that financial institutions have to identify and verify the identity of any individual who owns 25 percent or more of a legal entity *and* an individual with significant responsibility to control, manage, or direct the company. And to be clear, a nominee or lawyer working on behalf of a company would not satisfy the requirements of the control prong.

We are confident that the CDD final rule will increase financial transparency and augment the ability of financial institutions and law enforcement to identify the assets and accounts of criminals and national security threats. We anticipate that the CDD rule will also facilitate compliance with sanctions programs and other measures that cut off financial flows to these actors.

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But the CDD rule is just one piece of the financial transparency puzzle. Treasury, on behalf of the Administration, also sent beneficial ownership legislation to Congress that would require companies to know and report adequate, accurate, and current beneficial ownership information at the time of a company's formation. The text of that proposed language is available in the press release on Treasury's website. The legislation would authorize Treasury to require that legal entities formed or qualified to do business within the United States file beneficial ownership information with FinCEN, or else face penalties for failure to comply. It would also expand FinCEN's Geographic Targeting Order (GTO) authority to permit such orders to require reporting on transactions that do not involve a monetary instrument, such as transactions conducted through wire transfers. Geographic Targeting Orders, which FinCEN can issue to impose temporary reporting requirements on financial institutions and other businesses, is a critical tool in enhancing the financial transparency of high-risk transactions.

These two initiatives—the CDD rule and the beneficial ownership draft legislation—dovetail together. The CDD rule focuses on *financial institutions knowing* who their legal entity customers are, *regardless of where those entities are formed*, as part of due diligence at the time of account opening. The proposed legislation focuses on making sure that legal entities *formed in the United States* are more transparent to law enforcement *regardless of where they conduct their financial activity*. Given the fact that illicit actors use U.S. legal entities to establish bank accounts outside the United States and access the U.S. financial system indirectly, both initiatives are critical to aid law enforcement efforts and to safeguard the financial system. Being able to identify who the real people are that are involved in a transaction is critical to our work to combat money laundering and terrorism, enforce sanctions, and stop other illicit abuses of the U.S. financial system.

*Shell Companies and Real Estate*

Shell companies used to purchase real estate with illicit funds pose another related risk that FinCEN and Congress have been working to address for many years. FinCEN is working actively to address money laundering and terrorist financing risks posed by real estate, so I would like to explain some recent developments.

The money laundering risks posed by real estate are not theoretical. Analyses by FinCEN and the Department of Justice regarding asset forfeiture cases continues to reveal corrupt politicians, drug traffickers, and other criminals using shell companies to purchase luxury real estate with cash. We see wire transfers originating from foreign banks in offshore havens where shell companies have established accounts, but in many cases we also see criminals using U.S. incorporated limited liability companies to launder their illicit funds through the U.S. real estate market.

As part of an incremental approach to regulating the real estate industry, FinCEN issued Geographic Targeting Orders (GTOs) in January 2016 requiring certain U.S. title insurance companies to record and report the beneficial ownership information of legal entities making "all-cash" or rather "non-mortgaged" purchases of high-value residential real estate in Manhattan and in Miami-Dade County, Florida. When there is a mortgage involved in the purchase of real estate, existing requirements on banks and other mortgage providers help shed light on

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potentially illicit activity. By contrast, “all-cash” purchases can be utilized by individuals attempting to hide their assets by purchasing residential properties. In many cases, law enforcement sees criminals using U.S. incorporated limited liability companies to launder their illicit funds through the U.S. real estate market. The criminals will instruct the person involved in the settlement and closing to put the deed in the name of the shell company to hide the names of the actual owner or owners. This often dramatically increases the difficulty of tracking the true owner of a property in a transaction. The GTOs were designed to produce valuable data about some of these opaque transactions to assist law enforcement and inform our broader efforts to identify where we see the greatest risks in the real estate sector.

One of the limitations FinCEN has encountered in gathering this vital information is a limit on the types of information that can be collected using a GTO. Such orders may only be used to collect information on transactions involving monetary instruments, like cash or checks. When we are working to gather information on transactions that are often conducted through other means, as in real estate transactions where the use of wires is common in many locations, the data we can gather is more limited. This is why we included in the proposed beneficial ownership legislation the amendment to our GTO authority that would allow FinCEN to use this valuable tool to gather information on any transaction involving funds more broadly defined.

Finding the appropriate balance amongst the competing concerns of personal privacy, financial transparency to combat illicit finance and limiting regulatory burden is particularly challenging in the real estate sector. FinCEN has had productive discussions with different state regulatory and trade association partners to increase our understanding of the diverse regulatory and licensing coverage in this area. To navigate these issues well, we must continue to engage our congressional, regulatory, law enforcement, and real estate industry partners while taking a data-driven approach. These discussions are a crucial part of determining where the most significant risks lie, whether additional AML requirements are needed, and how best to mitigate identified vulnerabilities while balancing the benefits of information gathering tools like Geographic Targeting Orders with the potential burden imposed on industry.

*Financial Technology (FinTech) and Financial Regulation (FinReg)*

While the issues related to money laundering in real estate have been a topic of concern for several years, we at FinCEN are also focused on the fact that the U.S. financial system is always evolving. FinCEN recognizes that the U.S. and global financial industry is experiencing a period of technological innovation and growth. While promising, this also creates new vulnerabilities that FinCEN and our partners must understand to prevent gaps in regulation and information collection on terrorist financing and other illicit financial activity.

For instance, in the virtual currency space, FinCEN has been at the forefront of pragmatic engagement that balances these interests. In 2013, we released interpretive guidance on virtual currencies to provide regulatory consistency to a nascent area of the financial industry that implicated significant AML/CFT equities. In May 2015, in coordination with federal law enforcement partners, FinCEN assessed the first civil monetary penalty against a virtual currency exchanger, Ripple Labs Inc., for failure to register with FinCEN as a money services business as

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well as its failure to implement and maintain an adequate AML program designed to protect its products from use by money launderers or terrorist financiers.

In its role as both an FIU and an AML/CFT regulator, FinCEN sits at the intersection of regulation, technology, and illicit finance. As new technologies emerge to serve the financial industry, FinCEN recognizes the need for sustained industry cooperation and a flexible legal and regulatory architecture that encourages innovation while allowing appropriate regulatory engagement and effective AML/CFT oversight. The goals of fostering financial technology (FinTech) innovation and requiring adequate financial regulation (FinReg) oversight capabilities are not mutually exclusive; to the contrary, successful FinTech and FinReg innovations should seek to enhance financial transparency that will deny terrorist financiers and other illicit actors the opportunity to evade detection and abuse the financial system. At the same time, such innovations could offer solutions that increase the efficiency and effectiveness of compliance programs while reducing their costs. Emerging technology has the potential to provide new vehicles to achieve our regulatory goals. We strongly encourage developers to combine their innovative approaches in developing financial products with parallel innovation in developing compliance solutions that fulfill the goals of combating money laundering and terrorist finance. We also encourage our regulatory partners, both in the United States and around the world, to provide industry with an opportunity to experiment with products and services in a way that encourages innovation while providing appropriate safeguards. Some call this the “sandbox approach” because it involves allowing industry a certain amount of latitude to be creative in finding internal solutions to address risks rather than solely expecting regulators to proscribe solutions from the outside.

*Cybersecurity*

While the majority of emerging technologies present positive opportunities, FinCEN also acknowledges that other actors may pose a wider threat to the financial industry itself by using technology as a sword against the financial institutions. This Task Force has previously identified similar concerns about structural vulnerabilities to the financial system, and FinCEN shares these concerns. The magnitude and severity of cyber-attacks targeting financial institutions have increased in recent years. Cybercriminals target financial institutions’ websites, systems, and employees to disrupt business functions, steal customer and propriety information, or defraud financial institutions and their customers.

FinCEN believes that improved financial transparency and increased information sharing can help address the challenges posed in the cybersecurity domain. FinCEN and law enforcement agencies regularly use BSA data reported by financial institutions to initiate investigations, identify and track criminals, and disrupt and dismantle criminal networks. For example, BSA reporting by more than 20 financial institutions of transactions related to cyber-enabled crimes played an important role in the investigation of an internet-based company, its co-founders, and others. This company acted as an unregistered online money transmitting business that offered digital currency services specifically designed to provide anonymity to facilitate international crime and money laundering. Criminals used this company to engage in illicit financial transactions, estimated at \$6 billion dollars, related to cyber-attacks, stolen credit cards, child pornography, Ponzi schemes, identity theft, fraud, narcotics, and other contraband.

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To combat cybersecurity challenges, FinCEN has established a number of initiatives, both internally and externally, to address new and evolving cybersecurity threats. Through the work of our Liaison Division, FinCEN created a Global Rapid Response Team to serve as a liaison between domestic law enforcement and partner foreign Financial Intelligence Units to intervene during Business Email Compromise (BEC) and similar incidents. In BEC, cybercriminals seek to fraudulently obtain money from businesses by tricking unwitting employees into remitting money to the cybercriminals' bank accounts, where the money is then almost immediately sent out of the United States. Over the past 18 months, we have recovered over US \$186 million. We work with agency partners through Treasury's Office of Critical Infrastructure Protection and Compliance Policy to share information to help protect our critical infrastructure and provide for cybersecurity both in government and private industry. We also work with the Financial Services Information Sharing and Analysis Center (FS-ISAC) to share information regarding threats, particularly cyber threats, to industry.

An important aspect of FinCEN's work in the cyber area has been to focus on sharing actionable information with industry to help them identify and report on cyber-related suspicious activity. FinCEN will continue to share information about such threats regularly with our partners in both government and industry and we continue to analyze that information to determine whether regulatory changes need to be made to address emerging methodologies.

#### **Public-Private Partnership**

A critical theme you will see running through my testimony today is FinCEN's partnership with industry. The institutions we regulate provide information that is the foundation of our work to combat the wide range of illicit activity that impacts our national security, including terrorist financing. As in our work to combat other types of global criminal organizations, some of the most critical information that we can use to identify and dismantle terrorist networks is financial information, and our source for that information is industry. As a result, FinCEN has placed significant emphasis on our public-private partnerships and on our information sharing under section 314 of the USA PATRIOT Act. In a nutshell, section 314(a) essentially involves sharing of information between financial institutions and government, while 314(b) involves sharing of information among financial institutions themselves. FinCEN is taking a number of steps to improve our technology systems that support 314(a) and 314(b) information sharing, but the most dramatic examples of the impact of information sharing and public-private partnerships involve how those authorities can refine our information collection to better detect terrorist financing and other illicit activity.

FinCEN has been taking steps to use our section 314 authorities more proactively. Part of this effort involves taking more care to meet or have calls with financial institutions that are involved in a particular targeted information gathering activity like a GTO. This can help us better frame or implement the targeted information collection. I have led meetings where the FinCEN team sits with industry participants and, under our 314(a) authority, explains to industry what we are doing and what will be required, as well as giving as much relevant context as is appropriate. I have also seen how the FinCEN team has responded to observations and suggestions from industry in these contexts and has worked to continually improve our processes. In the same

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context, we can also foster information sharing across institutions via the 314(b) authority. Again, through the sharing of information, we end up with better results, and are able to identify illicit networks and take steps with others to address them. With respect to FinCEN's ongoing counter-terrorism financing efforts focus, such critical partnerships have been particularly effective.

One issue that we frequently hear about from industry regarding information sharing is the scope of their safe harbor for information sharing under section 314(b). The statute currently only provides a safe harbor from liability for disclosing information under section 314(b) for activities that may involve terrorist actions or money laundering activities. Activities that are the predicates for money laundering, like fraud, drug trafficking, cybercrimes, and others, are not explicitly included in the safe harbor. Giving institutions an explicit safe harbor to share information on other potential serious criminal activity that may lead to money laundering or that may be related to terrorism (like suspicious purchases of explosives) can allow institutions to work together to detect criminal activity that is spread across a number of different financial institutions.

### **III. Conclusion**

As the Task Force may know, I am leaving my position at the end of this week. I am honored to end my tenure by appearing before your esteemed group to address how FinCEN has worked to combat the financing of terror, an issue of paramount concern to me during my tenure as Director. I am proud to have served at the helm of FinCEN during a period of substantial transition both at the bureau and in the broader AML/CFT space as we take on the fight against ISIL, other terrorist financing threats, and myriad other forms of illicit financial activity.

The current terrorist financing landscape is a complex and dynamic threat environment that requires ongoing adaptation by FinCEN and our many partners, including Congress. We must continue our ongoing dialogue amongst industry, regulators, law enforcement, and Congress to ensure that we have the right regulatory and statutory structure to prevent abuse of our financial system and are striking the right balance between personal privacy and financial transparency in that structure. I deeply value the opportunity to testify before this Task Force on this topic and welcome any questions you may have. Thank you.

