

**COMBATING TERROR POST-9/11:  
OVERSIGHT OF THE OFFICE  
OF TERRORISM AND  
FINANCIAL INTELLIGENCE**

---

**FIELD HEARING**  
BEFORE THE  
SUBCOMMITTEE ON  
OVERSIGHT AND INVESTIGATIONS  
OF THE  
COMMITTEE ON FINANCIAL SERVICES  
U.S. HOUSE OF REPRESENTATIVES  
ONE HUNDRED TWELFTH CONGRESS  
FIRST SESSION

SEPTEMBER 6, 2011

Printed for the use of the Committee on Financial Services

**Serial No. 112-55**



U.S. GOVERNMENT PRINTING OFFICE

72-596 PDF

WASHINGTON : 2012

---

For sale by the Superintendent of Documents, U.S. Government Printing Office  
Internet: [bookstore.gpo.gov](http://bookstore.gpo.gov) Phone: toll free (866) 512-1800; DC area (202) 512-1800  
Fax: (202) 512-2104 Mail: Stop IDCC, Washington, DC 20402-0001

## HOUSE COMMITTEE ON FINANCIAL SERVICES

SPENCER BACHUS, Alabama, *Chairman*

JEB HENSARLING, Texas, <i>Vice Chairman</i>	BARNEY FRANK, Massachusetts, <i>Ranking Member</i>
PETER T. KING, New York	MAXINE WATERS, California
EDWARD R. ROYCE, California	CAROLYN B. MALONEY, New York
FRANK D. LUCAS, Oklahoma	LUIS V. GUTIERREZ, Illinois
RON PAUL, Texas	NYDIA M. VELAZQUEZ, New York
DONALD A. MANZULLO, Illinois	MELVIN L. WATT, North Carolina
WALTER B. JONES, North Carolina	GARY L. ACKERMAN, New York
JUDY BIGGERT, Illinois	BRAD SHERMAN, California
GARY G. MILLER, California	GREGORY W. MEEKS, New York
SHELLEY MOORE CAPITO, West Virginia	MICHAEL E. CAPUANO, Massachusetts
SCOTT GARRETT, New Jersey	RUBÉN HINOJOSA, Texas
RANDY NEUGEBAUER, Texas	WM. LACY CLAY, Missouri
PATRICK T. McHENRY, North Carolina	CAROLYN McCARTHY, New York
JOHN CAMPBELL, California	JOE BACA, California
MICHELE BACHMANN, Minnesota	STEPHEN F. LYNCH, Massachusetts
THADDEUS G. McCOTTER, Michigan	BRAD MILLER, North Carolina
KEVIN McCARTHY, California	DAVID SCOTT, Georgia
STEVAN PEARCE, New Mexico	AL GREEN, Texas
BILL POSEY, Florida	EMANUEL CLEAVER, Missouri
MICHAEL G. FITZPATRICK, Pennsylvania	GWEN MOORE, Wisconsin
LYNN A. WESTMORELAND, Georgia	KEITH ELLISON, Minnesota
BLAINE LUETKEMEYER, Missouri	ED PERLMUTTER, Colorado
BILL HUIZenga, Michigan	JOE DONNELLY, Indiana
SEAN P. DUFFY, Wisconsin	ANDRE CARSON, Indiana
NAN A. S. HAYWORTH, New York	JAMES A. HIMES, Connecticut
JAMES B. RENACCI, Ohio	GARY C. PETERS, Michigan
ROBERT HURT, Virginia	JOHN C. CARNEY, JR., Delaware
ROBERT J. DOLD, Illinois	
DAVID SCHWEIKERT, Arizona	
MICHAEL G. GRIMM, New York	
FRANCISCO “QUICO” CANSECO, Texas	
STEVE STIVERS, Ohio	
STEPHEN LEE FINCHER, Tennessee	

LARRY C. LAVENDER, *Chief of Staff*

SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS

RANDY NEUGEBAUER, Texas, *Chairman*

MICHAEL G. FITZPATRICK, Pennsylvania,  
*Vice Chairman*

PETER T. KING, New York

MICHELE BACHMANN, Minnesota

STEVAN PEARCE, New Mexico

BILL POSEY, Florida

NAN A. S. HAYWORTH, New York

JAMES B. RENACCI, Ohio

FRANCISCO "QUICO" CANSECO, Texas

STEPHEN LEE FINCHER, Tennessee

MICHAEL E. CAPUANO, Massachusetts,  
*Ranking Member*

STEPHEN F. LYNCH, Massachusetts

MAXINE WATERS, California

JOE BACA, California

BRAD MILLER, North Carolina

KEITH ELLISON, Minnesota

JAMES A. HIMES, Connecticut

JOHN C. CARNEY, JR., Delaware



# CONTENTS

---

	Page
Hearing held on:	
September 6, 2011 .....	1
Appendix:	
September 6, 2011 .....	23

## WITNESSES

TUESDAY, SEPTEMBER 6, 2011

Glaser, Hon. Daniel L., Assistant Secretary of Terrorist Financing, U.S. Department of the Treasury .....	4
---	---

## APPENDIX

Prepared statements:	
Neugebauer, Hon. Randy .....	24
Glaser, Hon. Daniel L. ....	27

## ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

Grimm, Hon. Michael:	
Written responses to questions submitted to Hon. Daniel L. Glaser .....	39

**[Note: From page 14 on, we experienced technical difficulties and we were unable to retrieve all of the oral testimony. "Inaudible" has been inserted in place of the missing words.]**



**COMBATING TERROR POST-9/11:  
OVERSIGHT OF THE OFFICE  
OF TERRORISM AND  
FINANCIAL INTELLIGENCE**

---

**Tuesday, September 6, 2011**

U.S. HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON OVERSIGHT  
AND INVESTIGATIONS,  
COMMITTEE ON FINANCIAL SERVICES,  
*Washington, DC*

The subcommittee met, pursuant to notice, at 10:13 a.m., in the National Museum of the American Indian, The George Gustav Heye Center, Alexander Hamilton U.S. Custom House, One Bowling Green #1, Hon. Randy Neugebauer [chairman of the subcommittee] presiding.

Members present: Representatives Neugebauer, King, and Hayworth.

Also present: Representative Grimm.

Chairman NEUGEBAUER. This hearing entitled, “Combating Terrorism Post-9/11: Oversight of the Office of Terrorism and Financial Intelligence” will come to order.

I want to thank everybody for being here. And I want to thank the Secretary for being here.

I think it is appropriate that we are here just a few days before the 10th anniversary of 9/11, and we are literally just a few blocks from Ground Zero. A lot has transpired since 9/11/2001, and one of the things I think we are all very thankful for is that through diligence and intelligence and our military and our other efforts, Homeland Security, and all of the agencies, we have been able to prevent a rehashing of that day. And that is a good thing.

We are starting a little late because—I know it is hard for people to believe, but there is traffic in New York, and evidently it is heavy today. We are expecting other Members to get here shortly.

But I think one of the things that we hope to do in this hearing today is post-9/11—one of the things that we do know whether any kind of operation, whether it is a good operation or a bad operation, and terrorist, obviously, operations that we are trying to thwart, but they need funds to do that. But I think the interesting thing about some of the terrorist cells around the world is they don’t necessarily always need a lot of money, but they do need a source of financing. And so in our efforts to keep America safe and to combat the global war on terrorism, obviously tracking the money, tracing

the money, and preventing the money from flowing is an important part of our efforts to keep our country safe.

Today we hope—and we have a great panel here of folks who are very interested in this issue, and we obviously appreciate the Secretary being here—to kind of explore where are we today, what areas we need to improve, what kind of cooperation is going on with other agencies, because what we do know is that the terrorists aren't necessarily always using traditional financing vehicles and throughputs, and we need to make sure that we have the infrastructure in place to monitor all kinds of funds transfers and money movement and that we have the cooperation of people around the world because this is a global problem. It is not just a U.S. problem. And so, these are some of the things that we hope to accomplish today.

I am delighted to be here in New York.

And the New York delegation has been very involved, obviously, in many of these issues because they have a little bit of their stakeholders. This week, we remember the lives that were lost that day. We remember the first responders, those heroes who gave their lives. And we owe it to the American people, we owe it to the people of New York, and we owe it to the people who made those sacrifices to remember that this is an ongoing issue. We haven't solved the problem. The problem exists every day. We have to get up every day. We have people in our Administration and men and women in uniform who get up every day to make sure that our Nation is safe and that we are doing everything possible to prevent any kind of recurrence of the events of 9/11.

At this time, I am going to recognize someone who really has been on the forefront of the war on terrorism, who is the chairman of the Homeland Security Committee and also sits on the Intelligence Committee, and who has been a huge advocate of making sure that we have the resources in place to prevent another recurrence, and that is Chairman King. So, Chairman King, you are recognized and thank you for being here today.

Mr. KING. Thank you, Chairman Neugebauer, and thank you very much for holding this hearing. I think it is very appropriate that it be held this week, that it be held literally in the shadow of Ground Zero. And I believe it is an essential hearing. I know it is an essential hearing because following terrorist financial transactions is an integral and essential part of the war against terrorism.

I want to thank Secretary Glaser for being here today and for all his efforts in this, and I want to thank you for that.

I would say this is one area in particular, as we went from one Administration to the other, where there was a continued effort, a continued realization as to how essential it is that terrorist transactions be monitored as closely as possible, that we cut off as much as we possibly can the funds, the fluidity that the terrorists need to operate. It was clear that the whole 9/11 operation could not have been carried out if the funds were not there. Also, the enemy is very adaptable. As we close down one avenue of revenue, they open up another. They move to another, but I think the Treasury Department has done a very good job, again in both Administrations, in staying on top of this issue.



Again, we are not just talking about banks. We are talking about heroin deals. We are talking about smuggling. We are talking about kidnapping. We are talking about hawalas. Just last year with the Times Square bombing, it was not a lot of money, but some of the money that was transacted was actually done by a person who was part of a hawala on Long Island standing outside of McDonald's handing off cash to the Times Square bomber. You go from that to the multi-millions of dollars that can also be transferred around the world.

So I look forward to the hearing today. I look forward to Secretary Glaser's testimony. Again, just as internationally we can't be successful without full cooperation among our allies, at the Federal level, as far as law enforcement, we can't be successful without full cooperation of all law enforcement and intel. Similarly, the Treasury Department is an essential part of this war as far as cooperating with all the other Departments and agencies, whether it is the State Department, the Department of Defense, or the Department of Homeland Security. All of them have an integral role and Treasury is right there at the center of it. So if we can dry up the money, continue to dry up the money, that is such a positive, positive step in the war against terrorism.

So, again, Mr. Chairman, thank you for holding the hearing, and I yield back.

Chairman NEUGEBAUER. I thank the chairman.

And now another great Member from New York who has a law enforcement background and I think has some background in terrorism, Mr. Grimm, you are recognized. Thank you for being here.

Mr. GRIMM. Thank you, Mr. Chairman. Thank you for holding this hearing.

Thank you, Mr. Secretary. I appreciate it.

Really to echo some of the sentiments that we just heard from Chairman King, this is a very difficult issue to deal with, the financing of terrorism, because as the chairman just said, it can be anything from a hawala, which has been completely off the radar, to more traditional venues of not-for-profits and charitable organizations. The amount of work that needs to be done on the investigative level can only be done with cooperation through inter-agencies, and Treasury has to be a part of that. But all the agencies, I am happy to say, over the last several years have really been working together as much as they can and have been much more effective than decades ago. So I think that we have been bringing the best of the best to the table in a collaborative effort, and I know that from my own experiences as a special agent with the FBI, it is not an easy endeavor to get all those agencies to work together.

So it really has been a tremendous amount of leadership from the top down that is going to make the efforts successful. I think we have seen success but because of the difficulties involved in tracing monies through nontraditional sources throughout the entire world, we are going to need to remain vigilant. And that is why hearings like this are extremely important.

So it is really an honor for me to be a part of this hearing, and I thank the chairman again. I yield back.

Chairman NEUGEBAUER. I thank the gentleman.

I remind all Members that their written statements will be made a part of the record.

It is now my pleasure to introduce the Honorable Daniel Glaser, Assistant Secretary of Terrorist Financing, U.S. Department of the Treasury. Mr. Secretary, thank you for being here. You are recognized.

**STATEMENT OF THE HONORABLE DANIEL L. GLASER, ASSISTANT SECRETARY OF TERRORIST FINANCING, U.S. DEPARTMENT OF THE TREASURY**

Mr. GLASER. Thank you for having me, Mr. Chairman. Chairman Neugebauer and distinguished members of the subcommittee, thank you for the opportunity to discuss our efforts to combat terrorist financing. It is particularly humbling to appear before you near such hallowed ground. Ten years ago, this City bore the brunt of an attack against the American way of life, but the resilience of New York City inspired a Nation. As a result, in the decade since those tragic attacks of September 11th, the U.S. Government has worked towards developing a comprehensive, whole-of-government approach to combating terrorism, and the fight against terrorist financing has been an important part of that. Critical to this evolution has been a recognition that the Treasury Department and the financial tools it wields is central to our counterterrorism efforts and, indeed, to our national security as a whole.

Mr. Chairman, as you pointed out, money is vital to terrorist organizations. The monetary costs of executing an individual attack may be low, but terrorists require substantial sums to recruit, train, and sustain operatives, procure weapons, compensate the families of so-called martyrs, and garner support from local populations. This need to raise and move funds is a significant vulnerability that can be exploited.

The financial networks of terrorist organizations are susceptible to identification and disruption. It is the efforts of the U.S. Government and the international community to do just that, I would like to discuss today.

Prior to 9/11, the U.S. national security community had yet to fully grasp the significance of the terrorist threat. Not surprisingly, terrorist financing was not high on the national security agenda, but that quickly changed 10 years ago with the attacks we suffered just steps from where we sit today. A galvanized U.S. Government recognized the importance of attacking terrorists' financial infrastructure as a component of an effective counterterrorism strategy.

Treasury, armed with new authorities to freeze terrorist assets, played a significant role in this response. We designated various terrorist-affiliated entities and crippled critical financial nodes of al-Qaeda, Hamas, and other foreign terrorist organizations. Today I can confidently say that the United States no longer remains fertile ground for terrorist fundraising.

Despite our initial success, we recognize that Treasury's full potential remains bridled without a more comprehensive strategic approach and the institutional framework to implement it. Accordingly, in 2004, the Treasury Department working with Congress created the Office of Terrorism and Financial Intelligence, or TFI. The creation of TFI, the first office of its kind in the world, was

a revolutionary development in the national security arena, and in less than 8 years, TFI has had a dramatic impact on our national security and has become a fixture within our foreign policy establishment. Our mission is clear: marshal the Treasury Department's policy, enforcement, regulatory, and intelligence functions to sever the lines of financial support to international terrorists, WMD proliferators, narcotics traffickers, and other threats to our national security.

We advance this goal in many ways. For example, we work with multilateral bodies such as the Financial Action Task Force to establish a global framework that promotes transparency which enables us to identify and address various forms of terrorist financing vulnerabilities.

We have also joined our fellow agencies and international partners in mitigating the risks posed by other areas of concerns that many of you have mentioned such as informal value transfer systems, or hawalas, charities, cash couriers, and new payment methods. And we have systematically undermined terrorist financial networks by imposing targeted financial measures.

We have coupled these instruments with sustained outreach to the international and private sectors seeking to freeze terrorist groups out of the international financial system. Of course, in achieving these successes, cooperation with our foreign counterparts is essential. Our engagement with Saudi Arabia exemplifies the effectiveness of this approach. Though our partnership in combating terrorist financing with Saudi Arabia in earlier years has not always been very good, sustained engagement over the years has produced increasingly strong progress. Moving forward, we will continue to build on this relationship and encourage other regional players, in particular Qatar and Kuwait, to follow Saudi Arabia's example in prioritizing the fight against terrorist financing.

Of course, considerable challenges remain ahead. We are, as Secretary of Defense Panetta said, within reach of defeating al-Qaeda. Their financial situation is indeed dire and our goal is to make it even worse. But some pillars of financial and logistical support remain intact. Even as we make progress against al-Qaeda, we find that, with the rise of al-Qaeda affiliates, the terrorist financing threat has changed and in some ways become even more intractable. Issues such as kidnapping for ransom have become more significant, and terrorist groups that control territory such as al-Shabaab and Hamas can raise funds through nontraditional methods such as simple taxation.

These and other challenges will require novel approaches. We must continue to work with our interagency partners, the private sector, and our international counterparts to advance our mission. With a comprehensive strategic approach that I have outlined here today, we will move forward to address these challenges.

Chairman Neugebauer and distinguished members of the subcommittee, thank you for the opportunity to testify, and I would be happy to answer any questions you may have.

[The prepared statement of Assistant Secretary Glaser can be found on page 27 of the appendix.]

Chairman NEUGEBAUER. Thank you, Mr. Secretary.

OFAC, which applies and enforces actions, and then you have FinCEN, which is charged with enforcing the anti-money laundering rules, both have offices at work with the financial institutions to ensure compliance. Those are basically two different functions now. In the regulatory perspective, would it make sense to combine those activities so that the entities that are being regulated would be dealing with one regulator rather than two different regulators?

Mr. GLASER. Thank you for the question, Mr. Chairman. It is an important question. And I know I speak for Under Secretary Cohen when I say that he is in the process of reviewing all the different components within TFI, which is the organization that I am a part of, and that FinCEN and OFAC, as you mentioned, are also a part of, to see how internal resources can be realigned, rationalized, and made more efficient. And I know that he is actively considering all of the different options along those lines.

FinCEN and OFAC are quite different. As you point out, FinCEN, among other things, issues our anti-money laundering counterterrorist financing regulations and is part of the regulatory community. OFAC is a little bit different. OFAC is not really a regulator in the same sense. OFAC implements our sanctions programs. They implement Executive Orders and operate on a much different theory, frankly, a strict liability theory. So if a financial institution finds itself in violation of an Executive Order, it is in violation of that Executive Order and subject to penalties. FinCEN operates, as the rest of the regulatory community does, on a risk-based approach, broad systemic measures. So there are significant differences.

That said, it is a perfectly fair question to ask how the resources of FinCEN and OFAC can be examined in a way to increase the efficiency of the way TFI operates as a whole.

Chairman NEUGEBAUER. According to a recent GAO report, there were about 1.3 million SARs processed both from depository and non-depository institutions. Some of the financial institutions have been criticized by the regulator for not producing enough of those.

As some of this activity is moving to some nontraditional sources, what are you doing? How are you processing 1.3 million of those? How many are you acting on? Is this still a relevant tool, and is it being utilized effectively?

Mr. GLASER. Yes, again, thank you for the question. It is another very important issue.

First of all, just to be clear, banks and more traditional financial institutions are not the only financial institutions which have an obligation to report suspicious activity. So, banks report. Insurance companies, if they are conducting certain types of businesses, would have to report. But money service businesses have to report, which would include hawalas, which I know people are concerned about. So there is a broad range of financial institutions which have suspicious activity reporting requirements.

And it is important that we work with the financial community as much as possible to ensure the highest quality of reporting that we can. And we take that very seriously. FinCEN issues advisories to the financial community to try to give them information on what particularly high-risk situations might be. For example, FinCEN

recently issued an advisory outlining suspicions regarding how drug traffickers are laundering their money in terms of a series of wire transactions approaching the southwest border in Texas. That is information that is provided to the financial community with the hope of generating high-quality suspicious activity reports (SARs).

And FinCEN also conducts some analysis and will frequently publish SARs, again, to give the financial community guidance and feedback as to the types of reports that have been useful, what the trends are, and what law enforcement would find most useful.

We should be doing that as much as possible, and to the extent that the financial community feels that these SARs are going into a black hole or aren't being used, that is a criticism of us that we need to take very seriously. We need to make sure that they understand that these SARs are in fact being used and we need to work as hard as we can to make sure that they have as much information as possible so that they understand how important this role is. And it really is quite important.

And that gets to the second part of your question. I think it is important to also understand that it is 1.3 million SARs, but that information just doesn't go to FinCEN. The BSA database goes directly to the FBI. It goes directly to the OCDETF Fusion Center. And frankly, they do amazing things with the analysis in those agencies.

Just last week or the week before last, I was out with the Department of Justice visiting the Organized Crime Drug Enforcement Task Force (OCDETF) Fusion Center. Mr. Chairman, if you have never been out there, that is a trip that I think would be well worth your while. It is really quite amazing, the technologies that they have out there to take all the data and use it in direct support of law enforcement investigations throughout the country.

The FBI has testified separately—and this is going back a number of years, so I am sure the number is even larger now—that 88,000 SARs have been relevant to the FBI's various counterterrorism investigations.

Chairman NEUGEBAUER. How many?

Mr. GLASER. 88,000.

So these SARs aren't going into a black hole. They are being used. Law enforcement has consistently reported to us that they are useful. And it is our job and our challenge to make sure that the financial community understands that, and in fact, we continue to work with them to make sure that they are as high a quality as possible.

Chairman NEUGEBAUER. Thanks, Mr. Secretary.

Mr. King?

Mr. KING. Thank you, Mr. Chairman.

Secretary Glaser, you mentioned the level of cooperation with Saudi Arabia. I would appreciate it if you can give us some details in a public setting on that.

And then also, the concern I have with Saudi Arabia is that there are some indications of funding coming in over the years to radicalize mosques and Islamic organizations in this country. Is anything being done by Treasury or any other Federal agency—I don't believe there is—to actually trace the radicalization impact of money coming in from Saudi Arabia?

Mr. GLASER. Thank you for the question.

The Treasury Department, my office in particular, over the years has had a very active and lively relationship with Saudi Arabia in the area of terrorist financing. My former boss, Stuart Levey, was I think very forthcoming in his critique of Saudi Arabia and the efforts that they were making and frankly in the fact that they were slow to come to a realization of the importance of finding terrorist financing. Stuart felt that it was very important to hold this up publicly and to be publicly critical of that, but he also thought it was important, as Saudi Arabia improved, to give them credit for that improvement. And I think that strategy he had and that we had as a whole within the U.S. Government proved to be extremely effective.

Over the years, Saudi Arabia has been continually improving the infrastructure that they have and continually improving the seriousness with which they are taking it. So, for example, by the time you get to 2005–2006, Saudi Arabia had put in place a very impressive set of laws and regulations, for example, regulating charities in Saudi Arabia requiring that their international charities have centralized bank accounts, prohibiting those bank accounts from making international transfers. And they took that quite seriously.

Going forward into the future, by the time you get to 2008, 2009, 2010, Saudi Arabia was investigating, making arrests, and prosecuting terrorist financiers. And in fact, Saudi religious authorities issued a fatwa against terrorist financing.

So we have been very pleased with the progress that Saudi Arabia has made, and it has been very gratifying, as a result, to work with Saudi Arabia in recent years on this issue. That is not to say that there are no problems left in Saudi Arabia or left in the Gulf as a whole. Saudi Arabia is still a very important source of terrorist financing. The difference now is that we think that we have a strong partner in the Saudi government. In fact, our office, TFI, for the last several years has had a liaison at the embassy in Riyadh specifically to be able to work with the Saudis on these types of issues.

Where I think we could see improvement in the Gulf, as I said in both my written testimony and in my oral remarks, is in countries like Kuwait and Qatar which I think in various different ways find themselves where Saudi Arabia maybe was a few years ago. Kuwait still doesn't have a terrorist financing law. It is the only country in the Gulf region that has not criminalized terrorist financing. Maybe a month ago or just a few weeks ago, the Treasury Department designated an al-Qaeda network operating in Iran. Two of those individuals designated—one resides in Kuwait; one resides in Qatar. So they have work to do.

I will be going to Kuwait and Qatar later this month to talk to them about these issues and to see if we can make some progress.

Mr. KING. Does your office have to make a distinction between terrorist financing and radicalization? Again, there is the issue of the radicalization of certain mosques and groups in this country with Saudi money.

Mr. GLASER. I am sorry. I didn't answer that part of your question.

The statutory language and the language in the Executive Order is “material support.” So that is one of the standards we would use. Another standard that we would use is “owned or controlled by acting for or on behalf of.” So, for example, if there is a charity that is owned or controlled by acting for or on behalf of a designated terrorist organization, then that would be an entity that we would target. And we have targeted charities like that in the past. We think it is very important. And it is really the role, I think, that the Treasury Department can play, as you say, and counter-radicalization efforts is the work that we do with respect to charities.

What our goal is—the phrase that we use is create a safe giving space for law-abiding, well-intentioned Muslim Americans and any American frankly who cares to give to causes in the Palestinian territory or in Pakistan or wherever they think the needs might be, to create a situation in which they know that the money they are giving is going to go for the right purposes. And an important part of that is identifying the charities that are problematic and that are owned and controlled by these organizations. That is the role, I think, that we play and it is one that we take quite seriously.

Mr. KING. How is your cooperation with the Department of Homeland Security?

Mr. GLASER. I think our cooperation is very good with the Department of Homeland Security. The people at the Department of Homeland Security are former Treasury people who worked on these types of issues. So, a lot of them are old friends. One of the important parts that DHS and in particular ICE plays in counter-terrorist financing efforts in particular is their expertise in going after bulk cash smuggling or cash smuggling of any kind, whether it is bulk or not. They have provided very important training in places like Afghanistan and in the Gulf to try to help law enforcement authorities there identify at airports and at other ports of entry cash couriers, cash smugglers who are doing it on behalf of terrorist organizations. So they play an important role and we try to work very closely with them on that.

Mr. KING. Mr. Chairman, if I could just ask one more question?

Chairman NEUGEBAUER. Yes.

Mr. KING. Mr. Secretary, can you advise me what the current status of the SWIFT program is?

Mr. GLASER. The terrorist financing tracking program?

Mr. KING. Yes.

Mr. GLASER. The United States has an agreement with the European Union that allows the program to operate and it continues to operate.

Mr. KING. The reason I asked the question was—and I am not asking you to agree with me on this, but I thought it was disgraceful years ago when the New York Times actually put that program on page one. It was a perfectly legal program but it was not known to the rest of the world. I think it really unraveled or undercut much of what we were trying to do as far as terrorist transactions. Is it still functioning and effective?

Mr. GLASER. Yes, I would be happy to agree with you on that point. I do agree with you on that point.

Mr. KING. Thank you.

Mr. GLASER. And yes, the program continues to be effective.

Mr. KING. Thank you very much.

Mr. GRIMM. Thank you, Mr. Chairman.

I want to go back to an example that I guess is an area where we certainly could have done a little better, specifically Mr. Maan al-Sanea. His operation involved moving money, funneling it through New York banks and so on. I believe some of the specifics—he was accused of being the mastermind of that \$20 billion fraud and Ponzi scheme originating out of Bahrain and Saudi Arabia. He used, I think, four banks here in New York to funnel almost \$1 trillion back and forth from a remittance company in Saudi Arabia and in two sham banks in Bahrain. The Bahrain authorities have made criminal charges against him and his co-conspirators.

The institution was called the Money Exchange, and my understanding is that they did about \$60 million in business for their customers, but yet they were doing \$15 billion of transactions with American banks over a long period of time.

Have we learned from that mistake, and have we tightened up the rules and regulations so that this doesn't slip under the radar again?

Mr. GLASER. I think we have a fairly strong set of anti-money laundering controls with respect to customer identification, customer due diligence, and suspicious activity reporting. The purpose of those regulations is to create a transparent financial system that allows law enforcement to do their job that deters people from trying to enter it. But, of course, we are never going to be perfect. It is never going to prevent money laundering. It is going to allow us to be more effective in combating money laundering, and that is what I hope it is doing. That is what I think it is doing. Anytime we discover a case in which there has been money laundering, it is something that causes us concern and it is something that I think we all tell ourselves we need to continue to work on and do better on. And so certainly, anytime I hear about a case in which there has been a significant amount of money that has moved through our system, it causes me to think through, what are we doing? How could we do this better? And that is certainly not the only example of that.

There have been plenty of cases where I hear about—for example, Senator Levin and his committee have done a lot of work on the way shell companies have been used to help corrupt foreign dictators and foreign officials to move their funds into the United States. You read these reports and you think, how can we improve the system? And there are ways that we are doing it.

Just this summer, we have issued new regulations on prepaid cards. We have issued new regulations relating to money services businesses to try to clamp down on that, to apply suspicious activity reporting, to apply customer identification requirements onto issuers of prepaid cards. We are in the process of issuing a regulation that would require cross-border reporting when you physically move prepaid cards across the border. We have redefined the money service business to try to cover foreign MSB's that try to operate in the country or Internet financial service providers who are trying to operate in the country. We are constantly trying to look



at ways to make the system better, and so in every case, we try to learn from—

Mr. GRIMM. In this specific case, I think we go through the “know your customer” rule. Would you say that since 9/11, and since this particular case, there have been efforts to bolster the know-your-customer rule?

Mr. GLASER. Yes. FinCEN has issued guidance to financial institutions on the know-your-customer rule. We have also been very active, even as we speak, I think even going on right now with the Financial Action Task Force, which is the international standard-setter for anti-money laundering. We are engaged in an effort to tighten up the international standards, including “know your customer.” The United States has been the leading advocate for doing that. So we have [inaudible]. It is part of an ongoing dialogue [inaudible].

Mr. GRIMM. What amount of fundraising and financial transfers come from the Arabian Peninsula [inaudible] right now?

Mr. GLASER. If your question is specifically from the Arabian Peninsula, I think all the old methods continue to be valid methods. So the movement of cash is a big issue. The use of charities continues to remain an issue in the Arabian Peninsula, the use of hawalas and other alternate remittances and, frankly, the use of banks. There are all forms of funds transfers that terrorist organizations from the Arabian Peninsula would use.

I will say if you want to know—if I could just add something, if you want to know what worries me the most about terrorist financing in general, which is not particularly unique to the Arabian Peninsula and is probably not even where it is happening the most, is kidnapping for ransom, which I mentioned in my oral remarks. That is an increasingly important issue, and when you look at the ransoms that are being paid in places like North Africa to groups like al-Qaeda and the Islamic Maghreb, these are substantial sums of money which could be used to fund these organizations for some time. And it is not susceptible to our traditional forms of counter-terrorist financing.

So part of the success that we have had in breaking down the centralized structure of al-Qaeda has been extremely important, but one of the consequences of it is it has led to the rise of these al-Qaeda affiliates who are using forms of crime and in particular kidnapping for ransom in order to finance themselves. And it is a real challenge for the future.

Mr. GRIMM. Since you mentioned challenges for the future, I know last year the FinCEN Director testified to Congress that an emerging threat in terrorism financing has been the creation of technological innovations. You had just mentioned about the prepaid cards and stored value cards. So do you feel that TFI has the flexibility in terms of its organization and authorities and resources to meet these emerging and future threats?

Mr. GLASER. Yes. We certainly have the flexibility to do that, and that is, as I said, what we are trying to do with respect to prepaid cards, and other forms of funds transfer on the Internet. I certainly agree that those are issues for the future. They are ones that I think that we have been fairly good about responding to. As I said,

just this summer, we have taken a number of steps that I think are important.

With a lot of these emerging technologies, the challenge—it is simple enough to issue a regulation in the United States. The challenge, when you are dealing with things like the Internet, is that it is global. So what we need is a strong set of international standards as well to match whatever we are doing here in the United States. As I said, that is what we are working on through the Financial Action Task Force. Hopefully next year, we will come out with a very strong new set of international anti-money laundering standards that will include just the types of issues that you are referring to.

Mr. GRIMM. Mr. Chairman, if it is all right, I have one more question.

Chairman NEUGEBAUER. Yes.

Mr. GRIMM. Faisal Shahzad used two hawaladars, one of whom was just convicted in Federal court in New York. He used them to receive funds for the attempted Times Square bombing. Hawalas.

Now, based on my own experience when I was with the Bureau, even investigating Italian organized crime, the Gambino family, we had the benefit that they didn't trust each other. They would somehow keep records of monies that were lent, and through informants and through other investigative techniques, we would be able to find that evidence. Hawalas are that much more complex because there is that trust. They will write off—no records whatsoever.

How does Treasury take on this threat? How do you address that? It is a sincere question because I think it is arguably one of the most difficult things to investigate because there are often zero records and it is on a handshake or word of mouth, and without having specific testimony from a cooperator or an informant, it is very easily undetected. And I would assume that these hawalas are a real thorn in the side of your attempts to thwart the terrorism financing.

Mr. GLASER. I think you have put your finger on a very important issue. And one of the things that makes it even more challenging is that these hawalas—whatever community they are serving, sometimes they will have different names.

There is nothing wrong with it. They actually serve a very important function in terms of providing financial services to communities that aren't banked both here in terms of the American communities in the United States but especially when you go to these other countries and they don't have as well developed a form of financial sector as we have, these types of financial services are what they have and how they conduct financial transactions.

So it is not a question of how do we eliminate hawala in the short term. It is a question of how do we apply some level of controls and some level of transparency to a system which, as you point out, is inherently nontransparent. It is a huge challenge.

We have sort of a multi-pronged approach to how we deal with that, and the first is to try to create a regulatory environment that makes sense. There is a requirement for money services businesses—and a hawala would be considered a money service business—to register with FinCEN, to comply with certain basic anti-

money laundering requirements, customer due diligence, suspicious activity reporting.

Now, the fact of the matter is that we know that a lot of them aren't going to be doing this, but once you have that framework in place, at least you have a line so you could identify the ones that are doing business under the law and doing business not under the law. And it then gives you also a hook when you do catch a bad one, for example, in the Times Square incident—you have a hook to prosecute them for either not complying with State law, which is what I think that they ultimately pled to in that case, or not complying with the Federal requirements. So that is only the beginning of it. So you have the framework.

Then it is a matter of trying to conduct outreach here within the United States to these communities that use these services to try to bring them into the formal sector, to try to explain to them the rules. And that is something that we do as well.

On the international side of it, you are talking about a generational issue. You are talking about trying to go to these countries and help them build financial sectors. And that is ultimately the only thing that is going to work in the long term is in countries like Afghanistan, in countries like Pakistan, like the Philippines, like wherever these things might be a problem, India, to work with these governments to build formal financial sectors that could gradually over time service these populations that currently don't have access to them. And that is going to bring transparency to their financial system as a whole and help us in our counterterrorism anti-money laundering efforts.

And then finally and as importantly is our enforcement actions. So you try to create a baseline. You try to create a regulatory system that makes sense. You try to globalize that through international standards. You try to create formal alternatives to hawaladars. And then you go after the ones through law enforcement or through sanctions that you know through your investigations or through your intelligence collections are acting improperly.

Earlier this year, the Treasury Department designated the New Ansari Network in Afghanistan and Pakistan which is a hawala network that is very active for laundering millions and even billions of dollars in drug money. And we publicly identified that and went after the New Ansari Network.

Domestically, FinCEN has had enforcement actions recently against three separate hawaladars, which is a small number, but it is a start and it is something that we are trying to build on.

So it is a combination of regulation, of outreach, of international standards, and of enforcement that is going to allow us to try to make some headway. But I think you are exactly right. I am not trying to be Pollyannaish about the problem. It is a very, very difficult problem to solve. But that is at least the framework that we have for thinking about the problem and for trying to address the problem. I hope that answers your question.

Mr. GRIMM. Thank you very much.

Chairman NEUGEBAUER. I will let the Members know we are going to have another round. This is a great dialogue and discussion.

Mr. Secretary, I want to go back to Kuwait just a little bit. Obviously, in many ways Kuwait has been helpful in some of our efforts in Iraq. If we have a country, for example, that we think is in a position to facilitate money laundering and transfer for terrorism, what are some of the—I guess some of the Kuwaiti banks probably utilize our credit reserve system in transferring money. What are some actions that the United States could take to, I guess I will use the word “encourage” participation in our efforts?

Mr. GLASER. We have a lot of ways that we can try to be persuasive with respect to countries. And as I said, I will be visiting Kuwait later this month to try to foster a more vibrant cooperation on this issue.

What we have done is, when we see individuals operating in Kuwait or entities operating in Kuwait or anywhere who are involved in illicit activity and terrorist-related activity, we will target them. The RIHS, the Revival Islamic Heritage Society, is a Kuwaiti charity that we have been very aggressive with in respect to targeting. As I said, there is an individual currently residing in Kuwait that we have recently designated for being involved in an al-Qaeda network in Iran. So we have a range of sanction tools that allow us to sort of target the entity.

With respect to the broader relationship, as you point out, Kuwait is an ally of the United States, and it is about continuing to engage with them and emphasize to them the importance of acting. And frankly, it shouldn't just be about the bilateral relationship between the United States and whatever country. These aren't things that they should be doing for us. These are things that they should be doing for themselves and presents an opportunity.

[Audio gap: 46:44 - 49:28]

**[Note: From this point on, we experienced technical difficulties and we were unable to retrieve all of the oral testimony. “Inaudible” has been inserted in place of the missing words.]**

Mr. GLASER. —in Iraq was about this, to try to, in almost real time, or very quickly, do financial analysis that will be directly beneficial to the warfighter in Iraq. And it will be a partner [inaudible] I think is very successful. And that is what led to [inaudible] in Afghanistan. [inaudible] in Afghanistan has focused on that and other things as well in terms of the Afghan financial system. So these are the sorts of things that we do in countries like that to try to increase transparency, to make sure that we have people on the ground who are looking to see [inaudible] money laundering [inaudible].

Chairman NEUGEBAUER. The money is unaccounted for [inaudible]. If the money is not accounted for or you might not see evidence of it, it could be happening?

Mr. GLASER. I shouldn't rule anything out. What I can say is that we haven't seen that.

Chairman NEUGEBAUER. Is there a reluctance—you say at least these sanctions for Kuwait ought to be doing. [inaudible] consider our ally [inaudible] relationship [inaudible]. Have you seen in the Middle East, the Middle Eastern countries, an aggressive enforcement of some of these policies? It is one thing to adopt a policy.

It is another thing to enforce that policy. So while I heard you saying you have received some cooperation, I guess on the enforcement piece, what kind of verification do you have on that?

Mr. GLASER. That is absolutely right. It is hard enough to get a law passed, and then it is even that much harder to implement [inaudible] the resources and the time and the effort to do things that are difficult. And in the Middle East it has been a mixed bag around the world. We have talked a little bit about Hamas in fundraising [inaudible] and then having an institutional framework to deal with it, but haven't really addressed the issue.

In the Gulf, you see different things in different countries. Like I said, Saudi Arabia took a long time [inaudible] prosecuted.

Kuwait doesn't even have terrorist financing law.

Qatar is more in between. They have a terrorist financing law, and they have recently taken important legislative acts [inaudible]. It is still an open book how they are going to do the enforcement. And that is something they need to be very careful about and need to watch very closely and, as you say, not just take anybody's word for it.

One of the things that I am particularly proud of and happy about in terms of what we have set up internationally is the international system for assessing country's compliance [inaudible] money laundering standards because I don't think there is a system like this in the world working with the IMF, with the World Bank. There is a standard methodology, and it must be 50 pages or so before you fill it out. In the United States alone, we filled out ours. Once you got [inaudible], it was 1,000 pages long. But it is a standard methodology that every country in the world—virtually every country in the world—is subjected to in terms of [inaudible] in the country. Sometimes the United States [inaudible], looking at everything, kicking the tires, giving a full assessment by experts [inaudible] which is [inaudible], and if the report is particularly bad, they get referred to a particular [inaudible] that I actually co-chair in the [inaudible] called the International Operation Review which puts these countries on other lists and at times coordinates international [inaudible]. So there is an actual mechanism in place that I think is working in order to encourage countries to move forward and to make [inaudible] standards. And I think it is part of the whole system that we set up.

Chairman NEUGEBAUER. Mr. King?

Mr. KING. Thank you, Mr. Chairman.

I am going to follow up on Chairman Neugebauer's questions on Kuwait and also Qatar. How closely do you work with the State Department as far as coordinating efforts [inaudible] the classic example of where inter-department cooperating is very important?

Mr. GLASER. We coordinate very closely with the State Department across-the-board. Ambassador Benjamin, Dan Benjamin, is the State Department coordinator for counterterrorism. He and I [inaudible]. We have been talking to each other in the last few weeks [inaudible]. So there is no lack of coordination between State [inaudible] or any other issue for that matter. We work very closely. We work very closely.

And I agree with you. This isn't a Treasury Department issue. It is a U.S. Government issue and it is an international community issue. But I don't have any sense of [inaudible].

Mr. KING. The last 6 months [inaudible] we have been in constant budget debates on how we can cut spending, reduce spending. I am very concerned [inaudible]. But one particular one also in Treasury is cut [inaudible] FinCEN. And I have spoken to a number New York City, national, county, and State law enforcement officials who feel that cut [inaudible] is going to [inaudible] law enforcement efforts and also result in the loss of [inaudible].

So do you have any comments on how you feel you can function in those cuts made in FinCEN? I think the Administration cut the budget by about 10 percent.

Mr. GLASER. Yes. Thanks for the question.

I think what you are referring to [inaudible] because this is what I know caught the attention of a lot of State and local police—the potential cut to assets to BSA [inaudible]. That is something we work very closely with the State and locals on. Under Secretary Cohen and the Secretary have both committed [inaudible] their assets and that information. [inaudible] a very short [inaudible] in Manhattan. So I will let him know again. We understand [inaudible].

Mr. KING. Again, to emphasize the importance [inaudible] law enforcement [inaudible].

Mr. GLASER. No doubt. You are preaching to the choir.

I think, as I said in an answer to another question, that the BSA data is vitally important. I know it is particularly important, for example, [inaudible] office which does a lot of the investigations of financial institutions and the banking system. I know it is important to them. We know it is important to them. [inaudible] getting access to that information. As I said, that information is also used in passports and [inaudible] OCDETF Fusion Center which [inaudible] the information. The information is being collected for a reason. It is being collected to use and we are committed to making sure that all the law enforcement agencies that use that information have that information [inaudible] fashion.

Mr. KING. Thank you, Secretary Glaser.

Mr. Chairman, with your permission, [inaudible] by my district office. I have been more than sufficiently replaced by Congresswoman Hayworth anyway. [inaudible] Congressman Grimm [inaudible]. [inaudible] September 11th [inaudible] particularly appropriate that we have [inaudible].

Chairman NEUGEBAUER. I thank the chairman for his attendance and his contribution.

As the chairman indicated, we have joined by another great member of the New York delegation, Ms. Hayworth. And it is good to have you here and you are recognized.

Dr. HAYWORTH. Mr. Glaser, a question for you about the emerging Arab Spring movement in the Middle East. Congressman Grimm and I were both just in Israel for an intense week of information and education about what is going on there. Clearly, there are going to be a lot of challenges in terms of trying to follow activities in these nations that are undergoing upheavals in their administrations.

What is your general approach to this challenge and how can we assist in making [inaudible]?

Mr. GLASER. The role that we play at the Treasury Department is [inaudible] depending on the particular country we are talking about. With respect to Libya, for example, the Treasury Department froze over \$30 billion of Qadhafi regime assets which I think was very important in helping [inaudible]. We are working very closely now on ensuring that funds [inaudible] Libya. So that is something that is actually taking quite a bit of our time and effort [inaudible]. It has been very interesting [inaudible].

In the case of Syria—and it is something that we talk to each other about [inaudible]. I think we have been pretty aggressive in the way we have applied our sanctions to the [inaudible] regime [inaudible] including applying sanctions against their head of state personally. So that is, working on identifying the various elements [inaudible] as a whole in terms of targeting [inaudible] financial measures is what we have done in that case.

I will say I think that is a particularly important case as we watch what plays out vis-a-vis Iran. And Syria is unfortunately an ally of Iran. And [inaudible] positive outcome [inaudible] regime. It is something [inaudible] and we try to follow very closely. [inaudible] cases here have been [inaudible]. So in the case of Syria, that is where we have been focused on.

Now, with respect to other jurisdictions, Tunisia, Egypt, those are situations which have been a little bit different for us Treasury Department [inaudible]. The financial side of that has been [inaudible] by these governments or these new governments to try to trace the assets of some of their former rulers that may have been stashed in one place or another. And Mr. Grimm and I had an exchange before that wasn't directly related to that, but we talked about the things that we need to be good about in the United States to make sure that the United States isn't a place where corrupt foreign leaders feel that they could bring their money. That is something that we work hard on, on the regulatory side.

But in terms of providing direct assistance to efforts like that by foreign governments, those are judicial processes which the Department of Justice really has to lead on in terms of responding to mutual legal assistance requests, responding to letters rogatory, executing warrants, opening investigations, things like that that can be useful to governments like that. So in those two areas, that will be an area where I think the Justice Department has really taken the lead.

Dr. HAYWORTH. In these sovereign nations that are undergoing essentially regime change, do you find that it becomes—I would think just intuitively that it would become harder to track information if their institutions of government are undergoing a certain amount of upheaval. How do you cope with that kind of challenge? Is there much of that kind of challenge or not particularly? And if so, how do you—

Mr. GLASER. Again, [inaudible] in like countries, say, like Egypt or Tunisia where you see international assistance [inaudible] assets that have been misappropriated by former regime officials, there are tremendous challenges that they face in terms of meeting legal requirements that the foreign country [inaudible] providing a lot of

the assistance. You just can't [inaudible] and give it to somebody else. As you point out, [inaudible] appropriate [inaudible] process to do that. And that is something [inaudible] Justice Department very closely with. And frankly, the World Bank even provides [inaudible] people who go to these countries and provide assistance on how to conduct a [inaudible], what sort of information you need to provide to the international community in order to be responsive. And so, that is an ongoing thing.

With respect to [inaudible] sanctions in the case of, say, Syria or in the case of Libya, that is a whole different thing because the effort there is to identify these funds [inaudible] international. We have all sorts of tools that allow us to try to identify where those assets are. And there is then an obligation, say, in the United States on international institutions to report to us, to do research and report to us what they have found. So, for example, [inaudible] in the case of Libya [inaudible], that was—we issued a blocking order and then the [inaudible] came back to us and told us what they had and we took it from there.

So with respect to places like Tunisia and Egypt, [inaudible] lots of help that they need in terms of [inaudible] financial investigations and understanding how the international process works in terms of [inaudible].

In terms of implementing our sanctions, we are pretty good. We are pretty good at that.

Dr. HAYWORTH. Thank you.

Chairman NEUGEBAUER. Mr. Grimm?

Mr. GRIMM. Mr. Chairman, I think that we have [inaudible] quite a bit of information so far. [inaudible] questions.

Chairman NEUGEBAUER. Ms. Hayworth, do you have any more questions?

Dr. HAYWORTH. I do actually. If I am being redundant, just [inaudible].

Certainly again, having been in the Middle East, the issue of Iran and Saudi Arabia [inaudible] feels very much as though those are the giants of terrorists [inaudible] talk about, particularly of radical Islamists [inaudible], Hamas. Saudi Arabia obviously is—Iran is [inaudible]. Saudi Arabia is a friend [inaudible]. But that is a particular challenge, isn't it, to try to [inaudible] what may be counter to our best interests in terms of the Saudi Arabian dealings? What should we be thinking about [inaudible]?

Mr. GLASER. I agree with you that Iran and Saudi Arabia are certainly two of the most influential, if not the two most influential countries in the Middle East region, but they are oceans apart in terms of their approach to [inaudible] state-sponsored terrorism. Iran provides [inaudible] Hamas, Hezbollah, as a matter of state policy. And as I mentioned earlier, just recently that we exposed al-Qaeda [inaudible]. So Iran [inaudible].

Dr. HAYWORTH. It makes it somewhat easier to—

Mr. GLASER. Right. In the case of Saudi Arabia, there is no [inaudible] at all nor has there been—

Dr. HAYWORTH. No, state-sponsored, no, none.

Mr. GLASER. As I said earlier, I am really happy [inaudible]. Saudi Arabia—it took Saudi Arabia a while to, I think, fully appreciate the importance of going after the financial components of ter-



rorism. I think for quite some time, Saudi Arabia felt that it could fight and they would fight terrorism within the kingdom itself. And they were fighting it [inaudible] but that they would focus their efforts there and not have to worry so much on the [inaudible] leaving the kingdom to [inaudible]. I think that was a mistake. We at the Treasury Department have been very vocal about that. I testified [inaudible] before Congress about our concerns about that.

I think that Saudi Arabia has made tremendous strides in recent years in the area. As I said, Saudi religious authorities have issued a fatwa condemning terrorist financing. Saudi Arabia has had arrest and public prosecutions of individuals involved in terrorist financing. There is now a Treasury Department attache at our embassy in Riyadh who is from our house, from TFI, who is there specifically to work with Saudi Arabia on these issues. So we have been very pleased with the progress there.

That is not to say that everything is perfect there. Things aren't perfect there and Saudi Arabia remains a very important source of terrorist financing. But I think that we have an increasingly willing partner to target. I wish I could say that about all the countries in the Gulf. There are countries that we have concerns about in the Gulf. But Saudi Arabia I think is [inaudible].

Dr. HAYWORTH. That is great to hear. Nor was I endeavoring to imply that Saudi Arabia is [inaudible] terrorism.

Mr. GLASER. No, no.

Dr. HAYWORTH. No, it is not. But clearly, one thinks of bin Laden and there has been that element there and much opportunity because of the resources Saudi Arabia and its citizens.

Looking toward the future, looking as we approach this [inaudible] challenge, what made the difference? What has made the difference in Saudi Arabia to make the Saudi Arabian government a little more responsive to your entreaties to them to do more in terms of action regarding [inaudible] compliance in terms of—and being [inaudible] other countries?

Mr. GLASER. That is a good question. I can speculate as to what their decision-making process [inaudible] evolution of that decision-making process. I think over time they came to understand that you can't make [inaudible]. These are global terrorist organizations. That ultimately is going to come back to haunt them directly, that it is something that they need to do for their own security, for their own purposes.

I think in assessing [inaudible] earlier issues relating to [inaudible] ideology, and it has been a real challenge I think for Saudi Arabia to unwind a lot of that and to really in a very serious way show leadership. Saudi Arabia is a leader in the Arab world and is a leader in the Islamic world in a lot of ways. And I think an important challenge for them was figuring out how to show leadership in this particular area and understand that it is not inconsistent with the role that they play. So I think it has been an evolutionary process.

I hope that we could take some credit for that. We worked in the U.S. Government and in the Treasury Department in particular, and we worked over the years very, very hard, when we thought that they weren't doing the right thing, to be very, vocal about that. And that was not an easy or pleasant process, I can assure

you of that. But we thought it was very important to do and we did it. I actually think we persuaded them that this was in their interest as well as our interest, as well as the region's interest, as well as the international community's interest. So I think people [inaudible] who is in charge of their security force—I think that they understand terrorist financing now and I think [inaudible].

Look, again, I don't want to be Pollyannaish about this. There is a significant amount of terrorist financing that does not originate in Saudi Arabia. It is still something that we are working on. But as I said, the difference between now and I think a couple of years ago is we feel [inaudible] increasing [inaudible] on this.

Dr. HAYWORTH. With the chairman's indulgence, may I ask one more question?

With regard to [inaudible], one of the reasons Saudi Arabia [inaudible] there is probably a certain rivalry with Iran in terms of leadership of the Islamic world, and certainly there is a fair amount of economic pressure on Saudi Arabia to maintain good relationships with the United States to [inaudible] our enemies. But immediately then [inaudible] goes to China and [inaudible] economically, and China's role in influencing these niches vis-a-vis the United States [inaudible]. But are there concerns [inaudible]—are there concerns emerging out of China as a potential source in some way or conduit [inaudible] facilitators [inaudible]?

Mr. GLASER. China is one of the newer members of the Financial Action Task Force, and they have actually been, I think, representative of [inaudible] which I have a lot of respect for them. [inaudible] and they are very strong members in international policy discussions as it relates to money laundering and terrorist financing. I think that they understand it.

We are not asking anybody to do us any favors. These are things countries are doing for themselves. And I think that they understand [inaudible] with the Chinese financial system, transparency is important and they need to enforce transparency with the Chinese financial system, and they are trying to do that in a very [inaudible]. And I think they have had impressive results.

We have worked—as part of economic dialogue that we have with China, there is [inaudible] terrorist financing [inaudible]. I led a delegation to China last year. That included people from the Justice Department [inaudible]. [inaudible] to work with them on [inaudible] issues. There is a Chinese delegation coming in I think this month to meet with us again [inaudible]. [inaudible] cooperation, it has been very [inaudible] Chinese and very, very strong.

The issues that we have with China—and the issues [inaudible] of course, with respect to countries like Korea and Iran. Those are things that we continue to [inaudible]. [inaudible] make frequent visits in China, and I think China [inaudible]. I may be going to China next week. I am hoping to go to China soon to talk to them about those issues. China is, obviously, a member of the Security Council. [inaudible] resolutions has stated that they are committed to implementing these resolutions.

Dr. HAYWORTH. But what are they [inaudible]?

Mr. GLASER. There is a lot of room for interpretation in these resolutions, and we take our standard U.S. Treasury [inaudible] interpretations, and they don't always have the exact same reading

[inaudible]. They know how to read a resolution themselves, and they do and they are a sovereign country.

But again, these aren't things that we are asking them to do for us. These are things that are important for all countries [inaudible] United States [inaudible] on those issues. And those are [inaudible] critical issues [inaudible].

Dr. HAYWORTH. Does their relationship with Venezuela play into your thoughts?

Mr. GLASER. With respect to—

Dr. HAYWORTH. Hugo Chavez.

Mr. GLASER. With respect to Iran—if the question is really to Iran.

Dr. HAYWORTH. Iran, yes.

Mr. GLASER. Look, Iran has tried to make inroads into Latin America for political reasons and probably for economic reasons also, and there are a variety of governments in Latin America that [inaudible] a good example of that. But these political efforts haven't really been matched by real economic trade or cooperation in any significant size. This is something that we monitor very carefully. There is one Iranian [inaudible] that is in Venezuela. [inaudible] actions on that. But for the most part, the actuality of Iran's penetration into Latin America has not matched the rhetoric, but it is something to be concerned—it is something that we watch very [inaudible].

Dr. HAYWORTH. Thank you.

Chairman NEUGEBAUER. I just have one more. [inaudible] Iranian [inaudible]. That is a concern that I have as well. When you look at allocating resources to this important area, are we making the right [inaudible]? Right now we have a—we recently had a hearing on OFR. [inaudible] unlimited budget [inaudible] process [inaudible] institutions [inaudible]. We [inaudible] going for [inaudible] for right now and [inaudible]. So \$500 million—[inaudible] \$500 million OFR. Their [inaudible] budget is going [inaudible] \$24 million. And I think that is the budget we have [inaudible]. It's around \$203 million. Are we allocating our resources appropriately? We are spending those kind of dollars to collect data when we [inaudible] people [inaudible].

Mr. GLASER. These are important questions that I know that you as a Congressman and the White House need to work on in terms of how to—the appropriate size of the budget and how to allocate the funds. We are very happy with the funds that we have. We will do our job within the President's budget.

Chairman NEUGEBAUER. Mr. Secretary, [inaudible] the question here is—because we are dealing with a limited amount of resources and the way we spend that money is important for the American people. We have to make some priorities and I think that certainly keeping America safe is one of the priorities we have.

Mr. Secretary, I thank you. I thank my members [inaudible].

The Chair notes that some Members may have additional questions for this witness that they wish to submit in writing. The record will remain open for 30 days so that members can submit questions to this witness and place his responses in the record.

And with that, this hearing is adjourned.

[Whereupon, at 11:34 a.m., the hearing was adjourned.]

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

September 6, 2011

Opening Statement  
Chairman Randy Neugebauer  
Oversight & Investigations Subcommittee  
Field Hearing in New York, NY

"Combating Terrorism Post-9/11: Oversight of the Office of Terrorism and Financial Intelligence"

September 6, 2011

---

I want to thank the Members and Assistant Secretary Glaser for joining us at this important field hearing at a time of reflection and remembrance for our nation. I would also like to express our sincere gratitude on behalf of the American people for all of the work that the employees of the Office of Terrorism and Financial Intelligence do to keep us safe. It truly is a public service and we thank you.

Ten years ago our way of life and our very freedom came under attack in a series of deliberate and deadly terrorist acts. According to the 9/11 Commission, al Qaeda financed these attacks with only \$500,000 — a relatively small amount considering the tragic loss of life and the significant impact on the global economy. It is clear that sufficient funding is a requirement for a successful terrorist attack and that when terrorist organizations are deprived of such funding their capacity to inflict harm is significantly diminished.

The importance of depriving terrorists of their enabling means led to the creation of a new office within the Treasury Department, the Office of Terrorism and Financial Intelligence, or TFI, in 2005. The mission of TFI is to combat rogue nations, terrorist facilitators and other national security threats by choking off their financing. Our hearing today will give the public

a better understanding of what TFI is doing to protect our homeland by disrupting terror financing networks.

Since 9/11, terrorist's use of the formal banking system appears to have declined, which has led to more innovative methods to fund terrorist activities. Everything from prepaid access cards; to bulk cash transfers; to kidnapping and extortion for profit are used by terrorists to move funds. The evolving nature of terrorist financing and the lack of a standard profile for money laundering activity make it imperative that TFI and other agencies stay one step ahead of our enemies.

TFI has been successful by gaining visibility into the financial transactions of terrorists by using anti-money laundering laws and regulations to access raw financial intelligence from the prudential regulators of financial institutions. While this approach has been very successful, there are some lingering policy questions related to the reliance on the AML regime to combat terrorism finance; especially given the evolving nature of terrorism finance and evidence that terrorist organizations are primarily using informal methods of money transfer. We look forward to addressing these issues with Assistant Secretary Glaser today.

Finally, it is worth mentioning that in the age of globalization it is not enough for TFI to protect the U.S. financial system from bad actors. Terrorists and their supporters must also be prevented from accessing the global financial system. While TFI has made important progress with our international allies in disrupting terrorist financial support networks, – especially in Saudi Arabia and the UAE – the U.S. government still considers the Arabian Peninsula the most important source of financial support for al Qaeda. We look forward to working with TFI, the

Administration and our allies to improve the financial defenses in this region.

Members will be asking these questions and more because we take our oversight role very serious. I am aware that much of the information about the impact of TFI's policies cannot be discussed in an unclassified environment. I hope that Treasury will work with the Subcommittee to provide Members with regular updates on TFI's activities. I also hope that the Assistant Secretary will let us know if there are bureaucratic inefficiencies or red tape that Congressional action can address.

Congress stands by the Treasury in its fight against the financing of terror and we are here to help the Office of Terrorism and Financial Intelligence in any way that we can. As we are acutely aware, those charged with protecting us from attack have to be right 100 percent of the time, while our enemies only have to succeed once to inflict wide scale devastation.

###



**Testimony of Daniel L. Glaser, Assistant Secretary of Terrorist Financing,  
U.S. Department of the Treasury, before the  
House Financial Services Subcommittee on Oversight and Investigations  
“Combating Terrorism Post-9/11:  
Oversight of the Office of Terrorism and Financial Intelligence”  
September 6, 2011**

**INTRODUCTION**

Chairman Neugebauer, Ranking Member Capuano, thank you for inviting me today to testify on our efforts to combat terrorist financing. In the ten years since the tragic attacks of September 11th, 2001, the U.S. Government has made great strides in developing a comprehensive, whole-of-government approach to combating terrorist financing drawing on all tools of national power. Critical to this evolution has been a recognition that the Treasury Department—and the financial tools it wields—is central to our counter-terrorism efforts and, indeed, our national security as a whole.

Like other threats to U.S. and international security, terrorist groups need money to survive. While the cost of an individual terrorist attack is frequently quite low (the terrorist group al-Qa’ida in the Arabian Peninsula recently boasted in its official magazine *Inspire* that its “cargo plot” cost only \$4,200), recruiting, training and sustaining operatives, procuring weapons, compensating the families of so-called “martyrs” and garnering support from local populations requires substantial sums. As former, and now deceased, al-Qa’ida-Financial Chief Sa’id Al-Masri aptly put it, “without money, jihad stops.” And because money raised by terrorist groups from deep-pocket donors, state sponsors and, increasingly, criminal activity often flows through the international financial system, these financial networks are vulnerable to identification and disruption.

I’d like to talk to you today about the U.S. and international response to this threat. I will describe the development of the USG’s comprehensive strategic approach, focusing in particular on the creation of Treasury’s Office of Terrorism and Financial Intelligence (TFI) and the increasingly important role of finance ministries in national security. I will discuss our efforts to identify, disrupt and dismantle terrorist financial networks, as well as our work to safeguard the global financial architecture from this threat. Finally, I will address some of the key challenges facing the U.S. and international community.

**THE CREATION OF TFI**

**Early Efforts**

Prior to 9/11, the U.S. national security community, still in the shadow of the Cold War, had yet to fully grasp the significance of the terrorist threat. Not surprisingly, terrorist financing was not high on the national security agenda. Charities like the Holy Land Foundation (HLF)—which was designated in December 2001 for providing support to Hamas—raised over \$13 million in

2000 and operated openly in the United States with offices in Texas, Illinois, New Jersey and California.

September 11<sup>th</sup> served as the catalyst for a dramatic paradigm shift in the national security community and an attendant recognition that terrorism was a primary threat to the homeland and our interests abroad. A galvanized interagency quickly identified the importance of attacking the financial infrastructure of terrorism as an effective counter-terrorism strategy. The efforts of U.S. law enforcement are particularly noteworthy. FBI financial investigators, coordinated out of the Terrorism Financing Operations Section (TFOS), marshaled the shared resources of law enforcement, through Joint Terrorism Task Forces (JTTFs) across the country, integrating intelligence through unprecedented cooperation with the CIA. These efforts resulted in a number of successful domestic terrorist financing cases against organizations like the Holy Land Foundation, Al-Barakaat, Global Relief Foundation and Benevolence International.

Treasury, armed with new authorities under Executive Order 13224 to freeze the assets of "Specially Designated Global Terrorists," was an important part of these early efforts. Working in close coordination with law enforcement counterparts, the Office of Foreign Assets Control (OFAC) designated HLF and other entities and associated networks, shutting down critical financial nodes of Al-Qa'ida, Hamas and other foreign terrorist organizations. In part because of these important achievements, in December 2005, the 9/11 Commission's Public Discourse Project awarded its highest grade, an A-, to the U.S. government's efforts to combat terrorist financing. Today, I can confidently say that the U.S. is no longer fertile ground for terrorist fundraising. However, given the notorious resilience of terrorist groups, we remain vigilant against a resurgence of this activity.

#### *TFI and its Strategic Approach*

Despite these initial successes, Treasury leadership recognized that the Department's full capabilities were yet to be realized in the absence of a more comprehensive strategic approach and the institutional framework to carry it out. Accordingly, in the wake of the dissolution of Treasury's Office of Enforcement and the establishment of the Department of Homeland Security, the Treasury Department, working with Congress, created the Office of Terrorism and Financial Intelligence (TFI) in 2004. The creation of TFI, the first office of its type in the world, was a revolutionary development in the national security arena. Counterterrorism and security policy have traditionally been the province of foreign affairs, defense, intelligence, and law enforcement officials – not finance officials.

TFI's mission is to marshal the Treasury Department's policy, enforcement, regulatory, and intelligence functions to sever the lines of financial support to international terrorists, WMD proliferators, narcotics traffickers, and other threats to our national security. We seek to meet this responsibility by striving to achieve two overarching goals:

- Identifying, disrupting and dismantling the financial networks that support terrorists, organized criminals, WMD proliferators, and other threats to international security.

- Identifying and closing vulnerabilities in the U.S. and international financial systems that make them susceptible to abuse by terrorists, organized criminals, WMD proliferators, and other threats to international security.

TFI possesses a variety of tools to accomplish these goals. To identify, disrupt, and dismantle illicit financial networks we have a number of targeted financial measures at our disposal, including economic sanctions. We also have newer regulatory authorities such as Section 311 of the USA PATRIOT Act, which allows us, among other things, to deny access to the U.S. financial system to jurisdictions, financial institutions, types of accounts or classes of transactions determined to be of “primary money laundering concern.” Leveraging the “soft power” of the Treasury Department, we also share intelligence and engage directly with foreign governments and financial institutions at risk of abuse by illicit financial activity.

To close vulnerabilities in the international financial system, we seek to strengthen financial transparency across the formal financial sector and expand such transparency to the informal sectors such as hawala and other informal remittance systems. This has not been limited to the U.S. financial system, but has included efforts to strengthen global standards and facilitate implementation of effective anti-money laundering regimes in countries around the world. And we have leveraged our expertise, experience and global relationships in combating money laundering to develop and integrate global standards to combat terrorist financing.

Underpinning virtually all of our efforts is a focus on developing financial intelligence, an effort that is embodied in our Office of Intelligence and Analysis (OIA). With the creation of OIA, Treasury became the first finance ministry in the world to develop in-house intelligence and analytic expertise to use this information. As a full member of the Intelligence Community (IC), OIA’s ability to work with its IC counterparts to map the financial networks of our terrorist adversaries is what allows us to take action- be it a designation, the identification of a new terrorist financing typology requiring the development of a new multilateral regulatory standard, or a conversation to alert the private sector and government officials in another country to a particular threat.

Financial intelligence also serves a broader purpose in our counter-terrorism efforts. Money trails don’t lie, making financial information a uniquely reliable source of intelligence on terrorist networks as a whole. “Following the money” can often yield valuable insights into a terrorist organization and help discover previously unidentified leadership and support nodes.

#### **THE IMPACT OF TFI**

In less than eight years, TFI has had a dramatic impact on our national security. Through the use of targeted financial measures, the development of innovative mechanisms for collecting financial intelligence and sustained engagement with key jurisdictions, we have systematically undermined terrorist financial networks across the globe, with notable success against core Al-Qa’ida, our greatest threat. Working through the Financial Action Task Force (FATF), the G7 and the G20, the International Monetary Fund (IMF) and World Bank and other multilateral bodies, we have promoted transparency throughout the international financial system and have integrated robust systemic anti-money laundering/countering the financing of terrorism

(AML/CFT) safeguards into the international financial architecture. This global AML/CFT architecture has enabled us to systematically identify and address terrorist financing and broader illicit financing vulnerabilities in the international financial system on an ongoing basis. I would like to take a moment to discuss some of these successes in more detail.

*Developing a Global AML/CFT Framework*

The global nature of the terrorist threat and the increasing interdependence of the international financial system require a global approach to combating terrorist financing. TFI has worked with its interagency and international partners to help create a global AML/CFT framework as a foundation for taking action against specific terrorist financing threats and for closing down vulnerabilities that terrorist networks exploit. This framework consists of several intergovernmental organizations that collectively develop, assess and facilitate jurisdictional implementation of measures that are essential to combating various forms of illicit finance, including terrorist financing. Such organizations include:

- **Financial Action Task Force (FATF)** – The FATF is the premier international policy-making and standard-setting body in the international effort against terrorist financing, money laundering, and other illicit finance. Established by the G-7 Economic Summit in 1989, the FATF is an intergovernmental body that has grown to include 36<sup>1</sup> members, representing most major financial centers in all parts of the globe. The FATF sets global AML/CFT standards, promotes and assesses compliance with those standards, and, when necessary, promotes compliance through diplomatic pressure and coordination of economic countermeasures through its member governments. Through a combination of technical expertise and political and economic strength, the FATF has been unique among international bodies in its ability to take strong, effective multilateral action to prompt positive change in strengthening jurisdictional AML/CFT regimes worldwide.

TFI manages the FATF program for the U.S. government and heads the interagency U.S. delegation to the FATF. The U.S. delegation to the FATF includes the Departments of State, Justice, and Homeland Security; the Federal Reserve Board; the Securities and Exchange Commission; other federal financial regulatory agencies; and federal law enforcement agencies.

- **FATF-Style Regional Bodies (FSRBs)** – Through the FATF, TFI and its interagency and international partners have also supported the creation and development of eight independent FSRBs that serve as leaders in their respective regions for advancing AML/CFT policy, including by conducting periodic compliance assessments of member jurisdictions against the FATF's AML/CFT standards. In conjunction with the FATF, these bodies are intended

---

<sup>1</sup> FATF members include Argentina; Australia; Austria; Belgium; Brazil; Canada; Denmark; European Commission; Finland; France; Germany; Greece; Gulf Cooperation Council; Hong Kong, China; Iceland; India; Ireland; Italy; Japan; Luxembourg; Mexico; Kingdom of the Netherlands; New Zealand; Norway; People's Republic of China; Portugal; Russian Federation; Singapore; South Africa; South Korea; Spain; Sweden; Switzerland; Turkey; United Kingdom; and the United States.

to establish a global framework for ensuring the adoption and implementation of the FATF standards.

- **Group of 20** – The Group of 20 (G-20) Ministers have endorsed the important work of the FATF in combating money laundering and terrorist financing, most recently by calling for the FATF to publicly identify countries of concern for money laundering and terrorist financing. TFI works with AML/CFT experts in the G-20 countries to adequately respond to the G-20 calls and facilitate multilateral action in protecting the international financial system from abuse by illicit actors.
- **United Nations** – The UN Security Council has emerged as the backbone of the global counter-terrorist financing effort over the past 10 years. UN Security Council Resolution (UNSCR) 1267 and its successor resolutions, overseen by the UN 1267 Committee, have created the only binding international legal obligation for member states to freeze the “economic resources” (i.e. funds and other property) of, and prohibit dealings with, designated individuals and entities affiliated with al-Qa’ida. We have worked closely with the State Department to submit new al-Qa’ida fundraisers, facilitators, and fronts to the UN for designation and to ensure full member state implementation of UNSCR 1267 obligations. Due to this outreach and broad international acceptance of the UN mandate, this effort has been remarkably successful with designated terrorists finding it very difficult to continue operations after they have been designated, although there are, of course, notable exceptions.

We have been less successful, however, in promoting compliance with UNSCR 1373, another, equally important though less visible, sanctions regime. The direct response to September 11<sup>th</sup>, UNSCR 1373 obligates UN member states to develop appropriate national authorities and procedures to implement targeted economic sanctions against all individuals and entities that engage in or support terrorist activities. UNSCR 1373 therefore goes beyond the reactive obligation to block the property of, and prohibit dealings with, UNSCR 1267-listed terrorists. Instead, it requires member states to implement sanctions against any person or entity involved in terrorist activity proactively, regardless of whether specifically designated at the UN. In other words, it requires countries to develop national sanctions programs similar to what we have developed in the U.S. The failure of countries around the world to develop such programs stands as one of our biggest terrorism financing challenges going forward and highlights the need for finance ministries worldwide to play a more active role in national security.

- **International Financial Institutions** – The World Bank and International Monetary Fund (IMF) have become strong partners of the FATF and U.S. Treasury Department in assessing global compliance with international AML/CFT standards, and providing high-quality technical assistance. In 2001, the World Bank and IMF officially recognized the FATF Recommendations as one of the 12 Key International Standards and Codes. Since then, the FATF, the World Bank and IMF worked together to develop a joint standardized methodology for assessing countries against the FATF Recommendations. Today, all formal World Bank and IMF Financial Sector Assessment Programs (FSAPs) must contain a full AML/CFT component and the World Bank, IMF, and the FATF are coordinating to ensure

that virtually every country in the world is subject to an AML/CFT assessment using the joint methodology.

*Working to Close Vulnerabilities in the Informal Sectors*

One of Treasury's core missions is to safeguard the domestic and international financial system from abuse by identifying and closing vulnerabilities that terrorist organizations, WMD proliferators, drug kingpins, and other criminals and their illicit networks exploit. This strategic approach safeguards the financial system from terrorism and other abuse by promoting transparency, particularly across higher risk elements of the financial system, which I will describe in greater detail below. Transparency in the financial system is necessary in allowing financial institutions, law enforcement, regulatory authorities, and others to identify sources of illicit finance and those individuals and entities that comprise illicit finance networks.

Since its inception, TFI has been a leader in identifying and working to mitigate these key systemic vulnerabilities. Cooperating with interagency and international partners, we have developed strategies to combat the risks posed by the abuse of hawalas and other informal value transfer systems, charities, cash couriers, new payment methods and other areas of concern. Below, I set forth a brief summary of how we have addressed these issues.

**Hawala:** The Treasury Department has long-recognized the vulnerability of informal value transfer systems to illicit finance. Treasury has worked to address the vulnerabilities presented by informal value transfers through a four-pronged approach: targeted financial sanctions and enforcement actions; systemic regulation; outreach; and international engagement. Both domestically and internationally, our goals are the same: to bring hawalas into the formal financial system and to hold illicit actors to account. The international component of our strategy includes standard setting through FATF. One of the FATF's Special Recommendations is dedicated exclusively to informal value transfer systems. It calls upon member states to license and register hawalas, while putting effective civil, criminal, and administrative sanctions in place for hawalas that fail to do so. Another core component is targeted sanctions on such illicit actors as the New Ansari Network, a major money laundering vehicle for Afghan narcotics trafficking organizations, which OFAC designated in February 2011 under its counter-narcotics authorities.

Domestically, hawalas, like other money services businesses, are required to register with the Financial Crimes Enforcement Network (FinCEN), a bureau within the Treasury Department. We have worked to establish a transparent financial system with appropriate AML/CFT requirements on informal financial service providers. Where these requirements are not observed, it is important that we act. To date, FinCEN has taken civil enforcement actions against four unregistered money transmitters. Treasury is also working to ensure that our domestic regulatory regime is as robust as possible. We are engaging in rulemaking to impose cross-border reporting requirements on all cross-border wire transfers above one thousand dollars for all money transmitters. This will enhance our understanding of cross-border money flows through the industry and inform our outreach, enforcement and regulatory compliance efforts.

- **Charities:** Protecting charities from terrorist abuse is a critical component of the domestic and global fight against terrorism. Charities provide essential services, comfort, and hope to those in need around the world. Unfortunately, terrorists have exploited the charitable sector to raise and move funds, provide logistical support, encourage radicalization and terrorist recruitment, or otherwise support terrorist organizations and operations. This abuse threatens to undermine donor confidence and jeopardizes the integrity of the charitable sector, whose services are indispensable to the world community. TFI works to protect the charitable sector through a multi-prong approach that includes: targeted investigations and enforcement actions to disrupt charities associated with terrorist organizations; private sector outreach to inform the public of terrorist abuse of the charitable sector, provide guidance on ways to mitigate against such abuse, and explain government actions, such as OFAC designations; and international engagement to help develop and promote international standards related to protecting charities from terrorist abuse, working with countries to implement such standards, and specific engagement with countries of concern or vulnerable to abuse. Through active engagement, governments and the private sector can identify terrorist financing risks, clarify obligations and best practices, facilitate compliance with relevant laws, and help promote charitable giving while reducing the threats of terrorist abuse.
- **Cash Movements:** The physical movement of cash within jurisdictions and cash smuggling across borders are consistently used to move the proceeds of crime and play a significant role in the financing of terrorism. Criminals and terrorists seek to move funds in a form that is both familiar and comfortable. The use of cash is attractive to criminals mainly because of its anonymity and lack of audit trail. Terrorists are looking for the same flexibility when moving funds. By using cash, terrorists are able to stay close to their money without having to place those funds into the financial sector, which automatically creates some form of audit trail.

We have worked with the FATF to create standards that are designed to detect and prevent the illicit cross-border transportation of cash and bearer negotiable instruments. The FATF has also produced guidance which includes a list of red flag indicators that could be used to detect cash couriers and asks countries to consider not issuing large denomination bank notes. The FATF has also created standards on the reporting of large-value cash transactions and has recognized the benefits and usefulness these reports present to law enforcement.

- **New Payment Methods:** The emergence of new payment methods in recent years has helped many people at home and abroad participate in the formal financial system for the first time, which helps us in the fight against money laundering and the financing of terrorism. Prepaid cards, mobile payments, and funds transfers via the Internet can bring added transparency to the financial system when they replace cash and transactions made through unlicensed service providers. However, new payment technologies can also create new vulnerabilities if these payment tools are not adequately covered by anti-money laundering and counter-terrorist financing regulations. To address that, we are working domestically and through the FATF to ensure that our safeguards keep pace with

payment system innovations. Providers of prepaid access are currently required to register with FinCEN as money services businesses. Moreover, earlier this summer, FinCEN issued a final rule applying customer identification, recordkeeping, and reporting obligations to providers and sellers of prepaid access.

#### Targeted Action and Diplomatic Engagement

For decades, economic sanctions have been one of our most powerful tools to disrupt illicit financial networks and apply economic pressure on our adversaries. Combining this time-tested approach with sustained diplomatic outreach, TFI has enjoyed significant success in freezing terrorist groups out of the international financial system and encouraging foreign counterparts to take parallel action.

Our engagement with Saudi Arabia, one of the countries most central to our global counter-terrorism efforts, is a prominent example of this successful approach. A country of great wealth struggling with religious extremism, Saudi Arabia has historically served as and remains a primary source of funds for al-Qa'ida and its adherents. To address this threat, we have employed targeted sanctions and continuous diplomatic engagement and intelligence sharing with impressive results. While our partnership with Saudi Arabia on combating terrorist financing has not always been excellent, over the years it has grown increasingly strong and vibrant.

One of our most significant actions was a series of U.S. and UN designations of the Al-Haramain Islamic Foundation, a Saudi-based charity that provided significant financial support to al-Qa'ida. Saudi Arabia's support for these actions, including joint sponsorship of the UN designation of Al-Haramain's branch network, was an important early step by Saudi Arabia. Even more significant were the additional steps Saudi Arabia took to combat the abuse of its charitable sector by enhancing financial controls on charitable financial flows to ensure that funds intended for humanitarian purposes do not benefit extremist groups or support terrorist activity.

Over the years, we sought to build on these steps and have consistently encouraged Saudi Arabia to bolster its efforts to identify and take proactive steps against domestic terrorist financing networks rather than approach the problem in a reactive manner. We have done this by, among other things, institutionalizing our counter-terrorist financing relationship through establishing a Treasury attaché office at the U.S. Embassy in Riyadh.

In recent years, we have seen the beginnings of a shift in Saudi Arabia's own internal calculus regarding the terrorist threat stemming from a number of internal terrorist attacks—including one against Saudi Arabia's senior counter-terrorism official. Today, Saudi Arabia is moving in the right direction. In May 2010, the Council of Senior Ulema, the highest religious authority in Saudi Arabia, issued a key religious ruling (fatwa) against terrorist financing. The fatwa has the force of law in Saudi Arabia, and is emblematic of the Saudi political will to address terrorist financing concerns. Moving forward, it will be important to continue to build on this



relationship, and to encourage other countries in the region—in particular Qatar and Kuwait—to follow Saudi Arabia’s lead in its efforts against terrorist financing.

Our efforts to attack Hamas financial support networks have also evolved over the years and have included a combination of targeted financial action and increasingly close partnerships with foreign counterparts. While Hamas today derives most of its financial support from Iranian state sponsorship and from its control over Gaza, for most of its history it was dependent on a vast network of charities for sustenance. A critical part of our early efforts to target this infrastructure was the shuttering of Hamas-affiliated U.S. charities, such as the Holy Land Foundation, and our designation of its European network in 2003. This sprawling network, comprised of a number of charities including the Comité de Bienfaisance et de Secours aux Palestiniens (CBSP-France), the Association de Secours Palestinien (ASP-Switzerland), the Palestinian Relief and Development Fund (Interpal-UK), the Palestinian Association in Austria (PVOE-Austria) and the Sanabil Association for Relief and Development (Lebanon), falls under an umbrella organization known as the “Union of Good,” which was also designated by the U.S. in 2008. Unfortunately, despite these designations and years of information sharing and diplomatic outreach, European governments have failed to take adequate steps to remove these organizations from Hamas’ international network. We continue to work closely with our colleagues at the State Department, in particular Coordinator for Counterterrorism Ambassador Daniel Benjamin, to press our European partners to dry up Europe-based financial support to Hamas.

We have, however, enjoyed strong partnerships with the Palestinian Authority and Palestinian Monetary Authority. I have met with Palestinian leaders regularly over the past several years both in Ramallah and in Washington and have found them consistently responsive to U.S. concerns over terrorist organizations’ penetration into Palestinian financial institutions and non-governmental organizations (NGOs). They have been proactive in promoting AML/CFT reform through the passage of an anti-money laundering law and the creation of a financial intelligence unit. Moving forward, it will be important for the Palestinian Authority to continue to remain vigilant to the threat posed by Hamas and other terrorist financial networks, and in particular by Hamas-affiliated charities operating in the West Bank. In 2008, we established an attaché office at the Consulate General in Jerusalem to enhance our ability to cooperate with the Palestinian Authority on these and other matters.

Unfortunately, we do not always have strong local partners to support our counter-terrorism efforts. In the case of Iran and its support for a diverse array of designated terrorist groups including Hamas, Hezbollah, the Taliban and, alarmingly, al-Qa’ida, unilateral action has often been our only recourse. Hezbollah, Iran’s primary terrorist proxy and foothold in the Arab world, has long been a focus of our attention.

As a global organization with unparalleled financial and commercial resources—former Deputy Secretary of State Richard Armitage famously called the group the “A Team” of terrorists—Hezbollah has necessitated a global response. Accordingly, we have pursued a dual track approach of financial pressure against both the center and periphery of this far-flung network. In

Lebanon, we have designated Hezbollah leadership as well as core business enterprises it uses to either move funds or secure community support, such as the construction firms Jihad al-Bina (2007) and the Waad Project (2009), or for fundraising, recruitment and propaganda purposes, such as the television station Al-Manar (2006). In parallel, we have sought to expose and isolate Hezbollah's networks in Latin America, where we have designated fourteen Hezbollah individuals and entities, and in Africa, where over the past two years we have targeted Hezbollah commercial networks with tentacles in Cote D'Ivoire, Sierra Leone, The Gambia, the Democratic Republic of the Congo and Angola.

We have not forgotten, however, that the real power behind Hezbollah lies in Tehran. As members of Congress already know, exposing and isolating Iran's worldwide illicit financial network has been a top priority for the Treasury Department over the last several years. While much of our focus has been on targeting key nodes in the Iranian proliferation program, we have also brought sustained pressure to bear against Iranian state sponsorship of terrorism. In 2007, for example, we designated the state-owned Iranian Bank Saderat, which transferred over \$50 million to Hezbollah from 2001 to 2006, and the primary architect of Iranian terrorism, the Iranian Revolutionary Guards Corps-Quds Force (IRGC-QF). Since that time, we have targeted a number of IRGC-QF leaders and fronts and will continue to keep up the pressure.

Among our most important acts against Iranian state sponsorship occurred just two months ago when we, for the first time ever, exposed Iran's secret agreement with al-Qa'ida members, which allows al-Qa'ida to funnel funds and operatives through Iranian territory. This revelation was made available as part of the designation of Yasin al-Suri, a key Iran-based al-Qa'ida facilitator, and a number of his associates.

#### *Promoting Novel Counter-Illicit Financing Partnerships*

Recognizing that a comprehensive counter-terrorist financing strategy requires a whole-of-government effort, TFI has pioneered a number of novel interagency mechanisms for collecting, analyzing, and ultimately acting on, financial intelligence. Most notable has been our work with the Department of Defense and other partners such as the Drug Enforcement Administration (DEA) to develop "Threat Finance Cells." Our first such effort began in 2005 when the Treasury and Defense Departments established a Baghdad-based interagency intelligence unit, known as the Iraq Threat Finance Cell (ITFC). The mission of this unit was to enhance the collection, analysis, and dissemination of timely and relevant financial intelligence to combat the terrorist and insurgent groups operating in the Iraq theaters. The ITFC made significant contributions to our war fighters. Senior U.S and Coalition military commanders came to rely heavily on the cell's strategic and tactical analysis to help combat the Iraqi insurgency and disrupt terrorist, insurgent, and militia financial networks.

The success of this initiative led to the creation of the Afghanistan Threat Finance Cell (ATFC) in Afghanistan in 2008. The ATFC was initially modeled after the Iraq Threat Finance Cell, and is led by a director from the Drug Enforcement Administration with two co-deputy directors, one each from the Department of the Treasury and the Department of Defense. The ATFC now comprises approximately fifty-eight intelligence analysts, special agents, and other personnel

drawn from the Intelligence Community, federal law enforcement, other partner agencies, and every branch of the military.

The ATFC team provides threat finance expertise and actionable intelligence to U.S. civilian and military leaders. ATFC personnel are embedded with military commands across Afghanistan to improve the targeting of the insurgents' financial structure. Specially-vetted Afghan authorities have also partnered with the ATFC on raids of hawalas suspected of illicit financial activities, including insurgent finance, narcotics trafficking, and corruption. This cooperation has resulted in the collection of tens of thousands of financial documents. The ATFC also works closely with these Afghan authorities to improve their capacity to operate independently in the future.

### CONCLUSION

TFI's story has been a success, but the terrorist financing tale is far from over and challenges remain. We are, as Secretary of Defense Panetta has said, within reach of achieving our core goal of defeating al-Qa'ida, the only international terrorist group to successfully conduct an attack on U.S. soil. With Usama Bin Ladin's death, al-Qa'ida has lost a charismatic leader capable of raising funds and inspiring recruits. Already in difficult financial straits due to diminished access to its traditional donor base in the Gulf, in particular Saudi Arabia and the UAE, al-Qa'ida will come under increasing financial pressure.

But other pillars of financial and logistical support remain. As our recent designation of six members of an Iran-based al-Qa'ida financial facilitation networks demonstrates, Iran has emerged as a vital facilitation conduit for al-Qa'ida. Its provision of safe havens to al-Qa'ida is offering much needed breathing space for the group. Two members of this network are located in Kuwait and Qatar, underscoring the need for these jurisdictions to do more to crack down on domestic terrorist financiers and facilitators. The designation of now-deceased Atiyah Abd al-Rahman, al-Qaida's former overall commander in Pakistan's tribal areas, is another reminder of the permissive operating environment al-Qa'ida enjoys in Pakistan.

Even as we make progress against core al-Qa'ida we are finding that, with the rise of al-Qa'ida affiliates, the terrorist financing threat has metastasized and, in some ways, become more intractable. Today, al-Qa'ida in the Arabian Peninsula (AQAP) and al-Qa'ida in the Islamic Maghreb (AQIM) are among the most dangerous and operationally active terrorist groups. These affiliates rely on non-traditional sources of funding, including criminal activity and, most notably, kidnapping-for-ransom. Still other groups such as Al-Shabaab and Hamas, which physically control territory, can tax ports, businesses and local populations for revenue. Attacking financial flows that largely avoid the financial system (e.g., kidnapping-for-ransom) or are internally derived (e.g., internal taxation) will require novel approaches and new partnerships.

Above all, we must maintain our commitment to defeating terrorists and illicit finance networks in the post-Bin Ladin era. Our work is not done—in fact, in many ways, it has just begun. Terrorist groups and other transnational threats will continue to adapt to our measures. As we squeeze them out of the formal financial system, they turn to informal mechanisms such as

hawalas and cash couriers. As we dry up funding in the Gulf, they turn to criminal activities for sustenance.

Going forward, we must continue to work with our interagency partners and the private sector to ensure that we are collecting, sharing and applying useful financial information to combat terrorism and other threats. We must also work with our interagency partners and the private sector to advance the effectiveness and efficiency of our financial actions, including our systemic regulatory efforts and our targeted and economic financial measures, in preventing terrorist activity and in disrupting these threats. We must also continue to work with our international counterparts to develop and share meaningful financial information and to achieve broader multilateral capability and support for our financial actions.

Today the United States is one of the few countries that implements a counter-terrorism sanctions regime fully compliant with UNSCR 1373. Accordingly, we must press international partners to bolster- and in some cases establish-their own sanctions regimes. And we must adjust the development and application of our financial tools as terrorists and other threats adapt their financing methods. With the comprehensive strategic approach that I have outlined here today, we will move forward to attack these challenges.

Chairman Neugebauer, Ranking Member Capuano, thank you for the opportunity to testify, and I would be happy to answer any questions you may have.

**Rep. Grimm Question for the Record****9/6/11 Oversight & Investigations Field Hearing**

1. During your testimony you indicated that while we will never be able to completely eliminate money-laundering, learning from past instances is key to future enforcement and determent. Specifically, you said, “certainly anytime I hear about a case in which there has been a significant amount of money that has moved through our system, it causes me to think through, well, what are we doing? How could we do this better?” If the Bahrain government’s criminal charges against Maan Al Sanea and his cohorts are true, and if the widespread allegations of his massive money-laundering scheme (~\$1 trillion through New York) are accurate, this matter would likely be among the largest known abuses of our financial system in history. By comparison, the cases you mentioned in connection to Senator Carl Levin’s investigations of foreign dictators “merely” deal with tens and hundreds of millions of dollars. Based upon the magnitude of Maan Al Sanea’s alleged scheme, has your office devoted the necessary resources to investigate this matter for the purposes of learning from it and preventing similar infractions in the future?

*In my statement quoted above, I was referring to the general responsibility of the Office of Terrorism and Financial Intelligence (TFI) to identify and mitigate systemic vulnerabilities in the U.S. and international financial system, in particular through domestic regulation and international standard setting. Meeting this responsibility includes, among other things, examining money laundering typologies and ensuring that the domestic anti-money laundering regulatory framework and international standards are appropriately tailored. We do this on an ongoing basis. With respect to Maan Abdulwahed al-Sanea, the allegations cited in the question relate to an ongoing civil dispute. TFI has no role in that litigation, and does not have independent criminal investigative authority over the underlying allegations.*

2. In your testimony you mentioned that your office has recently redefined the definition of a Money Services Business (MSB), especially as it relates to those in foreign countries. Does the Money Exchange company run by Maan Al Sanea in Al Khobar, Saudi Arabia as described in a Congressional testimony excerpt below, meet your office’s current definition of a MSB? If so, do the disproportionate transaction volume and widespread allegations concerning the Money Exchange, coupled with the criminal charges against the company’s director in Bahrain, warrant an investigation by your office?

Excerpt:

The Money Exchange was purportedly a small walk-in money remittance business with seven branches based in the Eastern Province of Saudi Arabia. It also ran a small American Express franchise and owned a static portfolio of Saudi shares. It was not a bank; it was a basic hawala, assisting low-paid expatriate workers to transfer their modest earnings home, with a total

transactional volume for its customers of perhaps \$60 million per year in total. Nevertheless, it approached Bank of America and said it would like to open a correspondent account in order to transact \$15 billion in payments annually. It should be noted that most remittances do not involve U.S. dollars at all, and that the sum total of all remittances from the entire Kingdom of Saudi Arabia amounted to about \$21 billion in 2008, so it is difficult to see how this small business could legitimately generate \$15 billion in transactional volume in a year.

At least four enormous red flags presented themselves to these facts: (i) a “high risk” region and country; (ii) a money remittance business that accepts money transfers for “walk-in” customers with whom it has no account relationship and no opportunity to do the due diligence necessary to understand those customers and their purposes in transmitting funds; (iii) a massive transactional volume; and (iv) a transactional volume vastly disproportionate to the customer’s ostensible business.

- Eric Lewis. Quote from: U.S. Congress Hearing of Subcommittee on Oversight and Investigations of the Committee on Financial Services. “A Review of Current and Evolving Trends in Terrorism Financing.” (Date: 9/28/10)

*TFI looks at systemic risk to the domestic and international financial system, but does not have independent criminal investigative authority. The Department of the Treasury issued a final rule on July 21, 2011 revising the regulations implementing the Bank Secrecy Act (BSA) regarding money services businesses (MSBs) to clarify which entities are covered by the definitions. Under the final rule, if a foreign-based MSB operates in the U.S., even without a physical presence, it has the same registration, reporting, and recordkeeping requirements as MSBs with a physical presence here. The testimony cited above does not refer to MSB operations in the United States. If a Saudi-based MSB also operates in the U.S., it would be covered by U.S. regulations applying the BSA.*

3. You mentioned in your testimony that the SWIFT program <sup>3</sup>continues to be effective,<sup>2</sup> which I was happy to hear. However, I have concerns with respect to a criminal fraud complaint filed this year in Bahrain against Maan Al-Sanea, a Saudi billionaire, and an American named Glenn Stewart. Mr. Stewart has since fled Bahrain and resides in California where he also faces a civil lawsuit for actions directly related to the Bahrain complaint. It is alleged that Maan Al-Sanea and Glenn Stewart, along with a dozen co-conspirators, perpetrated a \$20 Billion global Ponzi scheme originating out of a money remittance business in Saudi Arabia called the Money Exchange and two sham banks in Bahrain (TIBC and AWAL), funneling billions of dollars back and forth through four New York banks without raising a single red flag. Reports suggest that Glenn Stewart, former CEO of the now defunct TIBC, turned his SWIFT final authorization codes for TIBC over to Maan Al Sanea, who after 2005 ostensibly held no office or interest in the bank. This allowed Al Sanea to operate the back office function of the bank from an off-site computer terminal in Al Khobar, Saudi Arabia using <sup>3</sup>PCAnywhere<sup>2</sup> remote access software, enabling >him to transmit billions of dollars around the world at will, with no >oversight, regulation, or scrutiny. As outlined in your testimony you said anytime a significant amount of money moves through our system it causes you to think, <sup>3</sup>how could we do this better?<sup>2</sup> Do you

think this example should be investigated to identify vulnerabilities in SWIFT, and what steps can be taken to prevent such misuses of the SWIFT payments-processing system in the future?

*The Office of Terrorism and Financial Intelligence is responsible for identifying and mitigating systemic vulnerabilities in the U.S. and international financial system, in particular through domestic regulation and participation in international standard setting. Although we do not have criminal investigative authority, we will continue to examine new money laundering typologies as part of our overall responsibilities, including potential vulnerabilities to the international financial system, of which the SWIFT system is a part.*

4. You mentioned in your testimony much of your international cooperative work in developing a more formal financial services law-enforcement infrastructure with countries such as Afghanistan, Pakistan, and the Philippines, but have you coordinated at all with countries, such as Bahrain, who have more sophisticated financial services sectors and are actively pursuing criminal money-laundering charges? This year Bahrain filed criminal charges against an American named Glenn Stewart and a Saudi businessman named Maan Al-Sanea, who along with at least a dozen co-conspirators allegedly used the U.S. banking system to facilitate a global money-laundering scheme. Does this sort of action by a foreign government prompt movement by U.S. regulators, such as your office, to collaborate with Bahraini authorities and determine whether or not the U.S. financial system was in fact abused? If not, can you elaborate on the criteria and threshold for your agency's involvement in such matters?

*The Office of Terrorism and Financial Intelligence (TFI) has a long record of cooperation with countries around the world, including Bahrain, with the aim of protecting the international financial system from abuse by illicit financial actors. With respect to Maan Abdulwahed al-Sanea, the allegations cited in the question relate to an ongoing civil dispute. TFI has no role in that litigation, and does not have independent criminal investigative authority over the underlying allegations. With respect to regulatory cooperation between the U.S. and Bahrain, we defer questions regarding regulatory concerns to U.S. regulators like the Federal Reserve and the Office of the Comptroller of the Currency (OCC).*