

**FINANCIAL INTELLIGENCE AND ENFORCEMENT:
TREASURY'S ROLE IN SAFEGUARDING
THE AMERICAN FINANCIAL SYSTEM**

HEARING
BEFORE THE
SUBCOMMITTEE ON TERRORISM
AND ILLICIT FINANCE
OF THE
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FINANCIAL INTELLIGENCE AND ENFORCEMENT: TREASURY'S ROLE IN SAFEGUARDING THE AMERICAN FINANCIAL SYSTEM

Wednesday, November 8, 2017

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON TERRORISM AND ILLICIT FINANCE,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2 p.m., in room 2128, Rayburn House Office Building, Hon. Stevan Pearce [chairman of the subcommittee] presiding.

Present: Representatives Pearce, Pittenger, Rothfus, Tipton, Williams, Poliquin, Love, Hill, Emmer, Zeldin, Davidson, Budd, Kustoff, Perlmutter, Maloney, Himes, Foster, Kildee, Delaney, Sinema, Vargas, Gottheimer, Kihuen, Lynch, and Waters.

Also present: Representative Royce

Chairman PEARCE. The subcommittee will come to order.

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

Members of the full committee who are not members of the Subcommittee on Terrorism and Illicit Finance may participate in today's hearing.

All members will have 5 legislative days within which to submit extraneous materials to the Chair for inclusion in the record.

This hearing is entitled "Financial Intelligence and Enforcement: Treasury's Role in Safeguarding the American Financial System."

I now recognize myself for 5 minutes to give an opening statement.

First of all, I want to thank everyone for joining us. Today's hearing will examine Treasury's vital role in safeguarding the financial system.

Since its founding in 2004, the Office of Terrorism and Financial Intelligence has been instrumental in detecting terrorist financing, money laundering, drug cartel activity, and other illicit movements in our financial system.

The Office of Terrorism and Financial Intelligence comprises several bureaus, including the Office of Terrorist Financing and Financial Crime, the Office of Intelligence and Analysis, the Office of Foreign Asset Control, the Financial Crimes Enforcement Network, and the Treasury Executive Office for Asset Forfeiture. Collectively, these units are tasked with the collection of financial intelligence, enforcement of the Bank Secrecy Act, administering eco-

nomic and trade sanctions, policy development, and receipt of nontax forfeitures.

Recently, both Treasury Secretary Mnuchin and Under Secretary Mandelker have dedicated to improving the effort to stop terrorist finance. In that vein, Treasury announced in May that the United States and Saudi Arabia would establish and co-chair the Terrorist Financing Targeting Center. This is a collaborative effort to confront new and evolving threats from terrorist financing.

As we acknowledge the fluid environment of illicit finance cooperation between policymakers, law enforcement, intelligence agencies, and financial institutions as necessary to detect, identify, and disrupt the funding of criminals and their operations, it is estimated that criminals in the United States alone generate some \$300 billion in illicit proceeds that might involve money laundering, while, globally, the volume of money laundering could be as much as \$1.6 trillion annually.

I am encouraged to hear that Treasury is reviewing the Bank Secrecy Act and wants to work with Congress as we contemplate ways to modernize the BSA that will increase its effectiveness, strengthen the safety of the financial system, and reduce burdens on financial institutions.

In today's hearing, I hope to discuss how we are currently combating terrorism and illicit finance, including what tools and partnerships are working well in the effort to detect and disrupt criminal actors. I would also appreciate any comments about deficiencies in our system that may impede our fight against terrorist and criminal finance and what can be done to strengthen Treasury's capabilities.

I would like to thank our witness, the Honorable Sigal Mandelker, for being here today, and I look forward to her expert testimony on these very important issues.

I now recognize the gentleman from Colorado, Mr. Perlmutter, for 5 minutes for an opening statement.

Mr. PERLMUTTER. Thanks, Mr. Chair.

And thank you, Under Secretary Mandelker, for being here today to discuss this topic.

One of the most effective tools we have to combat both international and domestic threats is to cutoff the funding of bad actors. And Treasury's Office of Terrorism and Financial Intelligence is at the heart of that mission. From administering sanctions on North Korea, Russia, Iran, and other adversaries, to combating terrorist financing and stopping money laundering, TFI has its hands full.

Additionally, we face an increasingly sophisticated global financial system. The rise of cryptocurrencies, increased cyber threats, and reduced transparency from shell companies has added an additional layer of complexity to TFI's mission.

As financial technology and practices have changed, our policies and security also must adapt to strengthen our financial system and keep America safe. Specifically, I look forward to discussing anti-money-laundering modernization, improving threat detection, and making the true ownership of shell companies transparent to law enforcement officials.

And as the Chairman said, this committee is looking at ways to make sure that our secrecy laws, our "know your customer" laws

are effective for those in the Treasury Department as well as law enforcement. We want to make sure that we have a safe and secure country—and finance is at the heart of that—all the while protecting the privacy of our citizens.

So it is a big chore that you have, Madam Secretary, and we look forward to hearing your testimony today.

Chairman PEARCE. Today, we welcome the testimony of Sigal Mandelker—oh. I would recognize the gentleman from North Carolina, Mr. Pittenger, for 2 minutes.

Mr. PITTENGER. Thank you, Mr. Chairman, and thank you, Ranking Member, for calling this important hearing.

I also thank you, Under Secretary Sigal Mandelker, for joining us today. As well, I would like to thank you for your participation in December at the Parliamentary Intelligence-Security Forum. You were very important, and we have about 100 delegates from 43 countries to date. And I also appreciate you sending a staff member down to Buenos Aires for the forum there in November.

Madam Secretary, I want to speak with you about concerns that I have, referencing the classified memorandum of understanding (MOU) between the U.S. and Qatar on terror financing that I reviewed recently at the State Department.

Why this document is classified at this point is unclear to me. We are having a difficult time in the State making the MOU available for Members to review at a convenient time at the SCIF on Capitol Hill. There appears to be nothing sensitive that I have read in it that would justify highly classified information, as there is very little there in terms of specifics.

But it did strike me as limited in a number of key ways. As you know, it is the specifics that we are concerned about in Congress as we look to establish our own congressional oversight. We look at the comments made, as well, by Secretary Tillerson in July, when he signed the MOU, and Secretary Mnuchin's comments about the MOU just a few days ago, there appears to be a number of references about the agreement but, again, very few specifics.

Here are some specifics that we do know: We know that Qatar has supported Hamas. We know Qatar has harbored actors that finance terrorists, like Saad al-Kaabi, who in 2015 was designated by the U.S. Treasury as a financial supporter of al-Qaeda and al-Nusra Front. We know Qatar finances the Muslim Brotherhood around the Middle East and has replaced Saudi Arabia as the chief financier of radical Islamic teachings. Qatar has housed leaders from Hamas, such as Khaled Mashal. They have also housed prominent members of the Muslim Brotherhood, like Sheikh al-Qaradawi, and, as well, the Taliban. We know that Qatar has allowed its country to be a safe haven for known terrorists. We know Qatar has helped finance terrorists by paying ransom for kidnappings. Qatar has, as well, supported al-Qaeda in Syria, a comment that the Emir made to me directly.

During this questioning time, we will explore this further. However, I do realize that one of the best avenues of defeating our enemies is putting a stop to the flow of money that is used to fund the terrorism.

The Treasury Department's Office of Terrorism and Financial Intelligence is on the front lines of the war on terror, and I commend

you for your work to ensure that terrorist enterprises cannot reap the benefits of normal banking operations and other matters that are essential for them to perform. Congress must, as well, provide the necessary support for these efforts.

Mr. Chairman, I look forward to today's important hearing, and I yield back.

Chairman PEARCE. The gentleman's time has expired.

The Chair now recognizes the gentlelady from California, the Ranking Member of the full committee.

Ms. WATERS. Thank you very much, Mr. Chairman.

And I would like to welcome Under Secretary Mandelker.

Today's hearing provides an opportunity to examine not only the roles and responsibilities of the Office of Terrorism and Financial Intelligence, which administers targeted financial sanctions and has a critical mandate for disrupting illicit finance, but also to discuss your priorities as the office's newly confirmed Under Secretary.

In a July hearing where Secretary Mnuchin testified, I tried to get clarity on a letter that I had sent to him on the actions the Financial Crimes Enforcement Network takes upon receipt of information that indicates potential criminal activity and the procedures in place to analyze and disseminate such information to the appropriate law enforcement authorities. He was not forthcoming.

So, given your role in overseeing FinCEN's activities, I am hoping you can shed light on whether proactively notifying law enforcement about potential violations of law is a priority for you, including and in particular when such violations may relate to the President, members of his immediate family, his Cabinet, and Russian oligarchs subject to U.S. sanctions.

Given the latest revelations about Commerce Secretary Wilbur Ross' business entanglements with sanctioned Russian persons, I do hope you are paying serious attention to this matter.

I would also briefly like to touch on anti-money-laundering reform and the importance of closing a number of gaping loopholes that I am hopeful this committee can address legislatively and that you would also support.

In particular, I hope that we can apply minimum anti-money-laundering requirements to persons involved in real estate settlements and closings; No. 2, require beneficial ownership disclosures for anonymous shell companies; No. 3, help mitigate wholesale de-risking and its adverse consequences, particularly for vulnerable populations.

With that, I look forward to your testimony, and I will yield back the balance of my time.

Chairman PEARCE. The gentlelady yields back.

Today, we welcome the testimony of Sigal Mandelker. Sigal is the Under Secretary of the Treasury Department's Office of Terrorism and Financial Intelligence. She has held this critically important position for just about 4 months, after receiving Senate confirmation on June 21.

Ms. Mandelker was previously a partner at Proskauer Rose, LLP, in New York. She also served in senior law enforcement and national security positions at the Department of Justice and Homeland Security. As Deputy Assistant Attorney General in the Crimi-

nal Division of DOJ, Sigal oversaw four major sections and a number of significant cross-border prosecutions. Prior to that position, she served as counselor to the Secretary of Homeland Security. She also previously worked on counterterrorism and national security issues as counsel to the Deputy Attorney General.

Sigal also served as an assistant U.S. attorney in the U.S. Attorney's Office for the Southern District of New York. She was a law clerk to Supreme Court Justice Clarence Thomas and to the Honorable Edith H. Jones, U.S. Court of Appeals for the Fifth Circuit.

Sigal received her law degree from the University of Pennsylvania Law School and her bachelor's from the University of Michigan.

Ms. Mandelker, you will now be recognized for 5 minutes to give an oral presentation of your testimony. Without objection, your written statement will be made part of the record.

STATEMENT OF THE HONORABLE SIGAL MANDELKER

Ms. MANDELKER. Thank you, Chairman Pearce, Vice Chairman Pittenger, Ranking Member Perlmutter, and distinguished members of the committee.

As the Under Secretary for Treasury's Office of Terrorism and Financial Intelligence, I am honored to appear before you in my first appearance formally before this committee today to discuss the tremendous work that TFI is doing to safeguard the U.S. and international financial systems.

The offices I lead are tasked with using financial intelligence expertise and our unique authorities to combat terrorist financing, money laundering, weapons proliferators, rogue regimes, human rights abusers, and other national security threats to the United States and our allies. We work around the clock to deny illicit actors access to the U.S. and international financial systems, disrupt their revenue streams, and degrade their capabilities.

Since the early days of TFI, when Congress and the Executive Branch had the tremendous vision to put OFAC (Office of Foreign Assets Control), FinCEN (Financial Crimes Enforcement Network), OIA, and TFFC under one roof, our role in protecting our national security has grown dramatically. TFI's economic authorities have become one of this administration's top nonkinetic tools of choice.

In the 4 months since I was confirmed, we have been deploying our economic authorities at a rapid pace to address some of our greatest national security threats. In addition to cutting off funding for terrorist groups, our authorities and actions proactively implement U.S. policy towards Iran, North Korea, Venezuela, Russia, human rights, and in many other areas.

In order to be even more effective in meeting these threats, we are ensuring that our components are properly integrated, working closely together in deploying the tools and authorities best suited to each challenge.

As part of this approach, we are conducting intelligence-driven action using TFI's tools in a complementary, strategic fashion, assessing the outcomes of actions and adjusting our strategy for maximum impact, while collaborating and engaging with our partners

in the interagency and, of course, working closely with the Congress.

TFI has adopted this integrated approach most notably in countering one of our highest-priority threats: North Korea. Our strategy is focused on attacking North Korea's key financial vulnerabilities. All components of my office are working in concert toward this objective.

Underpinning these efforts is our ability to rely on intelligence. And so Treasury's Office of Intelligence and Analysis provides expert analysis of North Korea's financial networks, identifying key nodes to target for disruptive action. OFAC investigates and targets individuals and entities that support North Korea's weapons of mass destruction and ballistic missile programs. This year, OFAC designated well over 70 individuals and entities related to North Korea as part of our concerted effort to pressure the regime.

Just last week, FinCEN finalized the USA PATRIOT Act section 311 designation of Bank of Dandong, a Chinese bank facilitating North Korean money laundering and sanctions evasion, and FinCEN also issued an advisory to financial institutions regarding North Korea's attempts to use front companies to launder money and evade sanctions.

The Office of Terrorist Financing and Financial Crimes leads our international engagement efforts to work with partner countries, thereby hardening the defenses worldwide and depriving North Korea of alternative financial avenues.

The private sector also plays an essential role in identifying and disrupting illicit North Korean financial activity. And information provided by financial institutions has been critical to our efforts to map out and disrupt the illicit financial networks upon which North Korea relies.

By integrating our authorities across the components, we are seeing real impact. As just one example, on August 22, we designated three Chinese coal companies collectively responsible for importing nearly half-a-billion dollars' worth of North Korean coal between 2013 and 2016. Likewise, our 311-determination advisories and outreach and guidance have put the world on notice of the risks of doing business with North Korea.

We have employed this integrated approach to address other pressing national security threats as well, including in our efforts to counter Iran's malign behavior and the IRGC's (Islamic Revolutionary Guard Corps) continued support for terrorism, as well as Nicolas Maduro's assault on democracy and human rights in Venezuela.

I want to recognize the tremendous career professionals of TFI who work tirelessly to protect our national security and our financial system. The TFI team, both here in the United States and overseas, is constantly striving to protect the United States and its allies and partners.

I am pleased also to announce today that we are adding a valuable new member of our team, the new Director of FinCEN, Ken Blanco. Ken is joining us from the Department of Justice, where he has been serving as the Acting Assistant Attorney General for the Criminal Division.

I also want to emphasize the importance we place on working with all of you in Congress to combat the threats our Nation faces as well as ensuring the continued success of TFI. I look forward to working with this committee and other Members of Congress as we seek to fulfill our shared responsibility to keep Americans safe and secure.

And I look forward to your questions.

[The prepared statement of Ms. Mandelker can be found on page 40 of the Appendix]

Chairman PEARCE. Thanks again for being here today, and thank you for that statement.

The Chair now recognizes himself for 5 minutes for questions.

So, last May, FinCEN finalized regulations on the CDD, the customer due diligence. And then there were later statements that listed that there might be high-risk clients that require collection of beneficial ownership information.

Have you got anything more on the high-risk clients and how they would be recognized or identified?

Ms. MANDELKER. Thank you for that question, Mr. Chairman.

We are and continue to be working on additional guidance that we can provide to financial institutions. We recognize that there continue to be questions about implementation of the CDD rule, and I anticipate that we will be able to issue those in short order.

Chairman PEARCE. OK.

The Terrorist Financing Targeting Center (TFTC) that the President helped Saudi Arabia cut the ribbon on earlier this year, members of the countries of the Gulf Cooperation Council, all of us joining together to fight terrorists, that is a significant, I think, undertaking for the entire world.

Do you have any of the plans on that? Can you talk a little bit more about what is actually happening there and what it means to the rest of the world?

Ms. MANDELKER. Yes. I would be happy to. Secretary Mnuchin and I were actually in the region 2 weeks ago, where we were there for a different ribbon cutting, which was of the actual facility where the TFTC is going to be housed in Riyadh. We not only visited Saudi Arabia, we also went to other countries in the region. And a big focus of our trip was really on talking about what our next plans are for the TFTC.

We believe that this could be and it should be a truly historic development in our efforts to counter terrorist financing. And as part of that historic development, we were very pleased, for the first time ever, to have issued joint designations with each of the countries in the GCC (Gulf Cooperation Council) during our trip against ISIS and AQAP (Al-Qaeda in the Arabian Peninsula) members who are facilitating financing of terrorism in Yemen.

So we have a lot of work to do ahead of us. We are going to be focused, among other areas, on information-sharing with our key partners, on issuing additional joint designations and actions. And we also have a lot of work to do in the region on capacity-building, which I think is, frankly, very welcome from our partner countries.

So we are going to be doing the work that we need to do to elevate their domestic designation regimes and, again, to use this as

a historic, groundbreaking effort in our fight against terrorist financing.

Chairman PEARCE. So I guess that it is fair to say that we are developing significant new directions for partners and friends in that region, relationships that might be somewhat delicate, relationships that need to be built over a period of time. Is that an accurate assessment, that we are finding cooperation from countries that maybe before were sitting on the sidelines, especially regarding ISIS and financial terrorist financing?

Ms. MANDELKER. Absolutely. We are seeing a real commitment to working in partnership with us in connection not only with the center but also on our bilateral relationships there. I have had a number of meetings in the last 4 months with my counterparts here in the United States and in the region. And then, when we were in the region, we enhanced those relationships and discussed the details of what our expectations are going to be to make this truly a successful effort.

Chairman PEARCE. And my personal opinion has always been that we will win the fight against radical Islam when the moderate Arab nations begin to buy in and when they begin to take the lead. We will be there as a support mechanism, but when we can take leadership from them, it is going to be far more effective for the world, it will be far more effective for that region. So please keep us advised of any ways that we can help and cooperate in that.

Now, one of the things—we have had a tremendous number of briefings and just sit-down meetings with members of the sub-committee, and one of the things that is really coming to light is that tremendous capabilities exist in the form of data analytics. Do you all see your agencies working more in that regard? And are you going to use off-the-shelf things or try to create it internally?

Ms. MANDELKER. We already have internal data analytic capabilities which have been very useful. We are also exploring other ways in which we can work in the FinTech/RegTech space to enhance our capabilities. Look, we need to stay on top of the technology, we need to be leaders in the technology, and that is something that we are very committed to doing.

Chairman PEARCE. Well, thank you very much.

My time has expired. I now recognize the gentleman from Colorado, Mr. Perlmutter, for 5 minutes.

Mr. PERLMUTTER. Thank you, Mr. Chair.

Is it “Mandelker”? How do you say it?

Ms. MANDELKER. Perfect. Yes.

Mr. PERLMUTTER. OK. Good.

A couple questions.

So you ticked off a list of countries against which we have sanctions: North Korea, Iran, Venezuela. Let’s talk about Russia for just a second.

You laid out some of the successes we see in interdiction and other things against North Korea. We are really trying to constrain the money going there.

How have our sanctions worked, from your point of view, against Russia? And if you could name a couple of successes and places where you think there are some problems.

Ms. MANDELKER. So we have been very steady in our sanctions efforts against Russia. As you may know, in June, we designated an entire tranche of entities and individuals in connection with Russia. We have also been working steadily to implement the requirements of CAATSA, the bill that you passed in August. And we have been issuing significant guidance which has continued to enforce and tighten our sanction regimes against Russia.

Look, this is going to be an effort that we are going to have to stay steady in implementing and in enforcing, and it is one that we are very much committed to doing.

Mr. PERLMUTTER. OK.

You brought up Saudi Arabia. And there have been a lot of changes in Saudi Arabia in the last 2 weeks, maybe since you were in Saudi Arabia or maybe when you were there. Obviously, some efforts to rout out corruption among some of their leadership and the ruling family.

In the structure that you are putting together in Saudi Arabia, has this had any effect on you so far in the last couple weeks? Have you seen it?

Ms. MANDELKER. No, we haven't seen any changes in that regard. We have partners that we have worked with who are very much in place in Saudi Arabia and will continue to work closely with them.

Mr. PERLMUTTER. You talked about—you have a new director in place over at TFI. Obviously, we all think that the task you have ahead of you, in both monitoring, enforcing sanctions, watching for illegal activity, financial activity, it is a big task and it is an important task. But what I am concerned about, over time—in fiscal year 2017, the office had 421 employees with a budget of \$123 million. However, under the current budget proposal from the President, you reduce that to 386 with a budget that is dropped by about 10 million bucks.

How are you going to do your work?

Ms. MANDELKER. Well, Congressman, I think, actually, what happened in the budget was that the President's budget kept the numbers consistent with the Obama Administration's budget. The Congress then provided us with additional resources in the Fiscal Year 2017 omnibus budget. And, of course, we have also been vocal in asking for additional resources to help us fund the Terrorist Financing Targeting Center.

So what I am focused on doing is making sure that we are maximizing the resources that we have, that we are deploying all of our authorities in an aggressive and integrated way. And we have been doing so at a very rapid pace.

Mr. PERLMUTTER. OK.

Last question. The Chairman brought up data analytics. One of the things that all of us are facing, but certainly TFI and FinCEN, is this development of new types of currencies—so cryptocurrencies and cyber, sort of, warfare and cyber attacks.

How does TFI view these new currencies? What is it that you are doing to try to understand them?

Ms. MANDELKER. So we are actually doing a lot in the virtual-currency space. As you may know, a month or two ago, we issued an enforcement action against a virtual-currency scheme that was

being used by illicit actors overseas, and, in connection with that enforcement action, we levied an over-\$100-million fine.

We are also the leaders, really, in the world on regulating virtual currency. We do think that it is very concerning that these kinds of cryptocurrencies can be used for illicit activity. It is something I am actually very familiar with from my time at the Justice Department, where I supervised the prosecution of the—I think it was one of the first of these kinds of entities. It was called e-gold.

And so we have to stay very vigilant in this regard. We have to be ahead of the technology. We have to watch the use of these cryptocurrencies by illicit actors. And we are very committed to doing so.

We are also urging other countries to take on this problem. We are only going to be successful if we have regulatory regimes really all over the world that ensure that the right AML efforts are put toward preventing illicit actors from abusing these kinds of currencies.

Mr. PERLMUTTER. OK. Thank you.

And I yield back.

Chairman PEARCE. The gentleman's time has expired.

The Chair now recognizes the gentleman from North Carolina, Mr. Pittenger, for 5 minutes.

Mr. PITTENGER. Thank you very much.

Again, thank you for your great work. To the issue of your budgeting, I think we get enormous bang for the buck for what you do—

Ms. MANDELKER. Thank you.

Mr. PITTENGER. —and I really commend you. And you are the right person doing the right job.

As it relates to the MOU and to Qatar, I think our interest is really an oversight. As Ronald Reagan would say, trust but verify.

But how will we be able to assure that we have been able to cut off support, for example, to government-sponsored or government-affiliated, government-sanctioned support for, let's say, Hamas and other terrorist groups in the region?

Ms. MANDELKER. Let me just start by saying thank you for the compliment, but, really, I have an army of people—

Mr. PITTENGER. I know.

Ms. MANDELKER. —in back of me who are doing tremendous work around the clock in TFI. So I—

Mr. PITTENGER. They are led well.

Ms. MANDELKER. Well, thank you.

So, in terms of Qatar, which I know is a specific area of concern for you, we have been working in my short time in TFI but really historically with Qatar on this terrorist financing problem, just as we have worked with all countries in that region. It has been a big area of focus for us.

And so I know you—that mention of the MOU. We have a number of lines of effort under the MOU that we are working on—

Mr. PITTENGER. I think I would be interested to know, kind of, the benchmarks that we have there, the metrics, what the timetable would be in terms of their performance and if they are doing what we have asked them to do. How will Congress know that?

Ms. MANDELKER. So I would be happy to come in and give you a briefing on our efforts with respect to Qatar.

What I can tell you is that this has to be a long-term relationship. So we have gotten a lot of—I think we have made some progress with Qatar. Secretary Mnuchin mentioned it recently. We are working on a number of lines of effort with them. And we are seeing a lot of willingness on their part to work closely in connection with us on terrorist financing in various different ways. But this has to be a concerted and long-term effort, as it does with every country, frankly, in the region.

Mr. PITTENGER. Yes, ma'am. I had the Ambassador in this morning, which we have already met several times. And I think he understands the issues and our concerns. We had a very amenable discussion.

I think we want to find out what are the repercussions if Qatar continues to support Hamas or if they don't enforce their laws there in-country, they don't prosecute. We would like to see, what is our response going to be to enforce this to occur?

Ms. MANDELKER. Again, we have a productive relationship right now with the Qataris, where we are working with them on a number of different lines of effort, including capacity-building, which we do with other countries in the region, and in information-sharing. And, of course, we were pleased that they joined us in the designations of a couple of weeks ago against ISIS and AQAP.

But it is something that we have to continue to monitor very closely and carefully. We actually have an attache in Qatar who works closely with our counterparts, and I personally do so, as well.

Mr. PITTENGER. Thank you.

Last month, the Treasury Department took action to sanction Iran's Islamic Revolutionary Guard as a supporter of terrorism. Do you intend to take additional actions to designate individual IRGC-owned companies or front entities or individuals affiliated with the Guard?

Ms. MANDELKER. Well, since the beginning of this Administration, we have targeted over 70 entities and individuals connected to the IRGC's support for terrorism, their ballistic missile program, their human rights violations, among other areas. As you know, this is a very high area of concern for us. And as you recognize, we just designated the IRGC under our Executive Order 13224.

So, while I can't tell you what additional actions we are going to take in the coming months, rest assured that the Treasury Department is very focused on implementing the President's strategy to target the malign behavior that Iran has been engaging in.

Mr. PITTENGER. Very quickly—and, Mr. Chairman, I do have some additional questions, if I could submit them to the record for the Madam Secretary to respond to.

Just quickly, are there additional steps that you would recommend that the U.S. take to target the IRGC's role in the Iranian economy?

Ms. MANDELKER. Well, we are taking a number of steps to target the IRGC. We have also been very vocal in terms of the strategies that we are going to be employing. And, again, you will certainly be hearing more from us on that front.

Mr. PITTENGER. Thank you. My time has expired.

Chairman PEARCE. The gentleman's time has expired.

The Chair now recognizes the gentlelady from California, Ms. Waters, the Ranking Member of the full committee, for 5 minutes for questions.

Ms. WATERS. Thank you very much.

FinCEN's most recent geographic targeting order, the GTO, is designed to combat money laundering within the real estate sector. It requires U.S. title insurance companies to identify the natural persons behind shell companies used to pay for high-end residential real estate in seven U.S. real estate markets. And it now captures a broader range of transactions, including both cash and wire transactions.

Is that right?

Ms. MANDELKER. That is correct.

Ms. WATERS. Separately, I am concerned because—let me just give you this case.

It has been alleged in Paul Manafort's recent Federal criminal indictment that he purchased two New York City residential real estate properties using two LLCs registered in New York. Specifically, it has been alleged that Manafort paid \$2,850,000 for the SoHo property and \$3 million in cash for the Brooklyn property, and all money used to purchase the properties came from companies in Cypress that Manafort owned or controlled.

Now, if this kind of activity occurred when the current GTO was in place, would this type of activity have to be reported to FinCEN? And what happens when FinCEN receives reports like this? Are they flagged and passed along to law enforcement?

Ms. MANDELKER. So, Congressman, I don't want to comment on any particular investigation. That, of course, is being handled by the special prosecutor.

But I can tell you, as a general matter, when we issue our GTOs—and real estate has been a focus for us, as you know, and we recently expanded it, thanks to the authorities that were provided to us by the Congress to wired transactions—that is something that we receive and, of course, work closely with our law enforcement partners.

There are various ways in which we get information from the private sector. And law enforcement of course has access to the information that we receive.

Ms. WATERS. AML (anti-money laundering) experts, community banks, large financial institutions, and members of the law enforcement community widely agree that we need to close loopholes that allow anonymous shell companies to mask the identities of illicit actors.

In recent weeks, we have seen Paul Manafort, President Trump's former campaign manager, be indicted on Federal money-laundering charges that allege he used Cypress shell companies to purchase high-end residential real estate in the United States.

Also, this week's release of the Paradise Papers tie several of the world's elite and mega-rich to offshore shell companies registered in tax havens. This includes political advisers, political donors, and even current Cabinet members such as U.S. Secretary of Commerce Wilbur Ross, who even after joining the Trump Cabinet in February 2017 is alleged to have kept a stake in the shipping company Navigator Holdings through a chain of companies in the Cayman

Islands. One of Navigator's biggest clients is a Russian gas and petrochemicals company called Sibur, which has close ties to the Kremlin.

However, the release of the Paradise Papers and recent adjustments just reaffirm what we already knew about the perils of hidden, beneficial ownership. These types of shell companies are also used by foreign governments and transnational criminal organizations to launder money throughout the U.S. financial system. The Iranian Government used shell companies to hide its ownership of a Fifth Avenue skyscraper. The Los Zetas drug cartel used U.S. shell companies to launder dirty money through a horse farm in Oklahoma. And an Eastern European human-trafficking ring used Kansas, Missouri, and Ohio shell companies to hide its illicit activities.

Given the significant illicit finance risk these anonymous shell company structures entailed, what actions are you committed to taking to address these vulnerabilities?

Ms. MANDELKER. So, of course, historically—I don't want to comment on any particular set of facts or circumstances, but, historically and today, transparency in the international financial system and the AML/CFT regime has always been a big priority for us. And we know that there are a number of legislative proposals in the Congress that are specifically addressing those types of issues, as you have done in the past, and we look forward to working with Congress on those proposals.

Ms. WATERS. But in terms of what authority you have now addressing some of these issues, how do you do that? What do you do?

Ms. MANDELKER. Well, we have a robust AML/CFT (combating the financing of terrorism) regime, as you know, which, among other things, requires financial institutions to report suspicious activity to FinCEN. And there are a number of other requirements, of course, that banks are required to do when it comes to, again, enhancing and promoting the transparency of the financial system as well as keeping illicit activity away from our financial system and internationally.

Ms. WATERS. Thank you.

I yield back.

Chairman PEARCE. The gentlelady's time has expired.

And I would now recognize the gentleman from Pennsylvania, Mr. Rothfus.

Mr. ROTHFUS. Thank you, Mr. Chairman.

Madam Under Secretary, it is known that Hezbollah uses a range of illicit activities around the globe, from corruption to money laundering. It has been U.S. policy to weaken Hezbollah because of its engagement in terrorism. Do you believe we are doing enough to ensure Hezbollah does not have the financial resources to engage in terrorism?

Ms. MANDELKER. Thank you for that question.

Hezbollah is a big area of focus for us. And this past February, we actually designated an IRGC Quds Force entity in connection—that had relationships with Hezbollah.

We are very focused on it in our Iran strategy. We have been very focused on it in our multilateral engagements. We serve as the

leader in an international law enforcement group that is specifically focused on Hezbollah. We believe that they present dangerous activities in their support for terrorism. And this is something that you will be hearing more from us in the near future.

Mr. ROTHFUS. Staying with Hezbollah for a minute, reports go back as far as 2004 showing their involvement in Latin America, specifically the tri-border region of Argentina, Brazil, and Paraguay. What is the United States doing to curb Hezbollah's actions in this region?

Ms. MANDELKER. Well, again, we work internationally with a number of partners to curb the activities of Hezbollah in connection with this law enforcement working group that we have. I have raised our concerns with Hezbollah in many of my engagements, multinationally, including in that region, including in the Gulf, and other partners—in Europe, for example.

So we have a lot of efforts underway in this regard. We work very closely with our interagency partners, also, in countering and tracking the illicit financing that is going to support Lebanese Hezbollah, and we will continue to do so. It is, without a doubt, a big priority for this Administration.

Mr. ROTHFUS. I applaud OFAC's recent updating of its listing of IRGC entities to reflect their new terrorism designation, but there are public reports of hundreds of IRGC-owned or controlled entities that have not yet been named or sanctioned by Treasury.

Can you tell me if we are looking at other entities?

Ms. MANDELKER. We are always looking at entities. And, again, in the last 10 months, in addition to designating the IRGC under 13224, we have also designated more than 70 individuals and entities in connection with the IRGC's efforts.

It is a big area of focus for us. Again, it is something that I discuss with my partners overseas as well. I think that we need to take—that the world needs to take much more aggressive action to counter the malign behavior of the IRGC and the IRGC Quds Force, and we are very focused on doing so.

At the same time, we have to make sure that we are intelligence-driven. So what I am constantly focused on is making sure that we are going against targets where we can have the greatest strategic impact. And so, just for example, in the last 4 months, we have—since I have been here, we have targeted entities and individuals in connection with their proliferation efforts, in connection with their ballistic missile development. And you will continue to see more of that coming from us.

Mr. ROTHFUS. In the remainder of my time, I want to talk about another issue that is not specifically called out in your written testimony. And I am going to be doing a lot of follow up with you on this issue. And it has to do with the epidemic of heroin in our country.

And your offices have not been silent in this area. Back in September, OFAC designated four Mexican entities and three Mexican individuals linked to cartels, including Jalisco Nueva Generacion, as specially designated narcotics traffickers.

Sixty-four-thousand people we lost in 2016; 52,000 people in 2015. Of the people we lost in 2016, it is estimated that 15,000 were from heroin.

Most, if not all, of the heroin we have in this country is coming from Mexico. If there was ever an issue that these two countries need to be working together on, it is smashing these cartels. And 130,000 people south of the border have been slaughtered by these cartels.

And I am not looking for any answers right now, but when I follow up with you in your office, I want to know if we have sufficient resources being put into this fight, maximum effort to track the money that is going to these entities that are killing people on both sides of our borders.

And I would just encourage you, as you reach out to your Mexican counterparts, that we need to be working together on these issues.

Ms. MANDELKER. If I can just quickly address, I share your concerns about the opioid epidemic. And as you may know, this has also been a big focus for the President, who recently made an announcement with respect to escalating our efforts against the opioid crisis.

We do work closely with our Mexican counterparts on these narcotics-trafficking regimes. And I would be happy to come in and talk to you in some more detail about some of the efforts that we have been undertaking. I can tell you that we have an entire team that is very focused on using our authorities to designate narcotics traffickers. It is a big concern for us, and I know it is a big concern for you. And I look forward to working with you on it.

Mr. ROTHFUS. Thank you.

Chairman PEARCE. The gentleman's time has expired.

The Chair now recognizes the gentlelady from New York, Mrs. Maloney, for 5 minutes.

The Chair now recognizes Mr. Himes, from Connecticut, for 5 minutes.

Mr. HIMES. Thank you, Mr. Chairman.

And thank you, Madam Secretary, for being with us. And thank you for what you do. It is very important.

A couple categories of questions.

You used a word in your oral testimony and your written testimony that stuck in my ear a little bit. You said you are "attacking" North Korea. "Attacking" is a word I associate with a Congressional declaration, other authorization, or with a Presidential finding. I am used to hearing the Department of Treasury talk about enforcing sanctions or looking for violations of law.

So my question is, when you use the word "attacking," as you have, does that word mean something beyond—well, let me—opened question: What exactly does that word mean beyond enforcing sanctions and looking for violations of domestic or international law?

Ms. MANDELKER. We are doing a lot more than just enforcing sanctions. Of course, our sanctions regime is a very big part of our effort. And, as I noted, we have sanctioned a number of individuals and entities in the last 10 months in connection with the North Korea problem. But there is a lot more that we have been doing.

So, just as an example, we recently designated a Chinese bank, Bank of Dandong—or, designated—we issued a 311 action against

a Chinese bank, the Bank of Dandong, which we finalized just last week.

We have also been working with the private sector to make sure that they understand all of the evasive tactics that the North Koreans have traditionally used to get around our sanctions. So we issued a financial advisory last week.

And I have been talking to banks all over the world about this problem, because the North Koreans have been incredibly adept at evading our sanctions, and we need to take a much more holistic approach to cutting out those evasive tactics. So we have been targeting the front companies. We have been telling the banks how they can target the front companies. The banks have actually been giving us very useful information about illicit activity that they have been seeing.

We have been working with our counterparts all over the world, in Europe, in South Korea, in Japan, in Australia, in the Gulf, to make sure that we are working in concert to implement the very tough U.N. Security Council resolutions that were just passed—

Mr. HIMES. So let me just clarify—thank you. Everything you are describing right now is the conventional language I am used to hearing Treasury employ when they talk about these things, working with the private sector, designating, et cetera.

So I guess my very specific question is, when you use the word “attacking,” are all of those activities consistent with authorities conferred by statute?

Ms. MANDELKER. Absolutely.

Mr. HIMES. OK. OK. Thank you.

My other set of questions was, I am curious a little bit about the discussion in your testimony about the Saudi Terrorist Financing Targeting Center.

Two questions, really. Can you tell us a little bit about what you anticipate the U.S. staffing at that center would be—that is question No. 1—by agency, if you can? I understand it hasn’t actually opened yet. Is that correct?

Ms. MANDELKER. It has opened. So we were just in the region 2 weeks ago, Secretary Mnuchin and I, and we had a little bit of a ribbon-cutting ceremony. We have facilities that—

Mr. HIMES. OK.

Ms. MANDELKER. —Saudi Arabia has provided for us.

Mr. HIMES. I only have about a minute and a half here. So I am just curious about how the U.S. Government is thinking about staffing that center, not just Treasury but other agencies that may be involved.

And, secondarily, I would love you to talk just a little bit about targeting. In other words, one of the challenges in the region, of course, is that some of the folks in the Gulf Cooperation Council have been known from time to time to actually help the terrorists. So I am really curious about how you are thinking through the targeting function that that entity will undertake.

Ms. MANDELKER. Sure. I would be happy to talk to you about that.

So we have been deploying resources to the center. We have also made it clear that we are hoping for more appropriation to help us in the funding of the center. But our plan, ultimately, is to have

upwards of 15 people from Treasury specifically dedicated to the center.

Some of that is, of course, in the region. And then I have a number of people here in Washington, D.C., who are also actively working on supporting the efforts to make this an operational success, which it needs to be.

In terms of targeting—

Mr. HIMES. Sorry. Quick question.

Ms. MANDELKER. Yes.

Mr. HIMES. Will there be other elements of the I.C. present in that center?

Ms. MANDELKER. Yes. So we have been working closely with interagency departments to make sure that we have the proper resources not only from the Treasury Department but also with other departments and agencies, as we do, frankly, in all of our efforts. All of our efforts are really interagency efforts.

In terms of the targeting, I will just give you one example, which I mentioned earlier, which is, 2 weeks ago, when we were in the Gulf, we announced joint designations by all of these countries against a number of targets in Yemen who have been involved in supporting ISIS and AQAP.

And so part of our effort is going to be to make sure that we are continuing to jointly designate individuals and entities who are supporting terrorist financing. We have to work in very close partnership with our GCC colleagues to make that happen, because it is imperative that all of the GCC send the same, very strong message that they will no longer tolerate the financing of terrorism in the region. And so this is a first but very important step in that effort.

Mr. HIMES. Great. Thank you.

Thank you, Mr. Chairman. I yield back.

Chairman PEARCE. The gentleman's time has expired.

The Chair now recognizes the gentleman from Colorado, Mr. Tipton, for 5 minutes.

Mr. TIPTON. Thank you, Mr. Chairman.

And, Under Secretary Mandelker, thanks for being here.

I would like to be able to echo some of the comments that Mr. Rothfus had stated in regards to the cartels as well. Just as an example, recently, Pueblo, Colorado, which happens to be the largest community in my district, it was uncovered by Federal and local authorities, a drug cartel stronghold that was disguised as a legitimate business. It was an auto body repair shop.

In that cartel activity, they found more than 60 pounds of heroin, 2-1/2 pounds of methamphetamines, 50 grams of cocaine, 35 firearms, \$540,000 worth of cash. And it is truly unclear at this time whether or not this was being used to be able to launder money or resulting from its activity or what the financial institution implications were as well.

So, on the first point, I guess we would really like to be able to discuss with you and to be able to advocate in terms of paying attention to the cartels in Pueblo. Visiting with the DEA (Drug Enforcement Agency), they have identified Russian cartels, Cuban cartels, Mexican cartels that are working in that area.

But on a sidenote that we probably haven't covered here, as well, and it is in the financial service sector, we have a lot of small community banks, as well. And you talked earlier in your testimony about the integration with all of the different components that you work with to be able to share the information, the identifying. What tools are you using to be able to help these small community banks perhaps uncover some of the money-laundering activities or illicit use of funds and some of the exposure that they have? Because simply by the nature of their size, they probably aren't going to have the resources.

Ms. MANDELKER. Sure. So just to start with your first question, this is an area that I am very familiar with, having prosecuted some of those cases when I was at the Department of Justice, and it is an area of focus for us.

We work very closely with the DEA, actually. They are a very important partner for us, both in the work that we do here in the U.S. and also internationally. And I would be happy to come down and sit and talk to you about the specific issues that you are facing in Colorado.

In terms of the small community banks, I think that education and training is key. I know it is something that Treasury has done historically, and it is something that I am going to make sure that we continue to do.

We will be also rapidly increasing the number of public-private dialogs that we have. And we are not just focused on the big banks in New York; we are going to be focused also in different regions in the country and different types of banks.

And I know and appreciate from my private-sector experience that small community banks do need guidance and assistance. And we are committed to providing them with that guidance and assistance, both to make sure that they understand what their obligations are and also so that we understand that what they do is going to look a little bit different than some of the banks that have a lot more resources.

Mr. TIPTON. Has it been your experience at all through those different elements that you have already worked in that our smaller community banks would be less likely, more likely to be able to identify some illicit activity?

Ms. MANDELKER. So I would like to come back to you and give you a better assessment on that particular question.

Look, the bigger banks, of course, are going to have a lot more resources to implement the kind of AML regimes that they have been implementing. But we need to make sure that the small community banks understand, again, what their obligations are but also so that they get the right kind of training to be able to detect this illicit finance. What we don't want to have happen is for illicit actors to suddenly think that they can go to the small community banks and take advantage of them. That is also very important to us.

But I very much appreciate that the small community banks are different in size from the bigger banks. And we have to make sure we have a very good and concerted effort to get them an understanding of what their obligations are so, again, they can join us,

as they have, in this effort to keep illicit actors from abusing their system.

Mr. TIPTON. Great. I appreciate that.

And, Mr. Chairman, my next question would be a little bit lengthy, and I would like to maybe be able to submit that to the record.

And we could have, maybe, that conversation in our office. And I appreciate your forthrightness and look forward to our visit.

Ms. MANDELKER. Thank you.

Chairman PEARCE. The gentleman's time has expired.

The Chair now recognizes the gentleman from Nevada, Mr. Kihuen, 5 minutes for questions.

Mr. KIHUEN. Thank you, Mr. Chairman.

And thank you, Mr. Ranking Member.

And thank you for being here today.

As you know, I represent a district in Las Vegas, Nevada. And not long ago, there was a shooting that killed 58 people and injured over 500. It has been reported in the news that, in the last 3 years alone, more than 200 suspicious activity reports about the Las Vegas shooter's activities, particularly large transactions at casinos, had been filed with the law enforcement authorities.

When an individual has such a tremendous amount of CTRs (currency transaction reports) and SARs (suspicious activity reports) filed on their activities, does it trigger a law enforcement investigation? And what does that investigation look like?

Ms. MANDELKER. So thank you for that question. And, of course, I wouldn't be able to talk about any particular set of SARs or circumstances. We would be happy to come and talk to you about it personally.

Look, there are various tools that—analytic tools—not only that we have but other members of law enforcement has when it comes to understanding what is coming in through our system in terms of the SARs. We deploy those tools. We have, again, an overlay of analytic tools that we use to make sure that we are detecting suspicious activity and we are very dedicated not only to making sure that we continue to do so but to making sure that we elevate our technological capacity.

Mr. KIHUEN. Thank you, Madam Under Secretary.

And, more broadly, can you comment on the type of analysis that FinCEN does on an ongoing basis of the SARs that it receives from covered institutions?

And, also, to what extent is FinCEN actively sifting through this data to identify actors whose suspicious activities warrant scrutiny by law enforcement?

Ms. MANDELKER. So, again, we do a lot of analysis when it comes to looking at the types of information that is coming in through those SARs. It is not only us, of course. There are many different law enforcement agencies that have access to the BSA (Bank Secrecy Act) system, as well they should. So we work in close partnership.

When we see trends, we work in close partnership with our law enforcement partners. We also put out a number of financial advisories, similarly, when it comes to seeing trends in illicit activities, because we think it is very important that the financial insti-

tutions also understand what we are seeing and incorporate different kinds of typologies in their algorithms. Because what we want them to do is to have the sophisticated means to red-alert illicit activity that is problematic.

So we do a lot of work analyzing the data. I know our law enforcement partners, likewise, do a lot of work analyzing the data. We have very good and constructive dialogs with them. And we also have important dialogs with the private sector.

Mr. KIHUEN. Thank you.

And my last question. I have heard from the casinos that they are having to file the CTRs and SARs in large numbers for what, in the gaming world, is a relatively routine operation. The American Gaming Association estimates that the industry filed 58,000 SARs and more than a million CTRs last year.

Taking both the regulatory burden and law enforcement objectives into consideration, what are your views on changing the reporting thresholds?

Ms. MANDELKER. So I know that is a subject that is—that there is also a lot of discussion in the Congress on how do we think through what changes we might make to the BSA regime. That is something that we are taking a hard look at. We are reviewing it very carefully.

I don't want to comment on the particular problem of the American Gaming Association, but we need to make sure that we are getting the right data that we need from the financial institutions and that they are focused on the high-value threats.

And so I look forward, really, to working closely with this Congress on that issue. I think that we need to make sure that we are making decisions based on data, so we are digging into the data and digging into the details so that, again, we have a system in place that gives us the information that we need and that focuses the private sector on providing us with what is all of our objective, which is to protect the integrity of the financial system.

Mr. KIHUEN. Thank you, Madam Under Secretary.

And thank you, Mr. Chairman.

Chairman PEARCE. The gentleman's time has expired.

The Chair will now recognize the gentleman from Texas, Mr. Williams, 5 minutes for questions.

Mr. WILLIAMS. Thank you, Mr. Chairman.

And, Madam Secretary, thank you for taking time to meet with us today, I appreciate that, to discuss these important programs.

Our Nation's security is paramount, and the work that you and the Office of Terrorism and Financial Intelligence do is extremely important in keeping us safe. It is all of our goals to keep those who wish to harm us from having the financial means to do so. I look forward to hearing how the Trump Administration and your team are prepared to tackle the challenges before us as we move on.

So the question is, Madam Secretary, earlier this morning during a hearing before the Subcommittee on Monetary Policy and Trade, I had the pleasure of hearing testimony from one of your colleagues, Under Secretary Malpass, regarding the IMF. And in his testimony, Mr. Malpass discusses the technical assistance provided by the IMF to nations in need. A small part of that assistance tar-

gets improving countries' ability to combat money laundering and terrorism financing.

So to what extent does your team interact with foreign nations and the IMF when developing effective anti-terrorism strategies? Or, to be more specific, are we ensuring that we are incorporating a broad spectrum of international financing when developing those strategies?

Ms. MANDELKER. Absolutely. That is a very big focus for us. We work both in tandem with the IMF and we are also leaders in the Financial Action Task Force, or the FATF. We currently have the vice presidency of the FATF, and next summer we will have the presidency of the FATF, which is really an international body that is very focused on making sure that countries around the world have the regulatory regimes in place that we all want them to have when it comes to AML and CFT.

So not only are we very involved in setting those standards and making sure they are up to par in the way that we would want them to be, but we also play a very active role in assessing the regimes in other countries, called mutual evaluations or assessments.

So it is something that we are very focused on. It is something that I raise regularly in my interactions with my counterparts all over the world. Look, we can have—we do have a very strong AML regime, but we need to make sure that our allies and partners all over the world have the same regime. And it is a concerted effort on our part.

Mr. WILLIAMS. OK.

In your testimony, you touch on the need for BSA reform and say that your term is currently taking a hard look at the current framework, that this is a welcome action.

This subcommittee has had institutions testify to the sentiment that the cost of compliance with this law is difficult and expensive.

So what is the status of your review, and what changes would you like to see made to the BSA that would ensure that improvements are made to improve the anti-money-laundering efforts at these institutions?

Ms. MANDELKER. So, as I mentioned, we are taking a hard look at the BSA. We want to make sure that we have a regime in place that is harnessing the resources of the banks in the right way.

So the financial institutions have thousands of financial crime analysts, not only here in the United States but all over the world, and we need to make sure that those resources are deployed. And they are really, in some ways, on the front lines for what we are trying to accomplish and do. We need to make sure those resources are deployed, again, to give us the information that we need on a number of different threats but with a real focus on our high-priority threats.

And so that is what we are taking a careful look at, how do we have a system in place that is going to ensure that we are targeting the resources in the right way. And we have had discussions with the financial institutions, I have had discussions with the banks about that, and I have a sense of where they are deploying their resources and how they are deploying their resources. And I want to make sure that they are focused to achieve what we all want to achieve, which is to safeguard the financial system and to

make sure that we have the right level of transparency in that system.

Mr. WILLIAMS. OK. I yield my time back. Thank you for your service.

Ms. MANDELKER. Thank you.

Chairman PEARCE. The gentleman yields back.

The Chair now recognizes the gentlelady from Arizona, Ms. Sinema, for 5 minutes for questions.

Ms. SINEMA. Thank you, Mr. Chair.

And thank you, Under Secretary, for being here today.

Arizonans are deeply concerned about the increasingly unstable regime in North Korea and the threat it poses to regional stability and our national security.

So Congress has passed multiple rounds of sanctions to hold North Korea and other bad actors accountable, but the threat of weapons proliferation exists and persists. While sanctions are an essential tool to discourage proliferation, they are not a complete solution to the threats we face.

So my first question for you is: Along with sanctions, some advocates have suggested a risk-based approach by our global financial institutions to actively identify and cutoff financing within their own institutions used for weapons proliferation. And my question for you is, what is Treasury's view of the efficacy of this approach?

Ms. MANDELKER. We work globally with other countries on this problem and with the financial institutions on this particular problem. So what we have been focused—we have been focused on a variety of fronts with respect to this problem, because it is not just sanctions alone, and we don't think it is sanctions alone.

So, among other things, we have been providing typologies to banks all over the world with respect to—to enhance their capacity to detect illicit evasion schemes, to detect the front companies that North Korea has been so adept at using to facilitate this kind of financing.

We also work with the Financial Action Task Force, which I mentioned recently, which is an international body that is focused on making sure that we have the right standards across the world when it comes to AML and CFT. And this body actually just met the last week or so and issued a—we served as the leaders in this effort, with other counterparts, for them to issue a statement that is very specifically focused on the North Korea proliferation financing.

We are also working with the G7 on actions that we can take jointly to counter financing.

So there are many other things that we are doing; that is just a list of a few. But we are working with high-risk jurisdictions, we are working with partners and key allies. This has to be a global effort. The U.N. Security Council resolutions that were passed in August and September made that clear, that it has to be a global effort. And we are very activity involved in implementing that regime.

Another—and I will just end with, another area of focus for us is going after North Korean financial facilitators. So there are people who North Korea has deployed all over the world to help—they have a particular skill set and expertise to help to provide illicit fi-

nancing back to the regime. So, last month, we actually designated 26 of these financial facilitators. We have designated others in the past. And that is another area we are very focused on. And they are in some high-risk jurisdictions.

So it is something that—I agree with you. It is something we are focused on. It is a big part of our effort, in addition to the sanctions that we have been deploying.

Ms. SINEMA. Thank you.

More sophisticated proliferators will use front companies or proxies to circumvent safeguards that are put in place by major financial institutions.

So what, if any, best practices has Treasury offered to financial institutions in these high-risk jurisdictions to take this risk-based approach to stop money laundering or suspicious transactions and other activities that are seeking to conceal proliferation finance?

Ms. MANDELKER. So, as I mentioned, we have been sharing this kind of information with the banks. Last week, we issued a financial—a 10-page financial advisory that alerted the banks to the kinds of front-company activity that North Korea, again, has been very adept.

I was recently in Europe, where, in addition to meeting with my government counterparts, I met with banks in three different cities, again, to alert them to the typologies that we are seeing when it comes to North Korea front-company activity. And we have been doing that across the board in many of our engagements.

Ms. SINEMA. Thank you.

And my last question would be, has Treasury considered the role that entities such as FinCEN and prudential regulators play in this regard? And how can they be more actively engaged?

Ms. MANDELKER. So FinCEN, of course, is one of the agencies that I supervise. And what I have been discussing is activity that FinCEN has been very involved in and will continue to be.

Ms. SINEMA. Great. Thank you.

Ms. MANDELKER. Thank you.

Ms. SINEMA. Mr. Chair, I am also submitting a number of questions for the record concerning Iran and its nuclear program.

Ms. SINEMA. But thank you for the time. I yield back.

Chairman PEARCE. Thank you.

The gentlelady yields back.

The Chair now recognizes the gentleman from Maine, Mr. Poliquin, for 5 minutes for questions.

Mr. POLIQUIN. Thank you, Mr. Chairman. I appreciate it very much.

And thank you, Madam Under Secretary, for being here. We appreciate very much all the hard work you are doing, and your terrific staff, to make sure that the folks that want to cause American families harm do not receive the funding they need to carry out their business.

Madam Under Secretary, you have been in this business for quite some time. Now, I know it has been a short period of time in your current position. Could you comment on how has this business of stopping illicit financing for terrorist activities changed over the last 10 or 20 years?

Ms. MANDELKER. So I think we have had a much more concerted effort. So, for—

Mr. POLIQUIN. By whom?

Ms. MANDELKER. Well, I would say by the Treasury Department, by law enforcement—

Mr. POLIQUIN. Did you find that this activity was so concentrated in the last administration or the one before that, or has it ramped up recently?

Ms. MANDELKER. I would say there has been a ramp-up since 2004 when TFI was created. So I think there was a recognition, as I mentioned, in the post-9/11 world that it was important to put these four components together to deploy this broad range of economic authorities that we have in concert with—

Mr. POLIQUIN. And how about foreign governments, Madam Under Secretary? How have they responded recently as compared to 5 or 10 years ago with respect to your activity and those that came before you, as far as stopping these illicit funds from reaching home?

Ms. MANDELKER. So what I can really comment on is what I have seen in the 4 months that I have been here. And I also have some experience historically. But we have benefited from a partnership with a great many countries—

Mr. POLIQUIN. Is that getting better or worse?

Ms. MANDELKER. I would like to say it is getting better, because we are having a very important dialog with them, but this has been a concerted effort for some time.

We also have been very focused on capacity-building. So we want to make sure that other countries have the regimes in place to enforce sanctions in the way that we enforce those sanctions.

Mr. POLIQUIN. With American and coalition victories over ISIS in Syria and Iraq, in particular, recently, have you folks discovered anything new about the strategies involved in illicitly financing terrorist activities? Are they becoming less institutionalized, more decentralized? What have you learned?

Ms. MANDELKER. So I would defer to perhaps a briefing in another setting before getting into some of those details. What I think we are seeing is a lot of success in our efforts, of course, to counter ISIS, including in financing. And it is something that we have been focused on. Also, we focus on it in very close collaboration not only with our interagency partners, because that is important, but, also, we lead a counter-ISIS global coalition focused on terrorist financing.

Mr. POLIQUIN. A short time ago, you and I met with a smaller group of members of this committee dealing with this issue. And, of course, I know you won't disclose anything that is classified. But I was very interested, and I think other folks would be also, about some of the specific ways that the North Korean Government is getting hard currency back to its homeland.

And you just mentioned a moment ago financial facilitators. Could you explain that a little bit more? And we don't have much time.

Ms. MANDELKER. So financial facilitators are individuals who have a particular expertise and skill set—

Mr. POLIQUIN. So they are folks that are from North Korea that leave their homeland to go work in other places and they send their hard cash back home. Is that correct?

Ms. MANDELKER. Through various sophisticated means—

Mr. POLIQUIN. Legal or illegal means?

Ms. MANDELKER. Well, we believe it is illicit.

Mr. POLIQUIN. Fine. Thank you. And we are making headway as far as choking off that form of financing for the North Korean goal that they are now—

Ms. MANDELKER. Yes.

Mr. POLIQUIN. —the path that they are on? OK.

Let me pivot in my last question, if I may, Madam Under Secretary. We just had a horrific, horrific attack on our homeland a very short time ago in New York City, where an individual got a hold of a rental truck and drove it down a bike path on the west side of Manhattan for about 40 blocks, about 2 miles, roughly.

How does someone like that tap into this network of illicit financing? Is it institutionalized? Is it specific to that individual? Do you have any idea where that originates and how we can stop that?

Ms. MANDELKER. So I don't want to comment on that specific case.

Mr. POLIQUIN. I understand.

Ms. MANDELKER. It is obviously an active law enforcement—

Mr. POLIQUIN. I understand.

Ms. MANDELKER. —investigation. But we, of course, do work to identify how those kinds of individuals who appear to be lone wolves, for example, get their financing. It is an area—

Mr. POLIQUIN. Can you give the American people any confidence that we are making headway at Treasury to stop this?

Ms. MANDELKER. I think we are making headway at Treasury across a wide array of efforts.

Mr. POLIQUIN. OK. Thank you, Madam Under Secretary. Keep doing your great work. I appreciate it.

Ms. MANDELKER. Thank you.

Mr. POLIQUIN. I yield back my time.

Chairman PEARCE. The gentleman's time has expired.

The Chair would now recognize the gentlelady from New York, Mrs. Maloney, for 5 minutes for questions.

Mrs. MALONEY. Welcome, Madam Under Secretary.

When the Panama Papers came out, people were commenting that Americans were largely missing from that report. And some law enforcement friends pointed out to me that Americans don't have to go to Panama to hide their money; they can hide it in the United States very easily in these LLCs.

And, actually, at the request of law enforcement that was tracking terrorism financing, drug financing, and they had hit a brick wall called an LLC, I introduced a bill roughly 15 years ago called the Corporate Transparency Act, which would crack down on anonymous shell companies, requiring companies to disclose their true beneficial owners at the time that the company is formed.

Would having access in Treasury to beneficial ownership information be helpful to your office in cracking down on money laundering and terrorism financing?

Ms. MANDELKER. So thank you for that question. I know this is something that has been a long concern to you.

What I can tell you is that we are—there are a number of bills, I know, that have been introduced in Congress in this particular area. This is a complex issue and a complex problem. Transparency, of course, is very important for us. I know that from not only my time, my 4 months in Treasury, but also my time as a prosecutor at the Department of Justice and in the private sector.

And, as I am sure you know, last year, we issued the CDD rule, which requires financial institutions to get beneficial ownership information from their customers, which I think is going to be a very important effort and advancement in this regard.

So I look forward to working with you and others on what is the right model, what makes sense, in terms of increasing transparency in our system.

Mrs. MALONEY. My bill would require FinCEN to build a database of beneficial ownership information, which would be accessible to law enforcement and to financial institutions for purposes of their own “know your customer” obligations.

Does FinCEN have the capacity to build this database, or would you need additional funding to build the database? Would you build it through Treasury or the private sector or FinCEN? Have you put any thought into it? Because the chairman tells me that we may be moving, thankfully, a beneficial ownership bill.

Ms. MANDELKER. So, again, this is a complex issue and a complex problem, and I would be happy to come back and talk to you about what we think makes sense in this regard without commenting on any—at this time, on any particular piece of legislation.

Mrs. MALONEY. Well, then, why don’t I send you the legislation and a list of questions.

And I would like to ask you about, really, the effectiveness of “know your customer.” Banks are cracking down, we may be cracking down on LLCs. Then, all of a sudden, you have crypto and Bitcoin, which has no regulation at all. No one knows the value. If you go on the web, you will see some are \$26, others are \$6,000. It jumps to \$7,000, \$8,000. There is no explanation of why it is jumping. There is just absolutely no control on it.

What steps is Treasury having to really try to protect consumers and investors in this new currency?

Ms. MANDELKER. We are very concerned with this new currency. We, I think, actually were the leaders in the world when it comes to regulating cryptocurrency. And so, in addition to the regulations that we have, which requires exchangers to have an AML program, we are also focusing our enforcement actions on going after cryptocurrency that harvests this type of illicit behavior.

So just, I think it was 2 months ago, as I mentioned, we brought a case, in close coordination with the Department of Justice, against a cryptocurrency scheme that was housed internationally. And so, in that effort, we are sending a very strong message around the world that we are on the lookout for the use of these cryptocurrencies to engage in illicit activity.

We are also working with counterparts around the world to make sure that they have the regulatory regimes that they need to have in place to monitor and effectively have AML mechanisms to mon-

itor this type of behavior. Because it can't be the United States engaging in this alone; it has to be an international effort.

Mrs. MALONEY. Uh-huh. Well, my time has expired. Thank you.

Chairman PEARCE. The gentlelady's time has expired.

The Chair would now recognize the gentlelady from Utah, Mrs. Love, for 5 minutes.

Mrs. LOVE. Thank you, Madam Under Secretary, for being here today.

I have done a little bit of work on human and sex trafficking. And I am realizing that we are dealing with a group or an organization that is a lot bigger than what we think.

I met a young girl who was working at the age of 13 in Mexico and was pretty much targeted. A young man was talking to her for about 3 weeks and, after he had convinced her and had found out about her and knew that she was vulnerable at home, brought her into the family and took the time, actually, to go in.

Then, inadvertently, after a while, got across the border. Worked in Manhattan. Realized that the uncle was actually the pimp. Cousins everywhere. I mean, you are talking about drivers—the drivers and appointments that they would go to, and she was locked in this room.

And she was trafficked for over 3 years. Listening to her story and listening to the amount of people that were involved and how much time and effort they took, they had it down to a science.

And I am looking at your bio and the objectives of the agency which you oversee, and it is clear you have some expertise combating a host of illicit activities. My understanding is that many of these, such as narcotics trafficking, money laundering—some of those may overlap with human trafficking.

Do you or the agency that you oversee encounter this horrible crime within those activities? And, if so, can the Treasury do anything to prevent inadvertently financing for human trafficking?

Ms. MANDELKER. So I share your grave concern about human trafficking. It is actually an area that was a big focus of mine when I was at the Justice Department. So, in my last 2-1/2 years in the Justice Department, I supervised a number of sections, including the Child Exploitation and Obscenity Section, where we had a very big focus on child trafficking. And, of course, it is not just a trafficking problem; we also have a problem with child prostitution here, domestic prostitution here in the United States, which is part of what you discussed with this poor child in New York. So it is something that I am very familiar with and something that I have dedicated a lot of effort to in the past.

What we have been doing at the Treasury Department is working very closely with our partners overseas to make sure that we collaborate when it comes to information that we get either through our SARs or that they receive through their AML regimes on suspicious activity focused on trafficking. So we lead an effort in that regard.

We are also considering other ways—

Mrs. LOVE. OK. So, as you consider other ways, I know section 314(b) of PATRIOT grants financial institutions with the ability to share information, one with another, to prevent money laundering and terrorist activities.

Over the course of this year, my office and I have met with numerous 501(c)(3)'s and organizations that are working to combat human trafficking, and they have a great deal of information about traffickers, how these traffickers operate, especially in some other countries, and how they are actually connected to the United States.

I have actually witnessed a lot of the aftercares that I have seen that may have been inadvertently funded that are used as actual shells for—or, I could say, the mechanism for, actually, selling of these children.

Do you think it would be feasible and effective to add these kinds of organizations to the list of organizations that would be eligible to participate in 314(b)?

Ms. MANDELKER. So what I can tell you, as a general matter, I think the NGOs (non-governmental agencies) provide an incredible amount of extremely valuable information when it comes to trafficking. And at the Justice Department, we worked closely with the NGOs on a wide range of child exploitation issues.

I would be happy to talk to you about any particular provision. I mean, 314(b) right now is really focused on the financial institutions. There may be other mechanisms when it comes to information-sharing. I know that there is a lot of information-sharing that goes on—

Mrs. LOVE. Right.

Ms. MANDELKER. —already. The question as to whether that safe harbor is the right provision with respect to dealing with this particular problem is something we would be happy to take a look at.

Mrs. LOVE. I would love to talk to you about it, because there is so much information that is not being shared between the 501(c)(3)s that have done a lot of work and your department that I think would be really beneficial to at least even following where the money is.

And, anyway, thank you so much for your time.

Ms. MANDELKER. Thank you.

Chairman PEARCE. The gentlelady's time has expired.

The Chair would now recognize the gentleman from Arkansas, Mr. Hill, for 5 minutes.

Mr. HILL. Thank you, Chairman.

Thank you, Under Secretary, for being with us today. Congratulations on your new position.

This is a topic I want to raise, with deference to my colleagues, not one of my favorite subjects. But since you are new in your position and we have switched administrations, I want to talk about this continued topic of beneficial ownership and how we assess it.

And, when you look at the rule that you have pending that will come into effect for banks in 2018, there is a lot of varying ability to comply with that rule across the financial services space from the very big, sophisticated partners that you deal with that do 80 percent of the global transactions down to community banks.

And one issue I keep raising is the IRS already has the data that you want, because if you have a passthrough entity, a subchapter S, an LLC, they file a partnership return, a passthrough Federal tax form with the IRS, and at least once a year that shows the beneficial ownership because you have to issue a K-1 to everybody

who is a passthrough owner or recipient under that passthrough entity.

And it is a challenging area, but, to me, to spend legal time sorting through that and finding a way to use that data would be far better for the Federal Government and for the private sector than dealing with the 50 State incorporation standards across our country, which we can't really do anything about very effectively in a very timely way.

So I raise this issue for you and ask for your view on getting the very sharpest minds in your legal office and at Main Treasury to try to figure out a way to, consistent with privacy, obtain that data for the purposes of determining beneficial ownership.

Ms. MANDELKER. OK. As you know, this is a complex issue, and I know that there are a lot of different options that are on the table. We are studying those options. There is balancing that needs to take place, and I look forward to working with you on it. I am not going to comment at this point on any particular solution, but it is certainly something that we are studying very closely.

Mr. HILL. Switching back to your enforcement of sanctions, your sanctions, in regard to the North Korea situation, I know you were asked questions, is it better than it has been in the past. And just in the 4 months you have been involved in the process, are you seeing leads and enforcement from our allied nations, both in North Asia and around the world? Do you see a distinct cooperation, is the question I am asking, for enforcement now of both the U.N. sanctions and the sanctions that the United States has put on?

Ms. MANDELKER. We are seeing cooperation. We are tracking it very carefully and closely. We do that, the State Department does that. We now have the strongest U.N. Security Council resolutions that we have ever had, but they can't be resolutions on paper; they have to be monitored and implemented and enforced.

And so we work very closely with our allies and partners on this problem. We also work to monitor what other countries are doing and, of course, to the extent that we need to, to pressure them to do more.

So, yes, we are seeing more than—I believe that we are seeing more than we have before. And, of course, we are very intent on staying on top of it.

Mr. HILL. Well, you have strong bipartisan support for both our bilateral sanctions and for the good work Ambassador Haley has done at the United Nations.

But this issue of enforcement by both small and large companies, North Asian, and countries and North Asian players is important. And I hope you will keep the members of this committee attuned, either in a classified or unclassified briefing, as to who is not doing a good job under multilateral or bilateral sanctions so that when we are with the representatives of those countries we can call them out.

Because this is an important phase. I don't think the U.S. over the past 24 years has ever had a coordinated, effective sanctions regime on North Korea under—now we are in the our fourth administration. So this is a chance for us in the United States, I think, to get this right. And to get it right, we are going to have to have effective enforcement.

So thanks for what you are doing. I appreciate that. And I hope you will commit to keep us informed on who we need to call out on not doing an effective job.

Ms. MANDELKER. I would be happy to do that. I can tell you that in my conversations with some of my counterparts, I also emphasize that the Congress, our Congress, is very intent on making sure that we are doing the right thing and applying maximum economic pressure. So, happy to sit down and talk to you about that.

Mr. HILL. Thank you very much.

Thank you, Mr. Chairman.

Chairman PEARCE. The gentleman's time has expired.

The Chair would now recognize the gentleman from Ohio, Mr. Davidson, for 5 minutes.

Mr. DAVIDSON. Thank you, Mr. Chairman.

Thank you, Madam Under Secretary. I am always amazed by your expertise in this subject, and so thanks for your service to our country and for the great men and women that you lead in this role. We really appreciate them and the importance that the function serves for keeping our country safe.

I want to associate myself with the remarks of Mr. Rothfus and Mrs. Love on drug cartels for one and human trafficking for the other. These are things that are present threats in our country, and our office will be working particularly with Mr. Rothfus on drug trafficking, as Ohio has a tremendous problem with overdose deaths.

And I am just curious if you could put into scope the size of dollar volume and number of transactions that you suspect are associated with drug trafficking on the one hand and human trafficking on the other.

Ms. MANDELKER. For those numbers, I would really defer to my colleagues at the DEA, the Justice Department, the State Department. I know these are tracked very carefully, but I want to make sure that we get it right. So we would be happy to provide you with some additional information.

I can tell you that the drug trafficking problem, in particular, is something that we are very focused on. We have a team that has been working on this intently for a number of years. And they are not just here in the United States; we also have them deployed into some key countries. It is a very active portfolio for us.

And this crisis is one that hits all of us. It is not just an international problem. I know it hits you at home. So it is something we are focused on, and we are going to continue to be.

Mr. DAVIDSON. Yes, an impressive set of capabilities, and some that are expanded. As you mentioned, since 9/11, we have changed some laws. We have added a lot of flexibility. And I am just curious if you could provide a distinction in the support you provide for law enforcement between the term "query" and "search."

Ms. MANDELKER. I am not sure I understand your question.

Mr. DAVIDSON. I guess the distinction between law enforcement asking you to query a database versus asking for support on a search warrant.

Ms. MANDELKER. Oh, I see. So law enforcement has this access to the BSA's database, just as we do, so they don't actually need to come to us to get that type of information. We have MOUs with

a number of different law enforcement agencies. Of course, when they need our help, we are happy to provide it to them. We work very closely with a number of different law enforcement agencies on a wide array of efforts. But they don't need to come to us. They have the same access that we do.

Mr. DAVIDSON. Direct access. OK.

And so, as you update the things that you are asking for support from our financial institutions, your business rules, I think they are termed, how do you update those? And if you have flags because of recent activity, whether that is truck rentals, cross-border activity, how do you update those, and how timely can that be? Because banks have whole floors devoted to this compliance of AML and BSA. How do they get focused and productive?

Ms. MANDELKER. So we work closely with the banks. I mean, one of the things that we have done historically but we are going to be increasing are public-private dialogs with the banks. That is where we go to the banks and we tell them, look, we have a particular case or a particular typology, we present that information to them, and ask for their feedback.

And then, of course, there are a lot of different ways in which we update our rules or our queries to detect different types of activities, as do our partners in the law enforcement community.

Mr. DAVIDSON. OK. So one of the ways that you interact is through 314(a), but then we have seen some interest in expanding the ways for banks to interact with one another, financial institutions to interact with one another.

It is really somewhat intuitive to understand how a law enforcement organization would be working with banks to access information in their databases, the "know your customer" regimes, things like this, suspicious activity reports. It is not intuitive, to me anyway, as to why they would need to engage in ostensibly law enforcement functions amongst themselves with no government involvement whatsoever.

Could you elaborate on that, please?

Ms. MANDELKER. Look, we are encouraged that banks are working with each other in different settings, and we do interact closely with them in those efforts. So, for example, there is a consortium of banks under 314(a) that are sharing information with each other and providing us with the link analysis that they are getting and identifying illicit activity and front companies.

I think that when they do that they are also enhancing their own ability to sophisticate their algorithms and their red alerts. So it has been something that has been beneficial to us; I think it has also been beneficial to them.

Mr. DAVIDSON. Thank you.

My time has expired. I yield, Mr. Chairman.

Chairman PEARCE. The gentleman's time has expired.

The Chair would now recognize the gentleman from North Carolina, Mr. Budd, for 5 minutes.

Mr. BUDD. Thank you, Mr. Chairman.

And thank you, Madam Under Secretary, for all that you do in service to our Nation. And, again, I also agree that your expertise is quite amazing across so many different areas. So thank you again for serving our country in the way that you do.

Ms. MANDELKER. Thank you.

Mr. BUDD. So, this past July, my colleague from Arizona, Ms. Sinema, and I introduced the National Strategy for Combating Terrorist, Underground, and Other Illicit Financing Act. And in August, our legislation was rolled into a sanctions bill, the Russia-Iran-North Korea sanctions package, and signed into law.

So the Budd-Sinema legislation requires that the President consult with Treasury and other appropriate agencies to develop a national strategy for combating the financing of terrorism. So are you aware of any planning sessions that have begun as a result of that, and can you elaborate on them?

Ms. MANDELKER. Yes, absolutely. So we are leading that effort and the strategy. We are working closely with our law enforcement and interagency partners. It is actually something I am familiar with because we had these kinds of strategies when I was at the Justice Department and also at Homeland Security 10 or so years ago. So we are actively working on the strategy and will be happy to update you on it.

Mr. BUDD. Thank you.

So, outside of that legislation, what other role, in your view, should Congress be playing in the fight against terrorist financing in the U.S. or abroad?

Ms. MANDELKER. Well, I think Congress has provided us with tremendous authorities and tools to combat terrorism, illicit financing. I know it has been an area that has been of great concern to this committee, and we very much appreciate your partnership in that.

I will say, one area that I think would also be helpful for us is the ability to ensure that we can stay flexible in the use of our authorities. So there have been some pieces of legislation which have tried to limit our licensing authorities, for example, or our ability to waive or delist entities.

And what I am constantly focused on is making sure that we are using our economic authorities aggressively to combat terrorist financing, proliferation, human rights violators, et cetera, and the ability to do so, to achieve what we all collectively want, which is really maximum strategic impact to curb these threats, also requires that we act with agility and flexibility.

So I would be happy to talk to the committee about that some more, but I would also ask that you make sure that we have the flexibility that we need to execute our authorities in the way that I know you would all want us to do.

Mr. BUDD. Let's continue the dialog on that so you can have that flexibility. Thank you.

Ms. MANDELKER. Thank you.

Mr. BUDD. So, with the time I have left, I want to transition into the FinTech and the virtual currency space, and I want to get your opinion on Treasury's role in that arena.

So I think we, as lawmakers, are in a tough spot right now. So how do we encourage FinTech to innovate by limiting regulation but, at the same time, getting ahead of what many in the national security field see as a future problem? And that is increased terror and illicit use of virtual and cryptocurrencies. Any thoughts there?

Ms. MANDELKER. So it is an area that we are focused on. We are actually going to be focused—and my staff are going to be, and I will, as well, doing some work, having productive dialogs with FinTech and RegTech. Because I think this is the wave of the future; artificial intelligence is the wave of the future. We need to make sure that we stay on top of it, that, among others, the financial institutions can continue to sophisticate the ways in which they track illicit financing and that we in the Treasury and in the government do the same.

Mr. BUDD. Sure.

Ms. MANDELKER. So, again, something I would be happy to discuss with you in the future. We have to be ahead of these illicit actors, far, far ahead of these illicit actors. And some of that, of course, is going to involve FinTech and some of the exciting, new developments that are in the arena.

Mr. BUDD. Any changes, in particular, that you see are concerning in the virtual currency landscape that is appropriate for this conversation?

Ms. MANDELKER. I wouldn't say it is appropriate for this conversation.

Mr. BUDD. Sure. OK.

Well, in your view, is there any way that we can more effectively balance the anti-money-laundering, combating financial terrorism, the interest of the government there, with encouraging innovation?

Ms. MANDELKER. Look, I am a big proponent of encouraging innovation. We are seeing a lot of innovation. I have been seeing a lot of it, frankly, in the last 4 months. I think it is something we need—we need to encourage innovation. There are a lot of different ways to do so. And, again, I would be happy to have a longer conversation with you about it.

I know also that there are a number of different pieces of legislation that are focused on—and recommendations from the private sector that are focused on making sure that they can innovate in the way that they need to. And it is something that I am very involved in exploring.

Mr. BUDD. Thank you.

My time has expired. I yield back.

Thank you again.

Chairman PEARCE. The gentleman's time has expired.

Memphis is the home of the Memphis Belle, Elvis Presley, King Cotton, and our next questioner. I recognize the gentleman from Tennessee, Mr. Kustoff, for 5 minutes.

Mr. KUSTOFF. Thank you, Mr. Chairman.

Thank you, Madam Under Secretary, for being here today. And as a former United States attorney, thank you for your prior service to the Department of Justice as well.

Ms. MANDELKER. Thank you.

Mr. KUSTOFF. If I could, back in June, Representative Sinema and I wrote a joint letter to Treasury urging the Financial Action Task Force to reimpose countermeasures against Iran. I think we have all seen that Iran has continued to engage in troubling behavior throughout the Middle East, which poses a continued and serious threat and a growing threat.

And, if I could, I did receive a letter back in July of this year from Deputy Assistant Secretary Matt Kellogg. I won't read all of it to you, but, if I could, if I could cite part of the letter and then ask you.

He says that the FATF decided in June to maintain Iran on its, quote/unquote, "blacklist," close quote, and called upon its members and urged all jurisdictions to continue advising their financial institutions to apply enhanced due diligence to business relationships and transactions with all natural and legal persons from Iran.

He then goes on to say that we will also continue to address Iran's troubling behavior throughout the Middle East, which poses a serious and growing threat.

And I do appreciate the response that I received back from Treasury. Can you elaborate, if you could, on any further sanctions or any further actions that Treasury and other entities are taking against Iran at this time?

Ms. MANDELKER. I would be happy to.

So Iran is a big area of focus for us in the Treasury Department. As you may know, the President recently announced a new strategy to counter Iran's malign and destabilizing activity, and at the Treasury Department we are a very big part of that effort.

So we have issued over 70 designations since the beginning of this administration against entities that have been involved in Iran's ballistic missile development and Iran's support for terrorism and its human rights violations and proliferation, and we are not going to stop. I mean, we have to be—I think, really, the world has to be united in its efforts to counter the malign and destabilizing activity of the Iranian regime, and we are intent on doing so.

We are also working within the FATF on monitoring any developments with respect to Iran's AML and CFT regime. Look, there is no transparency in the Iranian system, the Iranian economy. Not only that, but the IRGC plays a very big role in the Iranian economy. And there needs to be significant changes on both fronts, and we are intent on holding them accountable in that regard.

Mr. KUSTOFF. In the July letter back to me, he cites that the FATF has again decided not to lift countermeasures, extending a temporary suspension of countermeasures instead. That is still in place?

Ms. MANDELKER. That is currently still in place. The review process for Iran will end in February, and it is, again, something that we are working on very intently.

Mr. KUSTOFF. And after February, can you give any assurances that it will be extended? Or what do you see happening after February 2018?

Ms. MANDELKER. Well, the FATF is a consensus body, so I can't tell you exactly what the FATF will do. What I can tell you is that this is a very big focus of effort for us in the United States. We are deeply disappointed by what Iran has been doing with respect to the FATF efforts. And we have made our expectations known and we have made our disappointment known and will continue to do so, including in February.

Mr. KUSTOFF. And I appreciate that.

If I can, to follow up on a question, and maybe Mr. Budd's question as well, about the cryptocurrencies. And I think one concern

that we all have is that some lone wolf, if you will, or some small-cell terrorist will try to use the virtual or cryptocurrencies for activity.

Would you, if you could, describe the extent that any attackers have relied on anonymous financing means such as cryptocurrency?

Ms. MANDELKER. So I don't think that I can do so in this setting. What I can tell you is that cryptocurrency is a big area of focus for us, and I know it is for the Department of Justice as well. It was when I was at the Department of Justice. And we are going to continue to take action in connection with the use by any illicit actor of cryptocurrency.

Mr. KUSTOFF. Thank you very much.

My time has expired, and I yield back.

Ms. MANDELKER. Thank you.

Mr. PITTINGER [presiding]. The gentleman's time has expired.

I would now like to call the Chairman of the Foreign Relations Committee, Mr. Ed Royce.

Mr. ROYCE. Well, thank you, Secretary. Congratulations again to you.

Ms. MANDELKER. Thank you.

Mr. ROYCE. We have had a chance to talk about a couple of things. I wanted to follow up on Ed Perlmutter's commentary to you earlier. And I share the same concern here. We have been working on sanctions issues now, and our concern is that you inherited basically an agency that is the lynchpin of the enforcement, and the budget is going to be inadequate to the dramatic increase in sanctions that we are passing. We have passed—over the last 20 years, I have been engaged in most of these issues, and all of a sudden you have an exponential increase.

And the other part of this that I am concerned about is work force retention, not because of the culture in the agency. The problem is that the private sector has a demand for the skill that you are turning out. And so the reality is you are also going to be losing people to the private sector that are willing to pay to get that kind of expertise, and suddenly the amount of expertise necessary to deal with what we have done on Korea and what we are doing on the Iranian missile sanctions and so forth, that is going to be a challenge. You are going to have to have a situation where you are able to retain skilled staff, and we are going to have to be agile at replacing the individuals that do get hired away.

And for all of those reasons, a point Ed raised and that I am raising with you, it sort of demands a strategy in terms of how you address that.

Ms. MANDELKER. So I have been very focused on that issue as well.

Look, I think what—I have been incredibly impressed—and I heard this before I came to Treasury, but it is really true—by the mission focus of the people who work in the Treasury Department and, in particular, on this portfolio. So we have a number of people—in fact, I would say, the whole work force—who comes to work every day inspired and excited about the work that they do because they are helping to protect the safety and security of our country.

At the same time retention is important, recruitment is also very important. We have to recruit the best and the brightest. And I

have a number of initiatives I would be happy to come talk to you about.

Mr. ROYCE. Well, Hezbollah sanctions are coming as well. And so I wanted to offer a dialog with you and your staff on this critical issue, if we could, because I think it is going to—normally, you would consider it sort of overwhelming, in terms of the amount of workload that is coming. And that is not just my concern; my team that helped me write the sanctions bills were all concerned about.

Ms. MANDELKER. Thank you.

Mr. ROYCE. I do have a few questions related to anti-money-laundering efforts. And I have talked to you before about my concern about the “know your customer” law, and yet we don’t have transparency. And that issue has come up a couple of times today, in terms of different ways to deal with that.

But the threshold for filing suspicious activity reports was set back in 1996. And the threshold for filing currency transaction reports, that was in 1972. So how were the threshold amounts determined 20 years ago and 45 years ago? And do you think it is time for Congress and Treasury to revisit the thresholds?

Ms. MANDELKER. I think it is time for us to revisit the regime writ large. I mean, we have to get out of the 1970’s and the 1990’s and move way past 2017. So I look forward to working with you on that. I think it is a very important effort. I view the financial crimes analysts who are working on these SARs and other reporting mechanisms as really being on the front lines for us—

Mr. ROYCE. But I think we have to do it in tandem with the beneficial ownership issue. We have to get transparency in our system. We are not as bad as Kenya, but we are the second worst from the bottom in terms of being able to monitor this. And it has to be addressed. And we will talk more about that.

How do we encourage the use of new technologies to combat money laundering? And do financial institutions have sufficient legal certainty to be innovative in their efforts? And would you be supportive of further clarification along these lines?

Ms. MANDELKER. Look, I think innovation is very important. I have had financial institutions come and talk to me about the efforts that they are undertaking to be more innovative, and I think that we need to encourage and promote that activity. So, whether we need guidance or different statutory authorities, it is something that we would have to discuss, but they need to be more sophisticated. They need to have more sophisticated algorithms.

And, of course, there is a lot of discussion about the use of AI in helping to monitor and detect illicit financing, and we need to stay ahead of it. The criminals are ahead of it. We need to be far ahead of them.

Mr. ROYCE. Thank you, Madam Secretary.

Thank you, Mr. Chairman.

Mr. PITTENGER. Thank you.

The gentleman’s time has expired.

We would like to thank you, Secretary Mandelker, for being with us today and for your testimony.

Without objection, all members will have 5 legislative days within which to submit additional written questions for the witness to the chair, which will be forwarded to the witnesses for their re-

sponse. I ask our witness to please respond as promptly as she is able.

This hearing is adjourned.

Ms. MANDELKER. Thank you.

[Whereupon, at 3:55 p.m., the subcommittee was adjourned.]

A P P E N D I X

November 8, 2017

Testimony of Sigal Mandelker
Under Secretary, Terrorism and Financial Intelligence
U.S. Department of the Treasury
House Committee on Financial Services
Subcommittee on Terrorism and Illicit Finance
Wednesday, November 8, 2017

Introduction:

Chairman Pearce, Vice Chairman Pittenger, Ranking Member Perlmutter, and distinguished members of the Committee, as the Under Secretary for Treasury's Office of Terrorism and Financial Intelligence (TFI), I am honored to appear before you today to discuss the tremendous work that TFI is doing to safeguard the U.S. and international financial systems and my vision for TFI.

As the Under Secretary, the offices I lead are tasked with using financial intelligence, expertise, and authorities to combat terrorist financing, money laundering, weapons proliferators, rogue regimes, human rights abusers, and other national security threats to the United States and our allies. We work around the clock to deny illicit actors access to the U.S. and international financial systems, disrupt their revenue streams, and degrade their capabilities.

In 2004, Congress and the Executive Branch had the tremendous vision to put the Office of Foreign Assets Control (OFAC) and the Financial Crimes Enforcement Network (FinCEN), alongside the Office of Intelligence and Analysis (OIA) and the Office of Terrorist Financing and Financial Crimes (TFFC), under one roof. This was a revolutionary development in the national security arena. Counterterrorism and national security had traditionally fallen into the realms of foreign affairs, defense, intelligence, and law enforcement. But bad actors cannot operate without funding and cutting off their access to the financial system required deploying new tools—as well as long-held authorities with a renewed energy and strategic outlook—under one office.

Congress provided TFI with new authorities to tackle national security threats as it became clear, due to the great work of my predecessors and the career professionals of TFI, that targeting illicit financing strategically and systemically could have real impact.

Since the early days of TFI, its role in protecting our national security has grown dramatically. TFI's economic authorities have become one of this Administration's top non-kinetic tools of choice. In the four months since I was confirmed as Under Secretary, we have been deploying our economic authorities at a rapid pace to address some of our greatest national security threats. In addition to cutting off funding for terrorist groups, our authorities and actions proactively implement U.S. policy towards Iran, North Korea, ISIS and other terrorist organizations, Venezuela, Russia, human rights, and in many other areas.

We are on the cutting edge of curbing emerging threats. This should come as no surprise. OFAC's predecessor, the Office of Foreign Funds Control, was borne in 1940 out of an effort to quickly address the concern that Nazis could seize U.S.-held assets of countries that they had invaded. Treasury moved swiftly then and we are moving expeditiously now to keep funds out of the hands of dangerous actors.

Since TFI's early days, our mission and our apparatus have grown. We are now comprised of over 700 employees spread across four components, including:

- (1) The Financial Crimes Enforcement Network (FinCEN), which is responsible for administering the Bank Secrecy Act and combating money laundering and promoting national security through the use of financial intelligence and powerful economic authorities;
- (2) the Office of Foreign Assets Control, which is the beating heart of the U.S. sanctions program;
- (3) the Office of Intelligence and Analysis, one of the seventeen U.S. Intelligence Community elements, which provides expert analysis of financial networks and illicit actors, identifying key nodes that enable us to take disruptive action and build impactful strategies; and
- (4) the Office of Terrorist Financing and Financial Crimes, our policy coordination office, which leads our international engagement efforts to work with partner countries in formulating and coordinating anti-money laundering and countering the financing of terrorism (AML/CFT) strategies.

The efforts of these components are magnified by the hard work and initiative of our attaches, who ensure that TFI's voice is continually heard in many critical areas throughout the world.

TFI has had many accomplishments since it was first launched. I have dedicated myself to taking us even further.

In order to be even more effective, we must ensure that we are strategically calibrating our tools and authorities across the components for maximum impact. Our economic statecraft must be agile and strategic.

I also want to recognize the tremendous career professionals of TFI who work tirelessly to protect our national security and our financial system. As the President and Congress rely on TFI's powerful tools and authorities to counter North Korea, Iran, and Venezuela as well as to cut off funding for terrorist groups like Hizballah, al Qa'ida, ISIS, as well as human rights abusers and many others, the TFI team both here in the United States and overseas is constantly striving to protect the United States and its allies and partners.

TFI's Efforts

Over the last ten months, TFI components have helped advance our objectives in a range of ways.

OFAC has played a lead role in pressuring terrorist groups and rogue regimes through its use of powerful U.S. sanctions authorities. In particular on Iran, OFAC has ramped up the pressure on Iran and the Islamic Revolutionary Guard Corps (IRGC) for its malign activities. Since this Administration took office, OFAC has issued seven tranches of sanctions, designating 72 targets in China, Iran, Lebanon and Ukraine in connection with the IRGC, Iran's ballistic missile program, support for terrorism, and human rights abuses. Following the President's

speech announcing the Administration's Iran strategy a few weeks ago, OFAC designated the IRGC under Executive Order 13224, consistent with section 105 of the Countering America's Adversaries Through Sanctions Act passed in August.

To further the fight against terrorist financing, all of the components of TFI have come together with our partners to establish the Terrorist Financing Targeting Center (TFTC), as announced by President Trump during his May 2017 visit to Saudi Arabia. The TFTC, co-chaired by the United States and Saudi Arabia, is a new initiative that brings together every country under the Gulf Cooperation Council, deepening our existing multilateral cooperation by coordinating disruptive action, enhancing information sharing, and institutionalizing capacity-building to target terrorist financing networks that pose national security threats to the United States and the Gulf. Our financial authorities in and of themselves are powerful, but are even more effective when coupled with complementary measures and corollary actions by partner countries in the region.

Last month I was with Secretary Mnuchin in the Gulf for the launch of the facility in Riyadh. We met with government counterparts there and elsewhere in the region to stress the importance that we place on making the TFTC successful and enhancing our collaborative work together to make the region a hostile place for terrorist financiers. In conjunction with the Secretary's opening of the facility, on October 25, OFAC imposed sanctions against eight leaders, financiers, and facilitators of ISIS in Yemen and al-Qa'ida in the Arabian Peninsula, and one affiliated entity. All member states of the TFTC took concurrent actions against those individuals and entity, marking a major and historic step forward in the TFTC's efforts to disrupt the finances and operations of terrorist organizations. These recent sanctions targeting ISIS in Yemen and al-Qa'ida in the Arabian Peninsula are just one part of the broader, coordinated U.S. government efforts to disrupt, degrade, and defeat the terrorist groups worldwide. We plan to use all of our authorities as aggressively as possible in this effort.

Driving the campaign against financial crime, FinCEN continues to promote transparency and accountability in the U.S. and international financial systems by focusing on preventing money laundering and illicit financing in new sectors and through new pathways. For example, FinCEN has taken steps to address the threat posed by money laundering and other illicit finance through certain real estate transactions, developing a strategy that incorporates Geographic Targeting Orders (GTO) and industry outreach to establish a regulatory framework focused on mitigating threats while limiting compliance costs.

FinCEN is also focused on emerging technologies and trends such as cryptocurrency, ensuring that those operating in this space will be subject to enforcement actions if they violate U.S. laws. For example, in July 2017 FinCEN assessed a \$110 million fine against BTC-e, a virtual currency exchange, for willfully violating U.S. anti-money laundering laws by facilitating transactions involving ransomware, computer hacking, identity theft, tax refund fraud schemes, public corruption, and drug trafficking. In addition, FinCEN is continuing to help safeguard the U.S. and international financial systems. Just last week, FinCEN finalized the USA PATRIOT Act Section 311 designation of Bank of Dandong, a Chinese bank facilitating North Korean money laundering and sanctions evasion.

OIA is likewise playing a key role informing the formulation of Treasury policy and the execution of Treasury's regulatory and enforcement authorities. OIA includes a cadre of intelligence analysts whose all-source intelligence analysis has supported Treasury actions taken

under the International Emergency Economic Powers Act, the USA PATRIOT Act, and other authorities. In addition, OIA has published analytic products that inform policymakers at Treasury and throughout the government on North Korea, Iran, counterterrorism finance, sanctions, cyber, and other issues affecting the integrity of the international financial system.

In addition to playing a leading role in the TFFC, TFFC has actively engaged with international partners on a wide range of issues. While sanctions and related authorities are some of our most visible tools, a major part of what we do is quiet financial diplomacy. TFFC, working with foreign partners in Central Banks and Finance Ministries has orchestrated scores of disruptions of hostile financial networks, ranging from the de-flagging of North Korean-affiliated vessels to closures of money exchange houses and bank accounts used by terrorists. This outreach and engagement includes serving as the lead U.S. participant in the Financial Action Task Force, working with the G7 on a range of national security issues, including DPRK, and working with our counterparts to strengthen their AML/CFT regimes, among many other proactive efforts.

Achieving Integration for Maximum Impact

A key element of TFI's continued success in addressing national security challenges is ensuring that the various components are properly integrated, working closely together, and deploying the tools and authorities best suited to each challenge.

Such an approach requires a whole-of-TFI mindset focused on:

- **Conducting intelligence-driven action.** Our actions are consistently driven by intelligence. We use intelligence to inform our strategies, effectively deploy TFI's tools, ensure our actions are calibrated for maximum impact, and measure our effectiveness and inform follow-on strategies and actions.
- **Using TFI's tools in a complementary, strategic fashion.** To be most effective, TFI is constantly thinking through which complement of tools are most impactful when countering national security challenges. TFI uses these tools—sequenced to build off of and complement each other—to combat the threat. This approach requires the four TFI components to work closely together to achieve strategic objectives.

An example of such teamwork is the close coordination between OFAC and FinCEN to put additional economic pressure on Venezuela while actively limiting the ability of the Maduro regime to use the U.S. and international financial systems. Following OFAC designations of key persons associated with the Maduro regime—as well as the President's issuance of a new executive order prohibiting a range of activity—FinCEN issued an advisory to alert financial institutions of the methods Venezuelan senior political figures and their associates may use to move and hide proceeds of their corruption. TFFC has played a leading role in policy development in this area, while OIA has produced important analysis.

This approach—of integrating agencies, authorities, and partners to bring to bear economic pressure on sanctions targets and violators—is a model for our use of economic power.

We have been following this model in the interagency when enforcing our authorities as well. Earlier this year, OFAC entered into a settlement agreement for over \$100 million with the Chinese telecommunications firm ZTE that had, for years, surreptitiously supplied Iran with U.S.-origin goods. This action was taken in conjunction with the Department of Justice, the Department of Commerce, and the Department of Homeland Security. This enforcement action and settlement agreement is particularly important because it represents a whole of government approach to address egregious violations of sanctions and export controls.

- **Assessing and Adjusting.** We are always learning from our actions, assessing their outcomes and impact, and using that information to inform our approach and next steps.

To effectively adjust our strategy for maximum impact, TFI needs flexibility. Limitations on licensing, waivers, and de-listings often constrain our flexibility and make it more difficult to ramp up powerful economic pressure and fine tune that pressure as situations develop. We need the ability to quickly adjust our efforts to focus on the most high-value targets.

- **Collaborating and Engaging.** As part of this integrated approach, Treasury is working with the entire national security apparatus, our international partners, and the private and public sectors. Coordination amplifies our actions by encouraging relevant partners to take actions in lockstep with our own. Multilateral collaboration improves global standards and increases capacity across the globe, which is critical given the interconnectivity of the financial system.

Private sector outreach and collaboration also has been key to understanding how our sanctions and regulations are actually implemented and to understand unintended consequences as part of the assessment/adjustment process.

TFI has adopted this integrated approach, most notably in countering one of our highest priority threats: North Korea.

I have directed each component within TFI to prioritize the North Korea threat; to be innovative and strategic in our approach; to assess the impact of our actions so that we adapt our strategy as circumstances dictate; and to stay agile as we calibrate to ensure maximum impact against the regime's finances.

Our strategy is focused on attacking North Korea's key financial vulnerabilities: (i) the regime requires revenue to maintain and expand its nuclear and ballistic missile programs, and (ii) the regime needs to move funds through the international financial system in order to acquire foreign currency, transfer funds, and pay for goods.

All components of my office are working in concert toward this objective. Underpinning these efforts is our ability to rely on intelligence. Treasury's Office of Intelligence and Analysis provides expert analysis of North Korea's financial networks, identifying key nodes to target for disruptive action.

The Office of Foreign Assets Control investigates and targets individuals and entities that support North Korea's weapons of mass destruction (WMD) and ballistic missile programs.

The Financial Crimes Enforcement Network exercises its information gathering and analytical tools in novel ways to track the financial flows of North Korean entities and front companies. Just last week, FinCEN finalized the USA PATRIOT Act Section 311 designation of Bank of Dandong, a Chinese bank facilitating North Korean money laundering and sanctions evasion and issued an advisory to financial institutions regarding North Korea's attempts to use front companies to launder money and evade sanctions.

The Office of Terrorist Financing and Financial Crimes leads our international engagement efforts to work with partner countries, thereby hardening the defenses worldwide and depriving North Korea of alternative financial avenues. And I raise these issues in virtually every engagement I have with my foreign counterparts.

We also work in close partnership with other departments and agencies, including those within the Intelligence Community, the Department of Defense, the Department of Justice, the Department of State, the Department of Homeland Security, and the Department of Commerce. This Administration's maximum pressure campaign requires that we collaborate closely to detect and disrupt evasive tactics by North Korea.

The private sector also plays an essential role in identifying and disrupting illicit North Korean financial activity. The safeguards that our banks put in place, and the information they provide us about terrorist financiers, proliferators, human rights abusers, and criminals, are what helps prevent malign actors from abusing our financial system. In this case, information provided by U.S. banks has been critical to our efforts to map out and disrupt the illicit financial networks upon which North Korea relies.

Focusing on both Immediate and Longer Term Priorities

While carrying out the campaign against North Korea's threatening activity, we have also continued to counter Iran's malign behavior. We are ramping up the economic pressure on Iran's illicit networks using all of the tools and authorities at our disposal. Over the last 10 months, OFAC has issued seven tranches of sanctions, designating over 70 individuals and entities in connection with the IRGC, Iran's ballistic missile program, support for terrorism, and human rights abuses.

In order to deny the IRGC the resources and financing it needs to spread instability, we have been engaging our allies and partners, including those in the private sector. We have consistently raised concerns regarding the IRGC's malign behavior, the IRGC's level of involvement in the Iranian economy, and its lack of transparency. We have pointed out that the IRGC continues to be an integral part of the Iranian economy, including in the energy, construction, mining, and defense sectors. Indeed, Iran is on the Financial Action Task Force's blacklist precisely because it has failed to address systemic deficiencies in its financial system, particularly those related to terrorism financing. As we have urged the private sector to recognize that the IRGC permeates much of the Iranian economy, we have told them that those who transact with IRGC-controlled entities do so at their own risk.

As we employ our economic tools to address these challenges, we must continue to increase the transparency and accountability in the international financial system, which

underpins much of our economic statecraft. A strong and effective anti-money laundering framework keeps illicit actors out of the financial system and allows us to track and target those who nonetheless slip through.

To that end, we are taking a hard look at the Bank Secrecy Act (BSA)—a statutory framework originally constructed in the 1970s. I have tasked my team with prioritizing this review of the BSA. We look forward to working with Congress on BSA regulatory reform. Our ongoing engagement with fellow regulators and law enforcement colleagues will be critical to the success of these efforts.

Ensuring Sustainability and Maturity

TFI has significantly increased its productivity year after year, all the while with a relatively flat budget. While TFI employees work tirelessly to achieve our mission, I recognize that—given our responsibilities and the increased focus on TFI's mission as a core part of U.S. national security—we need to ensure the proper resourcing of our organization.

Ensuring TFI's continued success requires that we invest in talented people to support our priority mission areas. This means investing in our current workforce through training and helping achieve an appropriate work-life balance.

Hiring and human resources is an important focus of mine and I am working with leaders from across TFI to align best practices, set priorities, and ensure that we focus on this as a management priority to move hiring as quickly as possible. In addition, to ensure that the culture of TFI reinforces our complementary and strategic approach, we are working to foster greater collaboration and create deeper relationships across the components in a variety of ways, including by recognizing excellence across the components and rewarding and promoting collaboration.

Finally, an important component of appropriate resourcing and maturity is ensuring all of TFI's leadership positions are filled. Currently, a key intelligence community position remains vacant: the Assistant Secretary for Intelligence and Analysis. The President's nominee for that position, Isabel Patelunas, is unquestionably qualified for the job. She has worked on intelligence issues at the highest levels of the U.S. government, including as the Director of the President's Daily Brief, the Deputy Director of the CIA's Office of Middle East and North Africa Analysis, and as Director of the Advanced Analysis Training Program.

At a time when the U.S. is dealing with a number of high profile and urgent threats—North Korea and Iran, for example—we cannot have our intelligence office hamstrung by denying it seasoned and experienced confirmed leadership. It has been over 100 days since the Senate received Ms. Patelunas' nomination and over two months since she was reported out of committee with a voice vote on July 25.

OIA needs its permanent leader to provide certainty to its capable workforce and day-to-day strategic leadership. With nearly 30 years of experience in the IC, Isabel Patelunas' leadership and experience is important.

Partnership with Congress

I want to emphasize the importance we place on working with Congress to combat the threats our nation faces, as well as ensuring the continued success of TFI. I am grateful for this Committee's work to counter the threats we face and for your support for TFI. I look forward to working with this Committee and other Members of Congress as we seek to fulfill our shared responsibility to keep Americans safe and secure.

Wednesday, November 8, 2017

“Financial Intelligence and Enforcement: Treasury’s Role in Safeguarding the American Financial System”

To Under Secretary Sigal Mandelker:

Congressman Robert Pittenger (NC-9)

1. Ms. Undersecretary: In August, Congress passed new sanctions legislation that gave the administration new tools to counter Iran’s ballistic missile program, support for terrorism, and human rights abuses. Since then, we have seen only a limited number of new designations. What steps is Treasury taking to ensure that all the tools Congress has authorized to push back against Iran’s malign activities are being fully utilized? When can we expect to see more action?

Answer:

On May 8, 2018, President Trump announced his decision to cease the United States’ participation in the JCPOA and begin reimposing U.S. nuclear-related sanctions on the Iranian regime. The President has been consistent and clear that this Administration is resolved to address the totality of Iran’s destabilizing activities, including its status as the world’s most prolific state sponsor of terrorism, its use of ballistic missiles against our allies, its support for the brutal Assad regime in Syria, its human rights violations against its own people, and its abuses of the international financial system.

This Administration is committed to using all of its authorities to combat the regime’s malign activities. Since February 2017, Treasury has issued seventeen tranches of sanctions, designating more than 145 targets in the Middle East, Asia, and Europe in connection with the Islamic Revolutionary Guard Corps (IRGC) and Iran’s support for terrorism, ballistic missile programs, human rights abuses, censorship, transnational criminal activity, and cyberattacks.

We are laser-focused on cutting off the IRGC and the Qods Force’s access to the international financial system, including the surreptitious means by which they seek to fund themselves. In the last few weeks alone, for example, Treasury has taken a number of impactful actions to stifle Iran and its proxies’ efforts to exploit the international financial system and fund its malign activities. On May 10, 2018, we acted jointly with the United Arab Emirates to disrupt an extensive and large scale currency exchange network in Iran and the UAE that procured and transferred millions of dollars to the IRGC-Qods Force. This network was executed by seemingly legitimate businesses working to covertly procure hard cash for the Qods Force while Iran is in the midst of a currency crisis.

Particularly disturbing about this network is that the Central Bank of Iran was complicit in this scheme to help the Qods Force generate valuable U.S. dollars to fund its malign activities and regional proxy groups.

Likewise, on May 15, 2018, we imposed sanctions on the Central Bank Governor and a senior official of the Central Bank of Iran, an Iraq-based bank and its chairman, and a key Hizballah

official, all of whom have moved millions of dollars on behalf of the IRGC-Qods Force to Hizballah.

A day later, we designated a Hizballah financier and Hizballah's representative to Iran, along with a number of companies, as Specially Designated Global Terrorists (SDGTs). These designations included Mohammad Ibrahim Bazzi, who worked to expand banking access between Iran and Lebanon, as well as entities located in Europe, West Africa, and Lebanon, and constituted the third action in a single week designating terrorists with a connection to the Central Bank of Iran.

We are also committed to disrupting the activities of designated Iranian airlines, including Mahan Air. For example, we recently uncovered an illicit network, concealed this time by Turkish front companies that surreptitiously procured U.S. jets and parts for Mahan's aircraft. This network purchased airline aviation parts from foreign vendors and then forwarded those parts, including export-controlled U.S. goods, to Mahan Air. We once again took action to counter this deceitful conduct, designating the illicit network that facilitated these actions.

Just this week, Treasury designated Mahan Travel and Tourism Sdn Bhd, a Malaysia-based General Sales Agent (GSA), for acting for or on behalf of Mahan Air. GSAs such as Mahan Travel and Tourism Sdn Bhd are key to enabling Mahan Air's international operations, especially in regards to conducting financial transactions on behalf of the airline. Companies that continue to service Mahan aircraft, or facilitate Mahan flights in and out of airports in Europe, the Middle East, and Asia, are on notice that they do so at great financial risk.

We have also targeted Iran's efforts to supply its proxies with ballistic missiles, including the Huthis in Yemen who launch these weapons at civilian population centers in Saudi Arabia. For example, in May 2018 we designated five Iranian officials associated with the Qods Force and Iran's ballistic missile program. We have acted numerous times to disrupt Iran's continuing development of ballistic missiles.

Iran and its proxies' are systematically engaged in activity that goes to the heart of the international financial system to fund terrorism and other illicit and malign activities.

Our actions cut off Iran's use of critical financial networks and seek to stifle Iran's ability to abuse the U.S. and regional financial systems. These actions continue the aggressive campaign against the IRGC and its proxies that the Treasury Department has led under this Administration.

2. The Omnibus Appropriations Bill passed earlier this year directed the Treasury Department to issue a report on entities that were delisted under the JCPOA, and whether such entities have engaged in any sanctionable activity since the JCPOA was enacted. That report has yet to be issued. What is the status of Treasury's efforts to produce that report? Has Treasury gone back and reviewed all of these entities? How confident are you that entities for which sanctions were lifted under the JCPOA are not currently engaging in sanctionable activity?

Answer:

On May 8, 2018, the President announced his decision to cease the United States' participation in the JCPOA. The Treasury Department has started the process of reimposing U.S. nuclear-related sanctions on Iran that were lifted under the JCPOA, subject to certain 90-day and 180-day wind down periods. No later than November 5, 2018, the Treasury Department's Office of Foreign Assets Control (OFAC) will re-impose, as appropriate, the sanctions that applied to persons removed from the SDN List and/or other lists maintained by OFAC on January 16, 2016.

The United States has and continues to enforce multiple authorities that target a range of Iranian malign activity outside of Iran's nuclear program, including Iran's support for terrorism, ballistic missile program, human rights abuses, and destabilizing activity in the region. Treasury will continue to target aggressively anyone who engages in such sanctionable activity, regardless of whether the individual or entity was removed from the SDN List on Implementation Day.

3. The Office of Terrorism and Financial Intelligence at the Treasury Department plays an extremely important role in protecting U.S. national security and providing important tools for policy makers tackling complex issues. Congress has placed a great deal of responsibility in your office, including sanctions on Russia, North Korea, Iran, Syria, Venezuela, Cuba, and targeting narcotics trafficking. Your office yields enormous returns for the national security of the American people with a shockingly small investment from U.S. taxpayers. Given the workload placed on you, I'm not sure Congress had provided the necessary resources to keep up with that workload. Do you feel that you have the resources you need to carry out your work fully and effectively? If you had more staffers available, would your office be more effective at fighting terror financing and money laundering in the American financial system?

Answer:

The Administration is working to ensure that the Department of the Treasury's Office of Terrorism and Financial Intelligence (TFI) has sufficient funding and resources to fully carry out its mission, including addressing top-tier national security threats such as combatting the financing of terrorism and addressing the threat posed by North Korea. In December 2017, the Administration submitted a request for an additional \$25 million above the President's Fiscal Year 2018 budget for TFI to counter threats posed by North Korea and to stand up the Terrorist Financing Targeting Center (TFTC). As you know, these funds were included in the 2018 Omnibus Appropriations bill passed by Congress in March and signed by President Trump. The Administration has requested an additional increase of \$17 million for TFI and \$3 million for FinCEN in Fiscal Year 2019 above FY 2018 enacted levels, which will support other priority programs as well. I, and more importantly, the rank and file of TFI who are performing this incredible mission appreciate Congress' support throughout this budget process.

4. It has been well documented that throughout the Syrian conflict, Iran Air has used their planes to airlift fighters and supplies into the conflict zone to assist the Assad regime. This collaboration has undoubtedly perpetuated the atrocities being committed in Syria. Despite the public intelligence that Iran Air continues to be directly involved in the Iranian airlifts, plans continue to move forward for Boeing to sell airplanes to Iran Air. Do you believe that Iran Air

should be re-designated for its sanctionable activity? Do you believe it is in the national security interests of the United States to permit Boeing to sell aircraft to Iran Air? Iran's other major airline, Mahan Air, remains under U.S. sanctions for its ties to the IRGC. Yet the airline continues to fly to Europe, Asia and throughout the Gulf. Why is Treasury not taking greater action to target those airports and services providers that enable Mahan Air to fly?

Answer:

This Administration remains deeply concerned that Iran continues to use its airlines to support terrorism, regional instability, and the murderous regime of Syrian President Bashar al-Assad. As announced by President Trump on May 8, 2018, the United States has ceased participation in the Joint Comprehensive Plan of Action (JCPOA) and is reimposing sanctions subject to certain 90- and 180-day wind-down periods.

As part of the implementation of the President's decision, OFAC rescinded the Statement of Licensing Policy for Activities Related to the Export or Re-export to Iran of Commercial Passenger Aircraft and Related Parts and Services (JCPOA SLP). OFAC is no longer evaluating license applications under the JCPOA SLP. Further, OFAC has revoked all specific licenses issued pursuant to the JCPOA SLP and issued authorizations to provide for a wind-down period that will end on August 6, 2018.

In addition, no later than November 5, 2018, OFAC will re-impose, as appropriate, the sanctions that applied to persons removed from the List of Specially Designated Nationals and Blocked Persons (SDN List) and/or other lists maintained by OFAC on January 16, 2016. Depending on the authority or authorities pursuant to which these actions to re-list are taken, persons engaged in certain activities with re-listed entities or aircraft may face secondary sanctions exposure.

We are committed to disrupting the activities of designated Iranian airlines, including Mahan Air, as evidenced by the mid-September 2017 designation of Khors Aircompany and Dart Airlines, two Ukraine-based companies that supported Iran's Caspian Air and Iraq's Al-Naser Airlines, both of which were previously designated pursuant to the global terrorism authority, E.O. 13224. Specifically, Khors and Dart provided sub-wet-leases – a leasing arrangement whereby a person agrees to provide an entire aircraft and at least one crew member – to Caspian and Al-Naser. Additionally, Khors provided the wet lease and sale of multiple aircraft worth millions of dollars and services related to aircraft leases to Mahan Air, while Dart provided Mahan Air U.S.-origin aircraft and parts.

Treasury remains deeply concerned that Mahan Air, which is designated by Treasury but not sanctioned by the United Nations or the European Union, continues flying internationally, including to Europe, while at the same time supporting the IRGC-QF and Syrian Air, both of which are designated by the European Union and the United States. Treasury will continue to use our authorities to target Mahan Air's illicit activity, and we are actively engaging with our European and other partners with a view toward enhancing their willingness and ability to act against Mahan Air by limiting the places to which it flies. Treasury has raised our Mahan Air concerns with European, Asian, and Middle Eastern governments and shared information on

numerous occasions, which in some cases, has resulted in the cancellation of routes and has prevented Mahan Air from expanding the number of places to which it flies.

Just this week, Treasury designated Mahan Travel and Tourism Sdn Bhd, a Malaysia-based General Sales Agent (GSA), for acting for or on behalf of Mahan Air. GSAs such as Mahan Travel and Tourism Sdn Bhd are key to enabling Mahan Air's international operations, especially in regards to conducting financial transactions on behalf of the airline. Companies that continue to service Mahan aircraft, or facilitate Mahan flights in and out of airports in Europe, the Middle East, and Asia, are on notice that they do so at great financial risk.

4. Headquarters of the Execution of Imam Khomeini's Order, known as EIKO, is a massive company controlled by Supreme Leader Khamenei. It was delisted under the JCPOA, but operates as a corrupt government entity which allows Supreme Leader Khamenei to amass personal wealth, despite his involvement in Iran's sanctionable activities. Congress has passed multiple sanctions targeting individuals in Iran responsible for human rights abuses, and passed the Global Magnitsky Act to target violators of human rights on an international scale. Why hasn't the U.S. gone after the Supreme Leader and the companies, such as EIKO, that he uses to raid the wealth of the Iranian people?

Answer:

Execution of Imam Khomeini's Order (EIKO), continues to be blocked as an entity that meets the definition of the Government of Iran, and is identified on OFAC's website on the list of persons identified as blocked solely pursuant to E.O. 13599 ("E.O. 13599 List"). As a result, U.S. persons are required to block any property or interests in property of EIKO that come within U.S. jurisdiction, and U.S. persons continue to be prohibited from any transactions with EIKO. As part of the President's decision to cease participation in the JCPOA, entities on the EO 13599 List will be moved to the Specially Designated Nationals and Blocked Persons List ("SDN List") no later than November 5, 2018. Beginning on November 5, 2018, activities with most persons moved from the E.O. 13599 List to the SDN List will be subject to secondary sanctions. Such persons will have a notation of "Additional Sanctions Information -- Subject to Secondary Sanctions" in their SDN List entry.

Although Treasury cannot comment on the status of investigations or plans to designate any individual or entity in the future, it is important to note that Treasury has sanctioned a number of individuals and entities engaged in serious human rights abuses in Iran. On May 30, 2018 for example, OFAC designated the notorious Evin Prison and numerous human rights abusers and organizations, including Ansar-e Hizballah, an organization involved in the violent suppression of Iranian citizens that has also been linked to acid attacks against women in the city of Isfahan. Likewise, on January 12, 2018, OFAC designated six individuals and entities in connection with human rights abuses and censorship in Iran, including the head of Iran's judiciary, Sadegh Amoli Larijani; Rajace Shahr Prison and its current director, Gholamreza Ziaei; the IRGC's Electronic Warfare and Cyber Defense Organization; as well as the Supreme Council of Cyberspace and the National Cyberspace Center. Last year, on April 13, OFAC sanctioned Tehran Prisons Organization and a senior official within Iran's State Prison

Organization for their involvement in serious human rights abuses in Evin prison. These actions highlight the United States' continued support for the Iranian people, and our commitment to hold the Government of Iran accountable for its repression of its citizenry. Rather than be bystanders to injustice, Treasury is committed to using its authorities to target those involved in the campaign of violence and human rights abuses against the Iranian people, and we will continue to call the world's attention to the Iranian regime's flagrant disregard for the rights of its citizens.

The Administration stands with the Iranian people as they advocate for a better future and a government that serves their needs. The U.S. government will decisively counter Iranian malign activity, including through sanctions targeting human rights abusers, censorship, and other limits on freedom of expression or assembly by the Iranian people. In addition, we will continue to call out the regime's economic mismanagement and diversion of significant resources to fund threatening missile systems at the expense of the Iranian people, as we did in conjunction with OFAC's designation of five Iran-based entities subordinate to Shahid Bakeri Industrial Group (SBIG) on January 4, 2018.

5. Hezbollah remains one of the world's most deadly terrorist organizations and is responsible for the deaths of hundreds of Americans. The group's arsenal of missiles and military hardware surpasses that of many nation-states. In addition to the funding it receives from Iran, Hezbollah runs a sophisticated network of criminal activities to fund its terrorist operations in Lebanon and throughout the world. The U.S. Treasury Department plays a vital role in helping to identify and stop the flow of illicit funds to the terror group. What steps is Treasury currently taking to stop the flow of resources to Hezbollah? In particular, what are we doing to stop Iranian resources from going to Hezbollah?

Answer:

Treasury is committed to exposing, blocking, and disrupting Hizballah's finances by denying the organization and its support networks access to the U.S. and international financial systems. This includes aggressively addressing Iran's destabilizing activities throughout the region, including its continued support for Hizballah's terrorist activities. Treasury's recent actions demonstrate our use of all available authorities to target Hizballah and its networks of terrorists and facilitators regardless of where they operate.

Hizballah was listed in the Annex to E.O. 12947 as a Specially Designated Terrorist (SDT) in January 1995, named a Specially Designated Global Terrorist (SDGT) pursuant to Executive Order (E.O.) 13224 in October 2001, and designated under E.O. 13582 in 2011 for providing support to the Assad regime of Syria in addition to the State Department's designation of the group as a Foreign Terrorist Organization (FTO). Each of these authorities imposes blocking sanctions on Hizballah. Treasury's Office of Foreign Assets Control (OFAC) has designated over 130 Hizballah-related persons pursuant to a number of our sanctions authorities, which, combined with global engagement, has placed significant strain on Hizballah's financial and commercial facilitators. In 2018 alone, OFAC has designated more Hizballah-related persons

(26) than in any other year since the inception of our primary counterterrorism-related authority, E.O. 13224.

In recent weeks, Treasury took three significant actions aimed at Hizballah and Iran. On May 15, 2018, Treasury designated Iran's Central Bank Governor, a senior official of the Central Bank of Iran, an Iraq-based bank, and the bank's chairman and chief executive, for funneling millions of dollars on behalf of the IRGC-QF through the regional financial system to support the violent and radical agenda of Hizballah. In conjunction with this action, Treasury also designated Muhammad Qasir, who worked within the IRGC-QF to transfer funds to Hizballah.

On May 16, 2018, Treasury, in partnership with the Kingdom of Saudi Arabia, the co-chair of the Terrorist Financing Targeting Center (TFTC), and the other TFTC member states – the Kingdom of Bahrain, the State of Kuwait, the Sultanate of Oman, the State of Qatar, and the United Arab Emirates (UAE) – took an historic step by designating four members of Hizballah's Shura Council, the primary decision-making body of Hizballah, who served as officers or leaders within Hizballah. This action was the second designation taken under the TFTC and demonstrates our commitment to pursue coordinated, disruptive action with our regional partners to combat terrorist financing in the Gulf. The TFTC member states also designated a number of Hizballah related individuals and entities that had been previously designated by Treasury and State, thereby further expanding the number of Hizballah related designations by Gulf States. A number of Gulf partners also designated Hasan Nasrallah for acting for or on behalf of Hizballah, which he has led since 1992. As the Secretary General and head of the Shura Council, Nasrallah is Hizballah's highest-ranking official and exercises direct command over Hizballah's military and security apparatus as its supreme commander, including its involvement in the war in Syria. Nasrallah has stated that Hizballah's intervention in the war in Syria marked a completely new phase for the organization, sending military forces abroad to protect its interests.

The following day, Treasury designated a key Hizballah financier and Hizballah's representative to Iran, along with a number of companies, as Specially Designated Global Terrorists (SDGTs). These designations included Mohammad Ibrahim Bazzi, who worked to expand banking access between Iran and Lebanon and used his companies to move millions of dollars to Hizballah. In addition, OFAC designated five of Bazzi's companies located in Europe, West Africa, and Lebanon, coordinating with Belgian, British, Gambian, Iraqi, Lebanese, and Nigerian authorities to share intelligence and ensure that Bazzi and his affiliates' accounts are frozen. Collectively, this action constituted the third action in a single week designating terrorists with a connection to the Central Bank of Iran.

Additionally, in February 2018, OFAC designated a Hizballah support network operating in West Africa and the Middle East engaged in providing material support to Adham Tabaja—who maintained direct ties to senior Hizballah officials and Hizballah's operational component, the Islamic Jihad—or his network of companies. That designation built on the June 2015 designation of Tabaja and his companies, including Al-Inmaa Engineering and Contracting which is one of the largest and most successful real estate businesses in Lebanon since the late 1990s and has provided both financial support and organizational infrastructure to Hizballah.

We will continue to use our powerful authorities, in coordination with our allies and partners, to combat Hizballah and its financial networks, including using, as appropriate the Hizballah International Financing Prevention Act of 2015 (HIFPA), which provides OFAC the authority to prohibit or impose strict conditions on the opening or maintaining in the United States of a correspondent account or a payable-through account by a foreign financial institution that knowingly facilitates a significant transaction for Hizballah, or a person acting on behalf of or at the direction of, or owned or controlled by, Hizballah, also known as secondary sanctions.

In addition to implementing sanctions, Treasury's Office of Terrorist Financing and Financial Crimes (TFFC) works closely with numerous other nations to deny Hizballah access to the international financial system. Treasury regularly engages foreign partners and presses them to take action against Hizballah, enhance their anti-money laundering/countering the financing of terrorism regimes to fully deny Hizballah access to the international financial systems. Treasury regularly and continually engages with Lebanese authorities, to include sharing information on illicit activity of concern, to support their efforts to prevent Hizballah from accessing the Lebanese financial system. Treasury is also a co-leader of the Law Enforcement Coordination Group (LEGC) which brings together nearly thirty countries from Europe, North America, South America, the Middle East, Asia, Africa, and Southeast Asia to share best practices and advance international collaboration countering Hizballah. The LEGC is a successful forum for sharing information on Hizballah's global terrorist plotting and contingency planning and has allowed us to develop a shared understanding of Hizballah's terrorist operational plans. Treasury's Financial Crimes Enforcement Network (FinCEN) has also identified three Hizballah-tied financial institutions under Section 311 of the USA PATRIOT Act as financial institutions of primary money laundering concern.

Treasury continues to investigate Hizballah activities and will continue to use all of our authorities to deny Hizballah access to funds or the financial system.

Congressman Stephen F. Lynch

1. Does the Treasury Department plan to issue a policy report on revising anti-money laundering or sanctions issues?

Answer:

The Treasury Department is continually reviewing the effectiveness of the existing AML/CFT regime and monitoring and analyzing illicit finance threats and risks.

Treasury is currently working with interagency partners to update the 2015 National Money Laundering and Terrorist Financing Risk Assessments as well as producing the first National Risk Assessment on the financing of weapons of mass destruction proliferation. The assessments will identify the most serious illicit finance threats the United States faces and serve in the development of a national strategy to combat those threats. The national strategy to combat illicit finance is mandated by Congress in Public Law No: 115-44, *Countering America's Adversaries Through Sanctions Act* (CAATSA), Title II, Subtitle C, Part 1—National Strategy

for Combating Terrorist and Other Illicit Financing. The strategy is due to Congress on August 2, 2018.

We look forward to briefing you or your staff on our risk assessments and illicit finance strategy.

Treasury has initiated an in depth review of the U.S. AML/CFT regime, particularly the U.S. Suspicious Activity Report (SAR) requirements, and created three Bank Secrecy Act Advisory Group (BSAAG) working groups to explore ways in which the BSA could be made more effective. The groups are focused on SARs, Currency Transaction Reports (CTRs), and measuring the value of BSA data. The working groups have met several times to discuss specific SAR and CTR reporting concerns and are currently considering member-generated suggestions and proposals.

2. Do you think “de-risking,” or the reduction in correspondent banking relationships maintained by financial institutions, undermines the effectiveness of our AML/CFT regime? If so, has past enforcement policy, or other aspects of the current legal framework, created incentives to “de-risk”? As you talk to policy makers, industry, and others, are there new proposals that you’ve heard of to provide safe harbors or other legal changes that might better align financial institutions’ incentives to avoid that pressure to “de-risk”?

Answer:

In maintaining the effectiveness of our AML/CFT regime, Treasury remains focused on advancing two complementary objectives: safeguarding the financial system from abuse and promoting financial inclusion. Safeguarding the financial system is rooted in the U.S. anti-money laundering and countering the financing of terrorism (AML/CFT) framework, which is a risk-based regime rooted in the Bank Secrecy Act (BSA).

U.S. financial institutions are required to implement U.S. AML/CFT obligations in a risk-sensitive fashion, which provides flexibility for those institutions to identify and manage illicit finance risks and design and implement an effective AML/CFT program to assess and address those risks. Enforcement actions taken are commensurate with multiple factors, including the nature, length, and severity of illegal activity. High profile enforcement actions were taken in response to particularly egregious activity that was willingly carried out over a long period of time. Treasury and relevant U.S. agencies will continue to enforce the BSA in order to protect the U.S. financial system.

Treasury maintains an open line of communication with public and private sector stakeholders in order to maintain an effective AML/CFT framework and facilitate a clear understanding of both illicit finance risks as well as U.S. legal and regulatory expectations. We continue to work to ensure the AML/CFT framework is effective in meeting its goals.

3. How have you been engaging with law enforcement to incorporate their input and help provide feedback from law enforcement to banks?

Answer:

TFI collaborates closely with law enforcement and uses a number of mechanisms to provide feedback to financial institutions. For example, FinCEN interacts daily with its law enforcement counterparts, and hosts liaisons from ten different law enforcement agencies to support our common missions. FinCEN's liaison division hold regular meetings among these law enforcement liaisons to discuss mutual areas of concern and make sure that the BSA data is being made available to support their investigations. In addition to ensuring that BSA data is properly used, disseminated, and kept secure, these liaisons are a key conduit for FinCEN's routine collaboration with their parent agencies on a wide range of overlapping issues related to the administration of the Bank Secrecy Act and combating illicit finance.

FinCEN has a number of other mechanisms to facilitate law enforcement input and feedback to financial institutions:

- **FinCEN Exchange.** I recently announced the launch of the FinCEN Exchange program to enhance information sharing with financial institutions. As part of this program, FinCEN, in close coordination with law enforcement, is convening regular briefings with financial institutions to exchange information on priority illicit finance threats, including specific information and broader typologies. This will enable financial institutions to better identify risks and focus on high priority issues, and will help FinCEN and law enforcement receive critical information in support of their efforts to disrupt money laundering and other financial crimes.
- **Bank Secrecy Act Advisory Group (BSAAG).** The BSAAG is a key forum for law enforcement, regulators, and representatives from financial institutions to engage directly, exchange information and provide feedback in a dynamic environment. In addition to plenary meetings, representatives from law enforcement, regulators, and industry participate in the BSAAG working groups focused on discrete areas of concern and interest related to the BSA.
- **Law Enforcement Awards Program.** This program identifies investigations where BSA data has played a significant role in the success of a case to highlight to the financial community the value of BSA data.
- **Section 314 Program.** FinCEN's 314 Program Office provides ongoing statistical feedback received on the utility of the 314(a) Program and also develops case descriptions or studies of instances in which the use of 314(a) by law enforcement has been particularly valuable to significant investigations. To date, 26 case studies have been made available to the financial institutions via FinCEN's Secure Information Sharing System.
- **FinCEN Advisories.** FinCEN solicits feedback on emerging trends in financial crime typologies and related red flags from U.S. law enforcement, which is then incorporated into FinCEN Advisories that are disseminated to financial institutions.

Rep. Scott Tipton

1. Many federal and state laws forbid the taking of Native American artifacts from Indian and federal land, including national forests, parks and Bureau of Land Management land, unless granted a permit to do so. Across the country, but particularly out West after fires, droughts, and other natural disasters, Native American artifacts are being removed from the ground and sold on the black market to people who will pay a premium for them. In many instances, there are substantial links to the sale of these artifacts and the purchase of illicit substances. To some people, such relics represent a curiosity or a quick buck, but to Native Americans, this practice is disrespectful and demeaning to their ancestors and ancestral sites.

Is this practice something that your department is tracking, both in terms of the black market sale of these artifacts and in their correlation to the purchase of illicit substances? How can we raise awareness of this issue?

Answer:

FinCEN makes BSA data available to law enforcement users to support their investigations. We refer you to the FBI and Bureau of Indian Affairs with any question about crimes against Native Americans and the Bureau of Land Management concerning crimes on public lands.

