

Testimony of Sigal Mandelker
Under Secretary, Terrorism and Financial Intelligence
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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 an 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 Qaeda, 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 TFTC, 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.