To: Members of the Committee on Financial Services

From: FSC Majority Staff

Date: June 25, 2024

Subject: July 9, 2024, Full Committee Hearing Entitled "The Annual Testimony of the Secretary of the Treasury on the State of the International Financial System"

On July 9, 2024, at 10:00 a.m. in Room 2128 of the Rayburn House Office Building, the Committee on Financial Services will hold a hearing titled "The Annual Testimony of the Secretary of the Treasury on the State of the International Financial System." Testifying at the hearing will be:

- The Honorable Janet Yellen, Secretary, Department of the Treasury

Background

The Secretary of the Treasury is required by law to testify each year before the Financial Services Committee on the international financial system, with a particular focus on the following four areas:

1) progress made in reforming the International Monetary Fund (IMF);
2) the status of efforts to reform the international financial system;
3) the compliance of countries that have received assistance from the IMF with agreements they entered into as a condition for receiving IMF assistance; and
4) the status of implementation of international anti-money laundering and counterterrorist financing standards by the IMF, the multilateral development banks, and other multilateral financial policymaking bodies.[1]

Origins and Operations of the IMF

The International Monetary Fund's (IMF's) primary mission is to promote international macroeconomic stability. The IMF traces its roots to a July 1944 meeting at Bretton Woods, New Hampshire, where representatives from 45 nations gathered to discuss the postwar recovery of Europe. The discussions included the creation of international institutions to resolve some of the problems—such as protectionist trade policies and unstable exchange rates—that hobbled the international economy between the two world wars. Two other international organizations also trace their origins to the Bretton Woods conference: the World Bank and the World Trade Organization. The World Bank's mission is to reduce poverty and facilitate economic development. The World Trade Organization seeks to liberalize international trade and oversees the rules governing the international trade system. The IMF came into formal existence in 1945 and has grown to near-global membership of 190 countries today.

---

[1] 22 U.S.C. § 262r-4

Like the global financial system, the IMF has evolved during its seven decades. Until the early 1970s, the IMF's primary purpose was to manage the system of fixed exchange rates agreed to at Bretton Woods. The U.S. dollar was initially fixed to gold at $35 per ounce. All other member countries' currencies were fixed to the dollar at different rates. The IMF monitored the macroeconomic and exchange rate policies of its member countries and helped them weather economic crises by providing them with short-term loans. This global system of fixed exchange rates was disrupted in 1973 when the United States went off the gold standard. After a period of instability, the modern system of floating exchange rates came into effect. The IMF adapted to the new system of floating exchange rates by promoting stable exchange rates and continued to provide temporary financing to countries affected by economic crises.

The IMF's current operations can be grouped into three categories: surveillance, lending, and technical assistance:

- **Surveillance:** The IMF monitors the economic and financial policies of its member countries to identify possible risks to financial stability and offer advice on policy adjustments.

- **Lending:** The IMF lends to countries facing balance-of-payments problems, which generally means they are having trouble paying for imports or servicing their debt. The IMF provides temporary financial assistance to help these countries stabilize their economies while implementing economic reforms. The IMF disburses its loans in phases ("tranches") after verifying that specified economic conditions and reforms have been met ("conditionality").

- **Technical Assistance:** The IMF provides technical assistance and training to help its member countries strengthen their capacity to design and implement effective policies. The IMF provides technical assistance in monetary and financial policies; fiscal policy and management; statistical data compilation; and economic and financial legislation. A small but important component of technical assistance also targets countries' ability to combat money laundering and terrorism financing.

U.S. policy at the IMF is made by the Executive Branch and Congress. Within the Executive Branch, the Treasury Department has primary responsibility for managing U.S. participation in the IMF. The President appoints U.S. representatives to the IMF Board of Governors and IMF Board of Executive Directors, with the advice and consent of the Senate. The IMF's Board of Governors is the highest decision-making body at the IMF, meeting a few times each year to make major policy decisions. Every IMF member has its own representative on the Board of Governors. The U.S. representative on the IMF Board of Governors is the Treasury Secretary.

The IMF's Board of Executive Directors manages the IMF's day-to-day operations and generally meets several times a week. The Executive Board has 24 members. Some Executive Directors represent groups of countries, while others represent individual countries. Because of its large quota share and voting power, the United States has its own representative on the Executive Board.

Congress also plays a role in formulating U.S. policy at the IMF. In addition to Senate confirmation of U.S. representatives to the IMF, Congress authorizes and appropriates all U.S. financial commitments to the IMF. Over the years, Congress has also passed several legislative mandates that have shaped U.S. policy at the IMF. Legislative mandates typically fall into three categories. First, "voice and vote" mandates direct the U.S. Executive Director to promote specific policies at the IMF and to vote for such policies. Second, directed voting mandates require the U.S. Executive Director to vote against or abstain in votes relating to certain types of programs or policies. Third, reporting requirements compel the Treasury Department to report to Congress on issues related to U.S. participation in the IMF.

The U.S.'s Financial Commitment and Voting Power at the IMF

As one of the IMF's founding members and its largest shareholder, the United States plays a major role in directing the IMF's programs. Core IMF resources are referred to as "quota:" quota share is tied to voting share. As the largest contributor of resources, the United States has always enjoyed the most voting power of any member. The U.S. vote share currently stands at 16.5 percent. Even after quota reform – a set of measures implemented in 2015 to readjust member countries' financial commitments to the Fund – the U.S. retains enough voting power to block Board decisions that require an 85 percent supermajority. No other IMF member has a similar veto.

In addition to quota, the United States has also committed resources to supplement resources at the IMF. These "supplementary" resources are credit lines that can be tapped when demand for IMF resources is particularly strong, such as during major financial crises. The IMF's main supplementary fund is the New Arrangements to Borrow (NAB), for which the U.S. also wields a veto.

In 2019, the IMF named a new Managing Director, Kristalina Georgieva, for a five-year term after former Managing Director Christine Lagarde was appointed President of the European Central Bank. The IMF also undertook a review of its resource adequacy in 2019. The Trump Administration proposed, and the IMF approved, keeping quota at its existing levels and instead increasing NAB funding. While this NAB increase appears inconsistent with a legislative sunset enacted in 2015, the long-term intention was to keep the NAB as a temporary emergency backstop and link the rescission of NAB resources with quota growth over time, subject to congressional authorization. The IMF has now agreed to a rollback of the NAB as part of its latest proposal to increase quota.

Terrorism and Illicit Finance

The Treasury Department has a dedicated office to develop and implement official U.S. government efforts to combat the financing of terrorism (CFT). The Office of Terrorism and Financial Intelligence (TFI) was established in 2004 to marshal Treasury's policy, enforcement, regulatory, and intelligence functions "with the twin aims of safeguarding the financial system against illicit use and combating rouge nations, terrorist facilitators… and other national security threats."[2] TFI is led by Undersecretary Brian Nelson, and is comprised of the Office of Terrorist Financing and Financial Crimes (TFFC), the Office of Intelligence and Analysis (OIA), the Office of Foreign Assets Control (OFAC), the Financial Crimes Enforcement Network (FinCEN), and the Treasury Executive Office for Asset Forfeiture (TEOAF).

TFFC is the policy development and outreach office for TFI, which, among other priorities, leads the U.S. delegation to the Financial Action Task Force (FATF).[3] OIA, which is a formal member of the U.S. Intelligence Community, contributes all-source financial threat assessments and products. OIA's analysts have been central in interagency efforts to address terrorist financing such as the Afghanistan and Iraq Threat Finance Cells.[4] OFAC administers multiple sanctions programs to block transactions and freeze assets within the United States of specified foreign terrorist, criminal, and political entities, including specially designated individuals and nation states. FinCEN is a separate Treasury bureau that reports to the Undersecretary for TFI. FinCEN administers the *Bank Secrecy Act* (BSA) for Treasury, including collecting and analyzing data on financial crimes, investigating violations of the BSA, and enforcing penalties for BSA violations. Both FinCEN and OFAC pre-date the formation of TFI.

Terrorist Financing

Terrorist financing describes a form of financial crime in which an individual or entity solicits, collects, or provides funds "with the intention that [these funds] may be used to support terrorist acts or organizations."[5] The U.S. government's overall counterterrorism strategy is guided by the 2011 *National Strategy for Counterterrorism*. The strategy encourages expanding and enhancing "efforts aimed at blocking the flow of financial resources to and among terrorist groups and to disrupt terrorist facilitation and support activities…."[6] According to the most frequently cited typologies report released by the FATF, the international standard-setting body for anti-money laundering (AML) and CFT safeguards, the most common sources of terrorist financing include state sponsors, private donors, charitable entities, self-funding mechanisms, and various criminal activities like drug trafficking.[7]

Recognizing that terrorists, including the Islamic State of Iraq and Syria (ISIS), frequently evolve as better methods of funding and finance arise, FATF re-evaluated terrorist financing methods in late-2015. FATF found that groups are increasingly fundraising through social media, the

---

[2] P.L. 108-447. U.S. Dep't of the Treasury, *Terrorism and Financial Intelligence,* (last updated June 28, 2013), http://www.treasury.gov/about/organizational-structure/offices/Pages/Office-of-Terrorism-and-Financial-Intelligence.aspx.
[3] The *Intelligence Reform and Terrorism Prevention Act of 2004* (P.L. 108-458) authorized the Secretary of the Treasury, or the Secretary's designee, as the lead U.S. government liaison to the Financial Action Task Force.
[4] OIA was established by the *Intelligence Authorization Act for Fiscal Year 2004* (P.L. 108-177).
[5] International Monetary Fund, *Anti-Money Laundering/Combating the Financing of Terrorism – Topics*, https://www.imf.org/external/np/leg/amlcft/eng/aml1.htm.
[6] *See* White House, National Strategy for Counterterrorism, (June 29, 2011), https://obamawhitehouse.archives.gov/blog/2011/06/29/national-strategy-counterterrorism.
[7] *See* Financial Action Task Force, *Terrorist Financing* (Feb. 29, 2008), [hereinafter Terrorist Financing FATF report], http://www.fatf-gafi.org/publications/methodsandtrends/documents/fatfterroristfinancingtypologiesreport.html.

exploitation of new payment products like virtual currencies, and the appropriation of natural resources and cultural items for profit.[8]

According to Treasury, these threats collectively represent a source of risk generally to the United States, and to the financial system more broadly.[9] Specifically, Treasury concludes:

> [t]he central role of the U.S. financial system within the international financial system and the sheer volume and diversity of international financial transactions that in some way pass through U.S. financial institutions expose the U.S. financial system to TF [terrorist financing] risks that other financial systems may not face.[10]

The three most common methods terrorists use to move money are: (1) the physical movement of cash; (2) the movement of funds through the banking system and non-bank financial institutions; and (3) the misuse of the international trade system.[11] At some point, a portion of the money terrorist organizations use to fund their operations must enter the formal financial sector. Given the central role that U.S. financial institutions play in facilitating global payments, the U.S. is vulnerable to the movement of funds associated with terror finance through the banking system. Therefore, it is paramount that Treasury has the necessary tools in place to identify such activity, so our financial institutions do not become inadvertent conduits or enablers of the next terror attack.

Office of Foreign Assets Control (OFAC)

OFAC administers and enforces economic and trade sanctions programs primarily against countries and groups of individuals, such as terrorists and narcotics traffickers, who are involved in activities related to threats to the national security of the United States.[12] When a person or entity is sanctioned (or "designated"), any transactions they may have with a U.S. person are generally prohibited unless otherwise authorized with an OFAC license. In addition, foreign persons who provide financial or other support to a sanctioned entity may themselves run the risk of being sanctioned.

Financial Crimes Enforcement Network (FinCEN)

FinCEN was established in 1990 by order of the Treasury Secretary to provide a government-wide, multisource financial intelligence and analysis network.[13] In 1994, FinCEN's mission expanded to include regulatory responsibilities and the Treasury Secretary specifically

---

[8] *See* Financial Action Task Force, *Emerging Terrorist Financing Risks,* (Oct. 21, 2015), http://www.fatf-gafi.org/publications/methodsandtrends/documents/emerging-terrorist-financing-risks.html.
[9] U.S. Dep't of the Treasury*, National Terrorist Financing Risk Assessment,* (2015), [hereinafter Treasury TF Risk Assessment], https://www.treasury.gov/resource-center/terrorist-illicit-finance/Documents/National%20Terrorist%20Financing%20Risk%20Assessment%20–%2006-12-2015.pdf.
[10] *Id*. at 2-3.
[11] Terrorist Financing FATF report.
[12] OFAC, Sanctions Programs and Information, (last updated June 29, 2017), https://www.treasury.gov/resource-center/sanctions/Pages/default.aspx.
[13] *Establishment of the Financial Crimes Enforcement Network*, Treasury Order 105-08, (Apr. 25, 1990).

delegated it the authority to administer the BSA.[14] Treasury made FinCEN an official Bureau within Treasury in 2002 as part of the *USA PATRIOT Act* enacted in October 2001. Enactment of this bill followed the terrorist attacks of September 11, 2001.[15] FinCEN serves as the country's primary AML/CFT regulator and the financial intelligence unit (FIU) for the United States.

The mission of FinCEN is "to safeguard the financial system from illicit use, combat money laundering, and promote national security through the collection, analysis, and dissemination of financial intelligence and strategic use of financial authorities."[16] Broadly speaking, this mission is accomplished by identifying the flow of financial resources to terrorists, terrorist organizations, money launderers, and other criminal elements through FinCEN's intelligence analysis. FinCEN then shares lead data and analysis with relevant law enforcement, intelligence community, and international partners for investigation and disruption. Under the BSA and its implementing regulations, FinCEN also has the power to bring enforcement actions for violations of the reporting, recordkeeping, or other requirements of the BSA.[17] FinCEN's Office of Enforcement evaluates matters that may result in a variety of remedies, including the assessment of civil money penalties.[18]

---

[14] The authority of the Secretary to administer Title II of the Bank Secrecy Act (codified at 31 U.S.C. 5311-5330 with implementing regulations at 31 CFR Part 103) was delegated at this time to the Director of FinCEN.
[15] Pub. L. No. 107-56, Title III, Subtitle B, Section 361(a)(2), 115 Stat. 272, 329-332. *See* Treasury Order 180-01, (Sept. 26, 2002).
[16] FinCEN, Mission, https://www.fincen.gov/about/mission.
[17] FinCEN, Enforcement Actions, https://www.fincen.gov/news-room/enforcement-actions.
[18] *Id.*