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Chairman Poe, Chairman Wilson, Ranking Members Keating and Langevin, thank you for inviting me today to testify on our efforts to combat terrorist financing. Disrupting the flow of funds to terrorists and terrorist organizations has become an integral part of our broader strategy to combat terrorism. While not a silver bullet, these efforts stem from the recognition that by employing financial tools, we can degrade the functioning of terrorist organizations and make it harder for them to accomplish their destructive goals.

While the financial cost of carrying out an individual terrorist attack can be quite low, recruiting, training and sustaining operatives, procuring weapons, and developing the infrastructure necessary to support these activities requires generating and moving substantial funds, often between distant locations. This reliance on an established financial infrastructure makes terrorist groups vulnerable to disruption.

Treasury's Office of Terrorism and Financial Intelligence (TFI) is in a unique position to advance these efforts. We are the only finance ministry in the world with an office dedicated protecting the U.S. and international financial systems from abuse by leveraging policy, sanctions, enforcement, regulatory, and intelligence resources to identify the financial networks and vulnerabilities of terrorist organizations and effectively disrupt their activities.

By coordinating these tools with those available to our interagency partners, and in conjunction with robust foreign engagement, we are able to impact terrorist organizations, even in those places that are challenging to reach using traditional means of disruption. This strategic approach for developing and deploying innovative financial tools has become increasingly important as terrorist financing threats have evolved.

Overview of U.S. Efforts to Combat Terrorist Financing

At its core, combating terrorist financing consists of two interrelated objectives. First, we must work to cut off terrorists and terrorist organizations from their sources of revenue. This can include funds acquired from criminal activity or legitimate businesses, solicited directly from supporters, or raised through the extortion of captive populations. Second, we must deny them access to the international financial system so they cannot use their money. This must include efforts to deny them access to all mechanisms of value transfer: the formal and informal financial systems, bulk cash smuggling, and trade.

We accomplish these objectives through two primary avenues. First, we work to systemically improve transparency in the international financial system so that terrorists and other criminal actors cannot anonymously raise, move, and use funds in support of their illicit activities without detection by law enforcement. Second, by enforcing systemic financial controls and improving the effectiveness of supervisory regimes, we provide authorities with actionable and timely information that can be used to employ targeted measures—including financial sanctions and law

enforcement action—to identify, disrupt and dismantle the financial networks supporting terrorist organizations. The combined effect of these efforts is to create an international financial system that is a hostile environment for terrorist financing.

Systemic Efforts to Improve Financial Transparency

An open international financial system provides significant and widespread economic benefits by facilitating efficient global commerce. It is important, however, to ensure that terrorists and other illicit actors are prevented from exploiting that openness. The so-called “Panama Papers” demonstrate that absent effective regulation and supervision there are opportunities for those seeking anonymity to evade transparency and reporting requirements designed to identify illicit activity. These same loopholes can be exploited by terrorist organizations and their supporters to finance their activities.

To safeguard the international financial system from these illicit finance threats, we have worked to develop robust global anti-money laundering/combating the financing of terrorism standards to assist financial institutions and authorities in identifying the real people behind accounts and financial transactions. International financial transparency efforts are driven by the work of the Financial Action Task Force (FATF), the global standard-setting body for combating money laundering and the financing of terrorism. Working through FATF and its global network, which encompasses over 190 jurisdictions, we have built a common foundation for an open and transparent international financial system. These include requirements for financial institutions to know and verify the identity of their customers, keep accurate records regarding their transactions, and report suspicious activity to regulators and law enforcement. To promote effective implementation of these standards, we work with our interagency and international partners to facilitate the provision of technical assistance and training to countries with the political will to act but lacking the necessary capacity.

We are also taking steps here in the United States to promote financial transparency. Treasury recently announced a final rule to require U.S. banks and financial institutions to collect and verify the beneficial owners who own, control, and profit from companies when those companies open accounts. At the same time, Treasury, on behalf of the Administration, sent to Congress draft legislation that would require companies formed within the United States to file adequate, accurate, and current information on its beneficial owners with Treasury.

Targeted Measures

An open and transparent international financial system in which we can identify the trail of illicit transactions becomes a hostile environment for terrorist organizations, as knowing who is moving funds through the financial system allows us to employ a range of targeted measures, including targeted sanctions, other financial measures, and law enforcement action, to identify, disrupt, and dismantle the financial networks that support these groups.

A key precondition to employing these measures and closing loopholes in the international financial system is access to information about the financial activities and vulnerabilities of terrorist networks. Here, we benefit from being the only finance ministry in the world with an

in-house intelligence shop, the Office of Intelligence and Analysis (OIA). Working with its counterparts in the U.S. intelligence, law enforcement and regulatory communities, these analysts work tirelessly to identify and analyze the financial networks of our terrorist adversaries. With this information, we can take action—be it identifying a new terrorist financing typology, alerting the private sector and government officials in another country to a particular threat, or taking any of the discrete actions below:

- *Targeted Sanctions:* Targeted financial sanctions not only deprive terrorist organizations of funds that are necessary to carry out their harmful activities, but force these groups to devote additional time and resources to seek out new sources of funding and channels to move funds. Additionally, the public nature of these sanctions designations serves as a deterrent to would-be donors and facilitators for terrorist groups. Where possible, we work with our international partners to maximize the impact of these sanctions through designations of terrorist supporters and their facilitators at the United Nations (UN), under the UN ISIL and Al-Qaida Sanctions regime. Of course we are not limited by UN sanctions, and can take action under our own authorities, including against organizations not designated by the UN. Using Executive Order 13224, the Departments of the Treasury and State can impose financial sanctions on terrorists, terrorist organizations and their supporters, including their financial facilitators. These efforts rely heavily on the dedicated and talented workforce of Treasury's Office of Foreign Assets Control (OFAC). Since 2001, OFAC, in conjunction with the Department of State, has designated over 900 individuals and entities under Executive Order 13224, including over 200 affiliated with Al-Qaida, over 100 affiliated with Hizballah, and approximately 60 affiliated with ISIL.
- *Other Financial Measures:* Along with targeted financial sanctions against terrorists and their supporters, we can call upon a range of financial measures available to the Treasury Department. For example, under Section 311 of the USA PATRIOT Act we can identify a foreign jurisdiction, foreign financial institution, type of account or class of transactions as a primary money laundering concern, and require U.S. financial institutions to take appropriate countermeasures against the illicit financing risks associated with the subject of the action.
- *Law Enforcement Action:* Along with financial measures, law enforcement plays a critical role in disrupting terrorist financing. Led by the Department of Justice, U.S. law enforcement has disrupted numerous avenues of support for terrorists and terrorist organizations through the investigation and prosecution of dozens of individuals in the U.S. and abroad for providing material support to designated foreign terrorist organizations.

Exchange of Information and Cooperative Action

Given the interconnectedness of the international financial system and the global nature of terrorism, targeted action by U.S. authorities alone cannot effectively disrupt terrorist financing activity. In recognition of this, U.S. officials regularly engage foreign governments whose financial systems and institutions can be exploited by terrorist organizations or other illicit actors

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to raise or move funds and share information about particular terrorist financing threats. We engage and share this information to encourage these countries to take complementary action against terrorist financing threats in their own countries. Saudi Arabia, for example, joined us for designations targeting several individuals and entities for supporting Al Qaida (AQ), the Taliban and Lakshar-e-Tayyiba in April 2015 and March 2016. We also seek to share such information multilaterally, making use of existing fora such as the Egmont Group of Financial Intelligence Units and the Counter-ISIL Finance Group (CIFG).

Engagement with the Private Sector

Financial institutions play an invaluable role in identifying suspicious activity and implementing targeted sanctions and other financial measures. Information provided by financial institutions often allows us to connect the dots between seemingly unrelated individuals and entities and provides us with critical information in identifying foreign terrorist fighters, their supporters, and their financial networks overseas. To foster information-sharing, we share information with and engage the private sector through several avenues, including the Bank Secrecy Act Advisory Group and our regional public-private sector dialogues where countries and financial institutions engage in discussions on how they view specific risks and their efforts to mitigate those risks. We also share information through public and non-public advisories to financial institutions, including on terrorist financing typologies. Our conversations flow in both directions, because the private sector is often best positioned to detect and map out terrorist networks based upon information provided by law enforcement, as well as to observe the effects of our targeted sanctions and other financial measures and to tell us how they can be improved.

Disrupting the Financing of ISIL, Al-Qaida, and Hizballah

The Treasury Department seeks to prevent all terrorist organizations from accessing the international financial system. I would like, however, to focus here on our efforts to disrupt the financial networks of three prominent terrorist organizations: ISIL, Al-Qaida, and Hizballah. Each of these terrorist organizations relies on different funding models and financial networks, requiring us to develop distinct approaches to attack their base of financial support and weaken their ability to carry out terrorist activity

Islamic State of Iraq and the Levant (ISIL)

The U.S. government is working with a broad coalition of governments around the world to disrupt ISIL's financing and to deny its access to the international financial system. A majority of ISIL's revenue is derived directly from the territory it controls, rather than from external donations, and the sheer scale of the wealth and diversity of revenue streams ISIL has been able to tap within its territory makes countering its finances a qualitatively different terrorist financing problem from much of what we have seen to date.

ISIL's Sources of Revenue

ISIL's sources of income include oil and gas sales, extortion and taxation, external donations, kidnapping-for-ransom, and previously, bank looting. We estimate that in 2015, ISIL made

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approximately \$1 billion dollars in total revenue, \$500 million of which came from the sale of oil, primarily through populations under its control.

We also estimate that ISIL may have earned as much \$350 million per year, by extorting funds from the local population and in connection with the financial and commercial activity taking place in the territory it controls. ISIL also gained considerable funds from seizing control of state-owned banks in northern and western Iraq in 2014 and early 2015. These funds from the bank vaults were estimated to be at least half a billion dollars at the time of capture, making them an important, albeit non-renewable, source of financing for ISIL in its earlier days.

Other less significant sources of revenue include kidnapping-for-ransom. We estimated that ISIL earned between \$20 and \$45 million from KFR in 2014. However, we assess revenue from KFR declined substantially in 2015 and 2016 owing to the greatly reduced presence of potential Western hostages in or near the territories it controls.

Impact of Coalition Efforts to Disrupt ISIL's Sources of Revenue

ISIL clearly has vast financial resources, but we see indications that our efforts to disrupt ISIL's sources of revenue, which represent the first prong of our strategy against ISIL's finances, are bearing fruit.

Through airstrikes conducted under Operation Tidal Wave II, the Coalition has directly targeted ISIL's entire oil and natural gas supply chain: from oil fields, to refineries, to tanker trucks, targeting ISIL's primary source of revenue. While difficult to quantify, the strikes have undoubtedly impeded ISIL's ability to produce, sell, and profit from oil as it had been doing.

Recent Coalition strikes have also reduced the levels of cash in ISIL-controlled territory. U.S.-led Coalition airstrikes have targeted ISIL's cash storage sites, destroying tens of millions, and possibly more than one hundred million dollars, and eliminated senior ISIL officials, including the group's de facto finance minister.

We have also worked closely with the Government of Iraq to reduce liquidity in ISIL-held areas. One of the most important steps taken by the Iraqi government was its decision in August 2015 to ban the distribution of government salaries into ISIL-held areas, thereby eliminating ISIL's ability to tax these funds.

As a result of these efforts, ISIL is struggling to pay its fighters and we have seen a number of ISIL fighters leaving the battlefield as their pay and benefits have been cut and delayed. As of February 2016, ISIL had also begun levying taxes on the poorest civilians, who had previously been exempt from taxation. ISIL has instituted a number of other arbitrary "taxes" and increasingly resorted to extortion to fund its operations. When we see indications that ISIL cannot pay the salaries of its own fighters and is trying to make up for lost revenue elsewhere, we know we are hitting them where it hurts. We are also seeing internal corruption rising. ISIL's own investigations have identified multiple instances of ISIL leaders stealing cash and gold.

Denying ISIL Access to the International Financial System

Denying ISIL access to the international financial system represents the second prong of our strategy to counter its financing. In order to do that, we must take steps to impede ISIL's ability to engage in all forms of financial transactions.

The first step is working to deny ISIL access to the Iraqi financial system. Shortly after the fall of Mosul, we worked closely with Iraqi authorities to ensure that approximately 90 bank branches within ISIL-controlled territory in Iraq were and remain cut off from the Iraqi and international financial system.

Banks, however, are not the only financial institutions of concern: ISIL likely uses certain exchange houses as important points of access to the financial system. In response, the Central Bank of Iraq (CBI) has identified and developed a dynamic list of over 100 ISIL-related exchange houses that are prohibited from accessing the CBI currency auction in Iraq. The list has been published on the CBI's website and shared with regional governments to enable them to take steps to prevent these banned exchange houses from accessing their respective financial systems.

Of course, the responsibility for preventing ISIL's access to the international financial system does not stop with Iraq. It also requires a regional approach. Given their proximity and connectivity to Iraq, countries in the region must exchange information among their governments and with financial institutions, investigate and prosecute individuals acting as ISIL financial facilitators, and disrupt illicit trade or smuggling routes.

Ultimately, effectively countering ISIL's finances will require a global approach and the United Nations is a key partner in this. In December, the UN Security Council, at a meeting presided over by Secretary Lew and attended by other finance ministers, adopted Resolution 2253 expanding the longstanding Al-Qaida Sanctions Regime to increase its focus on and advance multilateral efforts to counter ISIL. Like the United States—which has sanctioned approximately 60 ISIL-linked senior leaders, financiers, foreign terrorist facilitators, and ISIL branches, effectively shutting them out of the U.S. financial system—the UN has also sanctioned key ISIL facilitators and will continue to do so under the new resolution.

Additionally, through the bodies like the CIFG and the FATF, Treasury is marshaling the will and resources of the international community to undermine ISIL financing globally. The CIFG, which the United States – represented by the Departments of the Treasury and State - leads with Italy and Saudi Arabia, is part of the broader coalition and made up of more than 36 countries and several multilateral bodies focused on disrupting ISIL's finances.

The challenge of countering ISIL's finances is not an impossible one. ISIL, like any terrorist organization, needs money to survive and as I've highlighted for you, diverse efforts are underway to deprive ISIL of its resources and deny it access to the international financial system.

Al-Qaida

AQ remains a critical threat to the United States and we continue to aggressively combat the terrorist organization by disrupting its financial networks and limiting its sources of revenue. Our efforts to disrupt AQ financing are not confined to any one geographic region. AQ has historically received funding from Gulf countries, safe haven in Afghanistan and Pakistan, and is now increasingly present in Yemen and Syria. We have made significant progress targeting AQ financing in concert with our partners internationally, although risks and vulnerabilities remain and we have significant work still to do.

We have aggressively utilized Treasury tools to limit AQ funding streams. Treasury and State have designated over 140 individuals affiliated with AQ and other terrorist organizations throughout Afghanistan and Pakistan, over 60 individuals and entities across the Gulf, and several more in Africa and other countries. We work extensively with countries to strengthen their operational capacity to better supervise and regulate their financial systems, and to investigate and take action against terrorist financiers.

Among our partners in countering AQ financing are Gulf countries. Donors located in the Gulf have traditionally been an important source of revenue for AQ. This remains the case, but we are making strides in cutting off their financial networks. Collectively, Gulf countries have pursued a wide range of actions including implementing targeted financial measures, issuing public statements, and prosecuting terrorists for financing AQ. All Gulf countries have now passed counter-terrorism laws that criminalize terrorist financing, and have enhanced financial controls across the charitable sector to ensure that funds intended for humanitarian objectives do not benefit terrorist activity. In particular, Saudi Arabia has emerged as a regional leader within the Gulf and has joined us in targeted designations, which we pursued in April 2015 and March 2016. We have seen positive developments in other Gulf countries as well, including the United Arab Emirates' establishment with the Department of the Treasury of the Bilateral Terrorist Financing Task Force. This Task Force has facilitated cooperation between our countries for targeting, investigating, and acting against individuals of concern.

Despite this progress, there is more work to be done in order to ensure that the entire Gulf financial system is a hostile environment to AQ and other terrorist organizations. It is important that Gulf countries identify, prosecute, and otherwise ensure that their financial systems are closed to individuals and charities linked to AQ, and in particular, to Al Nusrah Front (Al Qaida's branch in Syria).

Beyond the Gulf, Treasury has continued to work towards disrupting and dismantling illicit financial networks in Afghanistan and Pakistan, and pursues targeted efforts to undermine AQ's revenue sources in Yemen and Syria. We will continue to work in close concert with our counterparts to create effective domestic regimes that enable targeted financial actions including designating, freezing funds and assets, and imposing travel bans, against individuals that have been U.S. or UN designated, until AQ is denied full access to the financial system and brought to justice.

Hizballah

Before AQ's attack on 9/11, Hizballah killed more Americans than any other terrorist group in history, and it continues to plot terrorist attacks around the world, as seen in the 2013 bombing in Bulgaria, and disrupted plots in Cyprus in 2012 and 2015, and in Peru and Thailand in 2014. Hizballah receives the majority of its funding, hundreds of millions of dollars, from Iran, as well as millions of dollars from a global network of supporters and businesses. Hizballah also uses a far flung network of companies and brokers to procure weapons and equipment and launder funds.

We have focused on restricting financing for Hizballah both within Lebanon—constraining Hizballah financially through extensive cooperation with Lebanese authorities and banks—and globally, centering on its procurement agents and financiers in Europe, Latin America, East Asia, and the Middle East, identifying and sanctioning Hizballah's Iranian sponsors, and enabling law enforcement and foreign partner actions.

In Lebanon, our actions have ranged from robust financial measures to deny Hizballah access to the international financial system to extensive engagement with Lebanese financial authorities to ensure its financial sector is safeguarded from exploitation by Hizballah. On the financial measures front, we have sanctioned more than 100 Hizballah-affiliated individuals and entities comprising the group's organizational infrastructure, financial networks, and procurement nodes, including our January 2016 designation of Beirut-based Hizballah financier and businessman Ali Youseff Charara. In 2011 we identified Lebanese Canadian Bank and in 2013 the Kassem Rmeiti and Halawi Exchanges as entities of primary money laundering concern under Section 311 of the USA PATRIOT Act for facilitating money laundering activities for Hizballah. Our public findings led the Lebanese government to take action against these institutions and shut down Lebanese Canadian Bank.

We have also taken action to disrupt Hizballah financial facilitators and procurement networks operating outside of Lebanon. We have designated Hizballah supporters in over 20 countries, including in Latin and South America, in West Africa and all over the Middle East. For example, the November 2015 and July 2014 designations of Stars Group Holding and its affiliates targeted companies that procured military grade equipment on behalf of Hizballah in the United Arab Emirates and China. Furthermore, under E.O. 13224 we designated Hizballah's primary sponsor, the Iranian Islamic Revolutionary Guards Corps-Qods Force (IRGC-QF), the IRGC-QF's commander, Ghasem Soleimani, Bank Saderat, an Iranian institution used to provide tens of millions to Hizballah, and over 50 other Iran-related persons and entities.

To complement these targeted financial measures, I travel all over the world urging partners to increase pressure on Hizballah. In 2013 the European Union (EU) designated Hizballah's military wing. In March 2016, all the Gulf Cooperation Council (GCC) countries designated Hizballah, and Saudi Arabia, which designated over 20 Hizballah members and companies in the last year, is encouraging its Gulf partners to follow suit. With the Departments of State and Justice, Treasury also brings together foreign law enforcement from Africa, Europe, Southeast Asia, and South and Central America in regularly held coordination groups that focus on countering Hizballah.

Finally, our toolkit to impose targeted measures was expanded with the passage of the Hizballah International Financing Prevention Act of 2015 (HIFPA), which represents a continuation of our policy to financially weaken Hizballah. Foremost in ensuring our implementation of HIFPA is our close collaboration with the Central Bank of Lebanon (BDL) and private Lebanese financial institutions. Shortly following the issuance of the HIFPA regulations, the BDL ordered all Lebanese financial institutions to comply with HIFPA, and we have seen Lebanese banks adhere to this legislation. In fact, I returned from Lebanon last week, where I discussed HIFPA with the Prime Minister, Speaker of Parliament, the Central Bank, and many Lebanese financial institutions, among others. Lebanese officials are taking measures to ensure compliance with this law.

We intend to implement HIFPA robustly, but in a manner that is consistent with preserving the strength and health of the Lebanese financial system. Nor are we focused on any community or sect. Our implementation intends to target one group only: Hizballah, its members and its organizations.

Our actions are creating a hostile operating environment for Hizballah, raising its costs of doing business, restricting its ability to move funds, and diminishing its revenue base. Hizballah leaders attempted to downplay the effect of our sanctions in multiple speeches over the last year, as well as those of the EU and the GCC. I view these public statements as further indication that our efforts are having an impact.

Conclusion

While new terrorist financing challenges will emerge, Treasury and its interagency partners will continue to employ a range of measures to identify, disrupt and dismantle terrorist financial networks and work to identify and close loopholes that terrorists and other illicit actors can use to access the international financial system.

Thank you for the opportunity to testify, and I would be happy to answer any questions you may have.