

Contributions by the Department of the Treasury to the Financial War on Terrorism

Fact Sheet



United States Treasury Department

September 2002

“This morning, a major thrust of our war on terrorism began with the stroke of a pen. Today, we have launched a strike on the financial foundation of the global terror network... we will direct every resource at our command to win the war against terrorists: every means of diplomacy, every tool of intelligence, every instrument of law enforcement, every financial influence. We will starve the terrorists of funding, turn them against each other, rout them out of their safe hiding places and bring them to justice.”

President George W. Bush
September 24, 2001
Announcing Executive Order 13224

“If you have any involvement in the financing of the al Qaida organization, you have two choices: cooperate in this fight, or we will freeze your U.S. assets; we will punish you for providing the resources that make these evil acts possible. We will succeed in starving the terrorists of funding and shutting down the institutions that support or facilitate terrorism.”

Treasury Secretary Paul O’Neill
September 24, 2001

Table of Contents

- 1. Executive Summary**
The challenge, objective, approach and actions the U.S. has taken, and the results of those actions.
- 2. Executive Order 13224**
The Order expands the United States' power to target the support structure of terrorist organizations, freeze the U.S. assets and block the U.S. transactions of terrorists and those that support them, and increases our ability to block U.S. assets of, and deny access to U.S. markets to, foreign banks who refuse to cooperate with U.S. authorities to identify and freeze terrorist assets abroad.
- 3. USA PATRIOT ACT**
This legislation, signed into law by President Bush on October 26, 2001 contained new tools to enhance our ability to combat the financing of terrorism and money laundering.
- 4. Charities**
Charities across the nation do important work, making a difference in the lives of millions of people. Americans and others around the world donate hundreds of billions to charity, with humanitarian intent. They deserve to know that protections are in place to assure that their contributions do good work. Unfortunately, some charities have been abused by those who finance terror, through schemes to siphon money away from humanitarian purposes and funnel it to terrorism.
- 5. Hawalas**
The word "hawala," meaning "trust" refers to informal money or value transfer systems or networks outside the formal financial sector. Hawala provides a fast and cost-effective method for worldwide remittance of money or value, particularly for persons who may not have access to the financial sector. Due to the lack of transparency in hawala and other alternative remittance systems, there is substantial potential for abuse.
- 6. International Efforts**
Numerous multilateral groups, such as the G7, FATF, and EGMONT, have marshaled their resources to join the U.S. to combat terrorist financing.
- 7. Domestic Law Enforcement Efforts**
Domestic law enforcement agencies – many within the U.S. Treasury – have mobilized to identify terrorists networks and starve terrorists of money.

EXECUTIVE SUMMARY

One year ago, terrorists struck our nation with unforeseen guile and unprecedented consequences – unprecedented consequence for Americans and our way of life. In turn we have taken unprecedented actions to dismantle terrorist networks. Under the leadership of President Bush, Americans have rallied to the war on terror, and we have struck back on every front: military, political, and financial, even as we have strengthened our homeland defenses against future attacks.

The Department of the Treasury - in coordination with the Departments of Justice and State - leads an interagency effort to disrupt and dismantle terrorist financing.¹ No less than the military campaign, the financial war has required careful planning, domestic and international coalition-building, and decisive execution. And as with the military campaign, we have achieved results.

As a necessary first step in leading the financial war against terrorism, we have developed and published a comprehensive strategy to identify, disrupt and dismantle terrorist financing networks. This strategy is three-fold. First, we are applying technology, intelligence, investigation, and regulations to locate and freeze the assets of terrorists, wherever they may hide. New powers granted by the President and Congress have enabled us to scour the world financial system for suspicious activities with greater precision than ever before.

Second, we are attacking terrorist financial infrastructures – their formal and underground methods for transferring funds across borders and between cells, whether through banks, businesses, hawalas, subverted charities, or innumerable other means. Our approach is to deny terrorists access to the world's formal financial infrastructure and use the money trail to locate and apprehend terrorists.

Third, we are using diplomatic resources and regional and multilateral engagements to ensure international cooperation, collaboration and capability in dismantling terrorist financing networks.

The war on terrorist financing is an immense undertaking. The openness of our modern financial system, which allows savers and investors to fuel economic growth, also creates opportunities for terrorist parasites to hide in the shadows. Our challenge in this front of the war is to protect the freedom and flexibility the world's financial systems while driving our enemies into the sunlight, where we and our allies can sweep them up. We have enjoyed success, but much more remains to be done.

¹This fact sheet highlights the Treasury Department's efforts against terrorist financing over the past twelve months since September 11, 2001. This is not intended to document all United States Government activity on the financial front on the war on terrorism. The activities of other areas within the U.S. government – specifically the intelligence community, the military community, the diplomatic community and the non-Treasury law enforcement community - are not detailed here.

The United States took six principal steps in the fall of 2001 to pursue financial underwriters of terrorism:

1. President Bush signed Executive Order 13224 giving the United States greater power to freeze terrorist-related assets;
2. The United States won the adoption of UN Security Council Resolutions 1373 and 1390, which require member nations to join in the effort to disrupt terrorist financing;
3. We are implementing the USA PATRIOT Act to broaden and deepen information sharing and the regulatory net for our financial system;
4. We are engaging multilateral institutions such as the Financial Action Task Force and the international financial institutions (IFIs) to focus on terrorist financing;
5. We established Operation Green Quest – an inter-agency task force which has augmented existing counter-terrorist efforts by bringing the full scope of the government’s financial expertise to bear against systems, individuals, and organizations that serve as sources of terrorist funding; and
6. We are sharing information across the federal government, with the private sector, and among our allies to crack down on terrorist financiers.

The President’s Executive Order 13224 explicitly targets terrorist financing and casts a global net over the fundraisers, donors, transfer agents and bankers of terror. It subjects managers and fiduciaries of nongovernmental organizations, foreign financial institutions and donors to economic sanctions if they support terrorism.

The UN Security Council Resolutions amplify the effect of the President’s Executive Order. The resolutions -- 1373 and 1390 -- direct member states to criminalize terrorist financing and to adopt regulatory regimes intended to detect, deter and freeze terrorist funds. The UN actions have been critical to winning support for our campaign, and they have been essential tools for building the international coalition against terrorist financing.

International alliances against terrorism are crucial, because the overwhelming bulk of terrorist assets, cash flows, and evidence lie outside our borders. We are working strategically with allies around the world to address regional threats: we have recently submitted names to the UN jointly with Italy, Saudi Arabia, China, and central Asian states. To augment our allies’ good intentions and capabilities, we are providing technical assistance to many Persian Gulf, African, South American and Southeast Asian countries. Our assistance allows them to accomplish their goals for neutralizing those who support terror.

We are reaching out to other international organizations, such as the Financial Action Task Force (FATF), an international body created to fight money laundering, to impact terrorist financing. FATF adopted eight principles of conduct specifically directed at terrorist financing – eight special recommendations that all member nations have endorsed and moved to implement. The US Treasury Department has also prompted the G-7, the G-20, the IMF and the World Bank to take actions, enlisting their member nations in the comprehensive program against terror.

Domestically, the enactment of the USA Patriot Act has provided several tools for the financial front of the war. The Patriot Act imposes responsibilities for opening and monitoring bank accounts, permits information sharing within the government and among financial institutions,

bars transactions with shell banks, requires information from foreign financial institutions, protects sensitive evidence from disclosure, and expands the industry sectors subject to rigorous anti-money laundering and terrorist financing compliance programs. The Patriot Act also encourages partnerships between the government and the private sector. Treasury and the FBI have reached out to the financial services sector in order to develop effective screening mechanisms for suspect transactions.

Over the past year, we have seen successes in the financial war on terrorism.

For example, we exposed and dismantled the al Barakaat financial network. Al Barakaat's worldwide network and its owners were channeling several million dollars a year to and from al Qaida. Last November, Treasury agents shut down eight al Barakaat offices in the United States, and took possession of evidence that will be investigated for further leads in the terrorist money trail. Millions of dollars have moved through these U.S. offices of al Barakaat. At its core, it was a conglomerate operating in 40 countries around the world with business ventures in telecommunications, construction, and currency exchange. They were a source of funding and money transfers for bin Laden. Our allies around the world are joining us in cutting al Barakaat out of the world financial system. Dubai, UAE is the home base of al Barakaat. The UAE blocked the accounts of al Barakaat, paralyzing the nerve center of the operation.

Another success is our action against the Holy Land Foundation for Relief and Development. Holy Land headquartered in Richardson, Texas, raises millions of dollars annually that is used by Hamas. In 2000, Holy Land raised over \$13 million. Holy Land supports Hamas activities through direct fund transfers to its offices in the West Bank and Gaza. Holy Land funds are used by Hamas to support schools that serve Hamas ends by encouraging children to become suicide bombers and to recruit suicide bombers by offering support to their families. Our action blocked their current accounts and prohibits U.S. persons from doing business with Holy Land in the future, thereby stopping the flow of millions of dollars every year from the U.S. to Hamas.

Our war on terror is working – both here in the U.S. and overseas. We are harvesting information, and we are putting it to good use. We are seeing progress. We have frozen dollars and the assets of organizations, stopping acts of terror before they can occur, and forcing terrorist backers to riskier, more vulnerable positions.

Our efforts are having real-world effects. Al-Qaida and other terrorist organizations are suffering financially as a result of our actions. Potential donors are being more cautious about giving money to organizations where they fear that the money might wind up in the hands of terrorists. In addition, greater regulatory scrutiny in financial systems around the world is further marginalizing those who would support terrorist groups and activities.

The war on terrorism is only beginning, and it is certain to demand constant vigilance. In the year since that terrible day, we have hit them hard. Our goal is to bankrupt their institutions and beggar their bombers. This war - the financial war against terrorism - won't be easy and much more remains to be done. We are off to a good start but it is a long obstacle filled road ahead. We will not relent.

EXECUTIVE ORDER 13224

"We will starve terrorists of funding, turn them against each other, rout them out of their safe hiding places, and bring them to justice."

President George W. Bush
September 24, 2001

On September 24, President Bush issued executive order 13224, authorizing the blocking of the assets of terrorists and those who assist them.

The Order expands the Treasury Department's power to target the support structure of terrorist organizations, freeze the assets subject to U.S. jurisdiction and block the transactions of terrorists and those that support them, and deny them access to U.S. markets.

Disrupting the Financial Infrastructure of Terrorism

The Executive Order -

- Targets all individuals and institutions linked to global terrorism.
- Allows the U.S. to freeze assets subject to U.S. jurisdiction and prohibit transactions by U.S. persons with any person or institution designated pursuant to the Executive Order based on their association with terrorists or terrorist organizations.
- Names specific individuals and organizations whose assets and transactions are to be blocked.
- Punishes financial institutions at home and abroad that continue to provide resources and/or services to terrorist organizations.

Authorities Broadened

New Executive order actions and authorities:

The Executive Order blocks the US assets and transactions of specified terrorists, terrorist organizations, and terrorist supporters and authorizes the imposition of blocking orders on additional domestic or foreign institutions that support terrorism. It also directs federal agencies to work with other nations to cut off funding and shut down the institutions that support or facilitate terrorism.

The new Executive order broadens existing authority in three principal ways:

- It expands the coverage of existing Executive orders from terrorism in the Middle East to global terrorism;
- The Order expands the class of targeted groups to include all those who provide financial or material support to, or who are "associated with," designated terrorist groups; and
- Establishes our ability to block the U.S. assets of, and deny access to U.S. markets to, those foreign banks that refuse to freeze terrorist assets

Blocking Terrorist Assets

- The Order prohibits U.S. transactions with designated terrorist organizations, leaders, support networks, donors, and corporate and charitable fronts.
- Terrorist groups from around the world are designated under the Order, including organizations that are related to the al-Qaida network.
- Terrorist leaders and operatives are listed; including Usama bin Laden and his chief lieutenants along with many of the entities that act as a support network for al-Qaida, including charities and front organizations. .
- The Order authorizes the Secretary of State and the Secretary of the Treasury to make additional terrorist designations.
 - The Treasury's Office of Foreign Assets Control (OFAC) plays a key role in implementing and administering the Order, including by working with financial institutions to ensure that they implement blocking orders and maintaining a current list of designated entities on its website.
(<http://www.ustreas.gov/offices/enforcement/ofac>)

Results

236 individuals, entities and organizations are currently designated under the Executive Order as supporters of terrorism. This includes 112 individuals ranging from organizational leaders such as Usama bin Laden and his key lieutenants to terrorist operatives, financiers, and intermediaries around the globe. All 34 U.S. designated Foreign Terrorist Organizations are listed under the order as are 15 other terrorist organizations such as the Continuity IRA and the East Turkistan Islamic Movement. 74 other companies, charitable organizations, or entities who support and/or finance terrorism are also listed under the Order. Working bilaterally and through the United Nations and other multilateral institutions, we have spread the effort to freeze terrorist assets across the globe. Over 165 countries and jurisdictions have issued blocking orders against the assets of terrorists. Since September 11th, 2001, \$112 million in terrorist assets have been frozen worldwide in over 500 accounts. \$34 million of those assets are frozen in the United States, \$78 million overseas.

While the money frozen in bank accounts is one measure of the impact of the blocking orders, it's not the most important one. Each of the accounts frozen has the potential to be a pipeline for far more money than what was in the account on the day it was frozen. In addition to closing off these identified pipelines, blocking actions have a deterrent effect leading those who would assist the financing of terrorism to avoid use of the traditional financial system. Finally, following the money assists worldwide law enforcement, intelligence and military communities to identify, capture, arrest and neutralize terrorists.

The Executive Order applies to all global terrorists. The list of designees includes 74 terrorists or supporters of terrorism not part of the al-Qaida network such as Shining Path, the REAL IRA, the Tamil Tigers, Hamas, ETA, and Hizballah, among others.

Just as the United States needed new government powers to enable the financial war on terrorism to begin, other nations around the globe examined their laws and sought new legislation to enable them to engage in the financial front of the war on terrorism. Since September 11, over 80 countries and jurisdictions have implemented, passed, or drafted legislation strengthening their abilities to combat the financing of terrorism.

USA PATRIOT ACT

On October 26, 2001, the President signed into law the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act of 2001. Contained within this comprehensive package is a wide array of provisions designed to enhance our ability to combat terrorism, the financing of terrorism, and money laundering.

I. Provisions Bolstering our Anti-Money Laundering/Anti-Terrorist Financing Regulatory Regime.

- The USA PATRIOT Act contains sweeping revisions to our anti-money laundering and anti-terrorist financing regime that dramatically enhanced Treasury's ability to combat the financing of terrorism and money laundering. These provisions reflect the important principles of (1) enhancing transparency in financial transactions; (2) protecting the international gateways to the U.S. financial system; and (3) increasing the vigilance of all our financial institutions that are themselves the gatekeepers of the financial system.
- Over the past year we have:
 - Issued a series of proposed and interim regulations targeting money laundering and terrorist financing risks associated with correspondent accounts maintained by foreign financial institutions.
 - Issued jointly with the federal financial regulators proposed rules requiring banks, securities brokers, futures commission merchants, and mutual funds to establish basic customer identification and verification procedures.
 - Issued regulations requiring key financial sector industries to implement anti-money laundering programs designed to prevent the services they offer from being used to facilitate money laundering or the financing of terrorism.

II. Provisions Enhancing the Ability to Share Critical Information.

- The USA PATRIOT Act permits and facilitates greater information sharing among law enforcement and the intelligence community.
- Treasury has issued regulations implementing another provision of the Act designed to improve two other key channels of communication regarding terrorism and money laundering between the government and financial institutions; and among the financial institutions themselves.
- Treasury's FinCEN has developed a new, highly-secure web site through which financial institutions will be able to file Bank Secrecy Act information electronically. The same

system will also permit FinCEN, as well as financial regulators and law enforcement, to send alerts or other communications directly to financial institutions in a secure environment. The Patriot Act Communication System (“PACS”) has the capability of providing an instantaneous communication link between FinCEN and all financial institutions and will better enable us to fight terrorism and financial crime.

III. Provisions Providing the Additional Tools Necessary to Block and Freeze Terrorist Assets.

- The USA PATRIOT ACT also makes several amendments to International Emergency Economic Powers Act (IEEPA), which enhances our ability to freeze terrorist assets. In the financial war on terrorism, this blocking and freezing power has been an essential weapon in our arsenal. Among others things, the amendments clarify the authority (1) to freeze assets during an investigation, and (2) to use classified information to support a blocking order without having to reveal that information to anyone other than a reviewing court.

Results

The USA PATRIOT ACT was enacted with the assistance of the federal banking regulators, the Securities and Exchange Commission, the Commodity Futures Trading Commission, and the Department of Justice. Since the USA PATRIOT ACT was enacted, the Treasury Department has worked with these agencies to issue over dozen regulations covering a wide array of financial institutions and transactions.

CHARITIES

Unfortunately, some charities have been abused by those who finance terror, through schemes to siphon money away from humanitarian purposes and to funnel it to terrorism. Charities across the world do important work, making a difference in the lives of millions of people, and the sanctity of charitable giving is a critical component of many cultures. In 2000, for example, Americans donated \$133 billion dollars to charity with humanitarian intent. Donors around the world deserve to know that protections are in place to assure that their contributions are being channeled to the good purposes intended.

The President's Executive Order

Under the authority of EO13224, the US has designated ten foreign charitable organizations as having ties to al-Qaida or other terrorist groups and has shut down two prominent US –based charities with alleged ties to Usama bin Laden and the Taliban. In addition, the US government has frozen the assets of the largest US –based Islamic charity which acted as a funding vehicle for HAMAS. \$6.3 million in US charitable funds have been frozen to date and an additional \$5.2 million have been frozen or seized in other countries.

Outreach to Safeguard Charitable Organizations from Abuse by Terrorists

US Treasury officials have met with charitable sector watchdog and accreditation organizations to raise their awareness of the threat posed by terrorist financing including the *Better Business Bureau Wise Giving Alliance* and the *International Committee on Fundraising Organizations*.

Our goal is to guard charities against abuse without chilling legitimate charitable works. Our strategic approach, as set forth in the recently published 2002 National Money Laundering Strategy, involves domestic and international efforts to ensure that there is proper oversight of charitable activities as well as transparency in the administration and functioning of the charities. It also involves greater coordination with the private sector to develop partnerships that include mechanisms for self-policing by the charitable and non-governmental organization sectors.

International Coalition-building

We are seeking to increase the transparency and oversight of charities through multilateral efforts. The Financial Action Task Force (FATF) adopted a recommendation committing all member nations to ensure that non-profit organizations cannot be misused by financiers of terrorism. The US submitted a paper to the FATF in June 2002 discussing our approach to combating such abuse. Going forward, we will work with FATF to promote international best practices on how to protect charities from abuse or infiltration by terrorists and their supporters.

We are working bilaterally and regionally with countries in the Persian Gulf to develop best practices for ensuring the accountability of charitable organizations, and we have urged international watchdog groups to expand their work to ensure transparency in charitable operations. The vast majority of donors give to charity for humanitarian, altruistic reasons. It is an egregious abuse of their altruism to allow any of these funds to be diverted to terrorism.

Results

The United States has secured commitments from international financial groups – such as FATF – to develop best practices to increase oversight of charities.

The United States has designated ten foreign charitable organizations as having ties to al-Qaida and other terrorist groups and has shut down two prominent US –based charities with alleged ties to Usama bin Laden and the Taliban. In addition, the US government has frozen the assets of the largest US –based Islamic charity which acted as a funding vehicle for Hamas. \$6.3 million in US charitable funds have been frozen to date and an additional \$5.2 million have been frozen or seized in other countries.

Charities Abused by Terrorist Groups Shut Down by the United States

On January 9, 2002, the United States designated the Afghan Support Committee (ASC), a purported charity, as an al-Qaida supporting entity. The ASC operated by soliciting donations from local charities in Arab countries, in addition to fundraising efforts conducted at its headquarters in Jalalabad, Afghanistan, and subsequently in Pakistan. The ASC falsely asserted that the funds collected were destined for widows and orphans. In fact, the financial chief of the ASC served as a key leader of organized fundraising for Usama bin Laden. Rather than providing support for widows and orphans, funds collected by the ASC were turned over to al-Qaida operatives. With our blocking action on January 9, 2002, we publicly identified the scheme being used by ASC and disrupted this flow of funds to al-Qaida.

Also on January 9, 2002, we designated the Pakistani and Afghan offices of the Revival of Islamic Heritage Society (RIHS). The RIHS is an example of an entity whose charitable intentions were subverted by terrorist financiers. The RIHS was a Kuwaiti-based charity with offices in Pakistan and Afghanistan. The Peshawar, Pakistan office director for RIHS also served as the ASC manager in Peshawar. The RIHS Peshawar office defrauded donors to fund terrorism. In order to obtain additional funds from the Kuwait RIHS headquarters, the RIHS Peshawar office padded the number of orphans it claimed to care for by providing names of orphans that did not exist or who had died. Funds sent for the purpose of caring for the non-existent or dead orphans were instead diverted to al-Qaida terrorists. In this instance, we have no evidence that this financing was done with the knowledge of RIHS headquarters in Kuwait.

On March 11, 2002, the United States and Saudi Arabia jointly designated the Somali and Bosnian offices of the Saudi-based Al-Haramain organization. Al-Haramain is a Saudi Arabian-based charity with offices in many countries. Prior to designation, we compiled evidence showing clear links demonstrating that the Somali and Bosnian branch offices were supporting al-Qaida. For example, we uncovered a history of ties between Al-Haramain Somalia and al-Qaida, the designated organization Al-Itihaad al-Islamiya (AIAI), and other associated entities and individuals. Over the past few years, Al-Haramain Somalia has provided a means of funneling money to AIAI by disguising funds allegedly intended to be used for orphanage projects or the construction of Islamic schools and mosques. The organization has also employed AIAI members. Al-Haramain Somalia has continued to provide financial support to AIAI even after AIAI was designated as a terrorist organization by the United States and the United

Nations. In late-December 2001, Al-Haramain Somalia was facilitating the travel of AIAI members in Somalia to Saudi Arabia. The joint action by the United States and Saudi Arabia exposed these operations.

On December 4, 2001, we blocked the assets of the Holy Land Foundation for Relief and Development, which describes itself as the largest Islamic charity in the United States. It operates as a U.S. fundraising arm of the Palestinian terrorist organization Hamas. The Holy Land Foundation for Relief and Development, headquartered in Richardson, Texas, raises millions of dollars annually that is used by HAMAS. In 2000, Holy Land raised over \$13 million. Holy Land supports Hamas activities through direct fund transfers to its offices in the West Bank and Gaza. Holy Land Foundation funds are used by HAMAS to support schools that serve Hamas ends by encouraging children to become suicide bombers and to recruit suicide bombers by offering support to their families.

On December 14, 2001, OFAC utilized this authority to block suspect assets and records during the pendency of an investigation in the case of Global Relief Foundation and Benevolence International Foundation, two charities with locations in the United States.

We have also designated as terrorist supporters the Al Rashid Trust and the Wafa Humanitarian Organization both Pakistan based al Qaida financier organizations. Wafa was a militant supporter of the Taliban. Documents found in Wafa's offices in Afghanistan revealed that the charity was intimately involved in assassination plots against U.S. citizens as well as the distribution of "how to" manuals on chemical and biological warfare.

HAWALAS

The word “hawala,” meaning “trust” refers to a fast and cost-effective method for worldwide remittance of money or value, particularly for persons who may be outside the reach of the traditional financial sector. In some nations hawala is illegal; in others the activity is considered a part of the “gray” economy. It is therefore difficult to measure accurately the total volume of financial activity associated with the system; however, it is estimated that the figures are in the tens of billions of dollars, at a minimum. Officials in Pakistan, for example, estimate that more than \$7 billion flow into the nation through hawala channels each year.

The very features which make hawala attractive to legitimate customers -- efficiency, anonymity, and lack of a paper trail -- also make the system attractive for the transfer of illicit funds. As noted in a recent report of the Asia Pacific Group (APG) on Money Laundering, the terrorist events of September 2001 have brought into focus the ease with which alternative remittance and underground banking systems may be utilized to conceal and transfer illicit funds. Not surprisingly, concerns in this area have led many nations to reexamine their regulatory policies and practices in regard to hawala and other alternative remittance systems.

Actions

The USA PATRIOT ACT requires hawalas to register as “money services business” or “MSBs” which subjects them to money laundering regulations including the requirement that they file Suspicious Activity Reports (SARs).

The USA PATRIOT ACT makes it a crime for the money transfer business owner to move funds he knows are the proceeds of a crime or are intended to be used in unlawful activity.

The new U.S. regulatory requirements are echoed in the principals set forth in the Special Recommendations on Terrorist Financing, issued in October 2001, by the Financial Action Task Force (FATF) on Money Laundering. The FATF has called upon all countries to:

“take measures to ensure that persons or legal entities, including agents, that provide a service for the transmission of money or value, including transmission through an informal money or value transfer system or network, should be licensed or registered and subject to all the FATF Recommendations that apply to banks and non-bank financial institutions. Each country should ensure that persons or legal entities that carry out this service illegally are subject to administrative, civil or criminal sanctions.”

Results

The operations of several hawalas implicated in terrorist financing have been disrupted. US experts have worked with officials in other nations on proposed licensing and/or registration regimes for hawaladars, to ensure greater transparency and record-keeping in their transactions.

Using criminal authorities stemming in part from the PATRIOT Act, U.S. law enforcement has charged individuals who are illegally operating money remitting businesses.

Under the provisions of the PATRIOT Act, well over 10,000 money service businesses have registered with the federal government and are now required to report suspicious activities. This provides law enforcement with an additional window into financial transactions previously unregulated by the federal government.

FATF adopted eight special recommendations to impose anti-money laundering rules on all alternative systems used for transferring value, including hawala. Members, as well as many non-member nations are currently working to implement new legal and regulatory measures in accordance with the FATF recommendation.

At a conference on hawala in the UAE in May 2002, a number of governments agreed to adopt the FATF recommendation and shortly thereafter the UAE government announced it would soon impose a licensing requirement on hawalas. Participants at the UAE meeting drafted and agreed upon the Abu Dhabi Declaration on Hawala which set forth the following principles:

- Countries should adopt the 40 Recommendations of the Financial Action Task Force (FATF) on Money Laundering and the 8 Special Recommendations on Terrorist Financing in relation to remitters, including Hawalas and other alternative remittance providers.
- Countries should designate competent supervisory authorities to monitor and enforce the application of these recommendations to Hawalas and other alternative remittance providers.
- Regulations should be effective but not overly restrictive.
- The continued success in strengthening the international financial system and combating money laundering and terrorist financing requires the close support and unwavering commitment of the international community.
- The international community should work individually and collectively to regulate the Hawala System for legitimate commerce and to prevent its exploitation or misuse by criminals and others.

INTERNATIONAL EFFORTS

UN

On September 28, 2001, the UN adopted UNSCR 1373, requiring all member states to prevent and suppress the financing of terrorist acts.

- The UN also required all member states to submit reports on the steps they have taken to implement this resolution. As of June 27, 2002, 164 states had completed their reports. The UN is now reviewing those reports with the intent of identifying gaps that member nations need to fill in order to comply with UNSCR 1373.

The UN adopted UNSCR 1390 on January 16, 2002, which modifies and continues the international sanctions against the Taliban, Usama bin Laden, and al-Qaida as set forth by UNSCR 1267 (1999) and 1333 (2000). Together these resolutions obligate all UN member states to “Freeze without delay the funds and other financial assets or economic resources” of those entities and individuals designated by the UN. Currently, 288 individuals and entities are on this list (135 al-Qaida linked and 153 Taliban linked).

G7

G7 Finance Ministers and Central Bank Governors issued an Action Plan to Combat the Financing of Terrorism on October 6, 2001. Under the plan, the G7 countries:

- Committed to ratifying the UN convention on the Suppression of Terrorism
- Called on the Financial Action Task Force (FATF) to hold an extraordinary session and play a vital role in fighting the financing of terrorism
- Encouraged all countries to develop financial intelligence units (FIUs) and share information more extensively

Financial Action Task Force (FATF)

On October 31, 2001, at the United States’ initiative, the 31-member FATF issued eight special recommendations on terrorist financing, to be adopted by all member nations:

- Ratify the UN International Convention for the Suppression of the Financing of Terrorism and implement relevant UN Resolutions against terrorist financing.
- Require financial institutions to report suspicious transactions linked to terrorism.
- Criminalize the financing of terrorism, terrorist acts and terrorist organizations.
- Freeze and confiscate terrorist assets.
- Provide the widest possible assistance to other countries’ laws enforcement and regulatory authorities for terrorist financing investigations.
- Impose anti-money laundering requirements on alternative remittance systems.
- Require financial institutions to include accurate and meaningful originator information in money transfers.
- Ensure that non-profit organizations cannot be misused to finance terrorism.

Many non-FATF members have committed to complying with the Eight Recommendations and over 80 non-FATF members have already submitted reports to FATF assessing their compliance with these recommendations.

FATF will build on its successful record in persuading jurisdictions to adopt anti-money laundering rules to strengthen global protection against terrorist finance. As part of this effort, FATF has established a terrorist financing working group devoted specifically to developing and strengthening FATF's efforts in this field. Among other things, it has begun a process to identify nations that will need assistance to come into compliance with the Eight Recommendations.

G20

G20 Finance Ministers and Central Bank Governors issued an Action Plan on Terrorist Financing on November 17, 2001. Under the plan, G20 countries agreed to:

- Implement UN measures to combat terrorist financing, including blocking terrorist access to the financial system
- Establish FIUs and enhance information sharing

Provide technical assistance to countries that need help in combating terrorist financing and called on the International Financial Institutions to provide technical assistance in this area.

International Financial Institutions

In response to calls by the International Monetary and Financial Committee and the Development Committee, the IMF and World Bank each developed and are implementing action plans which call for intensified work on anti-money laundering and the combat against the financing of terrorism (AML/CTF). The action plans call for joint Fund and Bank action:

- Expand Fund/Bank involvement in anti-money laundering work to include efforts aimed at countering terrorism financing
- Expands Fund/Bank anti-money laundering work to cover legal and institutional framework issues in addition to financial supervisory issues
- Agreeing with the Financial Action Task Force on a converged global standard on AML/CTF
- Increases technical assistance to enable members to strengthen their AML/CTF regimes in accord with agreed international standards
- Conducting a joint Fund/Bank study of informal funds transfer systems.

Under its Action Plan, the World Bank is also integrating AML/CTF issues in the Bank's country assistance strategies.

Under its action plan, the Fund is accelerating its Offshore Financial Center assessment program, and has circulated a voluntary questionnaire on AML/CFT in the context of the IMF's Article IV consultations with its members. As part of its Article IV consultation, the US provided detailed responses to the AML/CFT questionnaire.

In addition, the IMF early this year invited its member countries to submit reports on steps that they have taken to combat the financing of terrorism. As of the final week in August 2002, over 150 countries out of a total IMF membership of 184 had submitted reports.

Egmont Group

The Egmont Group is an international organization of 69 financial intelligence units (FIUs) from various countries around the world. Each serves as an international financial network, fostering improved communication among FIUs in sharing information and training.

The FIUs in each nation received financial information from financial institutions pursuant to each government's particular anti-money laundering laws, analyzes and processes these disclosures, and disseminates the information domestically to appropriate government authorities and internationally to other FIUs in support of national and international law enforcement operations.

Since September 11, the Egmont Group has taken steps to use its unique intelligence gathering and sharing capabilities to support the US in its global war on terrorism. On October 31, 2001, FinCEN (the US FIU) hosted a special Egmont Group meeting that focused on the FIUs' role in the fight against terrorism. The FIUs agreed to:

- Work to eliminate impediments to information exchange
- Make terrorist financing a form of suspicious activity to be reported by all financial sectors to their respective FIUs
- Undertake joint studies of particular money laundering vulnerabilities, especially when they may have some bearing on counterterrorism, such as hawala
- Create sanitized cases for training purposes

After September 11, the Egmont Group reached out to nations across the globe to increase the information sharing that is vital to pursuing a global war on terrorism. In June 2002, 11 new FIUs were admitted to the Egmont group, increasing its size to 69 members.

Approximately ten additional FIUs are being considered for admission to the Egmont Group. Egmont is planning several training sessions to continuously improve the analytical capabilities of FIU staff around the world.

Technical Assistance and Diplomatic Outreach

Nations wanting to safeguard their financial systems from abuse by terrorists have sought the expertise of the US government. We have met with officials from over 111 nations, reviewing systems and providing input to increase transparency of financial transactions and better enable financial institutions and regulators to identify suspicious activities. We have in cooperation with other federal agencies presented training programs to countries that are crucial to the war on terrorism that focus on the creation of an effective legislative framework to combat terrorism. These programs are on-going. We have also conducted, in cooperation with other federal agencies, reviews of priority countries' laws and enforcement mechanisms against terrorism and

made recommendations for changes and reform and proposed follow up technical assistance to facilitate recommended changes and reforms. These reviews are also on-going.

After September 11th, Treasury created the Office of International Enforcement Affairs (OIEA) to coordinate and focus Treasury law enforcement bureau's international training and technical assistance work to complement and support US government priorities in international law enforcement and anti-terrorist fundraising efforts. As part of this effort, Treasury is using the International Law Enforcement Academies around the world, including in the newly constituted Costa Rica facility, to better train law enforcement in the field of terrorist financing.

Since September 11th, 2001, Treasury's Office of Technical Assistance has deployed dozens of technical assistance missions around the world to combat financial crimes and terrorist financing. In several instances, in addition to offering TA, these teams have received vital tactical information on terrorist activities and terrorist finance and have insured that this information was placed in the hands of the appropriate authorities. In addition, the Office of Foreign Assets Control, the Office of Comptroller of Currency, and FinCEN have traveled abroad to provide needed training and assistance to members of the regulatory community in other countries to strengthen their capacity to detect, monitor, and uncover terrorist financing.

Results:

To date, \$112 million in the assets of terrorists and their supporters has been frozen worldwide and the international pipeline of terrorists funds has been constricted. Over 165 countries have issued blocking orders against the assets of terrorists and over 80 countries have implemented or are in the process of drafting new laws to combat terrorist financing.

G7 Finance Ministers and Central Bank Governors announced the first joint G7 designation and blocking action on April 20, 2002.

G7 Finance Ministers and Central Bank Governors on June 15, 2002 urged the IMF and the World Bank to begin conducting integrated and comprehensive assessments of standards to combat money laundering and financing of terrorism.

- IMF and World Bank Executive Boards on July 26 and August 6, respectively, endorsed proposals to begin 12-month pilot programs to comprehensively assess their members anti-money laundering and terrorist financing regimes and performance. Such assessments are expected to commence shortly.
- An August 8, 2002, IMF document titled, 'IMF Advances Efforts to Combat Money Laundering and Terrorist Finance' (available on the IMF web site at: www.imf.org) provides details on the program endorsed by the Executive Board.

Since 9/11, the international financial institutions have increased focus on terrorist financing and anti-money laundering in their work. The IMF in its assessment of offshore financial centers

evaluates financial supervision and regulation, and helps members identify gaps. In 2002, 8 such assessments are already completed and another 15 or so are scheduled or underway.

IMF and World Bank reviews and assessments of their members' performance and strategy now generally incorporate focus on issues relating to terrorism financing and anti-money laundering. IMF Article IV consultations with members now encompass such reviews. In line with its action plan, the World Bank's country assistance strategies increase focus on the member's framework and regime to combat money laundering and the financing of terrorism.

As of December 1999, the UN has called on all member states to sign its Convention for the Suppression of the Financing of Terrorism. Since September 11, 71 nations, including the United States, have done so, bringing the total number of signatories to 131. By so doing, the countries pledge to make the financing of terrorism a criminal act in their jurisdictions and to cooperate with other signatories in combating it.

In addition to the important UN action, joint designations are becoming more frequent:

- On March 11, 2002, the United States and Saudi Arabia jointly designated two branches of a charity.
- On April 19, 2002, the G7 jointly designated nine individuals and one entity.
- The European Union has issued three lists of designated terrorists and terrorist groups for blocking.
- On August 29, 2002, the United States and Italy blocked the assets of twenty-five individuals and entities because of their support for and connections to terrorism.
- On September 6th, the United States and Saudi Arabia jointly designated Wa'el Hamza Julaidan, an associate of Usama bin Laden and a supporter of al-Qaida terror.
- On September 9th, the United Nations added to its list of terrorists and terrorist supporters associated with Usama bin Laden and his al-Qaida network the Eastern Turkistan Islamic Movement (ETIM).

International Law Enforcement Cooperation

One of the chief benefits of the financial war on terrorism and following the money is to identify and locate terrorists. There has been unprecedented law enforcement cooperation around the world as countries ferret out terrorist operatives and support networks. As information sharing and cooperation continue to improve, law enforcement will continue to encircle and unveil terrorist cells.

Results:

- International law enforcement cooperation has resulted in over 2400 arrests in 95 countries.
- Arrests have led to the prevention of terrorist attacks in places like Singapore, Morocco and Germany and have uncovered al-Qaida cells and support networks in countries such as Italy, Germany, and Spain.
- A working arrangement between the United States and Switzerland signed on September 4, 2002, will result in the assignment of Swiss and U.S. federal agents to respective terrorism

and terrorist financing task forces to accelerate and amplify work together on cases of common concern.

- Soon after September 11th, the Bahamas provided critical financial information through its FIU to FinCEN that allowed the revelation of a financing network that supported terrorist groups and stretched around the world.
- INTERPOL's website serves as a clearinghouse for foreign law enforcement for the lists of those subject to freezing actions.

DOMESTIC LAW ENFORCEMENT EFFORTS

Green Quest

Treasury's Operation Green Quest augments existing counter-terrorist efforts by bringing the full scope of the government's financial expertise to bear against systems, individuals, and organizations that serve as sources of terrorist funding. The initiative is targeting current terrorist funding sources and identifying possible future funding sources. Underground financial systems, illicit charities, and corrupt financial institutions are among the entities scrutinized as possible facilitators of terrorist funds.

The initiative also targets cash smuggling, trademark violations, trade fraud, credit card fraud, drug trafficking, cigarette smuggling, and other activities that may fund terrorists. Operation Green Quest uses the full array of law enforcement techniques to pursue its objectives, including undercover operations, electronic surveillance, outbound currency operations, and the exploitation of intelligence, financial data, trade data, and confidential source data. Green Quest draws on the resources and expertise of the Treasury and Justice Departments and many other federal agencies.

The investigators with the Customs Service, the IRS, the FBI the Secret Service are globally recognized as among the best and brightest financial investigators in the world. They are second to none. The same talent pool and expertise that brought down Al Capone is now be dedicated to investigating Usama bin Ladin and his terrorist network.

Operation Green Quest (OGQ) was established on October 25, 2001.

Customs

After September 11, the US Customs Service undertook an enhanced inbound/outbound bulk currency initiative directed at countries with known terrorist financing links. Customs inspectors at the nation's 301 ports of entry have made 369 seizures of smuggled currency and monetary instruments.

The cash smuggling provisions of the USA PATRIOT Act increased penalties against those who bring in more than \$10,000 in cash or monetary instruments with the intent of avoiding a reporting requirement.

Cadres of Customs dogs are specifically trained to alert to the scent of dyes and inks in currency.

Results

OGQs investigations have resulted in over 40 arrests, 27 indictments and the seizure of over \$16 million in bulk cash, (over \$9 million with Middle East connection) and are pursuing several hundred leads into potential terrorist financing networks. (For the year ending September 11, 2001 Operation Oasis seizures outbound to Middle and Far East countries totaled \$5.216 million.

Post-9/11 seizures outbound to the same countries total \$16.1 million. Thus, there has been a threefold increase).

The increased scrutiny on terrorist financing has proved fruitful to law enforcement. We are seeing an increase in seizures made the U.S. Customs Service. The following are a few of the seizures made to date²:

- Customs inspectors seized \$624,691 in smuggled cash hidden in plastic bags that were professionally sewn into the lining of a comforter. The money-laced comforter was in a suitcase bound for the Middle East aboard a commercial flight.
- Customs inspectors seized smuggled negotiable checks totaling \$1.06 million that was hidden in a parcel bound for the Middle East.
- Customs inspectors seized a smuggled certificate of deposit worth \$297,000 that was concealed in a parcel bound for Central America and which had originated in Asia.
- Recently Customs, United States Secret Service, and FBI agents apprehended – and the Justice Department subsequently indicted -- Jordanian-born Omar Shishani in Detroit for smuggling \$12 million in forged cashier's checks into the United States. The Justice Department's detention and arrest of Shishani resulted directly from the Customs Service's cross-indexing of various databases, including information obtained by the U.S. military in Afghanistan. That information was entered into Custom's "watch list," which, when cross-checked against inbound flight manifests, identified Shishani.

In addition to preventing the cash from reaching its desired destination, these seizures have provided leads for new investigations into money laundering, terrorist finance and other criminal activity. The currency initiative has also resulted in the arrests of several individuals, including the first to be successfully prosecuted under the new bulk cash smuggling provisions of the USA PATRIOT Act.

² The Treasury Department has not determined that these seizures are related to terrorism.