

Getting to the root of the matter.

Questions for the Record from the Honorable Patrick Meehan

- 1. With our military successes against al-Qaeda core leadership in Afghanistan and Pakistan, there is a growing trend of al-Qaeda affiliated groups and adherents filling the void and taking the lead in launching attacks against the homeland.
 - a. Given the relatively low amount of money required to plan and launch a terrorist attack, how realistic is it to expect U.S. and international counterterrorism entities to identify funds that might be used to undertake terrorism-related activity?

Nominal funding requirements to support terrorist activity can be very challenging for U.S. and international counterterrorism entities to identify. It is possible to identify such funding but highly improbable. Counterterrorism entities need to develop and implement investigative and analytical methodologies to increase the probability factor. Few, if any, entities existed before 9/11 that were dedicated to identifying, investigating and disrupting terrorist financing. Since then, many entities were established with the mission to investigate terrorist financing. By using the combination of financial intelligence, human intelligence, and signal intelligence, mechanisms have been, and will continue to be, developed to identify even nominal amounts of money. By analyzing case studies, ranging from grand to simple, such as the Mumbai bombing and lone wolf schemes like that of Farooque Ahmed, who planned to detonate a bomb in the Washington, D.C. Metro Transit System, counterterrorism entities responsible for terrorist financing can build typologies and develop proactive and progressive investigative strategies.

b. What are some of the persistent challenges in identifying and investigating an activity suspected of financing terrorism? What are some of the trends in how terrorist groups acquiring funds to support their objectives?

One of the persistent challenges I encountered in the FBI, and that I would continue to be concerned about today is the timely collection and assessment of financial intelligence. Did my FBI Section, the Terrorist Financing Operations Section (TFOS), have intelligence information that we did not identify that could have led us to a plot or potential attack? We collected and assimilated a tremendous amount of intelligence information that we endeavored to turn into actionable intelligence for field investigators. This is particularly important in cases where a lone wolf operative did not have a record, was unknown to intelligence agencies, and used funds from a legitimate job to finance terrorist plans. Time sensitivity in these matters was always challenging.

A trend that has continued since 9/11, and has grown significantly since then, has been the movement to criminal activity as a fund raising mechanism for terrorists. In the

aftermath of 9/11, the U.S. and our international partners made a concerted effort to cut off the flow of legitimate money from wealthy donors and charities. The more these efforts succeeded, the more terrorists were driven to criminal activity. This continues today. It will be interesting to assess the success of the sanctions against Iran and the revolution in Syria, two State sponsors of terrorism. This will probably result in the continued increase in criminal activity.

c. Is the decision to pursue a terror financing investigation based on the amount of money suspected of being acquired for terrorism-related purposes? If so, what is the minimum monetary amount of terrorism-related funds the U.S. government assesses as worthy of investigating?

Terrorist financing investigations were not predicated on monetary considerations when I ran TFOS at the FBI. Terrorist financing investigations are probably still not and should never be predicated on monetary thresholds. Such investigations should be predicated upon the relation to terrorism and the potential threat represented. While I was still at the FBI in 2003, a process was established whereby all terrorism cases contained a financial investigative component. Terrorist financing investigations should focus on identifying all funding streams and disrupting terrorist activities through denying terrorists money. For terrorists to succeed, they must have a source of funds and access to their money when they need it. Disrupting the sources and/or access to money makes it extremely difficult for terrorists to succeed.

d. Can you describe the decision-making process and considerations by which the U.S. intelligence and law enforcement communities decide whether to stop terrorism-financing related activity and charge a suspect arrest or chose to allow the activity to continue in hopes of following the trail of funds to a larger network of support or to entities that may be planning a terrorist attack.

Terrorist financing investigations are a component of counterterrorism. They should be conducted in coordination with the broader counterterrorism mission and in conjunction with terrorism investigations. Terrorist financing is one tool in the arsenal. Terrorist financing investigations should be conducted with other investigative techniques to include undercover operations, use of informants and/or wiretaps and tracking telephone calls and/or emails. The combination of these investigative techniques can be extremely productive.

The decision to allow a terrorist financing or broader terrorism investigation to continue or to take it down is extremely important. It should be based on whether an attack is imminent or not. If an attack is imminent, you need to take down the investigation immediately and prevent the attack. If an attack is not imminent, you allow the investigation to continue. In so doing, you can develop evidence to identify additional co-conspirators and funding streams. As an example, consider the Lebanese Canadian Bank investigation. Although Hezbollah was involved, and is a violent terrorist organization, there was no specific threat or imminent danger associated with the investigation. In that situation, you allow the investigation to play out. In this case, the investigation was a multi-year investigation. A number of funding streams and co-conspirators were identified and dismantled. Take a case such as the Time Square



bomber. As a hypothetical, had law enforcement and intelligence agencies been aware of Faisal Shahzad and his plan to detonate a bomb in Time Square, they would have allowed the plot to unfold up to the point of imminent danger. In that case, had they been aware and determined there was no imminent danger, they probably would have identified the funding source, through the Hawala operator. Had there been imminent danger, or if imminent danger could not be determined, they would have arrested Shahzad and developed additional information and evidence in the aftermath of the take down.

When I ran TFOS at the FBI, we strove to take terrorist financing investigations in two directions: forward to the strike team and backward to the point of financial origin. I believed there were three funding tracks, and I wanted investigations to disrupt activities in all three tracks. First, there was a fundraising track. Large sums of money, from the hundreds of thousands to millions of dollars, would be generated through mechanisms to include donations from wealthy donors, charities, State Sponsors (Iran most notably), criminal activities and other means. The money flowed into the terrorist organization for organizational use. Second, funding would be provided in a track from the organization, through a single facilitator or multiple facilitators, and to an operation. The funding flow here would be less than the flow into the organization. It would range from the hundreds of thousands to a few thousand dollars. Our primary investigative attention would be focused on the facilitators because that would take us to both the organization and to the operatives. Third, there was a track from the operation, through the facilitator(s), to the operatives. The funding flow here would be in the thousands to the hundreds of dollars.

In general, when conducting terrorist financing investigations in the first track, the organizational track, you would be more inclined to allow the investigation to continue over a longer period of time and be more deliberate and methodical in your investigative methodology. When conducting investigations into the second track (operations) and the third track (operatives) you have to deal with a greater sense of urgency and constantly assess whether an attack is imminent. Most of these investigations were shorter term because, at some point, you had to be concerned about the threat of attack.

- 2. President Obama recently signed an executive order allowing the Treasury Department to freeze U.S.-based assets of persons who the White House has identified as a "threat to the peace, security and stability" of Yemen.
 - a. Do you think this is an effective use of the designation authority? Especially when a group such as Boko Haram who have killed thousands of civilians and are in constant contact with AQIM remain undesignated?

If evidence exists to support designations, I am an ardent supporter for the designation process. Such actions disrupt funding flows and serve as a deterrent. Boko Haram is a violent and dangerous group. They have been very active and pose a formidable threat in Nigeria. With respect to designating other groups, I would not make designation decisions by comparing one group, such as Boko Haram, to other groups. A number of factors must be taken in consideration in the decision process to include the level of



overall terrorist threat, threat to the United States (U.S.), diplomatic considerations, and the need to continue the classification and protection of intelligence information.

- 3. In 2011, the U.S. government revealed the findings of a multi-year law enforcement operation to dismantle a complex, transnational network involved in money laundering and drug trafficking. The case involved Hezbollah, Mexican and Colombian drug trafficking organizations, the Taliban, Lebanon, Colombia, Panama, several countries in West Africa, U.S. car buyers, a U.S. shipping company, bulk cash couriers, plans for weapons trafficking deals, and the Beirut-based Lebanese Canadian Bank (LCB).
 - a. Does the fact that groups such as Hezbollah and the Islamic Revolutionary Guard Corps continue to use criminal ventures create opportunities for U.S. enforcement mechanisms such as our robust counternarcotics tools to roll up these vast networks?

All criminal activity undertaken by Hezbollah, the Islamic Revolutionary Guard Corps and other terrorist organizations leave them vulnerable to detection by law enforcement and intelligence services. Law enforcement, particularly the DEA and FBI, deserve considerable credit for conducting a well disciplined, focused and comprehensive investigation that tied transnational criminal organizations together with terrorist groups and a number of facilitation tools to include the Lebanese Canadian Bank. Through comprehensive investigation and financial tracing, multiple funding streams between Central America, the United States, Lebanon, West Africa and Europe were identified and dismantled. There have been at least four other significant investigations conducted by the FBI and other agencies that exposed Hezbollah's involvement in raising large amounts of money through criminal activities in the U.S. The most notable of these cases was the North Carolina cigarette smuggling case known as Operation Smokescreen. A Hezbollah cell operated an elaborate scheme to smuggle cigarettes from North Carolina to Michigan. This cell generated approximately \$25 million in illicit funds.

b. How does counterterrorism fit in this increasingly interconnected underworld?

The nexus between criminal and terrorist organizations has continued to grow. This trend will persist. As the U.S. government and our allies' continue to exert pressure and cut off funding streams, terrorists will further align themselves with criminal organizations and participate in criminal activity to raise much needed money. Terrorists are extremely adaptable and consistently look for new funding mechanisms. Many terrorist organizations have become engaged in drug trafficking because drug trafficking is the most profitable criminal activity. These terrorist groups are evolving into hybrid criminal and terrorist organizations. As they do, their ideology tends to give way to greed. Greed is a vulnerability law enforcement can exploit, unlike ideology. This makes these groups more susceptible to criminal investigation and prosecution.

4. The U.S. government's ongoing investigation of the Lebanese Canadian Bank is of particular interest from a money laundering perspective because it highlights the consequences of poor compliance with anti-money laundering regulations in the formal financial system.



a. Given the Lebanese Canadian Bank case, what more can be done to protect the formal financial system from exploitation by terrorists?

There are some egregious examples of anti-money laundering (AML) compliance breakdowns that facilitated terrorists being able to exploit the formal financial system. The biggest failure in the Lebanese Canadian Bank case was the complicity of the Lebanese Canadian Bank with transnational organized criminal groups, a Mexican drug cartel, and Hezbollah. First, there was a total failure by the bank to have an AML program. This enabled criminal and terrorist elements to place money in the formal financial system, the first step in the money laundering process; and then to layer it, which is the second step, by moving it to other financial institutions and giving it a sense of legitimacy; and then in integrating the funds, the third step in the money laundering process, by using the illicit, but seemingly legitimate funds to purchase goods, in this case used cars from the U.S., and shipping them to Africa for sale as legitimate transactions.

One way to help strengthen the formal financial system is to make a comprehensive case study out of the Lebanese Canadian Bank and specifically show financial institutions how they were exploited in this case. By developing typologies that could be built into scenarios that could be incorporated into rules for AML transaction monitoring, we can improve the system. This case study should also be used as a wide-ranging training exercise.

The Lebanese Canadian Bank case was exacerbated by the fact that Lebanon does not recognize Hezbollah as a terrorist organization. Therefore, banks in Lebanon, and banks in other countries that do not consider Hezbollah to be a terrorist organization, are inclined to bank Hezbollah. International consensus on who is a terrorist organization has been a longstanding problem.

There are other cases that can be sited, such as HSBC. The Senate Permanent Subcommittee on Investigations conducted a thorough investigation and issued a formal report on July 17, 2012, in conjunction with a public hearing involving executives from HSBC. The hearing and report serve as tools for lessons learned and should provide a deterrent to other institutions for serious shortcomings in their AML programs.

It should be pointed out that an overwhelming number of banks operating in the U.S. have outstanding AML programs. The AML compliance professionals in these institutions take a great deal of pride in their work ethic and dedication to rooting out money laundering and terrorist financing. I have seen this first hand, both as an FBI agent and today as a consultant doing work in the financial services industry.

b. How can the U.S. government more effectively mitigate the threats posed by tradebased money laundering and bulk cash smuggling and other ways outside the formal financial sector?

Trade based money laundering has had a long history as a successful mechanism for criminals and terrorists. The Lebanese Canadian Bank case demonstrates how criminals and terrorists collaborated in different trade based money laundering schemes to



launder illicit funds. Likewise, bulk cash smuggling has long been, and continues to be, a significant problem for criminals and terrorists. In 2010 and 2011, both the Treasury Department and FBI reported that bulk cash smuggling was a huge terrorist financing concern.

In my view, one of the most significant problems and vulnerabilities we are confronted with outside the formal banking system in the U.S. is unlicensed and unregistered money remitters. These illegal money remitters provide hawala-like services and do not comply with Bank Secrecy Act (BSA) reporting requirements. Many banks are unaware of how many of their clients operate as illegal money remitters. This is in spite of rigorous due diligence requirements. I believe that about 80% of money remitters in the United States are illegal.

To the question of how the U.S. government can more effectively mitigate the threats of these informal mechanisms, the answer is twofold. First, the government interagency community should conduct targeted investigative initiatives addressing these problem areas. Through interagency cooperation, communication and coordination, the government should identify the highest priority targets in these areas and determine which agencies could make the best impact by taking the lead and develop multi-agency strategies. Second, as a component of these initiatives, the U.S. government should bring in the private sector and subject matter experts who could provide a different perspective and different sets of information that could develop valuable financial intelligence. Public private partnerships like this are woefully lacking.

- 5. There is an increasing concern in the counterterrorism and intelligence community that terrorist organizations are increasingly using criminal activities that are outside of the formal international financial system to raise funds to carry out attacks and further their goals.
 - a. How important are terrorist funds derived from criminal activities for the operational sustainability of major terrorist groups compared to other non-criminal sources of funds, including state sponsors and private sector donations?

Following the terrorist attacks of 9/11, the U.S. and our allies made a concerted effort to deter donations to terrorists from wealthy donors, charities and other funding sources to include State Sponsors. This was accomplished in the form of sanctions, OFAC and State Department designations, and targeted investigations by law enforcement and intelligence agencies. As a result, numerous funding sources were shut off and terrorist groups had to develop alternative funding mechanisms. They gravitated to criminal activity, which has consistently expanded over the years. Drug trafficking, kidnapping, extortion, counterfeit goods and a variety of other crimes have become a staple for terrorist organizations.

As mentioned earlier, terrorists must have a continuous flow of funds available that they can immediately access in order to succeed. As otherwise legitimate sources of funding have diminished, terrorists have had to increasingly rely on criminal activity as a funding mechanism.



As more sanctions and pressure are exerted on Iran, it is less likely they will be able to maintain the level of State Sponsorship provided to Hezbollah and other terrorist organizations. Likewise, as Syria faces a regime overthrow, it is unlikely they will be able to provide funding and support to terrorists. This will result in an even steadier reliance on criminal activities by terrorist groups.

- 6. Foreign Terrorist Organization designation by the Secretary of State is an important tool our government uses to deter donations or contributions to and economic transactions with terrorist organizations. There are currently 50 groups listed by the State Department as designated Foreign Terrorist Organizations.
 - a. Which FTO designated groups would you say are the best resourced and most proficient at evading American and international financial regulations? Which use the U.S. financial system the most?

When it comes to resources, proficiency and exploitation of the U.S. financial system, as well as the global financial system, Hezbollah is in a league by themselves. In my view, Hezbollah is not only the most proficient terrorist organization; they are the most competent criminal organization in the world. Their global infrastructure could serve as a model for organized crime. Hezbollah has an incredible worldwide infrastructure that enables them to operate criminal enterprises and function as a serious terrorist threat. Including the Lebanese Canadian Bank case, there are at least five significant investigations involving Hezbollah operations that touch on the U.S. that demonstrate Hezbollah's criminal organizational skills. In aggregate, their activities represent hundreds of millions of dollars in criminal activity having a U.S. nexus.

In today's environment and especially with the sanctions confronting them, Iran poses a significant challenge for the formal financial system. Their ability to hide behind shell companies and opaque beneficial ownership is a hindrance to meaningful sanctions. In addition, Iran's ability to use foreign banks as correspondent banks and to strip SWIFT messaging information from transactional records enables them to circumvent OFAC screening requirements. This is a huge problem that surfaced with Lloyds Bank a few years ago and currently with Standard Charter Bank. This is an issue that must be dealt with forcefully with offending institutions if we intend to have meaningful sanctions against Iran.

- 7. All of the witnesses mentioned in their prepared testimony that the government needs to interact with the financial sector to identify terrorist financing.
 - a. How should the government develop more effective case typologies and feedback mechanisms about how terrorists use financial institutions? Is this mostly an educational issue where we need to empower financial institutions in order to monitor transactions for suspicious or anomalous behavior?

In my written testimony for the record, I made six recommendations about improving the possibility and probability of identifying terrorist financing. Three of those recommendations address how the government should develop more effective case typologies and feedback mechanisms for terrorist financing cases. They are:



"A consistent and comprehensive feedback mechanism from law enforcement must be developed that demonstrates the importance of BSA reporting, especially the significance of Suspicious Activity Reports (SARs). FinCEN's SAR Activity Review is a good mechanism that provides insightful information. In addition, specific feedback from law enforcement to financial institutions concerning the value and benefit of BSA data, including SAR filings, would have a dramatic impact on the morale of individuals responsible for SAR reporting.

There must be an assessment by the government of all SARs related to or identifiable with terrorism cases. Such a review would identify specific red flags that could be used as a training mechanism and more importantly, could be factored into identifying typologies that could be used for the monitoring/surveillance capabilities of financial institutions. In addition, a determination could be made as to why the financial institution filed a SAR. In many instances, the SAR was filed for violations other than terrorist financing. Understanding what triggered the SAR filing; in tandem with how the SAR ultimately was linked to terrorist interests would be insightful.

In addition to assessing SARs, the government and industry should collectively identify and assess as many case studies, of terrorist financing related investigations, as can be identified and legally publically accessed. The case studies should be compared to determine what types of commonalities and patterns of activity exist. In addition, common red flags should be easily discernible. This type of case study assessment, coupled with the SAR analysis, would provide more meaningful information to consider in identifying terrorist financing characteristics, especially in cases involving more nominal financial flows. This would enable financial institutions to more effectively use surveillance and monitor techniques to identify questionable transactional information."

Financial institutions are required by the BSA to monitor transactions for and report suspicious activity. Overall, U.S. banks do a good job of reporting suspicious activity. This process could be improved through a meaningful feedback mechanism from the government where the government emphasizes the importance of SAR reporting, coupled with demonstrating "how" terrorists used financial institutions to move, store and spend money.

In addition, terrorist financing specific training would be important. This was another of the six recommendations I spoke about in my written testimony. Terrorist financing is not well understood. As I stated in my testimony, "(w)ithout specific training, the ability to understand and disrupt terrorist financing is more difficult to achieve."

- 8. The Financial Action Task Force on Money Laundering is comprised of 36 member countries and territories and two international organizations and was organized to develop and promote policies to combat money laundering and terrorist financing. The FATF relies on a combination of annual self-assessments and periodic mutual evaluations that are completed by a team of FATF experts to provide information and to assess the compliance of its members to the FATF guidelines.
 - a. What are the areas of greatest need for improvement in the FATF surveillance process?



The FATF mutual evaluation process is one of the most significant accomplishments of the FATF 40 Recommendations regarding money laundering and terrorist financing as it provides peer and public pressure to enact and then operationalize AML laws. There are approximately 170 jurisdictions who have adopted the FATF 40 Recommendations (FATF plus the FATF style regional bodies).

FATF revised the 40 Recommendations and the methodology for assessment in February 2012. According to FATF, the FATF Standards have been revised to strengthen global safeguards and further protect the integrity of the financial system by providing governments with stronger tools to take action against financial crime. At the same time, these new standards will address new priority areas such as corruption and tax crimes.

Ted Greenberg, a former Department of Justice and World Bank official, is an expert on FATF. He was involved in writing the 40 Recommendations and has participated in the FATF evaluation process. According to Mr. Greenberg, the current methodology has proven to be repetitive in its application, not focused on assessment of effectiveness, and failed to take account of corruption issues in law. Mr. Greenberg believes the new process should focus on the main weaknesses in each jurisdiction, why they are/are not effective and make recommendations to fix the problem areas. He also believes the new process must focus more on corruption issues and their impact on AML.

b. How does the United States evaluate the threats to the global economy arising from money laundering, terrorist financing, and financing the proliferation of weapons of mass destruction?

When I was responsible for TFOS at the FBI, I was the FBI's representative on the Policy Coordinating Committee (PCC) for Terrorist Financing. All government agencies with a nexus to money laundering and terrorist financing participated in that PCC. As an interagency group, we evaluated the threats from money laundering and terrorist financing. We collectively identified and prioritized the most significant threats. The PCC was then chaired by David Aufhauser. During that time period (2001 – 2003), Mr. Aufhauser served as General Counsel at the Treasury Department. As I mentioned in my written testimony," Mr. Aufhauser was a true leader who marshaled the interagency collaborative initiative. He was an unsung hero and visionary." My understanding is that this interagency working group is now directed by the National Security Council. The group is no longer referred to as the PCC for Terrorist Financing. I am not sure what it is currently identified as.

c. How should we be prioritizing these threats and how effectively has the FATF process been in addressing these threats?

In the U.S., the threats should continue to be evaluated and prioritized by the interagency working group. Stopping the flow of funds to terrorists should be an extremely high interagency priority. Overall, the FATF evaluation process has been successful. When FATF first started there was no peer evaluation process of money laundering laws. In fact, few countries had AML laws. Since then, the FATF evaluation



process has been widely accepted and followed. FATF has revised the evaluation process, which should result in an improved process.

- 9. KPMG, a private consulting firm, released in October 2011 the findings of an anti-money laundering survey of major international banks. They found that 80% of respondents reported an increase in costs associated with anti-money laundering that averaged around 45% since 2007. The major sources of cost increases identified by the KMPG survey were 1) enhanced transaction monitoring, 2) increased external reporting requirements to internal regulators and external law enforcement agencies, and 3) increased anti-bribery and anti-corruption activities.
 - a. In your opinion, are there sufficient resources devoted to countering the financing of terrorism and money laundering? Alternatively, are the resource costs associated with implementing such financial regulations too burdensome on either the private or public sectors?

Overall, I do not believe sufficient resources are devoted to countering the financing of terrorism and money laundering, both in the private and public sectors. In the private sector, AML compliance is considered a cost center, as opposed to a revenue center. As such, AML compliance does not receive the support from business entities within a financial institution that should be given. The HSBC case illustrates this shortcoming. This problem was magnified during the financial crisis when banks were reducing staff. Invariably compliance staffs were cut before business staffs. The battle cry in AML compliance was "do more with less". The only winner under those circumstances is the money launderer. In the last few years, as the economy improved, AML compliance resources have improved. However, until the business entity (revenue center) versus compliance entity (cost center) mentality is dealt with, AML compliance will not be adequately resourced. As far as the government is concerned, these are lean budget times. Consequently, staffing is impacted. In general, government agencies responsible for investigating money laundering and terrorist financing do not have the necessary staffing. However, the government has consistently done outstanding work in addressing the money laundering and terrorist financing crime problems.

- 10. There has been growing concern at DHS, particularly within ICE, about the widespread use of prepaid and stored value cards as a way of smuggling illicit funds into the country which could fund terror activity. Some estimates are that \$1 billion annually is moved into the country this way, with most of those funds nearly impossible to track.
 - a. Would you agree that prepaid and stored value cards are a growing danger to being able to target terrorist financiers? What steps would you recommend DHS and the Department of the Treasury take to combat this emerging trend?

The use of prepaid cards has exploded and continues to gain popularity at a rapid pace. There are many legitimate and convenient uses of prepaid cards. However, prepaid cards have been a source of vulnerability since they came on the market. Law enforcement has constantly been concerned about criminals and terrorists using prepaid cards in furtherance of their illicit activities. The problem is not just a one way problem. Prepaid cards coming into the country to support a potential terrorist attack is a direct threat to national security and should be considered a significant problem. There is also



a serious outbound problem. One area where this is extremely problematic is with the Mexican drug cartels. Prepaid cards are being purchased in the U.S. for shipment to Mexico with drug proceeds.

The Treasury Department, through FinCEN, established rules regarding prepaid cards in September 2011, which went into effect in March 2012. The rules, while helpful, do not solve the problem. What is needed is legislation making prepaid cards monetary instruments and subjecting them to BSA reporting requirements. Most notably, prepaid cards should be subject to reporting requirements when individuals travel internationally.

The Treasury and Homeland Security Departments should work with the interagency community, especially the interagency working group for money laundering and terrorist financing to develop a government-wide investigative strategy to deal with the threat posed by prepaid cards being exploited by terrorists. Likewise, the interagency community should reach out to the privates sector to form strategic partnerships to address this crime problem.

- 11. On June 29, 2012, the Obama administration imposed sanctions on a pair of informal money-exchange networks known as hawalas in Afghanistan and Pakistan in what officials described as the first use of the tactic to attack the financial underpinnings of Taliban militants who rely on the system to fund their insurgency. The Treasury Department said that the designations were coordinated with similar measures adopted by the United Nations as part of a broad effort to slow the flow of cash used by the Taliban to pay salaries and purchase weapons for attacks in Afghanistan. The U.N. also added the names of the same two institutions and their principal backers to a list of groups officially associated with Taliban militancy, meaning they will be subject to international sanctions as well.
 - a. Considering how widespread their use is, how difficult is it for U.S. government to really get a handle on some of the terror financing and money laundering activities being conducted under the hawala system?

The problem of illegal money remitters operating in the U.S. is one of the most significant and challenging facing the U.S. government. This is one of the biggest challenges facing the financial services sector. Financial institutions do not know the number of their customers who use their businesses to conduct illegal money remittance operations. This is a form of hawala. The interagency working group dealing with money laundering and terrorist financing should conduct a targeted and coordinated investigative initiative on two levels to identify and dismantle illegal money remittance operations. On an international level, hawalas linked to terrorism should be identified and targeted. The government should employee techniques to identify wire transfers to and from the U.S. involving these hawalas, as well as telephone numbers and emails, among other communication modes linked to the hawalas. From there, investigation should focus on the identified illegal money remitters in the U.S. Coordinated take downs of targeted hawalas in the U.S. and abroad should take place. This would involve coordination with our international partners. On a second level, there should be an initiative to arrest a large number of illegal money remitters in the U.S. for operating illegal (unlicensed and unregistered) money remittance operations. This would generate



considerable media attention to this problem, be impactful and have a deterrent effect on these types of businesses.

b. How could the U.S. be more effective in targeting the hawala systems being used by drug traffickers to fuel the Taliban insurgency in Afghanistan and Pakistan?

DEA has had the lead in the area of drug trafficking in Afghanistan. DEA should develop investigative strategies with the Department of Defense, law enforcement and intelligence agencies. Those strategies should be fully coordinated. The collective financial intelligence from the various agencies should provide actionable intelligence information to prioritize and target hawala dealers who support the Taliban. The key is coordination, communication and cooperation.

c. Would closer collaboration with the U.N. help our government's ability to identify hawala networks engaged in illegal behavior?

On a practical operational level, collaboration with the U.N. would have little impact on U.S. investigative efforts. On a policy level, especially in considering regulating hawalas, collaboration with the U.N. and other international bodies could be extremely beneficial.

- 12. Mr. Lormel, in your written testimony you mentioned the Lloyds Bank "stripping" case as a prime example of how correspondent banking was used by Iran as a facilitation tool.
 - a. This was a pretty egregious example of Iran using the formal banking system to skirt international financial system. Do you think this was a one-off or an instance of a larger problem, particularly with regard to SWIFT?

I believe the problem of "stripping" is much larger. It is not a one-off situation. The Lloyds case was investigated jointly by the District Attorney of New York (DANY) and the Department of Justice. At the time the case was brought forward, DANY announced it was investigating nine other banks for similar "stripping" activity. On August 6, 2012, the New York State Department of Financial Services announced it was investigating Standard Charter Bank for "stripping" information related to Iran.

SWIFT is not the problem. The problem is that certain banks have chosen to do business with Iran. There is tremendous profit for the banks in dealing with Iran, especially with the strong U.S. sanctions. However, Iran needs access to U.S. dollars, therefore the banks who are dealing with Iran must transact in the U.S. They must have a correspondent banking relationship with a U.S. bank to access U.S. dollars. In the cases of Lloyds and Standard Charter, the banks knew that if they provided the proper SWIFT messaging data, the identities of the Iranian banks they were transacting with would have been disclosed through their correspondent relationship with a U.S. bank. They knew full well that if that occurred the U.S. bank would have declined the transaction. The U.S. bank's OFAC monitoring system would have identified the sanctioned Iranian bank and returned the transaction. Therefore, Lloyds and Standard Charter "stripped" out any reference or mention of the Iranian bank in the transaction, circumventing the OFAC monitoring. This gave the appearance to the U.S. bank that either Lloyds or Standard Charter were the originating bank in the transaction.



- 13. Mr. Lormel, you suggested that providing security clearances to select personnel in financial institutions in order to share limited intelligence information that could be scrubbed against bank monitoring systems to identify transactional information associated with terrorists.
 - a. How would you envision this to work?

The government provides security clearances to individuals working in the defense contracting industry. This enables defense contractors and consultants to work on classified projects, which is in the government's best interest. The same should be true in the financial services industry. Financial institutions are a repository for significant financial intelligence information. If the government could share selective classified information with a limited number of vetted and cleared bank officials that information could be run through transactional information. Hits in the transactional data, that otherwise would not have been identified, would be reported back to the agency providing the information. Legal process would have to be put in place to ensure any information provided back to the government did not violate Bank Secrecy Act privacy provisions.

b. What would you think of sending members of Treasury's Office of Financial Intelligence, or of the Intelligence Community, to certain high-risk financial institutions, in essence detailing them there for this purpose? Would this not also help with the challenge of helping the financial sector to identify activity consistent with typologies of terrorists?

The idea of detailing members of the Treasury's Office of Financial Intelligence or from law enforcement is worth consideration. It would be important to distinguish law enforcement and the intelligence community in the sense that the CIA should be precluded from collecting domestic intelligence, especially involving U.S. persons. The FBI or other law enforcement agencies dealing with classified intelligence would be the appropriate government representatives. However, before considering sending government personnel to select high risk institutions, a number of impediments would need to be resolved. The General Counsels from the financial institution and government agencies would need to assess the legality and potential liabilities of such a relationship. Two other considerations would need to be considered. First, by sending personnel to select financial institutions would the government be unwittingly providing that institution with an unfair competitive advantage? Second, does the government have the resources to devote to this type of initiative?

While I ran TFOS at the FBI, we actually had an operation with a financial services provider, similar to what was suggested in the above question. We worked through the impediments and formed a public private partnership that achieved extremely productive investigative results. This was a terrific model of how the financial services sector and law enforcement could form a strategic partnership in furtherance of national security. Because of the sensitivity of that initiative, I cannot comment about it any further.

