Written Testimony of
Department of the Treasury Under Secretary David S. Cohen
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Chairman Udall, Ranking Member Johanns, and distinguished members of the Subcommittee on Financial Services and General Government: Thank you for the opportunity to appear before you today to discuss the Department of the Treasury's Office of Terrorism and Financial Intelligence (TFI). My remarks will focus on the history of TFI, TFI's components, TFI's role in implementing sanctions programs, and the President's FY 2015 funding request for TFI.

I am especially proud to be appearing before this Subcommittee to discuss the work of TFI. The women and men of TFI are an outstanding group – skilled, creative, patriotic, and enormously dedicated to their increasingly demanding jobs. For just over three years now, I have had the privilege of serving as the Under Secretary of TFI, and I am impressed every day by the truly remarkable work of my TFI colleagues. In the course of this hearing, I hope to convey to this Subcommittee how much we all benefit from their magnificent work.

TFI Background and History

September 11, 2001 served as the catalyst for an important shift in the U.S. government's approach to national security. Following that fateful day, there was a newfound recognition across the government that disrupting the financial infrastructure of terrorist groups needed to be a part of our counterterrorism strategy.

And in the twelve years since those tragic attacks, we have made great strides in developing a comprehensive, whole-of-government approach to combating terrorist financing. By all accounts, the United States has been at the forefront of this effort globally. The Treasury Department—and our powerful financial toolkit—have been key to this effort.

And as the national security landscape has evolved over the past decades, so have Treasury's efforts. Far from just being focused on issues related to terrorist financing, Treasury's use of financial measures has become a crucial tool for protecting and advancing a much broader range of national security and foreign policy interests of the United States.

The reason behind TFI's broadening mandate is simple: Nearly every national security threat has an important financial component. Effectively mitigating these threats requires creative thinking about how to leverage, pressure, and often exploit our adversaries' financial vulnerabilities.

That is where TFI comes in. TFI has been recognized as a leader within the government for its intelligence, enforcement, diplomatic, and regulatory capabilities. We have also been recognized for our substantive expertise on topics as varied as virtual currency, transnational organized crime, counter-terrorism, and nuclear non-proliferation.

As a result, we have been increasingly called upon to deploy our various tools to address national security threats in nearly every corner of the globe. These tools include financial and economic sanctions, regulatory actions including Section 311 of the USA PATRIOT Act, civil enforcement actions, advisories to the private sector, and conversations to alert foreign government officials as well as the private sector to particular threats.

TFI Components

The diversity of the threats that we face and the tools that we have to mitigate those threats means that TFI's output must be the sum of many crucial parts. Each of these parts meaningfully contributes to TFI's mission, from marshaling financial intelligence and analytical capabilities to engaging businesses and governments around the world to deploying regulatory tools and sanctions authorities.

To better understand how all of these parts come together under the TFI umbrella, let me provide some detail on the structure of our office.

TFI is comprised of five components: the Office of Intelligence and Analysis (OIA), the Office of Foreign Assets Control (OFAC), the Office of Terrorist Financing and Financial Crimes (TFFC), the Financial Crimes Enforcement Network (FinCEN), and the Treasury Executive Office of Asset Forfeiture (TEOAF).

Treasury is the only finance ministry in the world with its own in-house intelligence unit. OIA subject-matter and tradecraft experts contribute to every aspect of the intelligence cycle, providing all-source intelligence analysis to Treasury officials and other intelligence customers throughout the U.S. government, including the President.

Harnessing OIA's intelligence capabilities is crucial to the mission of other TFI components, including OFAC. OFAC designs, implements, and enforces sanctions programs to disrupt and dismantle the support networks of terrorist groups, WMD proliferators, drug traffickers, and organized criminal groups. OFAC's workload has grown tremendously since the creation of TFI. When TFI was formed in 2004, OFAC managed 17 sanctions programs. Today, it manages 37.

Sanctions programs are most effective when they stand on a foundation of strong systemic safeguards in the financial sector. Indeed, one of the TFI's core missions is to ensure that these safeguards are part of our own domestic financial system and to encourage the adoption of similar safeguards around the world.

The aim of these safeguards can be captured in one word: transparency.

Transparency is critical to enabling financial institutions and law enforcement, regulatory, and other authorities to "follow the money" — that is, to identify traces of illicit finance so that they can protect the integrity of the international financial system. Their efforts, in turn, deny terrorists, proliferators, and other criminals access to the financial system, forcing them to turn to costlier and riskier alternative ways of moving money.

To promote international financial transparency, TFFC develops policies and implements strategies to strengthen the integrity of the financial system and safeguard it from terrorist financing, money laundering, drug trafficking, organized crime, and proliferation finance. TFFC also establishes strategic relationships across the globe to foster adoption of best practices while identifying priority threats to, and vulnerabilities in, the U.S. and international financial systems.

Domestically, FinCEN implements the Bank Secrecy Act, designing and enforcing a regulatory framework to defend the U.S. financial system from money laundering and other serious financial crimes. To do so, FinCEN requires financial institutions to create and maintain records that are highly useful to law enforcement and collects, analyzes, and disseminates financial intelligence. FinCEN also works with counterpart financial intelligence units around the world to share information in an effort to prevent criminals from exploiting international borders to hide from justice.

Meanwhile, TEOAF guides the strategic use of forfeited assets by Treasury, the Department of Justice, U.S. Immigration and Customs Enforcement, U.S. Customs and Border Protection, U.S. Secret Service, and other law enforcement agencies to disrupt and dismantle criminal enterprises.

I will turn now to TFI's role in designing and implementing some of our sanctions programs. While these sanctions efforts vary in size and scope, all have achieved meaningful results in furthering important national security goals.

Ukraine-related Sanctions Actions

The Treasury Department has played a major role in the U.S. and international community's response to Russia's recent actions in Ukraine, including its support for an illegal referendum in Crimea, the purported annexation of Crimea, the dangerous risk of escalation caused by Russian troops in Crimea, and the potential for violence related to the buildup of Russian forces on Ukraine's eastern border.

In response to Russian aggression, President Obama has issued three executive orders (E.O.), which together provide the Secretary of the Treasury, in consultation with the Secretary of State, the authority to impose broad sanctions on Russia and others individuals and entities responsible for the situation in Ukraine.

Armed with these new authorities, we have followed through on President Obama's warning that there will be real costs for Russia's incursion into Ukraine and its violation of Ukrainian sovereignty. So far, we have designated 31 individuals – including Crimean separatist leaders, Russian government officials, and members of the inner circle of the Russian leadership – as well as Bank Rossiya, a mid-sized Russian bank.

Those designated have had their assets in the U.S. frozen and are barred entirely from conducting business with, in, or through the United States. I suspect that they will also find it very difficult to conduct business outside the U.S., because our experience with other sanctions programs has demonstrated that major financial centers around the world often adhere to U.S. guidelines when it comes to the implementation of sanctions. In short, these individuals will find their ability to transact in the world economy severely constrained.

Of particular note, the President has given the Secretary of the Treasury the authority to target Russian government officials as well as those who materially support or act on behalf of senior Russian officials. Using this authority we designated individuals such as Gennady Timchenko, whose activities in the energy sector have been directly linked to President Putin, and Yuri Kovalchuk, the largest shareholder of Bank Rossiya and personal banker for senior officials of the Russian Federation.

As I noted, we have also designated Bank Rossiya, which has served as the bank for President Putin and other senior Russian government officials. Prior to its designation, Bank Rossiya was the 17th largest bank in Russia, with about $10 billion in assets and numerous U.S. dollar-denominated correspondent accounts here in the U.S., as well as correspondent accounts in Europe and elsewhere denominated in other currencies.

Following our action last week, the bank's assets under U.S. jurisdiction are blocked, it has been frozen out of using the dollar, and it no longer has access to its correspondent accounts within U.S. financial institutions. And we are working with our partners in foreign governments and in the international private sector to further isolate the bank and stymie its operations.

On March 20, the President signed the latest E.O., which authorizes the Secretary of the Treasury, in consultation with the Secretary of State, to sanction any individual or entity determined to operate in sectors of the Russian economy specified in the future by the Secretary of the Treasury, including the energy, metals, and mining sectors. This authority is a very powerful yet flexible tool that will allow us to respond quickly and meaningfully as events develop in Ukraine.

We recognize that these measures will have the greatest impact when harmonized with the actions of our international partners, in particular in Europe and Asia, because of their extensive economic ties to Russia. We are in daily communication with our counterparts in the G-7, the European Union (EU), and other countries with significant financial and economic links to Russia to discuss how we can best adopt collective measures.

These are serious measures with implications across the global economy. But while a diplomatic resolution remains the preferred outcome to the situation involving Ukraine, Russia must know that any escalation will only isolate it further from the international community and the international economy.

Beyond our sanctions effort, Treasury has also used our tools to halt the misappropriation of assets from Ukraine. FinCEN has issued two advisories to U.S. financial institutions related to the unrest in country. These advisories remind institutions of their obligation to apply enhanced scrutiny to accounts and transactions conducted on or behalf of senior Ukrainian political officials, including those of the former Yanukovych administration, and to report any suspicious financial transactions.

Iran Sanctions Program

Our unprecedented sanctions on Iran have led the way in demonstrating the power and efficacy of our financial measures.

From the outset of the Obama Administration, we have pursued a dual-track strategy that paired an offer to Iran to rejoin the community of nations if it addresses the international community's concerns over its nuclear program with increasingly powerful and sophisticated sanctions if it continued to ignore those concerns.

When Iran initially chose another path, we responded by crafting and implementing the most comprehensive, powerful, and effective set of sanctions in history.

Today, Iran stands isolated from the global financial system with slashed oil revenues, an eroded currency, and a severely weakened economy.

Our oil, financial, and trade-based sanctions helped drive Iran into deep recession. Since 2011, oil sanctions imposed by the EU and the U.S. have cost Iran over $100 billion in lost sales. Last year, Iran's economy contracted by six percent and is expected to perform badly this year as well. Its currency, the rial, has lost about 60 percent of its value against the dollar since 2011. And its inflation rate is about 30 percent, one of the highest in the world.

This enormous pressure on the Iranian economy did not come about overnight. We have worked side-by-side with Congress to craft sanctions that target Iran's key sources of economic strength. We maximized the impact of these sanctions through TFFC's robust and persistent engagement with foreign governments and the private sector. Working alongside our interagency partners, we leveraged our in-house intelligence component, OIA, to identify Iranian pressure points. And then OFAC took action against illicit actors and their financial networks by targeting them with powerful sanctions.

This has not been a simple task. In all, TFI enforces a sophisticated and complex regime of sanctions on Iran that encompasses 10 statutes, 26 E.O.s, and 4 United Nations Security Council Resolutions. We supplement these tools by issuing public guidance, licenses that advance U.S. objectives, and advisories warning of concerning trends and practices.

Although our sanctions have proved to be incredibly potent, we have not imposed sanctions for sanctions' sake. All along, the goal of our sanctions has been to induce a shift in the decision making calculus of the Iranian government and to build the necessary leverage for serious negotiations about its nuclear program.

We are now in the midst of those negotiations. In the Joint Plan of Action (JPOA) that went into effect in late January, Iran agreed to take important steps to halt the advance of its nuclear program in exchange for limited, targeted, and temporary relief for six months. And as Iran has implemented its commitments to date, we have worked to fulfill our own.

Even as we now seek to negotiate a comprehensive solution over Iran's nuclear program, the core architecture of U.S. sanctions—especially our potent oil, financial and banking sanctions—remains firmly in place. And over the remaining four months of the JPOA period, we will continue to vigorously enforce these sanctions as well as the broad array of sanctions targeting Iran's human rights abuses and its support for terrorism.

Syria Sanctions Program

In Syria, the U.S. government's policy is to isolate and degrade violent extremist networks and facilitate an orderly end to the conflict, with a clear transition to a new competent and representative authority. U.S. and international sanctions are a key component of this effort, and are designed to deprive the Assad regime of the financial means needed to support its relentless campaign of violence against the Syrian people.

In the absence of UN sanctions regime, the United States has worked with the EU, the Arab League, and a host of other countries to build a robust international sanctions regime designed to pressure the Syrian government and bring about an end to the conflict. In close coordination with our colleagues at the State Department, Treasury has played a key role in international engagement on Syria through the Friends of the Syrian People International Working Group on Sanctions, contributing to the U.S. government's effort to coordinate broader and more effective sanctions implementation among like-minded countries.

Since the Syrian uprising began in March 2011, President Obama has issued five E.O.s, each delegating authority to the Treasury Department to impose sanctions in response to the violence in Syria. These E.O.s significantly expanded the tools available to the U.S. government to respond to the crisis in Syria, namely by isolating the Assad regime and key regime supporters and denying it the resources needed to fund its continued repression of the Syrian people.

From the start of the uprising to date, Treasury has designated more than 200 Syrian individuals and entities pursuant to all of its relevant authorities. We have also used our authorities to expose the involvement of foreign actors in Syria. Treasury designations have drawn attention to Iranian support for the Syrian regime, whether directly or through its proxy, the Lebanese terrorist group Hizballah. Since the uprising began, we have designated the Islamic Revolutionary Guard Corps-Qods Force, Iran's Law Enforcement Forces, Hizballah, and Hizballah's Secretary General Hassan Nasrallah for providing material support to the Syrian regime's violent response to peaceful protests.

Apart from sanctions against the Assad regime and its supporters, Treasury has also used its global terrorism authorities to target the activities of extremists groups operating in Syria such as al-Nusrah Front and the Islamic State of Iraq and the Levant (ISIL), the group formerly known as al-Qa'ida in Iraq (AQI). We have also been closely tracking the funding streams of these groups and have sanctioned numerous terrorist financiers sending funds to extremists in Syria.

North Korea Sanctions Program

Following the DPRK's April 2012 Taepo Dong-2 launch, the December 2012 Taepo Dong-2 launch, and the February 2013 nuclear test, Treasury measures – including designations targeting the DPRK's nuclear, ballistic missile, and proliferation activities as well as the regime's access to luxury goods, and the financial networks that support its illicit activities – have impeded the development and slowed the pace of the DPRK's illicit programs.

Over the past year, Treasury has designated two key North Korean banks: Foreign Trade Bank and Daedong Credit Bank, both of which provided crucial financial support to other U.S. and UN-designated DPRK entities, including North Korea's premier arms dealer. Since August 2010, there have been seven

Treasury designations under E.O. 13551, which targets individuals and entities facilitating North Korean arms sales, the procurement of luxury goods, and illicit economic activities; and 31 designations under E.O. 13382, which targets individuals and entities engaged in WMD proliferation-related activities.

The DPRK's recent missile launches using ballistic missile technology on February 27, March 3, and March 26, 2014 are a clear indication that the DPRK is committed to aggressively pursuing its ballistic missile and nuclear programs, which have been prohibited by multiple UN Security Council resolutions. The United States will continue to fully implement both UNSC and U.S. sanctions authorities until it is clear to the DPRK that denuclearization is the only path forward and Pyongyang undertakes complete, verifiable, and irreversible denuclearization.

Narcotics Sanctions Program

Treasury has made significant progress in our efforts to target drug lords worldwide through authorities granted to us in the Foreign Narcotics Kingpin Designation Act ("Kingpin Act"). The Kingpin Act aims to hit drug traffickers in their wallets, depriving them and their key lieutenants and money launderers of access to the U.S. financial system. Since the law was passed, more than 1,400 individuals and entities have had their access to the U.S. financial system cut off.

In 2013, Treasury designated 83 individuals and 67 entities pursuant to the Kingpin Act, and the President identified six significant international narcotics traffickers. Treasury focused on cartels operating out of Mexico and Central America by repeatedly targeting the family members and close associates of the Sinaloa Cartel, the associates and businesses of Los Zetas, and an ever-expanding network of narcotics trafficking organizations in Central America. Treasury also continued to track the activities of major narcotics trafficking organizations in Colombia, which have ties to these Mexican and Central American organizations.

One of the most influential designations last year was the September action targeting the Los Cachiros, a Honduran drug trafficking organization which plays a critical role in the transportation of narcotics from Colombia to Mexico. On the same day that Treasury designated this organization, the Government of Honduras embarked on a week-long seizure action against Los Cachiros' financial and commercial assets, including those businesses designated by OFAC, pursuant to the Honduran Asset Forfeiture Law. This success is similar to other forfeiture actions that have followed OFAC designations in Colombia and elsewhere.

Global Counter-Terrorism Program

Over the past 12 years, OFAC has designated more than 800 individuals and entities under our counterterrorism sanctions program. In 2013, we designated 87 individuals and entities with the aim of disrupting and degrading some of the most dangerous terrorist threats to our country, including al-Qa`ida in the Arabian Peninsula (AQAP), Lashkar-e Tayyiba, the Haqqani Network, and the Iranian Revolutionary Guards Corps Qods Force.

Beyond the blocking of assets, a Treasury designation exposes terrorists' activities publicly, drawing them out of the shadows and alerting financial institutions and foreign governments to their nefarious activity. It also encourages corresponding actions from counterterrorism partners and the United

Nations. But most importantly, the designations disrupt and degrade the finances of terrorist groups as those designated will never again be able to openly access the international financial system.

TFI Resource Levels

Now that I have outlined some of our sanctions programs, I will discuss TFI's resource levels. Despite the recent growth in our sanctions programs, the $102 million provided in the FY 2014 Departmental Offices appropriation is sufficient to allow us to accomplish our mission. We have been able to increase our sanctions programs and other output by generating program efficiencies, effective management, and transferring funds when needed among organizations and programs within TFI.

In short, Treasury's Departmental Offices appropriations in years past have been sufficient to support our operations and I believe that the FY 2015 budget request is no different.

Conclusion

Over the past decade, TFI has become a central part of the national security community. Comprised of an extraordinarily talented and skilled group of intelligence analysts, policy advisors, sanctions investigators, and regulators, TFI, working with our interagency partners, has been crucial to our government's efforts to disrupt illicit networks, protect the integrity of the U.S. and international financial systems, and, in doing so, advance the core national security and foreign policy interests of the United States.

And as our country continues to turn to financial instruments to resolve our thorniest foreign policy challenges, TFI will continue to craft these tools, implement them, and vigorously enforce them.

Thank you.