

Under Secretary Sigal Mandelker Speech before the American Bankers Association & American Bar Association Financial Crimes Enforcement Conference

December 4, 2017

Introduction

Good afternoon, it is a pleasure to be here at the ABA/ABA Financial Crimes Enforcement Conference for the first time.

Thanks very much to you Rob, for the kind introduction, as well as to your team for putting on this important event.

All of you are on the front lines of our efforts to combat financial crimes and the work that you do -- and that we do together -- to protect our country by keeping illicit actors from exploiting the financial system is so crucial.

In all of our roles, I think it is important to take a step back to remember why we work so hard to get it right. There is nothing that brings this more into focus than 9/11. On the morning of 9/11, I was clerking at the Supreme Court. I remember first watching on TV at home, and then a few minutes later in the office, with horror and total confusion, the images of the World Trade Center on fire. I did not truly appreciate the threat that we were all under in Washington, DC until a friend called and told me to hang up the phone and get out of the building, now.

A group of us then literally started running out of the building and down Pennsylvania Avenue until we got to another law clerk's house, just blocks away. When I think back to that day, I also always remember the heroes of United Airlines flight 93. For those of us living in Washington at the time, we know that they likely saved so many of our lives.

Like I am sure many of you, after 9/11 I wanted nothing more than to join in the nation's response to this terrible attack on our nation. And so in 2002, I joined the Justice Department's counterterrorism and national security mission. And today, I am incredibly honored and humbled to once again join in our nation's national security work by serving as the Under Secretary for Terrorism and Financial Intelligence.

In the days immediately following 9/11, the President and Congress moved quickly to protect Americans from further attacks. Among the important tools they deployed were sections 314(a) and 314(b) of the USA PATRIOT Act, which established authority for information sharing to enhance our ability to fight terrorism. As I will talk about today, effective information sharing, including strong public-private partnerships, remains critical in our efforts to fight terrorism and other illicit activity.

And we have to constantly think about and take steps to enhance and improve that relationship as the threats that we face become increasingly more complex and as money launderers, rogue regimes, terrorists, and others become more sophisticated at hiding their financing. We need to be -- and we are -- many steps ahead of them. Our ability to do so depends on working in partnership with you.

As Under Secretary of Treasury's Office of Terrorism and Financial Intelligence -- or TFI -- I have the honor of leading a group of incredibly dedicated professionals. TFI includes approximately 700 of the best and brightest minds, following the money and protecting our financial system from illicit actors. Our team focused on this work is spread across four components -- FinCEN, OFAC, the Office of Intelligence and Analysis, and the Office of Terrorist Financing and Financial Crimes. We are tasked with using financial intelligence, expertise, and our unique economic authorities to combat terrorist financing, money laundering, proliferation financing, and other national security threats to the United States and our partners.

Today, I will talk about our work at TFI, our focus on transparency and accountability in the international financial system, and the importance of public-private partnerships.

Our Work at TFI

We have been deploying our economic authorities at a rapid pace to address some of our greatest national security threats.

In fact, during my first week on the job this past June, we issued an action under Section 311 of the USA PATRIOT Act against the Bank of Dandong, calling out a Chinese bank as being a primary money laundering concern for facilitating North Korean illicit financial activity. We also designated various entities for acting as front companies and middlemen for North Korea.

That first week preceded an extremely busy five months, both here in the United States and in my travels around the globe. We have announced a number of new actions targeting illicit activity related to North Korea, Iran, Venezuela, Russia, terrorist groups, human rights abusers, drug kingpins, and cyber criminals.

We have ramped up the economic pressure on a wide range of illicit actors through sanctions, Section 311 authority, financial advisories, and collaboration with law enforcement and our other interagency partners. We forged valuable global partnerships including through the strategically important Terrorist Financing Targeting Center in the Gulf, which serves as a forum for information sharing and capacity building and a catalyst for multilateral actions against terrorist financiers and facilitators.

We have also engaged in productive conversations with the private sector to help identify and counter emerging threats, including by issuing advisories, guidance, and FAQs.

Behind the scenes, we have a cadre of TFI career professionals working tirelessly to fulfill our important responsibilities, including by mapping out networks of illicit actors and taking action against them. I am delighted that Ken Blanco is joining us as the new Director of FinCEN. Ken and I worked together at the Justice Department and I know that he will be a great addition to our team, having already focused on these issues for many years.

Foremost on all of our minds is protecting the country and safeguarding the international financial system from illicit actors. Treasury's authorities have become among this Administration's top non-kinetic tools of choice and we are intent on maximizing their use to achieve long-term strategic impact.

TFI has a broad range of powerful tools, including sanctions, anti-money laundering (AML) measures, enforcement actions, foreign engagement, intelligence and analysis, and private sector partnerships, among others. By strategically calibrating these tools, we are maximizing their impact and enhancing our ability to address the many threats we face.

Critical to our success are the proactive efforts of the compliance community. I know from my years in the private sector that your vigilance makes our tools and authorities that much more effective.

Not only do we truly depend on you and your teams to implement laws and regulations designed to protect our financial system—we also appreciate the important work that you do to address our country's critical national security and illicit financing threats.

From my years in the private sector, I also know how important it is for us to be clear in our messaging. We don't want you to have to guess what our expectations are. Being very clear is something that I have emphasized repeatedly and it is an ethos that has been important to TFI since its beginning. And so you will continue to hear from us on a wide range of fronts.

Ensuring Transparency and Accountability in the Financial System

As we employ our economic tools to address these challenges, we must also continue to increase the transparency and accountability in the international financial system, which underpins much of our economic statecraft. A strong and effective AML framework keeps illicit actors out of the financial system, and allows us to track and target those who try to slip through.

It is imperative that we ensure this framework is constantly improving to address the evolving threats that we face.

We have been reviewing the Bank Secrecy Act (BSA) and our regulatory authorities and getting into the details of what is working and what needs to be improved, because we know how important it is to make sure the details are right.

As I have already mentioned, one area that we are particularly focused on is the importance of public-private partnerships. We are engaged in ongoing and productive conversations with the private sector because we know that in order to effectively deploy our powerful tools, we must not only maintain a proactive dialogue but also share information with financial institutions.

Enhancing public-private partnerships that expose, address, and eliminate vulnerabilities is a top priority for us. Such partnerships are achieving meaningful results. The safeguards that our financial institutions put in place, and the information that you provide to us about terrorist financiers, proliferators, human rights abusers, and cyber and other criminals, are what helps prevent malign actors from abusing our financial system.

We recognize that, in order to make these partnerships work, it is important to provide you with specific information that enhances your ability to identify and report suspicious activity.

That is why, among other things, we have been issuing advisories to help you identify priority threats and key AML and sanctions evasion typologies.

In the case of North Korea, for example, in early November, FinCEN issued an advisory to financial institutions to highlight how North Korea uses front and trade companies to disguise, move, and launder funds to finance its nuclear and ballistic missile programs. It describes how North Korean state-owned enterprises use foreign-based front or shell companies and covert representatives based abroad -- many of which we have sanctioned. They obfuscate the true originator, beneficiary, and purpose of transactions, enabling millions of dollars of North Korean illicit financial activity to flow through correspondent accounts. We are able to warn the financial community of red flags associated with these schemes in part because of U.S. financial

institutions' ability to detect and report this activity. This creates a valuable feedback loop where the public and private sectors each benefit.

To help combat President Nicolas Maduro's egregious assault on democracy and human rights in Venezuela, in September we issued an advisory to alert financial institutions of widespread public corruption in Venezuela and the methods senior political figures and their associates may use to move and hide proceeds of their corruption, at the grave expense of the Venezuelan people.

Combined with imposing powerful new sanctions on debt and equity as well as issuing a number of targeted designations, this advisory put financial institutions on watch for possible illicit fund flows.

We also issued an advisory in September alerting U.S. financial institutions to the potential exposure to AML risks caused by South Sudanese senior political figures attempting to abuse the U.S. financial system to move or hide proceeds of public corruption. Among other things, the advisory highlights how South Sudanese government officials have regularly abused their positions to enrich themselves illegally under the guise of conducting government business, and how this corruption is often conducted through the use of shell companies belonging to the relatives of government officials.

I recommend that all of you review these and our other advisories.

Introducing the FinCEN Exchange

We have heard from you how valuable this type of information is. From my discussions both in the United States and around the world, it is clear that our outreach helps you better prioritize targets and utilize your resources. We have also heard from many quarters that you want more outreach, discussion, and information.

We hear you loud and clear. To that end, today I am announcing an initiative called FinCEN Exchange, a new public-private information sharing program that FinCEN will lead.

FinCEN Exchange will bring financial institutions, FinCEN, and law enforcement together to facilitate greater information sharing between the public and private sectors.

Information sharing should be a two-way street. It significantly contributes to our ability to combat the increasingly sophisticated money laundering methods we face.

As part of FinCEN Exchange, we will convene regular briefings – approximately once every 6-8 weeks – with law enforcement, FinCEN, and financial institutions to exchange targeted

information on priority illicit finance threats. In close coordination with law enforcement, the goal is to provide information to support specific matters through Section 314(a) of the USA PATRIOT Act and other authorities, and also to provide financial institutions with broader typologies to help you identify illicit activity. This will help you better identify risks within your enterprise, and help FinCEN and law enforcement receive critical information in support of their efforts to disrupt money laundering and other financial crimes.

We have been piloting this effort over the last few years and believe that it is time to institutionalize this program within our AML framework. Since 2015, FinCEN has convened over a dozen such briefings with various law enforcement agencies across the country with more than 40 financial institutions.

At these briefings, we have typically worked with law enforcement to issue Section 314(a) requests related to specific matters and have also provided the financial typologies associated with those matters. I can tell you firsthand that I have seen the benefits of this public-private partnership. Information provided after the briefings by financial institutions through Suspicious Activity Reports (SARs) have helped us map out and target weapons proliferators, sophisticated global money laundering operations, human trafficking and smuggling rings, and corruption and trade-based money laundering networks, among others.

Participants in these briefings have provided us with overwhelmingly positive feedback. They find the information invaluable in channeling their resources towards high-priority targets and appreciate our willingness to work closely to combat these threats.

We will take typologies learned from these engagements and share them with the broader financial community to assist others in identifying and reporting similar activity. And we will continue working with international partners to strengthen public-private information sharing at home and around the world. FinCEN Exchange will be a core part of our effort to strengthen public-private partnerships to combat financial crime.

Participation is voluntary, of course, but I think our AML system is so much stronger when we work together. And let me be absolutely clear – this program is not intended to add a regulatory burden on your financial institutions. We are not imposing any new requirements. To the contrary, we think this type of information sharing will strengthen your compliance programs by enhancing your ability Participation is voluntary, of course, but I think our AML system is so much stronger when we work together. And let me be absolutely clear – this program is not intended to add a regulatory burden on your financial institutions. We are not imposing any new requirements. To the contrary, we think this type of information sharing will strengthen

your compliance programs by enhancing your ability to focus on high priority issues. After all, a key part of our goal in improving the AML framework is to ensure that your resources are devoted to high-value, high-impact activities. It also does not replace or otherwise affect in any way existing mechanisms for law enforcement to engage on its own with the private sector.

Additional Lines of Effort

Our enhanced focus on public-private partnership is just one element in our effort to combat financial crime and root illicit actors out of our financial system.

Improving information sharing is not limited to the exchange of information between the public and private sectors. We welcome efforts by financial institutions to share information with each other.

We know that some banks have started forming consortia to share information more dynamically under Section 314(b) of the USA PATRIOT Act. I have seen the valuable results this information sharing can produce. Money launderers are sophisticated. They don't limit their activity to just one institution. By working together, these groups of financial institutions have provided substantial insight into illicit finance threats that otherwise may be invisible to a single institution. We are highly encouraged by the private sector's willingness to engage in this type of exchange and we appreciate the amount of time and effort that is going into these projects.

We are also open to innovative ideas from the private sector as to how we can strategically promote such information sharing within industry.

We are likewise encouraged by other innovations we are seeing in financial institutions to combat financial crime. In recent years, financial institutions have improved their ability to identify customers and monitor transactions using new technologies that rely on artificial intelligence and machine learning.

To that end, we are actively engaged with financial institutions and businesses in the FinTech and RegTech sectors as we explore ways to work more closely with financial institutions, in particular to foster innovation and leverage financial and regulatory technology.

We are committed to a long-term and collaborative approach to combat financial crime and root out illicit actors. These efforts are so much more effective when we work as partners.

Closing

Our joint efforts to combat financial crime have come a long way since the 1970s. The financial community truly is on the financial front lines, and we could not accomplish our objectives

without your hard work, diligence, and cooperation. At Treasury, we are committed to partnering even more closely with you through programs like FinCEN Exchange to protect our financial system and, most importantly, our country. We look forward to working with all of you in this important mission and I look forward to learning from you as I engage with our incredible team at Treasury on our path forward.