Testimony of Under Secretary for Terrorism and Financial Intelligence Brian Nelson Before the Committee on Financial Services, U.S. House of Representatives

February 14, 2024

As Prepared for Delivery

Good morning, Chair and Ranking Member, and distinguished members of the committee. Thank you for the opportunity to speak with you once again. Since I was last here, the Treasury Department's Office of Terrorism & Financial Intelligence ("TFI") has made important strides on anti-money laundering and countering the financing of terrorism ("AML/CFT") and safeguarding the United States and international financial systems. Today, I would like to discuss the threats to the U.S. financial system, as well as the approaches that we are taking in countering threats abroad and closer to home.

THREATS TO THE UNITED STATES FINANCIAL SYSTEM

Russia/Ukraine

One of TFI's core missions is to protect the financial system by making it harder for illicit actors to exploit the U.S. and international financial systems. We do this domestically by focusing on our own AML/CFT regime, and internationally by deploying economic measures, enforcing those measures, and engaging with key stakeholders. This gives us the ability to remain flexible to the changing national security landscape, while mitigating unintended consequences of our authorities.

Our response to Russia's illegal invasion of Ukraine exemplifies this flexible approach. Our Russia sanctions have two core objectives that we continue to pursue, in coordination with the G7 and other allies: 1) limiting Russia's ability to fund its war by taking steps to restrict its revenues from energy and its access to the global financial system; and 2) restricting Russia's access to items critical to its military-industrial base.

We also designed the novel price cap policy to pursue seemingly contradictory goals: to maintain a reliable supply of crude oil and petroleum products to the global market while reducing the revenues the Russian Federation earns from oil. We have pursued multiple, successive rounds of sanctions against actors who violated the price cap, including shipping companies, vessel owners, and opaque traders, without causing significant oil market volatility.

We have also launched a push to crack down on sanctions evasion and the provision of goods and services for Putin's war machine. On December 22, President Biden issued a new Executive Order, which further targets Russian sanctions evasion making clear to foreign financial institutions that facilitating significant transactions relating to Russia's military-industrial base may expose them to U.S. sanctions.

Middle East

While the events of October 7 have caused us to redouble our focus on countering terrorist financing in the Middle East, disrupting Hamas's financing operations is not new to us; we have done this work for many years. Treasury is implementing a sustained, global campaign against Hamas financing that includes our full suite of tools, including sanctions designations, public alerts and advisories, the convening of public-private partnerships, and use of our regulatory authorities.

We are also closely following the situation in Yemen and are increasingly concerned with the growing number of Houthi attacks against vessels in the Bab al Mandab Strait. In both these contexts, while we do not risk further regional escalation, we work to make sure that we are mitigating the unintended consequences of using our authorities, to include sanctions. The Administration strongly supports the delivery of humanitarian assistance to the Palestinian people, and we also seek to make clear that U.S. sanctions do not stand in the way of these life-saving efforts.

China

As Secretary Yellen has stated, our approach to the People's Republic of China in the national security context is clear: we will safeguard our priority interests, along with those of our allies and partners, and will protect human rights. Our aim is to take specific, targeted action where our concerns have been clearly communicated and it becomes necessary to defend our vital national interest, and not to seek competitive economic advantage.

DOMESTIC AND OTHER INTERNATIONAL EFFORTS

As the largest economy in the world, we also know that we must close our own deficiencies and effectively implement the tools that you all have given us. We are continuing to work on the implementation of the important authorities that Congress gave to us in 2020 on a bipartisan basis through the Anti-Money Laundering Act ("AMLA").

FinCEN has made tremendous progress in implementing the CTA, from opening the database for filing last month to finalizing the framework for law enforcement and others authorized by the law to access beneficial ownership information ("BOI"). We have and will continue to engage the private sector, to include small businesses, to ensure our Congressionally-mandated regulations do not place undue and unnecessary burdens, while achieving the goal of curbing illicit finance in the U.S. and international financial systems.

We have also proposed rules to close deficiencies highlighted in our public risk assessments. Just yesterday, FinCEN issued a proposed rule to combat illicit finance activity in the investment adviser sector and last week, FinCEN proposed rules to counter illicit finance in the residential real estate sector. Taken together, all three of these rules will make our financial system harder for illicit actors to exploit, level the playing field for hard working Americans, and strengthen our national security against illicit actors who launder money through our financial system.

And while we continue to plug deficiencies in our AML/CFT regime, we also continue to focus on the long-recognized threat from money laundering linked to drug trafficking. We are working with international partners in both China and Mexico to combat fentanyl trafficking and working internally to increase our Treasury coordination on the issue, including through the Counter Fentanyl Strike Force.

EVOLVING THREATS

We continue to lead the world in mitigating the illicit finance risk from emerging technologies, including sharing information with other governments and the private sector to help them do the same. The three recently published risk assessments each have substantive sections on virtual assets detailing how various threat actors misuse virtual assets.

Importantly, we have tools to address some of these vulnerabilities, such as using our authorities to hold accountable firms that fail to comply with their Bank Secrecy Act and sanctions obligations. For example, in November, Treasury reached historic settlements for BSA and sanctions violations with the largest virtual asset service provider in the world, Binance.

However, to root out illicit finance by players in virtual asset markets and forums, we need additional tools and resources.

CONCLUSION

I would like to conclude by thanking the hard-working and committed men and women of TFI. I am proud of all that TFI has accomplished over its existence so far and look forward to celebrating our twentieth year. With that, I look forward to your questions.

###