

Regional Forum on International Security and Organized Crime  
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Department of the Treasury  
(As prepared for delivery)

I am pleased to be here speaking today at the Foro Regional Sobre Seguridad Internacional y Crimen Organizado on behalf of the Treasury Department of the United States. I want to commend the organizers of this event for assembling professionals from multiple sectors, as this parallels the strategy we take at Treasury to engage all stakeholders: financial sector regulators, policy makers, financial crimes investigators, financial sector specialists, bankers, compliance officers, and others. It is only through our collaborative efforts that we can create highly effective Anti-Money Laundering/Counter-Financing of Terrorism (AML/CFT) regimes, and all efforts that enhance our communication across these sectors help us achieve our collective goals.

At the U.S. Treasury Department, we recognize the importance of healthy global financial systems. Our engagement in that system is founded on three main principles: the promotion of free trade, the free movement of capital, and flexible exchange rates. The free movement of capital is critical in that equation, and depends on our collective ability to foster open investment and liberal financial markets. None of this is possible without mechanisms to protect the international financial system from abuse.

The international financial system is constantly evolving and becoming increasingly complex, and over time we have seen the creation of innovative financial products that better allow us to conduct international commerce. In that same time, we have seen that these same products and services provide an opportunity for criminals, terrorists and other bad actors to exploit the international financial system to facilitate their nefarious agendas. For example, online and remote banking, stored value cards, electronic payment systems, and other mechanisms can be of immense value to the public, but they also pose a regulatory and enforcement challenge for us.

We have also seen another evolution taking place in the international financial system – one that has come more into focus since the tragic events of September 11, 2001, but underscored by terrorist attacks and other illicit activities taking place since then on all continents. That evolution is one that has brought financial policy makers into the discussion of our national and international security.

The Treasury Department, like many Finance Ministries throughout the world, has at its disposal powerful tools that can accomplish the dual mission of fostering healthy and vibrant environments for international finance and commerce, as well as protecting that system from abuse. In fact, we are seeing a shift where Finance Ministries not only react to threats to the international financial system through defensive and protective measures,

but also identify threats to the international financial system, and take proactive steps to combat those threats.

The international community is looking to finance ministries and financial institutions to take a leading role in protecting our financial system from those who abuse it to support a range of illicit conduct, including money laundering, terrorist financing, weapons proliferation, narcotics trafficking and other criminal behavior. We are uniquely positioned to hinder and over time eliminate these illicit activities from finding safe haven in our financial systems. This can be achieved only through vigilance, acuity and cooperation.

Together, we have made significant progress since 9/11, creating and deploying financial tools to identify, disrupt and dismantle the financial networks that facilitate and support terrorism. We must continue this work to ensure that the international financial system is a hostile working environment for those who support terrorist networks.

But the same lessons we have learned and the same tools we have applied in this area can and should be used to disrupt and dismantle the financial networks that support threats of all kinds, including the proliferation of weapons of mass destruction, rogue and kleptocratic regimes, narcotics traffickers and organized criminals – by attacking the financial underpinnings of those threats. Finance ministries are well positioned to contribute to this effort – taking an active role in discussions regarding international security, and leveraging these tools, their relationships with the financial sector itself, and the power of the financial market to address these threats.

Treasury has shown that these types of financial authorities can be quite effective, in part because they unleash market forces by highlighting risks and encouraging prudent and responsible financial institutions to exercise discretion to manage risk and make the right decisions about the business in which they are engaged. As we have seen in the terrorism context, they give us a concrete way in which to target directly those individuals and entities we know are bad actors and to strike at the heart of their operations.

Within the U.S. Government, Treasury plays a unique role – a role only finance ministries can play. We bring to national security policy-making discussions our insights into financial transactions, connections with the private sector, and tools to apply pressure on a great range of targets.

The U.S. is not alone in looking at how financial tools can play a key role in combating international security threats. International bodies such as the Financial Action Task Force, the United Nations, and others have all recognized that financial measures have an important role to play in the maintenance of global security. International cooperation is one of the cornerstones of the FATF standards on AML/CFT. Multiple UN Security Council resolutions make reference to financial measures in the context of a variety of specific threats: UNSCR 1267 on al Qaida, Usama bin Ladin and the Taliban; UNSCR 1373 on global terrorism; UNSCR 1540 on WMD Proliferation; UNSCR 1483 on the former Hussein regime in Iraq; and UNSCR 1636 on the assassination of former

Lebanese Prime Minister Hariri; and UNSCR 1532 related to Liberia. Meeting this new responsibility will require finance ministries both to strengthen our existing tools and to creatively apply new tools.

The United States continues to look to innovative ways to meet this goal. One such tool we have used to protect our financial sector is an authority given to us under Section 311 of the USA PATRIOT Act (Patriot Act). As many of you may know, Section 311 authorizes the Secretary of the Treasury to designate a foreign jurisdiction, financial institution, or type of transaction as a "primary money laundering concern." Once designated as such, the Treasury Department may take a range of regulatory actions to protect the U.S. financial system, up to and including requiring U.S. financial institutions to terminate correspondent relationships with a designated entity. Such a measure effectively cuts the designated entity off from the U.S. financial system. This defensive regulatory measure has a profound effect, not only in insulating the U.S. financial system from an identified illicit finance risk, but also in putting the global system on notice of such a threat as well.

We have used Section 311 in a number of instances since its inception in late 2001. We have designated three jurisdictions of being of primary money laundering concern – all of which were in support of FATF calls to apply multilateral countermeasures against specific jurisdictions with significant deficiencies and systemic weaknesses in their AML/CFT regimes.

We have also used Section 311 to designate a handful of financial institutions for their connection to a number of criminal activities including organized crime, terrorist financing, money laundering, narcotics trafficking, the corrupt use of the UN Oil for Food program, the laundering of counterfeit currency and other activities. These institutions are:

Burma Mayflower Bank (Burma) – November 18, 2003  
Asia Wealth Bank (Burma) – November 18, 2003  
Commercial Bank of Syria (Syria) – May 11, 2004  
Syrian Lebanese Commercial Bank (Syria) – May 11, 2004  
Infobank (Belarus) – August 24, 2004  
First Merchant Bank ("Turkish Republic of Northern Cyprus") – August 24, 2004  
Multibanka (Latvia) – April 25, 2005  
VEF Bank (Latvia) – April 25, 2005  
Banco Delta Asia (Macau SAR) – September 15, 2005

We sometimes hear that this type of vigilance may be bad for business. The reality is that a healthy financial sector cannot exist without authorities to protect it from abuse. In fact, healthy financial sectors, effectively protected from such abuse, bring increased investment and business.

Section 311 is not the only financial tool we have at our disposal. We have also refined our use of targeted financial sanctions to address emerging threats, particularly the

proliferation of weapons of mass destruction. As we have seen with terrorists, weapons proliferators require a substantial support network. By attacking that system, we can isolate individual proliferators, paint a clearer picture of how, and with whom, they operate and erode the infrastructure that supports them.

The international community has also recognized the need to combat this threat through financial measures, as reflected in UN Security Council Resolution 1540. This resolution calls on all states to develop and implement authorities to combat proliferation, including by denying proliferators and their supporters access to the financial system. The U.S. has taken a first step by applying targeted financial sanctions to proliferation networks just as we have to terrorist networks.

When the international community works in concert in applying targeted financial sanctions, designated entities – be they terrorists, weapons proliferators, or other international threats – are squeezed out of the international financial system. We are confident that these types of targeted measures are having wide effect, and we hope that all countries will realize the importance of implementing these UN resolutions comprehensively. The threats that we face can be effectively addressed in the financial system with relevant and innovative tools, many of which the UN has already authorized. It is now our job to resolutely and proactively implement them.

In June 2005, President Bush issued Executive Order 13382, which authorizes the freezing of assets of WMD proliferators and their supporters, and forbids U.S. persons from engaging in commercial transactions with them. Under that Executive Order, we have designated a number of North Korean, Iranian and Syrian entities engaged in proliferation activity. We have used this tool to designate both entities and individuals that contribute to the global proliferation trade. No longer should these designated entities be able to claim legitimacy, and no longer should they be able to reap the benefits of access to the international financial system.

Government-to-government engagement on illicit financing has been a centerpiece of our policy for many years. That ongoing conversation has been productive and has set the stage for increased coordination in our public sectors. But it is our private sectors that sit on the front lines, protecting our financial systems from the threats we face. This conference is a testament to your critical role in the fight against money laundering, terrorist financing, and other illicit financing working to gain access to our financial systems. Our financial sectors must work in lockstep together to make our respective efforts as effective as possible.

There is no question that a strong AML/CFT regime provides the necessary framework for regulators, policy makers, law enforcement authorities, and financial institutions to thrive in a secure environment. While a sound framework is necessary, the implementation of its principles and measures reflects true leadership. An effective application of authorities requires governments to ensure that their financial sectors remain transparent, accountable, and well protected. This will only work if banks themselves effectively implement the international standards and best practices of due

diligence, record keeping, AML/CFT compliance, and other measures that are expected of globally recognized financial institutions. This also requires a healthy private-to-public sector dialogue so that financial institutions can continue to educate government on the application of regulations, while governments can educate the private sector on global threats to their institutions and the methodologies to combat them. As I mentioned earlier, there is real value to information exchange among private financial institutions themselves, a fact which this conference highlights. We should be encouraging our own private financial institutions to exchange information and ideas with each other as well as with institutions in other jurisdictions.

The U.S. will continue to refine its authorities to combat such threats, particularly by looking at how the international financial system can be leveraged to isolate such activities. In so doing, we will continue to work with all our partners throughout the world on ways we can collectively strengthen our efforts to take action against criminals such as terrorists. We urge financial authorities worldwide to streamline information sharing on designated entities, develop and implement authorities that allow financial institutions to close or freeze any accounts illicit actors hold at institutions in their jurisdictions, and take steps to ensure that the private sector ceases any dealings with these entities.

I would like to close by saying that we are becoming increasingly sophisticated in how we apply financial measures to combat international security threats. This new era requires that finance ministries, financial regulators, and financial institutions themselves seek out threats to the international financial system, and ensure such threats are effectively isolated. Through our collaboration, we can continue to build strong financial markets and an international financial system that works transparently and is accountable to all its stakeholders. I look forward to our continued collaboration.