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United States General Accounting Office
Washington, DC 20548

May 27, 2004

The Honorable Sue W. Kelly
Chairwoman, Subcommittee on Oversight and Investigations
Committee on Financial Services
House of Representatives

Subject: *Financial Services: Post-hearing Questions Regarding Recovering Foreign Regimes' Assets*

Dear Madam Kelly:

On March 18, 2004, we testified before your Subcommittee's hearing on *The Hunt for Saddam's Money: U.S. and Foreign Efforts to Recover Iraq's Stolen Money.*[1] This letter responds to your request that we provide answers to follow-up questions from the hearing. Your questions, along with our responses, follow.

1. "The Financial Services Committee heard testimony last year that the most effective way to recover non-government assets—that is to say plundered assets converted to personal used but held outside the plundered country—might be private lawyers, acting on behalf of a country pursuing civil remedies, and not a government-led criminal effort. Do you have an opinion on that effort, which was carried out on a trial basis for the UN to recover plundered Nigerian assets?"

Answer: Private sector firms have played major roles through investigative efforts, civil litigation, or a combination of both in some foreign regime asset recovery efforts. Governments have used private sector firms to locate assets of corrupt leaders and have filed lawsuits to return them to the country from which they were taken. The targets of such efforts have included the assets of former dictator Jean-Claude "Baby Doc" Duvalier of Haiti, the government of Libya, General Sani Abacha of Nigeria, and President Ferdinand Marcos and his wife in the Philippines. Officials from firms involved in some of these efforts said that they have developed considerable expertise that allows them to be effective in asset recovery efforts. Representatives of private law firms stated that they believe civil litigation is probably the most effective mechanism for recovering the stolen assets of corrupt

[1]See U.S. General Accounting Office: *Recovering Iraq's Assets*, GAO-04-579T (Washington, D.C.: Mar. 18, 2004).

government officials. Such proceedings are public, which serves to shame the individuals involved in stealing and/or concealing the assets.

Private sector officials said efforts of this sort face challenges, however, which can limit their effectiveness. Locating assets and suing to have them returned to their country of origin is very expensive. The laws that apply to such circumstances differ by country. Pursuing assets in these countries would require expertise in the laws of each country. For example, some countries strictly separate criminal and civil matters, while others combine them; such differences have great effect on how legal cases can proceed. In addition, countries whose assets have been looted might not be able to afford this type of expertise. A country seeking to recover assets in other countries is likely to have to do so through a formal legal process. This process is quite technical, and each country's requirements for providing assistance can vary.

Civil suits also require a party pursuing the action. This is often the successor government following the corrupt foreign regime, or a group of parties wronged by the regime. In the case of Iraq, UNSCR 1483 and the President's Executive Order shielded assets from claims, thus removing the incentive for private groups to pursue the assets.

We do not have an opinion on the best approach for pursuing plundered assets. The best approach is likely to vary, based upon the specific facts of the case, such as the party pursuing the assets, the location of the assets, and whether the location is known.

2. "It is now an accepted fact that the Saddam Hussein regime was demanding kickbacks and deliberately mispricing the oil sales it did not make through the program to say nothing of the illegal sales. What efforts if any were made by the UN to ensure that oil-for-food sales contracts were properly priced and that there were no bribes or kickbacks involved? Why was it so easy for these underhanded deals to persist for more than a half of a decade? Should we assume that any other sanctions or trade deals under the control of the UN are any better enforced? What efforts is State making to improve the UN's monitoring ability of similar situations in the future?"

Answer: The Iraq government decided with whom it would contract and negotiated the prices for goods. The United Nations Security Council screened contracts for dual-use items and weapons and made the final determinations on approving contracts. The Office of the Iraq Program was supposed to review pricing and at times noted to the Security Council when prices seemed high, but no holds were placed due strictly to pricing. The United Nations monitored the goods shipped to Iraq by inspecting them at the border to authenticate deliveries for payment.

The U.N. Secretariat had a fundamental responsibility to provide effective management and oversight, including appropriate internal controls. The United Nations received about 3 percent of Iraq's oil revenues. This amounted to hundreds of millions of dollars each year to run the Oil for Food program and carry out its obligations under Security Council resolutions and guidance.

Over the past several months, the Coalition Provisional Authority in Iraq and the World Food Program have provided assistance to Iraqi government officials and ministries to establish codes of conduct, appoint inspectors general, and improve financial management systems. The goal of this assistance is to provide more effective management of ongoing oil-for-food contracts and of reconstruction assistance.

3. "Describe the provisions in IEEPA and the Patriot Act that allowed the US to confiscate and vest Iraqi assets held in the United States."

Answer: The International Emergency Economic Powers Act (IEEPA) authorizes the President to exercise economic powers to deal with unusual and extraordinary threats, which have their sources in whole or in part outside the United States, to the national security, foreign policy, or economy of the United States (50 U.S.C. § 1701).

In October 2001, section 106 of the USA PATRIOT Act (P.L. 107-56), amended section 203 of IEEPA (50 USC 1702) to authorize the President, when the United States is engaged in armed hostilities or has been attacked by a foreign country or foreign nationals, to confiscate any property, subject to the jurisdiction of the United States, of any foreign person, foreign organization, or foreign country that he determines has planned, authorized, aided, or engaged in such hostilities or attacks. The President may vest all right, title, and interest in such confiscated property in any agency or person the President designates. The property may be used for purposes that are in the interest of and for the benefit of the United States.

4. "Of the $3.7 billion in Iraq assets held in other countries, how much was frozen before and after UNSCR 1483?"

Answer: According to the Department of the Treasury, about $2.3 billion was declared frozen in 30 other countries in 1991. As of March 17, 2004, about $1.4 billion has been frozen since U.N. Security Council Resolution 1483 was adopted in March 2003.

5. "What is OFAC's role in locating, freezing, and repatriating Iraqi assets? Were they fully engaged in the asset recovery effort?"

Answer: OFAC's role in locating, freezing, and repatriating Iraqi assets is similar to its role for the other economic sanctions programs it currently administers. As the U.S. government agency charged with administering and enforcing sanctions against targeted foreign regimes and other designated groups and individuals—such as conflict diamond traders, terrorists, and narcotics traffickers—OFAC implemented three Iraqi asset-related Executive Orders: 12722, 12724, and 13315.

According to OFAC, its role in locating Iraqi assets is to work with the Departments of State and Justice and intelligence agencies to identify individuals, groups, and entities associated with the former regime; develop the evidence necessary to place these individuals, groups, and entities on its Specially Designated Nationals (SDN) and Blocked Persons list to initiate an asset freeze; and place them on the SDN list.

Once individuals, groups, and entities are placed on the SDN list, U.S. financial institutions are required to search for their accounts for the purpose of freezing them.

In compliance with an August 1990 OFAC order to freeze Iraqi assets, U.S. financial institutions froze $1.4 billion of such assets located in the United States. According to OFAC, U.S. financial institutions froze more than $480 million abroad. These assets also had accumulated interest from 1991 to 2003. Because OFAC does not seize (or take control of) the assets, it requires U.S. financial institutions to freeze them. These institutions must maintain control over the frozen assets and report annually to OFAC on their status, including the amount of interest accumulated.

On March 20, 2003, under the authority in IEEPA, as amended by section 106 of the USA PATRIOT Act, the President issued an Executive Order confiscating and vesting (taking ownership of) certain Iraqi property. The order vested in the United States Treasury all funds in the United States held in the names of the Government of Iraq, the Central Bank of Iraq, Rasheed Bank, Rafidain Bank, and the State Organization for Marketing Oil. All U.S. financial institutions holding funds in the names of the five entities were ordered to transfer those funds to the Federal Reserve Bank of New York, and 23 banks did so electronically. In accordance with the March 2003 Executive Order, $1.9 billion was vested and transferred to the bank. According to Treasury and Federal Reserve officials, Treasury then instructed the bank to release portions of the funds to DOD upon the Office of Management and Budget's approval of DOD's spending plans. As we noted in our March 18, 2004, written statement to the committee, the Coalition Provisional Authority (CPA) had spent, as of that date, about $1.67 billion of the $1.9 billion in vested assets for emergency needs, including salaries for civil servants and pensioners, and for ministry operations.

OFAC has been actively involved in the Iraqi asset recovery effort, according to the Treasury Department's Deputy Assistant Secretary for Terrorist Financing and Financial Crimes, both during our interviews with him and in his March 18 written statement to the committee. Furthermore, OFAC officials stated that they have been fully involved in the Iraq case.

6. "Are there any existing U.S. laws that the departments could use to get more countries to transfer their Iraq assets?"

Answer: We are not aware of any existing U.S. laws that the departments could use to require more countries to transfer their Iraqi assets. Assets located in other countries are generally outside the jurisdiction of the United States. They are subject to the domestic laws of the country in which they are located. Therefore, the United States generally engages in diplomatic efforts to encourage countries to transfer assets.

7. "What are the Treasury and State Departments doing to encourage other countries to quickly return Iraqi assets held in their countries?"

Answer: In March 2003, the Secretary of the Treasury requested that the international community identify and freeze all assets of the former Iraqi regime. Additionally, senior officials at Treasury and State have engaged in diplomatic efforts to encourage countries to report and transfer the amounts of Iraqi assets frozen within their

countries. For example, since March 2003, the State Department has sent more than 400 cables to other countries requesting that they transfer funds to the Development Fund for Iraq (DFI).

According to Treasury officials, they have been trying to devise other mechanisms to make it easier for countries that do not have the necessary laws and regulations in place to transfer assets. For example, they have been trying to devise ways that financial institutions in Iraq can exchange payment orders directly with financial institutions holding frozen assets.

8. "What mechanisms are being used to trace informal banking methods of money transfers, such as bulk cash transfers and black market currency exchanges? Are they working or do U.S. efforts need additional legal support from the government?"

Answer: We have not fully assessed U.S. efforts to trace informal banking methods of money transfers such as bulk cash smuggling and black market currency exchanges, to include an assessment of whether additional legal support is needed from the government. We can offer the following:

We recently reviewed U.S. efforts to deter terrorists' use of alternative financing mechanisms including the use of bulk cash (also the use of commodities, charities, and hawala systems).[2] We found that there were no systematic collection and analyses of data for terrorism cases to aid in determining the problem's magnitude. We recommended that the Federal Bureau of Investigation (FBI), in consultation with relevant U.S. government agencies, systematically collect and analyze information involving terrorists' use of alternative financing mechanisms, which included bulk cash smuggling. According to FBI officials, the FBI began efforts to collect baseline data on terrorism funding mechanisms from its field offices to more systematically analyze information on terrorists' use of alternative financing mechanisms.

In general, in the United States, bulk cash smuggling is a money laundering and terrorism financing technique that is designed to bypass tracking mechanisms such as transparency reporting requirements for formal financial institutions. Financial transparency reporting requires Currency and Monetary Instrument Reports (CMIR), which obligate the filer to declare if he or she is transporting across the border $10,000 or more in cash or monetary instruments. Other financial transparency reporting requirements include reports to the Department of the Treasury's Financial Crimes Enforcement Network (FinCEN) of receipts or transfers of U.S. currency in excess of $10,000 using the Currency Transaction Report (CTR) and of suspicious activities using the Suspicious Activity Report (SAR).

In response to the events of September 11, 2001, the former U.S. Customs Service initiated an outbound currency operation, Operation Oasis, to refocus its efforts to target 23 identified nations involved in money laundering. According to the

[2]See *Terrorist Financing: U.S. Agencies Should Systematically Assess Terrorists' Use of Alternative Financing Mechanisms*, GAO-04-163 (Washington, D.C.: Nov. 14, 2003) and *Combating Terrorism: Federal Agencies Face Continuing Challenges in Addressing Terrorist Financing and Money Laundering*, GAO-04-501T (Washington, D.C.: Mar. 4, 2004).

Department of Homeland Security's (DHS) Bureau of Immigration and Customs Enforcement (ICE), Operation Oasis seized more than $28 million in bulk cash, between October 1, 2001, and August 8, 2003. However, according to ICE officials, while some of the cases involved were linked to terrorism, they were unable to determine the number and the extent to which these cases involved terrorist financing.

9. "Do U.S. efforts follow sales of metals and other commodities that could be used as money transfer methods and control? Have any been found?"

Answer: In our recent work on U.S. efforts to deter terrorists' use of alternative financing mechanisms, the Department of Justice (DOJ) commented that it does not initiate or organize investigations on an industry-wide basis or as a result of the type of commodity used or particular means of transfer. U.S. law enforcement agencies—specifically the FBI, which leads terrorist financing investigations and operations—do not systematically collect and analyze data on terrorists' use of alternative financing mechanisms, such as the use of metals and commodities.[3]

The scope of our review focused on U.S. efforts to deter terrorists' use of alternative financing mechanisms, including the use of commodities (also bulk cash, charities, and hawala systems). Some commodities included in our review were diamonds, gold, drugs, weapons, cigarettes, counterfeit goods, and others. However, some evidence, including examples, were omitted from our report due to sensitivity concerns, as agreed with the FBI and cannot be discussed here. Furthermore, much of the information concerning investigations into the link between diamonds and terrorist financing is classified, was not included in the report, and cannot be discussed here. A few closed cases involving commodities used by terrorists to fund their activities, such as the use of cigarettes and drugs, were cleared by DOJ as examples that we were able to use in our reporting.

10. "Is there any control on precious stone sales that yield information on whether it is used for money transfer? Is this possible? Have the efforts of the U.S. Government (U.S. Customs Service) found or established a way to track these? Do we need additional controls here and/or worldwide?"

Answer: As of April 27, 2004, the Department of the Treasury's FinCEN anti-money laundering rule for precious stones and metals dealers have not been finalized. We have not assessed the proposed rule.

- According to FinCEN's Notice of Proposed Rulemaking, section 352(a) of the USA PATRIOT Act, which became effective on April 24, 2002, Title III amended section 5318(h)(1) of the Bank Secrecy Act to require financial institutions to establish anti-money laundering programs, and section 352(c) directs the Department of the Treasury to prescribe regulations for anti-money laundering programs. Although a dealer "in precious metals, stones, or jewels" is defined as a financial institution

[3]See Terrorist Financing: U.S. Agencies Should Systematically Assess Terrorists' Use of Alternative Financing Mechanisms, GAO-04-163 (Washington, D.C.: Nov. 14, 2003) and Combating Terrorism: Federal Agencies Face Continuing Challenges in Addressing Terrorist Financing and Money Laundering, GAO-04-501T (Washington, D.C.: Mar. 4, 2004).

under the Bank Secrecy Act, FinCEN had not previously defined the term or issued regulations regarding dealers.[4]

- On April 29, 2002, FinCEN deferred the anti-money laundering program requirement to have time to study the industry and apply money laundering controls.
- On February 21, 2003, the Department of the Treasury posted a *Notice of Proposed Rule Making for Anti-Money Laundering Programs for Dealers in Precious Metals, Stones, or Jewels*. Under the proposed rule, a dealer's policies, procedures, and internal controls must be reasonably designed to detect transactions that may involve use of the dealer to facilitate money laundering or terrorist financing. In addition, a dealer's program must incorporate procedures for making reasonable inquiries to determine whether a transaction involves money laundering or terrorist financing, and the dealer should respond accordingly.

Worldwide, the international community, including the United States, is attempting to track the origin of diamonds through the Kimberley Process in an effort to deter the flow of conflict diamonds. Conflict diamonds are those diamonds used by rebel movements to finance their military activities, including attempts to undermine or overthrow legitimate governments. In June 2002, we reported that our assessment of the Kimberley Process revealed that the certification scheme for tracing diamonds internationally lacked key aspects of accountability.[5] In our November 2003 report on U.S. efforts to deter terrorists' use of alternative financing mechanisms, we noted that critical shortcomings still exist with regard to internal controls and monitoring within the Kimberley Process and that these weaknesses could be exploited by those financing terrorism.[6]

11. "Have you been able to register super hawaladars effectively? How many? How effective are your methods of registering smaller hawaladars? How many have you registered? Are additional federal laws on this money transfer method necessary?"

Answer: We have not assessed FinCEN's ability to register hawaladars. However, officials and researchers reported that it is difficult to enforce both registration and requirements to obtain state licenses (where required by state law), report suspicious transactions, and maintain anti-money laundering programs. They also noted that it is likely that numerous small hawala operations remain unregistered and noncompliant with one or more of these requirements. Moreover, terrorists may have adapted to these new regulations by developing and maintaining relationships and conducting business with the hawala operators that remain underground, increasing the likelihood that their transactions will not be detected.

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[4]Department of the Treasury, 31 CFR Part 103, RIN 1506-AA28, *Financial Crimes Enforcement Network*; "Anti-Money Laundering Programs for Dealers in Precious Metals, Stones, or Jewels," *Federal Register*/Vol. 68, No. 35/Friday, Feb. 21, 2003/ Proposed rules.

[5]*International Trade: Critical Issues Remain in Deterring Conflict Diamond Trade*, GAO-02-678 (Washington, D.C.: June 14, 2002).

[6]See *Terrorist Financing: U.S. Agencies Should Systematically Assess Terrorists' Use of Alternative Financing Mechanisms*, GAO-04-163 (Washington, D.C.: Nov. 14, 2003).

12. "Please list the European countries that have been particularly helpful in tracing illicit money flows? Are you getting information that is helpful in tracking money laundering and illicit money?"

Answer: Specific information that we have from the Department of the Treasury relating to the cooperation of countries in the hunt for Iraqi assets is classified. However, Treasury and State officials said that some of the remaining frozen Iraqi assets are located in financial institutions in Europe. In addition, due to the sensitivity of ongoing negotiations to recover Iraqi assets, we agreed not to interview foreign officials potentially involved in the ongoing negotiations. The Departments of the Treasury and State could more appropriately address this question.

13. "Is the U.S. government getting the cooperation from banks required to trace illicit money or are we still finding resistance in reporting and tracking information? Please describe the cooperation and coordination from foreign institutions, including: BNP; Dubai Islamic Bank; Arab Bank; Credit Lyonnaise; Al-Taqua Bank; The Al-Rajh Banking and Investment Company?"

Answer: Treasury officials stated that U.S. banks are cooperating with the U.S. government in tracing illicit money. Under OFAC regulations, all U.S. persons, including financial institutions, are required to comply with orders to freeze assets and block transactions and report to OFAC within 10 business days of doing so. Financial institutions face steep criminal and civil penalties, which can vary based upon the sanctions program, for not complying with these regulations. For Iraq, civil penalties can range up to $325,000 per violation and criminal penalties can reach $1,000,000 and 12 years in prison. In addition, OFAC has recently stated that it believes the manner and level of U.S. financial institution compliance with its regulations and its own monitoring of that compliance is effective. In the Iraq case, OFAC officials stated that they do not believe additional Iraqi assets have entered the U.S. financial system since the early 1990s because of the action U.S. financial institutions took to freeze Iraqi assets.

Internationally, the U.S. government does not have jurisdiction over foreign banks outside the United States. However, according to OFAC, it works with other countries' counterpart entities, typically central banks, to encourage those entities to freeze assets the United States has targeted. The Treasury and State Departments have also been involved in diplomatic efforts to encourage foreign governments to transfer assets frozen in their financial institutions to the Development Fund for Iraq, as required by U.N. Security Council Resolution 1483. These diplomatic efforts are currently ongoing and GAO agreed not to obtain access to information on their progress in this instance. Neither did we obtain access, in this instance, to information describing cooperation and coordination of foreign institutions, including those you listed.

14. "Is the U.S. Government getting help in tracking illicit money from the following countries: Russia; Germany; Lichtenstein; Jordan; Syria; Saudi Arabia; Lebanon; the Philippines; Indonesia; Malaysia: Qatar; Kuwait; Palestine; Guyana; Equatorial Guinea; Panama; Columbia; Egypt; China; UAE; Pakistan; Cuba; the Balkan countries?"

Answer: Department of the Treasury information we have relating to the cooperation of countries in the hunt for Iraqi assets is classified. However, Treasury and State officials said that most of the frozen Iraqi assets that remain are located in financial institutions in Iraq's neighboring countries and in Europe. In addition, due to the sensitivity of ongoing negotiations to recover Iraqi assets, we agreed not to interview foreign officials potentially involved in ongoing negotiations. The Departments of the Treasury and State could more appropriately address this question.

15. "A 1999 IMF report estimated that annual global offshore assets located in offshore financial centers were $4.8 trillion dollars. Is there any effort being made to register local "nominees" on these accounts? Is there an effort to track these shell corporations and shell banks that may exist? Are the international entities involved (the United Nations, World Bank, the IMF, etc.)? Is the U.S. government getting cooperation from these entities, or has it been difficult to receive real-time information that would help dry up illicit money?"

Answer: We have not assessed U.S. or international efforts to register local nominees of offshore accounts at offshore financial centers.

16. "Is there an effort to monitor cross-border currency movements from accounts, such as those referred to above? Are there reporting requirements that show transparency for the World Bank, the IMF, and the financial branches of the United Nations? Do the officers of the above organizations carry a fiduciary responsibility for the reports of these organizations? How extensive are the duties and responsibilities of these boards regarding the reporting of illicit money?"

Answer: We have not assessed international efforts to monitor cross-border currency movements from accounts located in offshore financial centers. However, in November 2003, the International Monetary Fund's (IMF) Executive Board concluded that regular monitoring of offshore financial centers should become a standard part of the IMF's surveillance work. However, offshore financial centers' participation in and publication of these assessments are voluntary. On March 12, 2004, the IMF issued a report on its assessment of offshore financial centers.[7] This report assessed transparency and supervision in offshore financial centers in 41 jurisdictions.

IMF assessments of offshore financial centers examined compliance with international standards in the financial sector, including banking supervision, the effectiveness of anti-money laundering, and combating the financing of terrorism

[7]See Monetary and Financial Systems Department, International Monetary Fund: *Offshore Financial Centers: The Assessment Program—An Update* (Washington, D.C.: International Monetary Fund, 2004).

arrangements. The results of the assessment showed that wealthier offshore centers had a much higher rate of compliance with the assessed standards, than did jurisdictions with lower levels of income. The IMF report also concluded that the supervisory systems of the lower income financial systems resulted from inadequate skills and the numbers of staff in their supervisory agencies, reflecting the lack of adequate resources.

As of March 12, 2004, the IMF had completed 28 assessments. Of these, 26 have been published or are expected to be published, while two jurisdictions have opted not to publish their reports. The report provides an appendix that lists the offshore financial centers contacted and the status of the assessments.

17. "Is there any effort to establish laws, both domestic and foreign, as part of reporting requirements that would identify depositors? Would such laws be helpful in tracing illicit money? Would they help track money laundering activity?"

Answer: Domestically, Congress enacted the USA PATRIOT Act of 2001, which contains a number of provisions to identify depositors and make it easier to trace money in the U.S. financial system. Treasury officials stated that several provisions of the USA PATRIOT Act also enhanced the U.S. government's ability to recover foreign regimes' assets.

Title III of the USA PATRIOT Act, among other things, expanded Treasury's authority to regulate the activities of U.S. financial institutions, imposed additional due diligence requirements, established new customer identification requirements, and required financial institutions to maintain anti-money laundering programs. The table below lists USA PATRIOT Act Title III provisions could assist with asset recovery efforts.

USA PATRIOT Act Provisions with Applicability to Tracking Money Laundering

Provision	Description
Section 311	Authorizes Treasury to designate specific foreign financial institutions, jurisdictions, transactions, or accounts to be of "primary money laundering concern." Treasury may require that financial institutions with links to such jurisdictions or institutions engage in specific measures, such as increased record keeping, or restricting or prohibiting access to the U.S. market.
Section 312	Requires U.S. financial institutions to exercise due diligence and in some cases enhanced due diligence when opening or operating correspondent accounts for foreign financial institutions or private banking accounts for wealthy foreign individuals.[a] This provision also requires U.S. financial institutions to establish due diligence policies, procedures, and controls reasonably designed to detect and report money laundering through such correspondent and private banking accounts.
Section 313	Prohibits banks and securities firms from maintaining correspondent accounts for foreign shell banks that have no

	affiliation with any financial institution through which their banking activities are subject to regulatory supervision. Foreign shell banks are those with no physical place of business.
Section 314	Encourages cooperation and the sharing of information related to money laundering and terrorism among law enforcement agencies, regulatory authorities, and financial institutions. Upon notice to the Secretary of the Treasury, permits the sharing among financial institutions of information related to individuals, entities, organizations, and countries suspected of possible terrorist or money laundering activities.
Section 317	Gives U.S. courts considering money laundering cases jurisdiction over foreign individuals and financial institutions that (1) commit a money laundering offense in the United States; or (2) convert laundered funds that have been forfeited to personal use. U.S. courts also have jurisdiction over foreign financial institutions with accounts in the United States. Provides for the appointment of a federal receiver to take control of all assets of the defendant to satisfy a civil or forfeiture judgment or a criminal sentence.
Section 319(a)	Changes forfeiture procedures so that, if funds used in money laundering are deposited in a foreign bank that has an interbank account in a U.S. bank, funds in the U.S. bank account can be seized.[b]
Section 326	Requires Treasury to jointly prescribe with financial regulators regulations that require financial institutions to implement procedures to verify the identity of any person seeking to open an account. Also requires customers to comply with the procedures. The financial institutions are required to consult lists of known or suspected terrorists to determine whether the person seeking to open an account appears on the list.
Section 356	Requires Treasury to promulgate regulations under which securities firms, commodities firms, mutual funds, and insurance companies must file suspicious activity reports.
Section 365	Requires businesses with cash transactions involving more than $10,000 in one transaction to file Currency Transaction Reports with the Financial Crimes Enforcement Network.

[a]A correspondent account is an account established by a financial institution for a foreign bank to receive deposits and make payments or other disbursements on behalf of a foreign bank, or to handle other financial transactions related to the foreign bank.
[b]An interbank account is an account held by one financial institution at another institution primarily for the purpose of facilitating customer transactions.

Source: GAO.

Treasury officials stated that some of these provisions would be more effective in combating terrorist financing and money laundering than they may at first appear. For example, financial institutions may stop dealing with other financial institutions that are located in an area of "primary money laundering concern" to avoid the increased recordkeeping requirements of Section 311. Treasury officials stated that Section 312 is a powerful provision because it requires that U.S. financial institutions guard against accepting proceeds from corrupt foreign officials or other sources of fraud.

Internationally, the United States government has worked to provide technical assistance to governments that requested it in an effort to improve their capacity to combat money laundering and terrorist financing. Countries can use this assistance to develop the legal authorities and investigative abilities to locate assets of targeted foreign regimes and, in some cases, transfer them to their country of origin. Shortly after September 11, 2001, the State Department convened an interagency group to identify those countries most vulnerable to terrorist financing and to devise a strategy to provide countries with the necessary training and technical assistance to create comprehensive, effective anti-money laundering and antiterrorist financing regimes. The assessments were done to assist in the development of training and technical assistance implementation plans. The State Department also offers training for other countries' law enforcement personnel through its International Law Enforcement Academies. In addition, the State Department contributes funds to the United Nations Global Program Against Money Laundering and other anti-money laundering groups.

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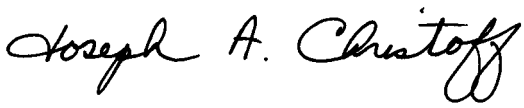
If you have any questions about this report or need additional information, please contact Joseph A. Christoff at 202-512-8979 and Davi D'Agostino at 202-512-8678. We can also be reached by e-mail at christoffj@gao.gov and dagostinod@gao.gov, respectively.

Zina Merritt, Tetsuo Miyabara, Barbara Keller, Thomas Conahan, Ronald Ito, Sarah Lynch, Suzanne Dove, Kathleen Monahan, Tracy Guerrero, Mark Speight, Rachel DeMarcus, and Lynn Cothern made contributions to this report.

Sincerely yours,



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