

FOUNDATION FOR DEFENSE OF DEMOCRACIES HOLDS A DISCUSSION
ENTITLED "STATE OF PLAY: COMBATING TODAY'S ILLICIT
FINANCIAL NETWORKS"

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DUBOWITZ: Welcome to the FDD. My name is Mark Dubowitz and I'm the executive director here and I head up our Center on Sanctions and Illicit Finance, and it's under the auspices of the Center, or CSIF as we call it, that we're absolutely delighted to be hosting Assistant Secretary Danny Glaser today. Just a little bit about CSIF for those of you who may not know much about it. It was started about a year and a half ago as a way to bring together all of FDD's work over the past decade on sanctions and illicit finance issues.

And when we set up the center, we were privileged to have Juan Zarate join us in creating the center as chairman and senior counselor of CSIF. And as many of you know, who know Juan, Juan has been a leader in this issue for years. Former deputy national security adviser for counterterrorism. In the office of strategic communications, by the way.

He was the first assistant secretary at Treasury and really helped to build out Treasury's capabilities as a national security agency after 9/11. He is also author of the book "Treasury's War," which really is a must-read on how Treasury actually did this. When you read the book a name that keeps coming out time and time again is Danny Glaser. As Juan notes in the book, the instrumental role that Danny played after 9/11 in setting up this office and creating these capabilities.

The office was set up after 9/11. Many of the capabilities of Treasury were actually taken away at the time, so I guess one could call it the guns and badges were taken away. But for Danny, and for those of you who know Danny, Danny doesn't have a gun and he doesn't have a badge, but if you are a good guy, you have tremendous respect for Danny Glaser. If you are a bad guy, Danny doesn't need a badge, he doesn't need a gun. If you are a bad guy using bad money to fund bad activities then you fear Danny and his capabilities.

So it's absolutely a pleasure to welcome Danny here. He's been at Treasury for I think 16 years?

GLASER: Longer. 19 years. It's embarrassing to say. I know that I look so young.

(LAUGHTER)

DUBOWITZ: Well, amazing service, Danny. Thank you for your service. Thank you for coming to FDD to discuss these issues, and I'm going to turn it over to Juan.

ZARATE: Welcome, everybody. Hope everyone is doing well. It's great to see so many familiar faces. David Aufhauser in the back, Tony Wayne, everybody, thank you for coming. Lots of friends and family here for you, Danny.

I don't want to echo too much of what Mark has said, but first of all let me thank Mark for allowing us to host this and for what we have done to build CSIF. I think it has begun to take root and is doing some very good work. These types of events obviously help the academic and think tank work we are doing here.

Three points, though, I want to start out with with respect to Danny. First and foremost, I have to reveal my bias. Not only is Danny a former colleague but I count him as a close friend and confidant and someone I have learned from throughout my career. So that's not going to dull the edges of my questions for him, but I do want to reveal my deep affection for Danny and respect for him.

Second, something that Danny has always taught me is that the strength of your work in government comes from the integrity not only of the work but the substance of the work. One of the things he always taught me was that Treasury is powerful in part because of its authorities and its capabilities, but also because of the strength of the people who come to the table best prepared and most able to offer solutions to our problems. I think that was the definition of what Danny and others have done and continue to do at Treasury.

The third thing is that Danny in his remit, because of what he is responsible for, is global. As Mark said, Danny is known worldwide. He may not be at the right hand of John Brennan and these others who get a lot of attention, but if you go around the world and you talk about illicit finance and the issues that matter to international security, at the top of everybody's mind is Danny Glaser, whether it's in Beirut or Mexico City or in Baghdad.

And so we are going to have a conversation with Danny today. The first 30 minutes will be moderated up here. It's going to be live-streamed, so behave yourselves. We are on camera. The second 30 minutes will be Q&A with the crowd. It will not be live-streamed and it will be off the record so we can have a more candid conversation with all of you. So 30 minutes on, 30 minutes off.

So let me start with this, Danny. You've been put in charge of managing and directing the efforts to counter ISIL financing, seen as one of the thorniest problems in terms of illicit finance. First of all, are all the reports about ISIS struggling with its financing true? And what do you see as the major challenges to you and the community moving forward?

GLASER: Well, thanks for the question. First, everybody has been saying such nice things about me. I can't start without just acknowledging Juan and how important Juan has been to all of us. Juan's been very flattering to me. But I will say nobody deserves more credit than Juan Zarate for building the office of terrorism and financial intelligence at the Treasury Department. It

was very much Juan's brainchild from the beginning, and it was an honor for me to work for Juan. He called me a colleague, which was nice, but I very much worked for Juan during his time at the Treasury Department and he was the real leader of the effort.

And thanks to Mark for inviting me and for all the great work that FDD has done in this area. It's a real honor to be here. If I acknowledged all the familiar faces in this room, it would take up -- it would -- that might be a good idea. I could like filibuster through the on-the-record portion of it by just thanking everybody. But hi to everybody and thanks for coming. It's a really impressive turnout and it's very humbling that you all are interested to hear us talk about this issue.

So let me just jump right into it and jump into Juan's question about ISIL financing. The short answer to your question is yes, ISIL is suffering financially and it's due in large part to the efforts that we in the coalition have been taking.

That said, they still have a considerable amount of money, so it's certainly not -- I'm not trying to do a victory lap or say that we have finished with the effort, but I do think that we are making progress.

When you think about terrorist financing generally, there's two components to it, right. There's the cutting an organization off from its resources so it can't make money, and then there's cutting it off from the international financial system so it can't spend the money that it has. And that's terrorist financing in a nutshell.

Now there are infinite varieties within each of those categories but everything pretty much falls into one of those categories or another. What makes ISIL such a unique target for us and such a unique problem set for us is that they derive so much of their revenue from internal sources. We've seen organizations before that derive money from internal sources, whether it's Hamas or al-Shabaab, but the scale from which ISIL does is qualitatively different and presents a qualitatively different set of problems for us as we think about it.

ZARATE: And the diversity of their portfolio too, right?

GLASER: Well, yes and no. I would say they derive the vast majority of their money from basically two sources. One would be oil and the other would be what I will call taxation. If you look at oil, an area that I think we have made quite a bit of progress in, the number that we have been giving previously until about early this year was \$500 million a year off of oil sales. I think that it is substantially less than that now.

I think that's from a combination of reasons. I think the air campaign has had a major impact, in particular Tidal Wave II, which began in November and is continuing to this point, that's targeting the oil production, refining and transportation capabilities, so the entire sort of lifecycle of oil production and sales Title Wave II is targeting. In particular I think it's very important that they recently started targeting the trucks that transport the oil.

As a result of that, as a result of various other complications that they have in transporting through battle lines, through some very dangerous terrain, as a result of I think stepped up counter-smuggling efforts in Turkey and in other places, there's a whole wide range of things. As a result, I think frankly of the drop in the international price of oil. I think that all of

these things come together, and I am comfortable saying that I think they probably make about half of what they previously have been making.

So that's great progress. It's still a lot of money, but it's certainly considerable progress that's been made.

The other area is taxation. This is an overarching category that covers a diverse range of things, and that gets to your point, I think. I think they probably make about \$360 million a year from the, quote unquote, "taxation." That's hard to get at, right. That's pretty hard for us to get at, but again because it's internal.

So the way I think about it and I think the way we are thinking about it generally is not looking at, well, how do you stop them from taxing this activity or that activity, because we are not going to be able to do that, but looking at broader questions of liquidity into ISIL territory. How do you drive liquidity? That prevents them from taxing. It also prevents them from profiting off of oil sales because I think the vast majority of their oil profits are from oil sold internally within ISIL-controlled territory.

So it's broad questions of liquidity that get into a whole vast number of interesting questions about exchange houses, about, you know, about all sorts of activities that we can see, that we can work with the Iraqis on, and that we have a little bit less insight into what's going on in Syria. But generally I think that's the broad framework of the way I think about it and approach it.

ZARATE: Let me pull a thread on that last one because I think it's really important and is suggestive of a major difference between ISIS and the control of real urban environments and financial systems and other terrorist groups. When we've worried about safe haven, we've worried about control of the hinterlands, of the Hindu Kush or the deserts or jungles of Africa.

But this is different because they have urban environments, territory they control, have banks. They have access to money services businesses, as you indicated. Money is flowing in and out for purposes of cities like Mosul that actually survive. And so how do you deal with that dimension of the problem without strangling the very population you're going to have to try to help and obviously recover?

GLASER: Well, it's a hard problem set. The first thing to do -- and again, it's easier to do on the Iraq side than on the Syria side, but we work extremely closely with the Iraqi government. I'm a frequent visitor to Baghdad. As Juan said, I'll be going there again later this month.

So it's really the first line of the effort, if you will, is working with the Iraqi government to make sure at least the Iraqi financial system is secure, can't be used to move money in and out of ISIS-controlled territory.

I think that we were successful with respect to the banks. You mentioned banks. There are about 90 Iraqi bank branches, branches of Iraqi banks in ISIL-controlled territory. I'm fairly confident that those banks are not available to ISIL to use. I think the Iraqi central bank in particular has done a very good job of making sure that those branches are cut off from the Iraqi financial system, which in turn cuts them off from the international finance system and they can't conduct international transactions without going through their headquarters.

I think that the Iraqi government -- I feel very comfortable saying the Iraqi government has cut that off.

The challenge for us and for the Iraqis is the 1,900 exchange houses that exist within Iraq. This is something the Iraqis understand. I don't feel I'm saying something new or controversial when I say that. The Iraqi central bank itself has identified approximately 120, 130 publicly exchange houses that are blacklisted from access to the dollar auctions that the Iraqi central bank puts on.

Those are exchange houses that the Iraqi central bank has identified as actually having a presence within ISIL-controlled territory or otherwise engaged in transactions that have concerned the Iraqi government. That's a hugely important first step, but it's only a first step and it's something that they need to continue to improve on, and they will.

We are working hard with them to make sure -- they have recently passed the comprehensive anti-money laundering counterterrorist financing law. We are working with them and the IMF and the World Bank and other countries are working with them to make sure that they can implement that.

They have to make sure that they are getting out into certain cities that are maybe closer to ISIL-controlled territory, cities like Kirkuk, to make sure that there is supervision, examination of institutions in those areas.

But it's not a short-term problem. It's something that we are going to have to get better at over time. But I do think we have a very willing partner with the Iraqi government. I think the senior leadership in Iraq all recognizes this as a priority matter that they need to turn their attention to.

ZARATE: One final question on ISIL and even al-Qaeda-related terrorist financing. Do you worry about the establishment of the wilayats, these provinces that control other urban environments, like the coastal area near Sirte in Libya and other parts that also have sort of financial components, and where you don't have, let's say, like an Iraqi central bank to be able to work with and control those environments?

GLASER: Well, I think that the only ISIL affiliate that can even approximate, even theoretically approximate what you see in Iraq and Syria would be Libya. I will say I don't think it rises nearly to the level of the resources that are available in Syria and Iraq.

Just to take an example. When ISIL took Mosul -- this is a U.N. number -- \$675 million in the central bank, mostly in Iraqi dinars but valued at \$675 million in the central bank branch in Mosul and the two major state owned banks in Mosul, that was money that was available, a \$675 million windfall.

When the Iraqis took Sirte, we're talking something like \$4 million. So \$4 million is a lot of money. I don't want ISIL to have \$4 million but that's a qualitatively different number than what we are talking about. When you look at the oil industry in Iraq and Syria, again I said \$500 million previously. I think we've been very successful in knocking that number down, but still we're talking hundreds of millions of dollars.

When you look at Libya there's no reason for them to be making any money off of the oil business. In fact, they are attacking it. They are not trying to profit from it. They are attacking it.

When I think of ISIL finance, really the effort -- we want to cut off the financial connectivity between ISIL and any of its affiliates, and it's an important part of what we are doing, but when you are talking about ISIL's ability to raise funds, to make a profit, to have access to revenue, the real game is still Iraq and Syria.

ZARATE: Shifting to Iran, Danny. Obviously we are in the wake of the implementation day and the unfolding of the JCPOA. The Iranians have been complaining that they are not seeing the relief that they thought they had bargained for, the reintegration into the international financial, commercial system.

And there have been some discussions about allowing offshore dollar clearing and delegations being sent to Europe and elsewhere from the U.S. government to explain kind of remaining U.S. sanctions and restrictions.

You and I went through the 2005, 2006 period with North Korea and BDA,, and one of the lessons I think there was -- we've talked about this openly -- is that we fell into the trap of needing to rehabilitate or rehabilitating North Korea in terms of then allowing the nuclear talks.

Are we falling prey to that again? Are we getting into a position where we are having to rehabilitate Iran in order to demonstrate that they can benefit from the fruits of the JCPOA deal?

GLASER: I don't think that we're trying to rehabilitate Iran. I think that the administration has been very clear about its opposition to and concern with respect to Iran's support for terrorism, with respect to Iran's human rights abuses, with respect to Iran's destabilizing activities within the region. I don't think that we have ever wavered on exposing those issues and on opposing Iran with respect to all of those issues.

If Iran wants access to the international financial system, and Iran clearly does and it's something that they are entitled to, they need to understand that the international financial system is a rules-based system. And Iran understands those rules and Iran is working to put a system in place that implements those rules. This is something is going to develop over time.

ZARATE: One of the great things that you've done over the years is lead the U.S. delegation FATF, financial action task force, which sets the international standards for anti-money laundering and counterterrorist financing, counter proliferation finance standards, and adjudicates and judges and assesses countries and jurisdictions around the standards.

Iran has been on, for lack of a better term, a blacklist for some time. Is Iran at this point working with FATF to try to get off that blacklist? And do you see that as a positive? Do you think that's going to help some of the reforms that are necessary for Iran?

GLASER: Yes. Would you like me to...

ZARATE: Can you explain to folks what that looks like maybe from your perspective. Because there is no better expert in the U.S. government than you on this.

GLASER: So the Financial Action Task Force has a subcommittee called the ICRG, the International Cooperation Review Group, which issues lists. Juan called it a blacklist. That's not what FATF calls it, but that's what it is generally referred to in public discussions of countries that fall significantly short of meeting international standards with respect to their anti-money laundering and counterterrorist finance issue.

Iran is on that list. Iran has taken important steps that I think we should acknowledge and that they should get credit for in trying to come off of that list. They have recently enacted a terrorist financing law. They have recently engaged with FATF and are in discussions with FATF to try to come up with an action plan of steps that they need to take in order to fully comply with international standards, and I think that those discussions have been productive.

It's important to understand that FATF is a technical body. It is not a political body. It doesn't take political considerations into account, and so I think that FATF is and will continue to treat Iran quite fairly, and as Iran makes progress I think that progress will be acknowledged by FATF. And it will certainly be good for Iran, good for FATF, good for the United States, good for the entire international community, the more steps Iran takes to police its own system for anti-money laundering and terrorist financing.

ZARATE: Super helpful. Thank you.

Danny, you talked about the sort of Iranian support to terrorism. You actually spent a lot of time in Beirut talking to Beirut bankers, with the government. You've worked very closely with them. What's your sense of how Hezbollah sort of is evolving?

In particular you have this new legislation from the Hill, as well as enforcement actions, looking at Hezbollah more aggressively as not just a terrorist organization but as a global criminal organization. How do you see this all playing out in a fairly complex and crisis-laden region and country like Lebanon?

GLASER: Well, again, we have always been quite clear that one of the primary goals of the Treasury Department, and certainly the U.S. government as a whole, is to confront Hezbollah, to degrade Hezbollah, and certainly from a Treasury Department perspective to keep Hezbollah out of the international financial system.

And we have been implementing a very consistent strategy over the past five years or so to do just that. And I think it's important for financial institutions around the world, including in Lebanon, to understand that's certainly a priority of ours and we are going to take whatever steps we need to take in order to safeguard the U.S. financial system and keep Hezbollah out of the U.S. financial system.

I'm happy to say that I think the Lebanese banks are partners of ours in that regard, and I do work a lot with the Lebanese financial authorities, both within the Lebanese government and within the Lebanese financial community to make sure that they are doing everything that they can, that they are being as cooperative as they can to keep Hezbollah out of the Lebanese banks.

And again, I think the Lebanese banks are partners of ours in that and I think that they are doing a very good job and I'm very happy to be able to work with them on this.

ZARATE: Danny, the Panama papers leaks sort of raised lots of different questions, very specific questions about types of corruption and tax evasion, all the way to the high end order questions of whether or not the anti-money laundering system itself is effective when you have these gatekeepers able to facilitate financial activity for all sorts of nefarious activity, whether it's sanctions evasion or tax evasion.

What's your reaction, or what was your reaction when the Panama papers leaks came out, and how do you view it? Because you've got this macro level view, as well as a micro level view, as to where the risks in the system lie. What does the Panama papers leak reveal to you?

GLASER: Look, at its most fundamental level, anti-money laundering regulatory policy is all about its financial transparency. Financial transparency is at the heart of anti-money laundering counterterrorist financing efforts.

The goal -- I mean, it would be nice to say the goal is to eliminate crime, eliminate terrorism. That's going to be a hard goal to accomplish, but what we can do is make the financial system a hostile environment to that type of activity. And to do that requires transparency, and that's what all of the regulations are about, whether it's customer due diligence, whether it's suspicious activity reporting, whether it's record-keeping, whether it's information exchange. It's all about financial transparency.

What the Panama papers show is that we have a bit of work to do in the international financial system to achieve the level of transparency we are all working for. I do think that the Panamanian government has made some important strides over the past couple of years in promoting financial transparency within their own system.

I think that we have some work to do in the United States as well, and are doing it. Jennifer Fowler is here, the deputy assistant secretary of Treasury. Nobody has worked harder on this than she has. So I think that she deserves a lot of the recognition and credit for what I am about to say. But last week the Treasury Department issued new customer due diligence rules that require banks to identify the beneficial owners of corporations that have accounts at U.S. institutions. It's an important step forward for the United States. Jennifer deserves a lot of the credit for that.

The administration sent legislation to the Hill because we need Congressional action on this. We can't do it ourselves at Treasury, to require the beneficial owners of corporations to be identified at the time of incorporation. This is an important step that we need to take in this country. It's a deficiency in our own system that we have long recognized.

President Obama recognized it in his 2011 transnational organized crime strategy and identified it as a priority issue for us to deal with, and now we are actively trying to get there.

I think what this whole sort of episode has shown is that there's a lot of work to be done both at home and throughout the world on this issue. And I

think it has lit a fire to get that work done. So you know, there may be some good that comes out of this after all.

ZARATE: And whenever we had these discussions internationally, and now I on the outside, sort of Delaware gets thrown back in the face of arguments for financial transparency, so this will be important.

Jennifer, I wanted to recognize...

GLASER: I think a lot of those criticisms of Delaware are unfair. For the record.

ZARATE: Fair. Part of the reason Delaware is what it is is because there is a rule of law around what they do, etc. so absolutely right.

But Jennifer, I want to thank you. I didn't see you there. I'm sorry. It's great to see you. And I want to thank Chip Poncy too, who was a long-standing Treasury vanguard on this issue, and you too, Danny. Chip is now my partner, full disclosure. We're doing lots of commercial work together.

GLASER: You guys deserve a lot of credit. So thanks to all of you.

ZARATE: One last question before we go to Q&A, and I'm taking the prerogative to take a couple of extra minutes here. What worries you most in this space? You've got the global remit, you're viewing this globally. You see the systemic risks, you see the tactical problems and threats. What worries you most?

GLASER: I get this question a lot. I need to come up with a pat answer for this question. I don't know what worries me the most. There's a lot -- there's an awful lot of threats out there, whether it's Al Qaida, whether it's Hezbollah, whether it's narcotics, drug trafficking cartels in Mexico. There are so many threats out there for us to worry about and so many individuals and groups that mean us harm. It's a privilege of mine to get to kind of contribute to fighting that.

The work that we're doing, both sort of operationally with respect to trying to undermine their financial networks, and systemically with respect to trying to make the, as I said, the international financial system a hostile environment for that type of activity, that's work that's going to pay dividends, whether we are talking about ISIL, which is clearly sort of our number one priority and target, or al-Qaida, or Hezbollah or the narcotics cartels. These are all threats.

I hate to have to sort of say one is more important than the other because it's just so important for us to be going after all of them.

ZARATE: One last. As we move toward a transition -- we've been through a transition before obviously, with TFI being created in that '03, '04 period. Are you convinced that sort of Treasury, its role in this space, its role in national security is kind of finally there, finally graduated and there is sort of no question that you have a seat at the table?

GLASER: Yes. It's one of your great legacies.

ZARATE: A lot of folks in the room.

GLASER: A lot of folks in the room also played an important role in it.

Yes, when we stood up TFI, and I think when we really showed sort of North Korea and BDA was sort of our coming-out party and then we showed what we could do with respect to Iran, and I felt institutionalized back then when we transitioned from the Bush administration to the Obama administration.

But clearly, you know, in the back of your mind you're like, how is this going to really hold. And I think it was a really important moment when President Obama asked Stuart Levey to stay on as undersecretary. I think that that demonstrated that the Obama administration understood the importance of TFI and understood what people like Stuart and what we all brought to the table.

TFI has done nothing but prosper within the Obama administration and I am very proud to serve in the Obama administration. And so I see no reason why we don't keep this going. It's now taken as conventional wisdom that every national security issue has a financial or economic component to it. Sometimes it's the most important component, sometimes it's a peripheral issue, but we have a seat at the table for all the discussions and we have a voice.

Sometimes it was more fun being on the outside trying to fight your way in. But we are definitely on the inside now and it's a very important development in the evolution of U.S. national security policy.

ZARATE: You probably have to fight off which meetings you don't want to go to at this point.

Well, that's it for this live session. For those who are watching online, thank you for joining us here at CSIF FDD. Sorry for not having my mic on originally, so if you didn't hear me, didn't miss much.

GLASER: He was saying a lot of nice things about me.

ZARATE: So we are turning off the live stream. This concludes the on-the-record session. Now we are going to go to Q&A. It's off the record.

END