

Center for Strategic and International Studies (CSIS)

**Discussion on
Treasury's Role in National Security**

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H. ANDREW SCHWARTZ: Good morning, and welcome to the Center for Strategic and International Studies. My name's Andrew Schwartz, and I'm in our external relations department here.

We will be live tweeting from this event. Our Twitter handle is @CSIS, very easy.

I have the privilege today of welcoming two very distinguished public servants who have served our country well. Dave Cohen is the undersecretary of terrorism – undersecretary of the Treasury for terrorism and financial intelligence. And we can think of no better person here to tell us about the role of the Treasury in national security.

My colleague Juan Zarate was basically this job in a former administration – (soft laughter) – plus or minus – well, something like that – (laughter) – and then Juan of course went to the White House and was deputy national security adviser for combating terror. We owe both of these officials a great debt for their service to this nation. So on behalf of CSIS, I'd like to welcome you all today, and I'll turn it over to Juan for this fascinating discussion.

JUAN C. ZARATE: OK. Andrew, thank you very much.

Thank you to all of you for coming today, and in particular, David, thank you for attending today and agreeing to do this.

DAVID S. COHEN: Happy to be here.

MR. ZARATE: This is a great honor for us, for me.

I will tell you openly and honestly – and those of you who have followed the work that we've done here at CSIS – I tend to invite not only high-profile government officials but also friends to come join me.

MR. COHEN: (Chuckles.)

MR. ZARATE: And I count David among – one of my friends.

This is a great discussion to have, because I think, as we read the newspapers every day, we see the importance of Treasury as a core element of U.S. national security, and not just as a tool of national security but strategically, doctrinally, as a key part of how the U.S. government now thinks about the use of financial power and suasion in international security.

And David now is leading, as the second undersecretary for terrorism and financial intelligence, the office that is the vanguard of that strategy, vanguard of those tools, the vanguard of those global elements of influence that really put Treasury at the center of all of the core national security debate. So if you look at – whether we're talking about Iran or North Korea, al-Qaida, transnational organized crime, drug trafficking, Treasury not only has a seat at the table but is often the center of the debate as to what we're doing about those issues.

So I'm very happy to have David here with us today to talk about some of those issues, talk about the evolution of Treasury's role and to get, frankly, into some of the thorny issues that the U.S. is dealing with on a national security level.

So, David, welcome to you again.

MR. COHEN: Thank you. Oh, it's great to be here. Thank you.

MR. ZARATE: David, one of the things I find fascinating is the fact that there's a lot of continuity in the evolution of these – of these powers and efforts. You in fact were at the Treasury Department in 1999 through to the beginning of the Bush administration.

MR. COHEN: Right.

MR. ZARATE: And then you've come back, first as the assistant secretary, now as the undersecretary. Can you talk to us about how you've seen the evolution of Treasury and Treasury's role and how it now shapes national security and some of these key issues?

MR. COHEN: Sure. And thank you for that – for the very kind introduction, kind words. It is – I'll get to your question in a moment, but it is – it is a great pleasure to be here to be able to talk about the Treasury Department's role in the national security, foreign policy efforts of the – of the U.S. And I'm very mindful that what I'm able to do today, what the Treasury Department is able to do today is very much dependent on the work of those who came before me, including yourself. And so I very much appreciate all that you've done.

MR. ZARATE: Thank you.

MR. COHEN: As you noted, I was at the Treasury Department from '99 to 2001 in the general counsel's office. At that time the Treasury Department was involved in the national security, illicit finance world to some extent, but to a lesser extent than we are today. We were, at the time, the U.S. government's lead on the FATF delegation, the Financial Action Task Force, which I'll come back to, but is the sort of international standard-setting body for anti-money-laundering and now counter-terrorist-financing efforts. We were responsible in the Treasury Department for regulating the domestic anti-money-laundering realm through the Financial Crimes Enforcement Network, FinCEN, and of course for implementing sanctions through the Office of Foreign Assets Control, OFAC.

And when I came to Treasury, I came at a time when Larry Summers had just become the secretary. He really elevated the importance of anti-money-laundering as a – as a – not just a domestic issue, but as an international issue, and saw the threat of money laundering internationally as something that the Treasury Department should be more involved in. And so we pursued those issues for the two years that I was at Treasury. And the issue began to gain some greater attention both within our government and internationally. I left, as you noted, in July of 2001, as this was developing, but you know, hadn't, I think, really taken hold.

I then came back in 2009. In the meantime, the part of Treasury that I now lead was completely transformed. We lost all of our law enforcement agencies – the Secret Service, ATF, Customs, what have you – but gained something enormously important that has sort of fed our growth as an important player in national security. And that's two new offices: a policy office that is specifically dedicated to developing innovative approaches to combating illicit finance and an intelligence shop. We now, at the Treasury Department, have our own intelligence unit that is comprised of analysts whose day-in, day-out mission is to develop financial intelligence, to help us understand the networks that are involved in a variety of illicit conduct, whether it's narcotics trafficking, terrorist financing, transnational organized crime, weapons proliferation. These analysts, working with others in the intelligence community, help us understand where we should be targeting our efforts.

So adding on top of the pre-existing regulatory responsibilities that we have through FinCEN and OFAC, the policy shop and the intel shop, we now are able not only to be much more effective in combating illicit finance domestically, but we're able to take it internationally in a way that is, I think, quite useful in pursuing U.S. foreign policy and national security goals. We're able to talk to foreign finance ministries, foreign regulators, foreign financial institutions, you know, foreign ministries about the importance of combating illicit finance and being able to use that as a way to address our most important foreign policy and national security goals, whether – again, whether it's terrorism, weapons proliferation, transnational organized crime.

The power that we are now able to sort of extend internationally and the ability to attract sort of complementary actions by foreign governments and foreign institutions like the EU, and through FATF also, has led to, I think, a very happy consequence, which is that when the most difficult foreign policy problems are being addressed and the most difficult national security issues are being debated, we are looked to increasingly as a tool that can be used to help – to help solve these problems and help promote U.S. interests.

So long answer to a short question, we now have the expertise, the tools, the authorities and, I think, the credibility internationally to be able to be, you know, a very effective tool to promote U.S. national security interests.

MR. ZARATE: That's a great answer. And I think sort of a layman's way of thinking about it as well, just to feed off of what you said, is between diplomacy and military power, kinetics, lies this full range of financial tools and suasion, which you described very well.

Can we dive in now to some of the key thorny issues? This week we've had a lot of attention on al-Qaida. We had the failed plot or the disrupted plot out of Yemen, led by al-Qaida in the Arabian Peninsula, a lot of discussion about the death of bin Laden given the one-year anniversary and the release of the documents. Let's talk a little bit about al-Qaida's financing and Treasury's role in terrorist financing, especially as it evolves, because it seems that al-Qaida core is not only beleaguered but is having quite a bit of trouble financing not only itself, but the network. But you have the rise of the affiliates and a Balkanized, more fractured financing sort of wherewithal for the organization, so kidnapping for ransom, criminal activity, a whole host of other ways that the network itself is financing itself.

MR. COHEN: Sure.

MR. ZARATE: Can you talk about some of those trends and what Treasury is thinking about, you know, how to – how to combat this evolution?

MR. COHEN: Yeah. And you know, and it's – you know, sort of follow on your first question about the evolution of my office, I am the undersecretary for terrorism and financial intelligence. Although our remit is sort of illicit finance generally, you know, the office is named the Office of Terrorism and Financial Intelligence for a reason, which is that, you know, when it was created in 2004, you know, the principal focus was going after terrorist financing. And so we have been doing that, you know, quite aggressively and quite relentlessly for, you know, the – frankly, it goes before the creation of the office, but certainly since the office was created.

And as you note, you know, al-Qaida today, al-Qaida core, the al-Qaida that is holed up in Pakistan, is in a much weaker state than it was certainly in, you know, the – from 2001 to sort of 2008, 2009. In part, that has to do with actions that are taken by others. But in part, it's due to the effective use of our sanctions authority that has led to a substantial decrease in the financial support for al-Qaida. When we designate individuals who are supporters of al-Qaida, who are financial facilitators, who are raising money, moving money for al-Qaida, that has the effect of making it much more difficult for those individuals to operate, certainly in the United States, where it is a crime to do any business with these people, but one of the things that we have been able to do is to get international financial institutions, institutions that are not obliged to follow U.S. law, to run the OFAC list, to screen their transactions so that there's – they are certain that they're not facilitating any transactions for individuals that we have designated for being involved in terrorist financing.

That has largely prevented al-Qaida from using the formal financial network to move money, to raise money, to spend money. That – and that has had a tremendous impact on al-Qaida core's financial situation.

But they're not completely destitute. And one of the areas where we are, you know, very much focused today is, as you note, kidnapping for ransom and the role of sort of these al-Qaida affiliates, whether it's AQIM, al-Qaida in the Islamic Maghreb, AQAP in the Arabian Peninsula, the al-Qaida affiliate in the Yemen, al-Shabab in Somalia – using kidnapping for ransom as a way to raise substantial amounts of money.

MR. ZARATE: We're talking millions of dollars, right?

MR. COHEN: We're talking millions of dollars. I think we have – we have seen AQIM, in particular since 2008, raising tens of millions of dollars through kidnapping for ransom. These are, you know, big hits, big-dollar amounts on these individual kidnapping episodes.

MR. ZARATE: And that's much harder to effect with the classic Treasury tools, right?

MR. COHEN: It's more difficult to effect with the tool of designations, although we do have the authority and we have used the authority to try to designate individuals who are involved in, for instance, in piracy, which is sort of an analog to this – piracy off the coast of Somalia. To the extent we can identify individuals who are the sort of the moneymen behind the operations, we can designate them and try and disrupt their ability to get access to their funds in the formal financial sector.

But our tools are broader than just designation. And in the kidnapping-for-ransom realm, we are embarking on an effort to try and persuade our allies to adopt the policy of – the U.S. has had for a long time, which is that the U.S. government will not pay ransoms and will not – will not give things of value as a concession to kidnappers. It is a difficult policy to implement in the – in each specific instance because, you know, there is someone who is being held hostage. The hostage-takers are saying, you pay us, you know, you can have your loved one back. But it is long-standing U.S. policy – and it is policy that I know the president is himself firmly committed to – which is that the U.S. government will not pay ransom. The effect of this is that we have seen that hostage-takers, kidnappers, whether it's AQIM or others, are less likely to take Americans as hostage because they recognize that there's not a pot of gold at the end of this – at the end of this enterprise. There are others who don't subscribe to this policy. There are countries that pay ransom. There are organizations that pay ransoms.

We are very much focused on trying to use our persuasive ability along with our designation tools to get others to adopt a policy that is the same as ours, essentially. You know, so we are using diplomacy. We're using law enforcement's information-sharing efforts. We use as – you know, there are good examples of our use of military force when appropriate to free hostages.

MR. ZARATE: The event in Somalia?

MR. COHEN: Yeah, exactly.

But the initiative that we are undertaking to try and – to take the money out of kidnapping for ransom, take the incentive out of it, is hugely important because these are – this is the sort of the leading edge of terrorist financing today. It is – you know, I sort of analogize it to sort of the super PAC of terrorist financing – (laughter) – because instead of the sort of the individual donations –

MR. ZARATE: Yeah.

MR. COHEN: – being bundled up and delivered to the terrorist groups, you have these big chunks of money coming in all at once.

MR. ZARATE: Interesting. Let's shift gears a little bit and talk about Iran where Treasury – Treasury's financial pressure campaign has become a central component of the engagement with Iran, the central hope frankly for the change in behavior on the Iranian side. With some evidence – very good evidence that the Iranian economy has been hurt badly by the pressure, which I would say, I think, started it in '05, '06 in earnest –

MR. COHEN: Right.

MR. ZARATE: – and is carried – been carried through and strengthened over time. Can you talk to us about, in the first instance, where you see the financial pressure taking us? And I think the fundamental question being whether or not financial pressure of the kind that you've helped fashion will change the Iranian behavior at the negotiating table, especially as we look toward Baghdad?

MR. COHEN: Yep. Well, you're exactly right. The path that we've been on began in sort of the '05, '06 time frame, designating financial institutions that are involved in Iran's nuclear program, working through the U.N. to get U.N. Security Council resolutions adopted highlighting Iran's failure to comply with its international obligations, and also designating people at the U.N. level and working with foreign partners, both in the private sector and in governments, to have similar actions taken to isolate and put pressure on Iran.

The last, you know – it's three years we have been pursuing what has been known as the dual-track strategy of, on the one hand, offering the Iranians the opportunity for meaningful, substantive, sincere engagement, but, on the hand, making clear that they will face increasing pressure as long as they don't accept the offer of engagement. And we have, you know, as the engagement track wasn't bearing any fruit, steadily and aggressively increased the pressure: additional designations; using new authorities that Congress has given us to apply even greater pressure on the financial sector in Iran, which has, you know, culminated most recently in the legislation that the president signed at the very end of last year, that focuses on Iran's exportable oil and transactions with the Central Bank of Iran.

We have seen this combined effort of our authorities and working with the international community. And I – and I cannot overstate the importance of the effect that we are able to generate when we have our international partners working with us – you know, the EU working with us, Japan, South Korea, Australia, Switzerland. I mean, you name it; we have a – and the United Nations as well – a very, very broad-based coalition of countries not doing exactly the same thing, but all pushing in the same direction of applying pressure on Iran really as part of this dual-track strategy. And the – you know, the impact of that that we have seen, particularly sort of through the fall of last year and into the spring of this year, is really, you know, a very significant deterioration in the Iranian economy.

The value of their currency, the rial, has, you know, dropped like a rock, and that has, you know, significant impact on Iran's ability to, you know, pay for the material that it needs for its nuclear program and, more broadly, just puts pressure on the leadership because the people in Iran are feeling this pressure themselves. And you see that in, you know, Iran's GDP, which is – lags well behind its peers. As you know, other countries that are oil exporters have been, frankly, doing well in an environment of increasing oil prices, Iran hasn't. You can see it in the unemployment rate in Iran, which is, you know, steadily increasing and is actually quite high today. And you can see it in just the overall difficulty that Iran has today in interacting with the international financial community, the international business community. They are increasingly isolated –

MR. ZARATE: Mmm hmm. (Affirmative.)

MR. COHEN: – both diplomatically and financially and economically. I don't think there's any question that the impact of this pressure has contributed to the sort of new-found apparent willingness of Iran to at least come to the table.

You know, I don't think anybody is naïve here in thinking that we have, you know, turned a major corner. But you know, the meeting that was held in Istanbul several weeks ago – you know, the Iranians came; seemed to be at least willing to engage in a conversation. The proof of the pudding is in the eating when (they ?) see what happens in Baghdad, when we see what happens going forward. In the meantime we are going to continue to maintain the pressure because I think, as I said, there is – there's no doubt that the pressure that has been applied has been at least in part a contributing factor to getting us to where we are today.

MR. ZARATE: Right. And you have the convergence of several events coming this summer, right? You have, obviously, Baghdad and the meetings there coming up. You have the triggering mechanism in terms of sanctions on banks in the legislation coming on June 28th, and then you have the oil embargo from the European Union triggered on July 1st.

MR. COHEN: Right.

MR. ZARATE: What do you – what do you see as Treasury policy sort of given those seminal events that are coming up in the next few weeks?

MR. COHEN: Yeah, I mean, those are, in particular the – this June 28th date is very important. That's the date, under the NDAA and in the new legislation, after which any country that purchases oil from Iran and pays to the Central Bank of Iran for its oil, whatever financial institution is involved in that transaction can be sanctioned under this new legislation, unless the country involved has significantly reduced its oil imports from Iran and the secretary of state makes a determination that that country is significantly reducing its oil imports.

If they're – if the country does that, then the financial institutions in that country are able to pay the Central Bank of Iran for oil for 180 days, then they need to demonstrate again that they're significantly reducing, the idea being to drive down the amount of oil that Iran is able to sell. For countries that don't receive a significant reduction determination, after June 28th, any payment to the Central Bank of Iran for oil exposes the financial institutions involved in that transaction to sanctions under U.S. law.

We have – you know, there's still a number of countries that are importers of Iranian oil that have not received significant reduction determinations. Surely, some of them will. Maybe all of them will, but maybe not. And we'll see how that develops.

But we have seen some efforts – and there was an article yesterday that I saw that reflected this – efforts to develop alternative payment mechanisms to try and, you know, sort of evade the strictures of the NDAA. And in this particular one, the idea was that 20 percent of

Iran's oil would be (sold ?) by some other entity in Iran, some private entity in Iran, not the National Iran Oil Company, which is the government ministry that owns all the oil.

I think it's fair to say that we are going to be very skeptical about efforts to develop alternative payment mechanisms, premised on the fact that under Iranian law, it says that all revenues earned by any government ministry have to be paid to the Central Bank of Iran. And the oil resources are owned by the National Iranian Oil Company, so I think our presumption going in is anyone buying oil from Iran is ultimately paying the Central Bank of Iran for that oil even if there is some intermediate step along the way.

So we are going to be, as I said, quite skeptical of efforts to pay – you know, purport to pay someone other than the Central Bank of Iran for Iranian oil.

MR. ZARATE: That's an important point because you're signaling a maximalist interpretation of the strictures, and you're going to be looking very carefully at attempts to evade it.

MR. COHEN: Well, I don't know if it's maximalist or it's just applying the law the way it's written, which says, you know, anyone who makes a knowing transaction with the Central Bank of Iran for Iranian oil is subject to sanctions. And you know, we have made clear that, you know, that means direct or indirect, and that means that you know or should know that the payment is going to the Central Bank of Iran. So we will apply the law in that fashion.

MR. ZARATE: One final question on Iran before we shift gears again: There's been a lot of talk about what is given potentially at the negotiating table, whether or not a lessening of the sanctions or pressure is on the table. Can you talk about, you know, what that calculus looks like potentially and what an unwinding of the pressure might look like? We went through an episode like this, by the way, in 2005 with North Korea, with efforts that began to impinge very strictly on Pyongyang. And we engaged in an effort to unwind, I think somewhat unwisely. But in any event, there are historical lessons to how you do the unwinding and – as part of a negotiation. Have you thought about that?

MR. COHEN: Yes. (Laughter.) I guess what I will say is that, you know, my colleagues at the State Department are responsible for the negotiations and for the puts and takes that will occur at Baghdad and perhaps thereafter. And we are pursuing this entire endeavor in the – in the construct of this dual-track strategy, which – you know, engagement on the one hand, pressure on the other.

But as we have, you know, said all along, the purpose of pressure isn't pressure itself. We're not applying sanctions for the sake of applying sanctions. We're applying sanctions to try and induce a behavioral change. We – that's the purpose of all of our sanctions programs is to try and change behavior. And so as we approach the specifics of the negotiations with Iran in the – you know, in – of course, in the context of the P-5 plus one – the five permanent members of the Security Council plus Germany are part of this negotiations with us – we are, you know, pursuing that in the – in the context of this dual-track strategy where, you know, pressure is there

to try and induce a behavioral change. That has been the objective from the outset, and you know, it remains the objective.

MR. ZARATE: Shifting gears a little bit to the Arab revolutions, the Arab Spring, whatever we call it these days – not quite sure – but Treasury has played a fairly central role in the midst of that tumult as well, freezing of Libyan assets, for example, well over 30 billion (dollars), a significant success for Treasury. But now centrally in the context of our strategy with respect to the Assad regime in Syria, people are looking to and talking about the financial pressures, frankly, really the only tool that we're applying to try to effect change there. Can you talk to us about what the next steps are with respect to financial pressure and whether or not you think this is going to work?

MR. COHEN: Yeah, and I – and I'm also going to quibble with the premise of your question. I don't think that it – that in Syria, the only tool that we're applying today is financial pressure. But it is an important tool. And it is a tool that we have been, you know, relying upon quite substantially since the uprising now about a year ago, even more than a year ago, in Syria. We have adopted three new sanctions programs on Syria in that period: a sanctions program specifically focused on human rights abuses in Syria, which I should add has led to a number of designations of Syrian officials as well as Iranian officials who have been supporting the abuse of human rights in Syria; a sanctions program focused on Syrian government officials; and then last August a sanctions program focused on the entire government of Syria as a whole, including the Central Bank of Syria.

This effort has been undertaken, again, in conjunction with an effort that the EU has undertaken to apply financial pressure and sanctions on Syria, that Turkey has undertaken to apply sanctions on Syria and that, I think, importantly, that the Arab League has undertaken. Really I think for the first time in the Arab League's history, there was a decision to adopt sanctions.

Now, what we have been doing, in addition to applying sanctions under our own authorities – and we have designated, I think, close to 50 individuals and entities under the new authorities that the – that have been created over the past year – is we've been working very closely with the EU, Turkey and, importantly, the Arab League to improve and enhance the effectiveness of this – of these other sanctions efforts. There was a meeting in the end of April of a working group on sanctions that brought together those – you know, more than, I think, 50 countries attended to talk about how to more effectively implement economic sanctions on Syria. There's going to be another meeting in several weeks here in Washington to follow up on that, where the purpose is to enhance and increase the financial pressure on Syria.

And you know, it is having an impact. You know, the – again, so the macroeconomic indicators in Syria are much like what you see in Iran. You know, their GDP in 2009, I think, was growing at 6 percent. I think the last year it declined by 3 percent, and expected to contract 6 percent this year. You know, their currency has devalued, I think, 25 percent on the official rate and anywhere from 50 (percent) to 75 percent in the – on the unofficial market.

You know, their budget deficit is widening substantially because the sources of revenue for the Syrian government, which are largely oil exports and tourism and taxes from tourism, have almost completely dried up. They're not earning – it's basically not earning any money from their oil or from their tourist industry. That is – you know, obviously, on the revenue side, they are not – they're not earning, and on the expenditure side, they're spending money to try and keep inflation down by subsidizing food and fuel, and they're spending a lot of money, frankly, pursuing the violence against their own people.

And the combined effect of this is that the economic situation in Syria today is quite perilous. The objective of that is to encourage the business class in Syria to recognize that their future prosperity, the preservation of their wealth, their children's future economic stability depends on Assad leaving power. And peeling away that business community support from the regime is one of the, you know, sort of important objectives that we're pursuing through these – through these sanctions.

MR. ZARATE: An interesting corollary to this as well is an action you took about a year ago using Treasury's Section 311, the Patriot Act authorities, to designate a bank, the Lebanese Canadian Bank, as a primary money-laundering concern, work that you in the Treasury did along with the DEA to uncover a drug money-laundering scheme, hundreds of millions of dollars' worth. And you were recently in Beirut, and there's been a lot of attention on Treasury's focus on the Lebanese banking system as a hub for Syrian activity and Iranian activity – nothing new or surprising, of course. But can you talk to us about some next steps you're thinking about in terms of the Lebanese banking system?

MR. COHEN: I can tell you what we are continuing to focus on in Lebanon. And that is – I would sort of put it into two buckets.

One is continued focus on the use of the Lebanese financial system for these sorts of money laundering and illicit finance activities that were the focus of the Lebanese Canadian Bank action. As you note, I mean, that was an action taken against a bank that was centrally involved in an enormous international drug money-laundering scheme, running money through the United States, and you know, it – involving used cars being sold into Africa. It was a very complex scheme.

And you know, it was affecting the U.S. financial system. It was sending wires into the U.S. that were the proceeds of narcotics trade. And we will – and we've been very clear with the Lebanese authorities about this – we will do what we need to do to protect the U.S. financial system from that sort of illicit activity. So that's one bucket. And we're continuing to work with the Lebanese both on the Lebanese Canadian Bank issue specifically and more broadly working with them to have them be more effective in policing their own financial sector.

The other bucket is Syria and Iran. And we have been as clear as we possibly could be with the Lebanese that that is a red line, that if we see either the Assad regime or its cronies using the Lebanese financial system as a way to escape the sanctions, to weaken the sanctions, we will act. Likewise, you know, as Iran is under increasing financial pressure and has lost access to financial centers around the world, you know, we are concerned that the Iranians will

look to Beirut, which is an international financial center and has been for some time, as their jumping-off point back into the international financial system. And so again, we have been very clear with the Lebanese that that's something that we are very attentive to and will respond to if we – if we have the predication.

MR. ZARATE: By the way, I think could talk for, like, 12 hours if we were given the chance. (Laughter.) I'm going to ask one more question and then open it up to the audience. David, how do you – how do you think about and deal with the rise of the Chinese economy, the Chinese banking system? We see in the newspapers today the Federal Reserve announcing the allowance for Chinese banks to expand their presence in the U.S., a significant announcement, I think. How do you deal with the Chinese, in part when they are not as cooperative as we'd like them to be on some of these issues, whether it's North Korea or Iran, Syria? And how do you contend with the fact that their economy is rising, their banking sector is powerful, and they in some way are becoming a force in this financial battle space?

MR. COHEN: So obviously, the relationship with China has many, many important dimensions to it, including work with the Chinese on a variety of foreign policy and national security issues that we have – you know, that we have on our plate.

At one level, we deal with the Chinese the exact same way we deal with everybody else on these issues, which is that we explain what our laws are, explain how it is that, you know, our laws operate so that the government can instruct its financial community and so that the financial community itself understands where the – where the lines are, where they can get crosswise with us.

But whether it's China or any other financial sector that is looking to be a player on the world stage – and you note, you know, the Fed yesterday gave permission to a big Chinese bank, ICBC, to purchase a bank here in the United States – the financial sector itself has a very, very keen interest in ensuring the integrity of its own operations. And that's true for the financial sector broadly, and it's true for each individual bank within the financial sector.

And so part of what we do is, you know, in addition to dealing with governments and talking to governments and trying to coordinate with governments, is to communicate directly to the financial sector about the importance of combating illicit finance, the importance of financial integrity, you know, and the importance of maintaining reputation, because that is what, you know, will assist them as they want to be, you know, players on the international financial stage.

So, you know, we have approached the Chinese, as I said, in the same fashion as we approach other countries on that issue. And you know, and we will – we'll continue to do that.

MR. ZARATE: You raise a great point, because I think one of the keys to your success is the recognition that reputation is the coin of the realm when talking about the international financial system and those who want to appear legitimate.

MR. COHEN: Right.

MR. ZARATE: That's good.

Well, I think – I think that's enough questions from me. I've got about 20 others I could ask David – (laughter) – but why don't we start with questions? What I – what I ask you to do is wait for a microphone, identify yourself, please, and then pose a question. And we've got several hands up.

Start with Arnaud up front, please.

Q: Mr. Secretary, Arnaud de Borchgrave, CSIS. When we liberated Kabul, we discovered in a safe house that was a(n) al-Qaida safe house, apparently, evidence that the USS Cole operation a year before had cost them about \$10,000. And for that, they immobilized a billion-dollar warship, killed 17 U.S. sailors, ship was out of action for two years. And in that context, the hawala system is of course very important. And Bob Kimmitt, when he was at Treasury, told me that that was their single biggest problem. And I was wondering if you could tell us what headway you've made on the hawala system.

MR. COHEN: Yeah. It's a great question. The hawala system, which, you know, for those who don't know, although I assume most people here do, is a way to move money not involving the formal financial system, but through – essentially through communications between trusted partners, sort of a – it's akin to Western Union, but somewhat more – it's a somewhat more simplified system.

We are focused on – particularly on the use of the hawala system, you know, domestically and internationally. It exists all around the world, in different ways. What makes it difficult is it is, in some respects, a little bit sort of below the threshold. It's not – it isn't – because it's not part of the formal financial sector, it isn't quite as amenable to our traditional tools as banking transactions would be.

Just last week there was a new executive order that the president signed on foreign sanctions evaders, specifically – respect to Iran and Syria. One of the areas where we are focused in using this new tool is on the sort of exchange houses, the trading companies, the hawalas that may be involved in moving money, moving funds in a way that is contrary to our sanctions on Iran and Syria. And we have now a new tool that will allow us to identify those who are involved in that activity and exclude them from the U.S. market and publicize who it is that's involved in this activity.

So you know, to get to your – you know, your question specifically, it remains something that we are very much focused on. In some respects, our success in combating terrorist financing through the formal financial sector has revealed this alternative mechanism for moving money, and you know, this is a – this effort is ongoing. You know, we're not – I don't think we have the – you know, the view that we are going to, you know, ever completely solve this problem, and the next frontier and now, with a new tool in the foreign sanctions evader executive order, is to really hone in on some of these mechanisms.

MR. ZARATE: Yes, ma'am. Microphone's right there.

Q: Thank you. Elise Labott with CNN. Thanks for your adjusting that.

MR. : Sure.

Q: I was wondering if you could flesh out a little bit more on Syria. Specifically, are you seeing any capital flight? Are you seeing any indication that the business class is truly abandoning Assad? And what are you – could you talk about indicators of what you think the tipping point would be, whether that's any time soon?

And on the question of – you talked about Iran and Lebanon in terms of using their banking systems in trying to help Syria circumvent the sanctions, but what about countries like Russia that are an ally of ours but certainly are supporting the regime to sustain itself? Thanks.

MR. COHEN: Yeah. So we – there has been some capital flight from Syria. You know, one of the thing that makes this a difficult endeavor is, on the one hand, we want to facilitate the capital flight of individuals in Syria who are not supporters of the regime and who, you know, want to leave Syria and want to, you know, take their money with them. There's no reason that we would want to interfere with that. But at the same time, of course, we want to be as careful as possible that the regime, its cronies, its allies, who may be trying to, you know, shield their assets, are not able to do so. And so in working particularly with the Lebanese financial sector, which is very integrated with the Syrian financial sector – they have, you know, long-standing relationships; there are a number of Lebanese banks have operations in Syria – you know, one of the points that we have made is that they need to exercise, you know, extra special diligence on transactions with Syria to ensure that, you know, good money is able to leave, bad money is not.

So we are seeing some capital flight. The – you know, the desire is to improve the overall power and effectiveness of the sanctions programs that have been adopted by, as I noted, the Arab League, Turkey, the EU, as well as the United States, to, you know, continue to generate the – you know, the choice of the business class there to withdraw from the regime and to leave Syria and to leave Syria with their money.

Your second question was about other financial sectors other than Lebanon. And I guess what I would say is that, you know, our view that no financial sector should provide a safe haven for the Syrian regime applies across the board. And I think I'll just leave it at that.

MR. ZARATE: Dr. Ossowie (ph).

Q: Thank you, Mr. Undersecretary. One of the major causes of the Arab uprising has been the abuse of money by rulers and governments where assets ended up in international institutions, financial and otherwise, and now you are working on retrieving that money. Is there any policy in place to prevent this thing from happening in the future?

MR. COHEN: Look, the kleptocracy issue is one that we have been working on for years. Frankly it goes back to my prior tenure at Treasury, where we were working on issues of kleptocracy.

The – I do think the most effective way to combat that that we, you know, sort of currently have in our – in our toolkit is the effort to enhance the overall standards in the financial community so that financial institutions know who they're dealing with, they know the sources of funds, they know where the money is coming from, so that financial institutions can take the appropriate precautions to avoid becoming repositories for the stolen patrimony of various countries.

That depends of course on the willingness of financial institutions to do that and to not be the – you know, the places where the leaders who are stealing money from their own people can put their funds. And that's a – you know, that is an issue that is frankly a difficult diplomatic issue to deal with, to get – to generate the agreement that this should not be allowed to take place.

There are U.N. conventions in place that address this issue. And we are – you know, we pursue the return of assets, as you noted, when – you know, when we are asked to do so and when we have the information available to us to try and assist on that.

So it remains something that, you know, we are focused on. You know, I am sometimes too candid in acknowledging it's a hard problem. And it's a hard problem because it's – it depends on the willingness of both financial institutions and the financial sectors in which they reside to say that they don't want to deal in these – in these assets.

MR. ZARATE: That's good news as well – the World Bank has a stolen asset recovery effort –

MR. COHEN: Yup.

MR. ZARATE: – the StAR Initiative. We had the 2006 (kleptocracy initiative ?).

MR. COHEN: Right.

MR. ZARATE: So there's attention to it, but you're right. This is a work in progress.

Yeah, sir. Up here in front. Sorry.

Q: Thank you. Robert Sherretta, International Investor. You probably have heard of Jason Sharman, who's just published a study where he tried to very quickly do a database of several thousand – opening several thousand corporate accounts around the world. He discovered – his conclusion: that the United States is one of the easiest places to open shell companies. He pointed to states like Delaware and Wyoming, where 2,000 shell companies existed in one house alone.

So my question for you is, we love to point the finger at a lot of nations around the world. What can we do about tightening some of the standards that make it more difficult for people to not only set up these companies –

MR. COHEN: Yeah.

Q: – but move funds in and out of them here?

MR. COHEN: Yeah. So no disrespect to Mr. Sharman if I'm not familiar with his study, but your point is well-taken.

And the U.S. has been, in our FATF mutual evaluation, identified as having a weakness on this particular issue, and in particular on the identification of beneficial ownership in the company formation process.

We are supportive of legislative initiatives that are moving through Congress. Senator Levin has a bill, for instance, that would require the identification of beneficial ownership during the company formation process. We're also working – we've issued a(n) advance notice of proposed rulemaking where we have sort of asked the question in the regulatory sphere of whether financial institutions ought to collect beneficial ownership information during the account formation process, account opening process.

This is – this is an issue that – you know, that we're spending a lot of time focused on. I think we recognize it as a weakness in our current anti-money-laundering, counter-terrorist-financing regulatory structure. It impedes law enforcement investigations because, you know, they go to try and find out who's the owner of a particular company, and you can't penetrate behind. So yes, it's a – it's an issue, and it's an issue that we're trying to address.

MR. ZARATE: I just want to commend David and his office for the work that they've done. They've really led on this, and a mutual friend of ours, an employee of the Treasury, Chip Poncy, has really spearheaded a lot of this work over the years.

MR. COHEN: Absolutely.

MR. ZARATE: And so I want to commend David and Chip for that work.

Ma'am, right here in the third row, please. I think we'll have time for just one or two more.

Q: Hi there. Theresa Brown, Sentinel HS Group. You mentioned at the beginning that when DHS was formed, and other changes after 9/11, you lost the law enforcement capacity at Treasury Department. You obviously have substantial, now, intelligence capability. How do you coordinate with the law enforcement agencies for intelligence-driven activities? What's sort of the coordination mechanism, and how is that working?

MR. COHEN: Yeah. So we did lose – the agencies themselves are no longer a part of Treasury. But you know, one of the things that changed in the – in the period that I was away was the coordination and collaboration among the law enforcement community on both the intelligence and the investigative side. And so, you know, the – you know, Juan noted the

Lebanese Canadian Bank example, where it was a Treasury action where we worked extraordinarily closely with the DEA both in developing the case, you know, on both the – you know, particularly on the intelligence side, but also in sort of developing the legal case that we pursued.

So we have – you know, our coordination, whether it's with DEA, FBI, Secret Service, is very good. We have liaisons for many of those agencies who are resident at the Treasury Department, and you know, there's a – I think, a very healthy and robust exchange of both law enforcement information and, you know, as appropriate, intelligence information.

MR. ZARATE: And just a fair point: Treasury did keep its criminal investigators from the IRS, who, by the way, led the effort to hunt Saddam Hussein's assets in '03 and '04, in part because they were the sole remaining law enforcement in Treasury – (laughter) – that we had direct –

MR. COHEN: Yeah, and so that –

MR. ZARATE: Good, very good.

MR. COHEN: Let me reinforce that so I don't get in trouble when I get back to the office. (Chuckles.) The, you know, IRSCI, the criminal investigative side of IRS, we work with, you know, all the time. And you know, there's a new head of IRSCI who just started two weeks ago or so. And you know, one of the first things that he did was come over to the Treasury Department, meet with me, meet with my team, and we spent an hour talking about different ways that we can coordinate our activities. So it's a – you know, it's a – it's still a very close relationship even though there are – you know, the IRSCI is still in Treasury, and the other law enforcement agencies are not.

MR. ZARATE: The gentleman in the far back, who's been very patient and enthusiastic. (Laughter.)

Q: My name is Terry Murphy. I'm with – associated with CSIS, but my day job is I'm an export control and sanctions lawyer. And I'd just like to follow up on Arnaud's immediate question and give you, if I may, a very brief quote from a notice about your regulations that came out yesterday. And here's what it says, headline: "New U.S. sanctions against Iran and Syria have dramatic extraterritorial implications." That's from a law firm, not mine – (laughter) – and it's signed by a former undersecretary of commerce for industry and security. So that's not an overstatement.

I'd like to just mention, and then stop, the British, who used to resist extraterritorial actions with great intensity, now have a new law on corrupt practices that's probably much more extraterritorial than ours, except for this one. So I wonder if you would take that as an opportunity to opine on the breadth of these sanctions, interventions, extraterritorial actions not just of our government, but of folks like the Brits, the Canadians, the Europeans.

MR. COHEN: So I haven't seen that notice. I assume it's referring to the new foreign sanctions evaders executive order.

Q: (Off mic) – it's signed by Mario Mancuso. It's pretty frank, et cetera, from an undersecretary of commerce for industry and security.

MR. COHEN: Yeah. Right. What we are doing, I think, as a – you know, I – my old job was I was a lawyer, so I – (laughter) – I always have to sort of correct the record when people say it's – what we're doing is extraterritorial. It's not. What we do is we regulate U.S. financial institutions, regulate U.S. businesses and define with whom they are able to do business. We don't have any jurisdiction to tell any foreign company or foreign bank what it can or cannot do. We tell our own banks, our own businesses whom they can deal with. So I think as a technical matter, there is no extraterritoriality in any of the authorities that we have been developing, including the new executive order.

That being said, there's no question what we're trying to do is to influence the conduct of entities operating overseas. And look, I make no apology for that. If you look at CISADA, which was the legislation that was adopted in July 2010 that essentially says to foreign banks, if you're doing business with banks in Iran that we have designated for being proliferators or for supporting Iran's support for international terrorism, then you can't do business with U.S. financial institutions.

We are embarked on an effort to put financial pressure on Iran by – you know, by encouraging foreign financial institutions not to transact with these designated proliferators, designated terror supporters in Iran. And we can do that. We have the capacity to do that by essentially saying, if you want access to the U.S. market, you need to conduct yourselves in a way that we think is consistent with isolating these entities.

You know, there's a very, very important objective here. It's one that is shared broadly around the world, which is to, you know, address the concerns with Iran's nuclear program. That's what the legislation was about. The foreign sanctions evaders executive order is specifically focused on Iran and Syria, you know, two problems that have, you know, widespread international agreement in terms of the need to get – to have them addressed.

And you know, we are – on the one hand, we are often praised for being innovative and creative in how we are using our authorities. You know, it has this impact internationally because it's designed to have that, and I think it's – you know, the ultimate test is whether we're going to be successful in helping to achieve our national security and foreign policy objectives through the use of these tools. And you know, I think the early returns are that we're having a good impact.

MR. ZARATE: David, with that, let me thank you. The scope of our discussion today, including things we didn't even get to that we could have – new technologies, overuse of Treasury authorities, other things – demonstrate clearly not only that Treasury is at the center of these debates, but that you are. And I'm thankful for that. Thank you for your time.

I'd ask you all to join me and thank David for his time today. (Applause.)

MR. COHEN: Thank you, Juan.

MR. ZARATE: Thank you. With that, thank – (end of audio).

(END)