

AN UPDATE FROM THE TREASURY DEPARTMENT:  
COUNTERING ILLICIT FINANCE, TERRORISM  
AND SANCTIONS EVASION

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HEARING  
BEFORE THE  
COMMITTEE ON  
BANKING, HOUSING, AND URBAN AFFAIRS  
UNITED STATES SENATE  
ONE HUNDRED EIGHTEENTH CONGRESS  
SECOND SESSION  
ON  
EXAMINING COUNTERING ILLICIT FINANCE, TERRORISM AND  
SANCTIONS EVASION  
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## **AN UPDATE FROM THE TREASURY DEPARTMENT: COUNTERING ILLICIT FINANCE, TERRORISM AND SANCTIONS EVASION**

**TUESDAY, APRIL 9, 2024**

U.S. SENATE,  
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,  
*Washington, DC.*

The Committee met at 10:06 a.m., in room SD-538, Dirksen Senate Office Building, Hon. Sherrod Brown, Chair of the Committee, presiding.

### **OPENING STATEMENT OF CHAIR SHERROD BROWN**

Chair BROWN. The Senate Banking, Housing, and Urban Affairs Committee will come to order. I will make two sorts of personal statements. One is I was cheering on the University of South Carolina Gamecocks in that game, even though they were down 13 to 2 at the beginning. And——

Senator SCOTT. Indeed.

Chair BROWN. ——Senator Scott's team won. And more interesting, no offense to them was—or to Senator Scott. But yesterday I missed—I rarely miss a vote. I missed a vote because my wife and I sat on our back porch and saw the total eclipse in Cleveland.

It went over Cleveland, center of the world during—and it actually passed over NASA, one of the 10 NASA facilities.

Senator SCOTT. It certainly——

Chair BROWN. It was just extraordinary.

Senator SCOTT. It was on Sunday, the center of the basketball world.

Chair BROWN. And the game——

Senator SCOTT. So, this is true.

Chair BROWN. The final four women's were in Cleveland.

Senator SCOTT. Indeed, for a good reason. The Gamecocks play well in South Carolina, Ohio, California. They just play well everywhere, but——

Chair BROWN. Your time has expired, Senator Scott.

Senator SCOTT. I can't wait to be the Chairman.

Chair BROWN. How much time you got, man? It's a long, long wait.

Senator SCOTT. We'll see.

Chair BROWN. Do I have to call it to order again? I did that, right? Thank you. Nice to see you Mr. Wally, we'll introduce you in a moment. We face threats to American national security and

global stability every day. Autocrats, terrorists, drug traffickers work to undermine our economy, our values, our way of life.

Sophisticated international cartels traffic fentanyl into our communities. China supplies precursor chemicals to Mexican cartels, feeding our deadly fentanyl epidemic. Russia's brutal invasion of Ukraine continues. Putin looks for new ways to fund his war machine.

Iran finances terrorist proxies that wreak havoc all over the Middle East from Hamas' brutal October 7th attack on Israel to the Houthi attacks on shipping in the Red Sea and Hezbollah's menacing activity.

All these bad actors need one thing, money. Terrorists, fentanyl traffickers, the Russian military, they all need to spend. And to move money, they all use the financial system in a variety of ways to do that.

That's why we must use all available economic tools to defend American interests and American values. Means denying bad actors access to the global financial system and broadening our coalition of partners to prevent terrorism in the flow of illicit finance that supports drug traffickers and money launderers.

Terrorists, criminals, rogue Nations will never stop in their efforts to evade our sanctions regime, we must be equally vigilant. Vigilance requires international security leaders have the authorities and the resources they need to stay ahead of these bad actors.

Today we'll hear from Deputy Treasury Secretary, Adeyemo and discuss our strategy for combating illicit finance. Treasury leads the work to stop illicit actors from exploiting the international financial systems to fund their crimes and terror activity.

Deputy Secretary Adeyemo should provide an assessment of the effectiveness of our recent sanctions enforcement efforts. We'll hear about what statutory gaps stand in the way of our ability to root out and stop illicit finance. Congress must respond.

Last year, this Committee worked together in a bipartisan way to design a new sanctions program, the FEND Off Fentanyl Act, that can help reduce the flow of fentanyl into our communities. FEND Off Fentanyl has 67 cosponsors. It passed out of this Committee unanimously. I thank Senator Scott and the other Members of this Committee. It passed in the Senate twice.

Americans can't wait any longer. This needs to get to the President's desk and be signed into law. As FEND makes clear, our Committee plays a critical role in protecting communities and protecting our national security. This Committee works to strengthen tools we have to go after anyone who threatens us.

It conducts oversight over how the Administration uses these tools, including their use of waivers or exceptions. And when bad actors turn to new routes to raise and move money like crypto, this Committee must respond. Our adversaries are going to innovate. We must make sure our illicit finance tools keep up.

Last November, the Justice Department in an effort led by the U.S. Attorney in the Northern District of Ohio, where I live, and the DEA charged 11 people in a drug ring. They allegedly trafficked fentanyl, synthetic opioids, and other drugs across Ohio, Pennsylvania, Kentucky, Tennessee. And they paid their suppliers in Bitcoin.

Just last week, the *Wall Street Journal* reported how Russian smugglers use the stable coin Tether to evade sanctions on Russia's war machine. Tethers a "key step in the chain" of illicit transactions, one smuggler said. North Korea's hacked, stolen, laundered hundreds of millions of dollars in crypto, a strategy to avoid sanctions.

And these—all these bad actors, North Korea, Russia terrorist groups like Hamas, are turning to crypto because they've seen the ads and bought the hype. They're using it because they know it's a workaround. They know it's easier to move money in the shadows without safeguards, like know your customer rules or suspicious transaction reporting.

These commonsense protections help identify illicit money and keep it out of our financial system. We must make sure that crypto platforms play by the same rules as other financial institutions. We need to make sure we have the tools to crack down illicit finance with digital assets, just as we would with any other asset.

Many, including the deputy secretary, have pointed out possible gaps in illicit finance authorities over digital assets. It's time we work together to close these loopholes and protect our national security.

We need to think not just about how terror groups and drug traffickers use crypto, but also about how they could exploit it tomorrow. If we leave loopholes in the books, this problem will get worse, and we simply can't take that risk. Given the range of threats we face. It's clear the Administration needs to do more to use its illicit finance tools to stop terrorism, to push back on Iran and Russia and China, to stop the funding streams of the traffickers supplying illicit fentanyl to our children in our communities. I look forward to hearing from the Deputy Secretary this morning.

Senator Scott.

#### **OPENING STATEMENT OF SENATOR TIM SCOTT**

Senator SCOTT. Thank you, Mr. Chairman, and Secretary, thank you for being here with us this morning.

Today is an important opportunity to discuss American leadership, especially on the global stage. I've often said that we, the United States, must leverage our international toolkit to stop bad actors, curb illicit activity, and protect American families.

Thankfully, agencies like the Treasury Department, already have robust toolkits available, as well as in instances where additional directions needed. I have not shied away from providing more resources and direction like those in my FEND Off Fentanyl legislation and my Revoke Iranian funding act as well.

So, I appreciate having you here with us this morning. South Carolina is a proud home to many of our U.S. servicemembers, their families, and our veterans. I'm proud of this fact and my important duty to serve their interests. Which is why it was particularly profound and deeply troubling when three U.S. servicemembers were killed in January's Iranian backed terror attack.

I'll keep saying this because it's true. Every dollar this Administration gives to Iran is another dollar that will be used against our sons and daughters and puts them in harm's way in the military.

Thankfully, the Treasury Department has the ability to stop the dollars moving around our global economy that bolsters the Iranian regime.

However, this White House has reduced those barriers through so-called electricity waivers with expanded currency access to Euro's licenses and further billion-dollar payouts. Going even so far as to give a lifeline to Nicolas Maduro's corrupt regime in Venezuela. A known ally of Iran, China, Russia, and Cuba.

An axis of terror through broad oil and gas sanctions relief, of which we have seen no benefit to U.S. national security or to the Venezuelan people who suffer under Maduro. This is beyond troubling, especially when our servicemembers are killed in terror attacks by Iranian proxies. And our families here at home are struggling to put food on the table.

When we look at—when we look here at home, there's not a single neighborhood, whether that's Charleston, South Carolina, or Cleveland, Ohio, that has escaped the death grip of fentanyl. I'm very proud of this Committee's work to address this crisis and for the support of all the Members of this Committee working together to stop this deadly drug.

Because what Fentanyl—produced in traffic by Mexican cartels and supported through Chinese precursors—has done to our communities is a national security crisis. I remain committed to seeing this legislation passed into law and to stop the flow of illicit money and drugs across our border.

Every family in America deserves to be free from the scourge of this deadly drug. I started with these two issues because I believe they should be top of mind for this Administration and for this Committee.

And yet just last week, secretary Yellen was in China to discuss how cheap Chinese exports of green energy technology are harming electric vehicles and solar energy here in the United States.

This is a clear climate goal of this Administration, but far from the top goal. We should be pushing back China on, a perspective that's frankly hard to stomach when Hamas is enabled by support from Iran to carry out horrific attacks against our ally Israel. All while China continues to be the top purchaser of Iranian oil and top financier to international web of illicit financing used by the Mexican cartels to kill people using fentanyl.

This needs to stop, saving lives cannot play second fiddle to progressive climate goals. We need to see real efforts by China to stop these activities that undermine U.S. national security interest. America must be a strong leader. Fentanyl and terrorism are leading threats and should be treated as such.

American families deserve to know that their Government is protecting them from these threats and punishing those who trouble us. Thank you. Thank you for holding this hearing and I look forward to the opportunity to question.

Chair BROWN. Thank you, Senator Scott. I'll introduce today's witness, the Honorable Adewale Adeyemo, is Deputy Secretary of Treasury, held a range of senior economic and national security positions. He briefed this Committee on the immediate aftermath of the tragedy of the October 7th attacks. Welcome back. Please proceed. Thank you.



**STATEMENT OF ADEWALE O. ADEYEMO, DEPUTY SECRETARY,  
DEPARTMENT OF THE TREASURY**

Mr. ADEYEMO. Mr. Chairman, Ranking Member Scott, and Members of the Committee, thank you for inviting me here today. I want to thank you and the Members of the Committee for your willingness to work with us to address the threats to our national security.

I'm here today because we need additional tools to protect the American people. And I appreciate the fact that this Committee has not shied away from providing us with tools in the past. And I look forward to working with you to make sure that we have the tools that are necessary going forward.

As we take steps to cut terrorist groups and other malign actors off from the traditional financial system, we are increasingly concerned about the ways these actors are using cryptocurrencies to circumvent our sanctions.

For example, years ago, al-Qaeda and affiliated terrorist groups, largely based out of Syria, operated a Bitcoin money laundering network using social media platforms to solicit cryptocurrency donations.

After receiving virtual currency, they laundered the proceeds through various online gift card exchanges to be able to purchase what they needed to advance their violent agenda.

Most recently, over the past year, we have seen the Islamic Revolutionary Guard Corps—Quds Force—transfer cryptocurrency to Hamas and the Palestinian Islamic Jihad in Gaza. In addition, we have seen Hamas use virtual currencies to solicit small dollar donations, and we've been able to take actions against these networks.

Our problem is that actors are increasingly finding ways to hide their identities and move resources using virtual currency. What has always been true is the terrorists and other malign actors seek new ways to move their resources in light of the actions we are taking to cut them off from accessing the traditional financial system.

For the most part, these methods have been slower and harder to use than traditional financial system. That is no longer true. Today, because of the authorities Congress has provided us, we have a long track record of taking actions to make it harder for these groups to use the traditional financial system to move money.

We continue to use these authorities aggressively to cutoff the illicit financial networks to enable illicit actors worldwide, including Hamas and other Iran bank proxies, Russian oligarchs, ISIS, just to name a few.

But the more effective our targeting is, the more reason there is for these terrorist groups and others to look to virtual assets. And to be clear, it's not just terrorist groups, but State actors like the DPRK and Russia as well. The DPRK, which through numerous complex State-sponsored cyber heists, is able to acquire, launder, and store illicit revenue.

It relies on anonymity-enhancing technologies like mixers to hide the sources of these funds. And it leverages over the counter digital assets traders to acquire fiat currency. In addition, we've seen Russia increasingly turn to alternative payment mechanisms, including

the stable coin Tether to try to circumvent our sanctions and continue to finance its war machine.

Mr. Chairman, Mr. Ranking Member, you both mentioned fentanyl, which is killing too many Americans around this country. What we know to be true is that these drug cartels are increasingly looking for ways to move money that are outside the traditional financial system.

Just a few weeks ago, I was in Phoenix, where together with law enforcement, we sanctioned 21 actors who were trying to move financial resources back to Mexico. As we take steps to shut these actors out of our financial system, we should know that they are going to increasingly look to use cryptocurrencies and virtual assets to move things, given our lack of ability to stop them, given the lack of tools.

While we're doing everything we can, we'll continue to use the tools you have given us. The reason that I sent the term sheet in November was because of what we saw. Which was that today, while Treasury has tools that Congress has given us that we're using to go after terrorist actors and other illicit actors, we need new tools.

The term sheet calls for three things. First is the introduction of a secondary sanction tool targeted at foreign digital asset providers that facilitate illicit finance. The second is a reform centered on modernizing and closing gaps in existing authorities by expanding their reach to explicitly cover the key players and core activities of the digital asset ecosystem.

Finally, a third reform addresses jurisdictional risk from offshore cryptocurrency platforms, which is a key challenge that we face today.

There is clear overlap between the proposals that we have made and the bipartisan bills coming out of this Committee. We agree that the use of these emerging technologies by illicit actors can have impacts on our national security, foreign policy and the economy of the United States.

That's why the United States has a strong interest in ensuring that we have the necessary tools and authorities available and ready to mitigate the risks in this quickly evolving ecosystem, including the dollar-based digital assets in particular.

While we continue to assess that terrorists prefer the use of financial products and services, we fear that without congressional action to provide us with necessary tools, the use of virtual assets by these actors will only grow.

That is why I look forward to our conversation today and working with this Committee to develop the tools we need to protect our national security, protect our economy, and protect the United States of America.

Thank you, Mr. Chairman, for having me. I look forward to your questions.

Chair BROWN. Deputy Secretary, many of us have raised the alarm about digital assets and illicit finance, particularly after Hamas' horrific October 7th attack. You wrote to this Committee last November. You've referred to that warning about gaps in our illicit finance framework around digital assets.

Briefly tell us about those potential gaps. What are the risks if Congress fails to act, to prevent terrorists and drug trafficking, drug traffickers from exploiting crypto.

Mr. ADEYEMO. Senator, I appreciate the ways in which the Committee has met with us and worked with us here. The greatest risk we have today is that as we take actions. Like the 55 sanctions we've placed on Hamas since October 7th, and we monitor the activities in the formal financial system, they're clearly going to try and move to get money through the informal system, which includes cryptocurrency.

While traditionally, what groups like this have done is move money by hand and by courier, which is slower and harder to do, cryptocurrency gives them a route that is easier to do and in lots of ways allows them to get faster access to these currencies.

That's why we think it's essential that we get the tools that we have called for in this proposal and that many Senators in this Committee have sponsored legislation to give us.

Chair BROWN. And obviously we want to work, continue to work with you on that. November last year, president Biden met with Chinese President Xi to talk about efforts to count counter the fentanyl trade. Secretary Yellen just concluded a trip to China, and Presidents Biden and Xi spoke last week.

We also know, as we've seen many times Chinese promises don't mean much. What is the Administration doing to hold China to any commitments and to take action if they fail to follow through and crack down on fentanyl precursor suppliers?

Mr. ADEYEMO. This is an issue that is top of mind for us and top of mind for the Secretary in her conversations with our Chinese counterparts. We've made very clear to the Chinese that it's not in their interest for precursor drugs to be sold in the United States. But if they don't act, we will.

And we are prepared to take actions against those precursor companies. Fundamentally, our goal here is to make sure that those precursors don't end up in places like Mexico and then turn into the drugs that are sold on our streets.

Disrupting that network is top of mind during the conversations we're having with the Chinese, but we're also looking very closely at intelligence to see if they're taking the actions that they've promised to take if they are not—

Chair BROWN. So, how do you show it's not in China's interest to do that?

Mr. ADEYEMO. Fundamentally, the Chinese also are not—the Chinese also want to control the illegal drug trade in China. They fundamentally don't want to be in a position where they are exposed to U.S. sanctions in light of the impact that potentially has on their economy.

We've made very clear that as we look at the intelligence and information, if we find that those precursor chemicals are still coming to the United States, we're going to have to use our sanctions authorities to go after those companies and to disrupt that activity.

We're continuing to monitor that information. And I want to be very clear that our goal here is to make sure that we stop those precursors because stopping them is the best way to make sure that those drugs aren't produced then end up on our streets.

Chair BROWN. And presumably the threat of FEND Off Fentanyl Act, Senator Scott, and I, and our staffs wrote, will the threat of that encourages China to do the right thing here?

Mr. ADEYEMO. It's quite helpful to have congressional action that you are thinking through that could be done here in light of the fact that it not only impacts foreign countries, but it impacts these criminal businesses because ultimately what they are, are businesses.

The problem is they're engaged in an illegal business, and the more that they see that Congress is interested in giving us additional tools to go after them, it helps us better dissuade people from entering into this business and allows us to stop them where they stand and to make sure they don't have access to their money, which is their ultimate goal.

Chair BROWN. One last question. Our unprecedented sanctions on Russia have resulted in the equivalent of hundreds of millions of dollars in Russia's central bank reserves being frozen. Despite that, Russia continues to find ways to access things it needs to continue its brutal attack on the Ukrainian people, whether that's revenue generated by oil sales to China, India, drones, missiles from Iran, North Korea goods try and ship through third parties.

All of this made worse from cited by interesting comments that a congressman from Ohio, Mike Turner, a friend of mine, said that over the weekend, how do you plan to strengthen our sanctions and sanctions enforcement to counter that?

Mr. ADEYEMO. One of the things that we have been the most successful at is building international coalition to hold Russia accountable. We have to do more with that coalition to go after both Russia's revenues, but also their ability to build weapons.

Fundamentally, the thing that Russia is doing with the money they have is building the weapons they want. In order to build those weapons. They need to purchase certain goods from the outside world.

Going after those goods, going after their supply chain has to be a key part of our strategy. We've put sanctions on that supply chain, and our goal is to make sure that as Russia adjusts to those sanctions, we do even more, to make sure we're putting sand in the gears of Russia's military industrialized complex. But the thing that we know, Senator, is that we have the capacity to slow Russia down.

One of the things that we are grateful for is the Senate's passage of the President's supplemental request, because that's going to allow us to give Ukraine access to the weapons they need to speed up in defending themselves.

But we're going to continue to do what we can to make sure that we reduce Russia's revenues and reduce their ability to build weapons using our sanctions. It's key that we do this in a multilateral way because what Russia's become adept at doing is trying to find ways to evade our sanctions by not using the U.S. dollar, but using the international system.

And the more countries that are part of our coalition, the better as we go after Russia, both in terms of revenues and their supply chain.

Chair BROWN. Thank you. I've run out of time. I was going to ask you a question about terrorists and the use of dollar stable coins. But well, we'll do that in a written question.

Senator Scott.

Senator SCOTT. Thank you, Mr. Chairman. Listening to you today, deputy Secretary it feels like digital assets has become the scapegoat of this Administration because, with all that's going on in the world, the only legislative request you have sent to this Committee are new authorities related to cryptocurrency.

And, and I'll say that if China buys about 90 percent of the Iranian oil and we make it easier to sell the Iranian oil. Last August we saw a \$6 billion transfer to the Iranians, for, my opinion, hostage relief. \$10 billion allowing electricity waivers.

None of that's happening in digital assets. They're literally using our cash. We're making it easier for them to use Euros. The bottom line is this, that if \$35 billion represents the export of oil from Iran, none of which is purchased using digital assets, having a conversation simply and exclusively about digital assets misses the elephant in the room.

That every single time we make it easier for the Iranian regime to receive resources from the United States in cash, pallets of cash or through electricity waivers, use euros or license. We put more and more Americans and our allies in harm's way, and that includes Israel.

And so, for us to have a conversation that sounds like a digital asset conversation as opposed to a conversation about illicit financing, that is far larger than digital assets to me, makes it into a scapegoat.

I'd love to hear why the Treasury Department made it a determination to change the recent electricity waivers to allow for the use of euros. Was that a request from the Iranians?

Mr. ADEYEMO. So, Senator, just for the record, that is an authority that the State Department has. But I think the most important thing to point out here is that on both the electricity waiver, but also the \$6 billion, both of those are monies that are tied up in financial institutions.

None of that money will ever see its way to Iran. At most, that money can be used to purchase things outside of Iran. The challenge here is that while we can stop that money from financial institutions moving to Iran, I don't have the authorities to stop cryptocurrencies from moving into Iran. That's why I've asked for those authorities. But fundamentally, what I can say is that the \$6 billion you mentioned—

Senator SCOTT. There that—let's have a conversation about this for just a second. You are a highly educated, brilliant man, to sit here and to suggest that you don't understand us giving Iran \$6 billion that they will be able to use at some point. And then the Administration said they can't use it for this purpose, but they can use it for that purpose. Money's fungible. I mean, you don't have to be as educated as you are to know that money's fungible.

So, the bottom line is simply this, anytime we allow the Iranians to have more access to cash, euros, balance sheets, we are making it easier for their proxies to use their resources to target Americans, as has been done for the last several months.

In addition to that, our allies. Anytime we relax the regime that makes it harder for them to sell oil, making it easier for them to do so with China happily purchasing those resources. We don't have to be that smart to realize that all of this makes it harder on our allies and deadly for our servicemembers.

So, I just find it preposterous that we would pose it a position that suggests that those resources have no impact on what Iran is doing. And frankly, if that were the case, we would not have released them at all.

Mr. ADEYEMO. Senator, can I make a point?

Senator SCOTT. Please. Yes, sir.

Mr. ADEYEMO. So, Senator, you're right that in a democracy, money is fungible. But what we've seen time and time from the Iranian regime is they fail to feed their people and they put the IRGC first. Any dollar they have will go toward their violent activity before they deal with their people.

That's partially why almost none of the humanitarian money has been used for humanitarian purposes: they don't care about getting drugs and food for their people. But the difference is that the United States of America has made as a values proposition that we are always going to provide humanitarian relief for people.

And that's what we've said is the only purpose for this money. So, while in our country money is fungible, in Iran, they've proven that any dollar they get that, they have direct access to in the country will be used for the IRGC before it's ever used for their people.

Senator SCOTT. Secretary, because I'm not the chairman of this Committee, and he is, he's going to cut me off as soon as I say something he doesn't like. So let me just suggest this. You and I actually agree on that point. That the Iranian regime does not care about the Iranian people.

Therefore, any relaxation that allows their economy to thrive or survive is for one purpose. For them to carry out their primary objective, which is spreading terrorism throughout the Middle East and eliminating the little Satan and then the big Satan. That would be Israel and America.

Chair BROWN. Senator Menendez of New Jersey recognized.

Senator MENENDEZ. Thank you. I'd like to follow up where Senator Scott just left off. Reports show that in spite of U.S. sanctions, many of which I've written. Iran's exports of crude oil grew by roughly 50 percent in 2023 to a 5-year high of almost 1.3 million barrels a day with the vast majority of that oil going to China.

And according to the Congressional Research Service, many of these experts are going to small- and mid-sized refiners with little exposure to the U.S. financial system.

So if Iran can consistently find willing buyers for its oil in China, what does that do to the effectiveness of our sanctions? What are you doing to put pressure on Chinese entities that import Iranian oil despite U.S. sanctions?

Mr. ADEYEMO. Senator, thank you for the question. I think what we've been focused on is taking actions to disrupt the ability of Iran to sell its oil anywhere by going after middlemen. So, over the course of the last several years, we've put more than 300 sanctions on Iran related to its petrochemical industry.

But in addition to doing that, one of the things we're also focused on is making sure that even if Iran is able to sell its oil to actors, it's hard to impossible for Iran to get that money and return it back to its country using the traditional financial system. So monitoring the flows of that money is another place where we've been very focused as, so——

Senator MENENDEZ. So, I'm going to join in Senator Scott and admire how intellectually gifted you are. But it doesn't take a rocket scientist to understand that you can convert those dollars into cryptocurrency and other forms in order to ultimately have access to them.

So, if we say that all of our sanctions are a success when their oil exports grew by roughly 50 percent, 50 percent, I just don't see how we can make that case. And I think part of the problem here is that we are reticent to actually sanction China and Chinese actors as we try this new detente with them.

Mr. ADEYEMO. So, Senator, I think you made one of the points that I came to make, which is that we need more authorities to go after cryptocurrency. I think that we are willing to, and we have sanctioned middlemen that are in Hong Kong and other places. We'll continue to do that.

But the challenge set that we have now is that while you've given us authorities to go after the traditional financial sector, we could use additional authorities to allow us to go after cryptocurrencies——

Senator MENENDEZ. Well, I look forward to working with others to try to make that happen, but when it happens, then I hope we actually see it used. Because I'm concerned that many of the existing authorities we have are not being fully used. Let me turn to something else.

I'm concerned about the exploitation of our litigation finance industry by foreign actors. According to Bloomberg Law, Russian billionaires with ties to Putin have spent millions funding bankruptcy lawsuits in New York, even after these individuals were sanctioned following the invasion of Ukraine.

Do you believe that lack of transparency in the litigation and finance industry can create a gap in our sanctions enforcement?

Mr. ADEYEMO. Completely agree with you that this is an issue that we have to both work on and try and address. One of the challenges we have, of course, is that these Russian oligarchs have become quite expert in trying to avoid our sanctions. And what from what I've seen, this is one of the several ways in which they're trying to do that.

Senator MENENDEZ. Well, this is not only the concern with the current state of affairs. GAO found in a 2022 analysis that sovereign wealth funds may be investing in the United States third party legal financing market to further foreign policy and military goals.

And foreign companies via wealth funds can use this type of investing to fund lawsuits against their U.S. competitors, which is something we're increasingly seeing in patent litigation. What can we do to shore up regulation of litigation financing to ensure it isn't a pathway for bad actors to exploit the legal system?

Mr. ADEYEMO. I think one of the most important things we can do, Senator, which I know you've called for, is additional transparency, better understanding who's funding what will help us better be able to both use our tools, but also to make sure the American people are aware of who's funding these lawsuits.

Senator MENENDEZ. Well, do you think you need legislation for that or do you think you have executive authorities to do that?

Mr. ADEYEMO. I'd like to work with you and go back to my team and talk to them about what we have. But if we need legislation, we will quickly come to you to ask for that.

Senator MENENDEZ. Fair enough. I think we can all agree that more work needs to be done, update and clarify our digital asset regulatory regime. However, that does not and should not exempt service providers from complying with existing laws.

According to the most recent national money laundering risk assessment "some virtual asset service providers currently do not adequately implement AML/CFT controls or other processes to identify customers. And in some cases, such VASPS may claim not to be subject to U.S. jurisdiction despite doing business wholly or substantially part of the United States."

While Congress works on an updated digital asset framework, what is Treasury doing to step up enforcement of existing law? Are there any additional resources you require?

Mr. ADEYEMO. We appreciate what you and Members of this Committee are doing to help update both the BSA but also IEEPA in order to give—make sure that we're clear to members of the digital asset ecosystem that they are subject to both of those regimes.

While Congress does that, we're also using the tools you've already given us. For example, the 311, which we used recently to go after a class of digital assets called mixers. Which are used frankly to try and help people disguise their identity using cryptocurrencies.

We've also taken a number of actions to go after the ways in which Hamas has used cryptocurrencies as part of the 57 actions we've taken against Hamas. So, we're committed to continue to take on this problem set, including with the action we've taken against Binance. But we appreciate the fact that Congress is working to give us additional authorities and tools to allow us to do this.

Senator MENENDEZ. I look forward to working with you on several of these issues. Thank you.

Mr. ADEYEMO. Thank you.

Chair BROWN. Senator Kennedy from Louisiana is recognized.

Senator KENNEDY. Thank you, Mr. Chairman. Mr. Secretary the Biden administration has operated as Iran's best friend, hasn't it?

Mr. ADEYEMO. No, I disagree completely, Senator.

Senator KENNEDY. Well, Iran sold Iraq, 10 billion—not million—\$10 billion worth of electricity. But Iraq couldn't pay them because of our sanctions against Iran. Biden administration waived those sanctions, didn't it?

Mr. ADEYEMO. Senator, that—

Senator KENNEDY. So that Iran could get \$10 billion. Isn't that a fact?



Mr. ADEYEMO. No, Senator, those waivers started under the Trump administration. That money is still in Iraq. That money has never been to Tehran. It will never go to Tehran.

Senator KENNEDY. The first waiver was on July, 2023, wasn't it?

Mr. ADEYEMO. Senator, I believe those waivers started in 2018.

Senator KENNEDY. The first waiver that the Biden administration did was July of 2023, wasn't it?

Mr. ADEYEMO. So, Senator, again, I believe the waiver program started in—

Senator KENNEDY. You didn't issue a waiver on July of 2023?

Mr. ADEYEMO. Senator, the waivers were continued into 2023.

Senator KENNEDY. And you issued another waiver to get the money to Iran in November of 2023, didn't you?

Mr. ADEYEMO. Senator, as I said, that money has never been, will never go to Iran. The money is still in Iraq. The money may be used for humanitarian purposes, but not a dollar of that money has been used—

Senator KENNEDY. And you issued another waiver on March of 2024, not too long ago. That was 6 weeks after Iran killed three American soldiers. You gave Iraq permission to give Iran \$10 billion, didn't you?

Mr. ADEYEMO. No. Senator. As I mentioned, this was something that started in 2018 under the Trump administration. It allowed Iraq to purchase electricity and to store that money in Iraq. None of that money to date will ever go to Iran. The money is being held for humanitarian purpose.

Senator KENNEDY. You're not telling the truth, Mr. Secretary. No disrespect, but that's just not true. Senator Menendez and Senator Scott made the point. We all know—unless you peaked in high school, you know that money is fungible. You also—the Biden administration—also paid Iran \$6 billion to release five of our prisoners, didn't it?

Mr. ADEYEMO. Senator, again, that money is in Qatar. None of that money has been used. It hasn't been moved. And as I said earlier, while money is fungible in the United States because we care about our people, it's not fungible for Iran.

Senator KENNEDY. So, the money's in Qatar, in a bank in Qatar?

Mr. ADEYEMO. Yes.

Senator KENNEDY. Now what do you think—who controls that bank in Qatar?

Mr. ADEYEMO. Those banks are controlled by those individuals who run that financial institution.

Senator KENNEDY. So, if President Biden says Qatar Bank, don't give this money to Iran, and the Qatar Government says, give the money to Iran. Who you think the Qatar bank's going to listen to Mr. Secretary?

Mr. ADEYEMO. So, Senator, those banks in Qatar value greatly their ability to have a relationship with the United States, because that's how they make money.

Senator KENNEDY. Right. You believe in the tooth fairy?

Mr. ADEYEMO. Ultimately, if we cutoff those banks, they will no longer be able to make money.

Senator KENNEDY. You believe in the Easter Bunny?

Mr. ADEYEMO. So, Senator, while I understand your point, fundamentally, none of that money has gone to Iran and that money is not going to go directly to Iran.

Senator KENNEDY. Now you did the same thing with Maduro. You meaning the Biden administration. You guys did the same thing with Maduro in Venezuela. You removed all the sanctions on oil and mining, including gold with Maduro, the dictator of Venezuela, didn't you?

Mr. ADEYEMO. So, GL44 and 43 were put in place in Venezuela. 43 has a—

Senator KENNEDY. Is that a Yes?

Mr. ADEYEMO. GL 43 has been removed.

Senator KENNEDY. So, you said, OK, Maduro, we're going to remove you, remove Maduro, best friends with Iran and Cuba and China and Russia. The Biden administration removed the sanctions on oil and mining in Venezuela—

Mr. ADEYEMO. Senator—

Senator KENNEDY. —and, Maduro said, I promise you that I'll hold a free and fair election. And then he put all his opponents in jail and the Biden administration has done nothing, hasn't it? Except stand there sucking on its teeth.

Mr. ADEYEMO. Senator, I want to say again, we provided general licenses. We did not remove the sanctions. The reason we did that was because we did not trust. So, what we can do with this—

Senator KENNEDY. The sanctions on Maduro's oil are not there, are they?

Mr. ADEYEMO. General license 44, which gives permission for the sale of oil expires on April 17th, which will then put those sanctions back in place. We did not remove the sanctions. We provided general license—

Senator KENNEDY. The problem you folks have is that you want to quote Socrates in the middle of a bar fight. Iran is not our friend. Venezuela is not our friend. President Biden keeps giving them money to buy weapons to try to kill us.

Mr. ADEYEMO. Senator, we've put 500—

Senator KENNEDY. Do you not understand that?

Mr. ADEYEMO. —sanctions on the Iranian regime. We have not allowed a dollar from Qatar or from the Iraqi electricity fund to flow to Iran.

Senator KENNEDY. That's just not true. Senator Menendez explained that to you.

Mr. ADEYEMO. The money—

Senator KENNEDY. How can you be that obtuse?

Mr. ADEYEMO. Senator, as I've said, our goal is to make sure that we take every action to prevent Iran's destabilizing activity in the region. We're going to continue to go after Iran's sale of oil and try and limit their ability as best we can using the tools that you've given us. I'm here, before the Senate asking for additional tools that will allow us to continue to do that.

Chair BROWN. OK. Senator Kennedy you've made your point. Senator Warner from Virginia is recognized.

Senator WARNER. Thank you Mr. Chairman. Deputy Secretary I've enjoyed working with you for a long time. I'm a little unclear. I just want to make sure, and you know, for the record, what are

the circumstance in Qatar or Iraq? Iraq, I know for example, being able to purchase additional electricity. Any of those dollars go to Iran?

Mr. ADEYEMO. No, none of those dollars have gone to Iran. None of those dollars will go to Iran.

Senator WARNER. No ands, ifs, but, no secret passageways, no other kind of things that may have been alluded to. Are any of those U.S. dollars going to Iran?

Mr. ADEYEMO. No, those are not U.S. dollars. Those dollars—

Senator WARNER. Those are dollars that were—

Mr. ADEYEMO. —that money will not be—

Senator WARNER. —they were dollar denominated that were owned by these other Nation States.

Mr. ADEYEMO. Yeah.

Senator WARNER. But even those assets owned by these other Nation States that happen to be denominated in dollars through any of your—the Trump administration's actions—are any of those dollars ending up?

Mr. ADEYEMO. No. And they will never flow to Iran. They will never go to directly to Iran.

Senator WARNER. OK. No magic doors. Thank you. One of the—I do want to talk about what you're up here on, because I do think we need some additional tools. And one of the things I say to my colleagues, you know, we—back in 2016—we put in place legislation to go in term to secondary sanctions on—I'm sorry, Hezbollah.

Since that time we've seen new ways to move assets around, crypto being one, banking systems finding ways around sanctions. That's why I put together legislation with Senate Reed and Senate Round, Senator Romney called The Special Measures to Fight Modern Threats Act.

Subsequently, I introduced the CANSEE Act to help to deal with the efforts to evade sanctions using DeFi. The truth of the matter is, you—for all of the angst and anger and concern, there's something we could do in a bipartisan way that would be really simple. And I still can't completely understand and I've talked on to my Republican colleagues who I think are in agreement with me, that say the same kind of legislation we put in place to go after Hezbollah. Shouldn't we put that kind of legislation with those additional tools in place to go after Hamas?

Mr. ADEYEMO. Completely agree with you, Senator, and I think we've been happy to work with you and the bipartisan Members who are interested in working on this legislation.

Senator WARNER. And our bill expands coverage to foreign financial entities that facilitate transactions for any terrorist group. Again, that whole notion of secondary sanctions, so that we can clear up and make sure that no matter what talking points you're talking to. You can answer a question straightly that, we are going to go after Hamas and any of their secondary funders, no matter what form of currency or fiat they use. And I know you've been trying to do this with Executive order, but I think as you've repeatedly said, you need additional tools.

Mr. ADEYEMO. We do. And we appreciate the work that you're doing on this tool because we think it'd be useful for us and something where we'd be prepared—

Senator WARNER. If we were to have those additional tools. Describe specifically what would be—what you could do in terms of limiting Hamas' access to fund regardless of their source around the world?

Mr. ADEYEMO. Fundamentally, one of the problems today is that while we take actions to make it harder and harder for Hamas to move money through the traditional financial system. What they're attempting to do is to use everything from individuals to carry cash to cryptocurrency, to move money into Gaza.

It's hard to move money by people given what's happened—what's going on with the border. But cryptocurrency is far easier. Having a secondary sanctions tool will mean that when we take an action, it will pause other actors from touching the nodes in the cryptocurrency ecosystem that are potentially helping Hamas to move their financial resources and will make it harder for them to move them and potentially even stop their movement in the place where they exist at the moment.

Senator WARNER. Well, one of the things that I was proud to work with the Chairman on and the former Ranking Member, Senator Crapo, where we tried to significantly advance AML/KYC, kind of the how we figure out who people are doing business with and where the bad guys are.

I personally believe that if we—looking at the Office of Terrorism Financial and Independence, or OFAC or FinCEN, these entities—even looking back years ago—are under enormous strain as we try to track down bad guys sources of funds, particularly in an increasingly complex financial world.

Do these entities, we all agree we do want to go after the bad guys, but do these entities need additional resources if we're going to give you these additional tools?

Mr. ADEYEMO. They do, Senator. Ultimately what we know is that these actors are well-funded and looking to move their money as quickly as possible. Making sure that the talented men and women who work on these issues have the resources they need to go after this problem set is critically important.

Especially given that from Russia to Hamas, the thing that they are looking for is access to money. We need the money to hire talented men and women and to pay for the technology that's necessary to track their funds and shut them down.

Senator WARNER. Again, I thank you and Mr. Chairman, I again appreciate the witness' willingness to restate again for the record that these dollars or these resources that were owned by other Nation States that happened to be delineated in dollars, that whatever sanctions relief that was granted did not end up with those resources flowing into Tehran, regardless of how much some of my colleagues may say otherwise. Thank you.

Chair BROWN. Senator Tillis of North Carolina.

Senator TILLIS. Thank you, Mr. Chairman. Thank you for being here. Actually, I want to start just by saying I think some of the frustration you're going to hear, we could go back and forth on whether or not licensing is in fact allowing flow of resources.

There's an underlying frustration with the actually, I think with the Obama administration, and the Biden administration on money that has indisputably gone to Iran and in connection with the JCPOA.

We're very frustrated by that because we see them as a malign actor that's making the world less safe and certainly destabilizing Middle East. So, I admire your poise, although I may disagree with a few of your answers. I'm not going to go down that path.

I want to talk more broadly, in the classified briefing I mentioned that we wanted to get a punch list of things that we could work on around illicit finance, and particularly using digital assets to move money around. You provided a document to us, and at least a couple of provisions have been instructed in a discussion draft that we put out this week called the Enforce Act, that I'd like to get with the department and see if we can address any concerns that you have.

For my colleagues, what we're trying to do is provide something that I believe that can be implemented that is also instructed by the reality of a distributed ledger. I believe some of the know your customer, the BSA-AML reporting provisions that even the department are considering do not work in a distributed ledger environment.

And so, what we're trying to do is propose something that we believe is a good tool and that will not regulate us out of being a viable player in the digital asset or crypto space.

The thing that we have to recognize here, I hear it all the time with some of my friends on the other side of the aisle, they want more regulations for traditional bankers. At some point, we make the United States less attractive for certain enterprises to be based. And, crypto is probably—and digital assets generally are likely one of the most mobile enterprises that can simply go somewhere else, if our reporting requirements become too burdensome.

So, we need a light, lean regimen, I think, to make this work. Now to the crypto folks some of them in the Enforce act, and I would like to get your read on it. I think that it's a good first step. And hopefully we will be able to get Senator Hagerty, co-introduce the discussion draft with me this week.

We can at least have that as a first step. The one thing I would tell people in the crypto or digital asset space, that's saying, nothing to see here, everything's fine. They're wrong. There needs to be some light regulatory regimen put into place, otherwise, there are risks. Think FTX, think a lot of other issues out there that we want to adjust for.

We want to create the most hospitable environment for digital assets to thrive. We don't want to overreach and lose the opportunity to be that jurisdiction. And so, do you, again, do you acknowledge the inherent problems with trying to imply the old sort of banking construct BSA-AML and know your customer to a distributed ledger of digital assets?

Mr. ADEYEMO. So, Senator, I do think that to your point, we have to take a differentiated approach depending on the type of tool, and that's why we would use this even under our proposal in a risk-based manner. And to your point of trying to make the America—the United States a jurisdiction that is able to win even in this

space, I think one of the proposals we have—in our proposal—is giving us the ability to—

Senator TILLIS. How do you calculate the risk base—so that’s a way of saying, I’m going to put my foot on the accelerator or not, based on someone in Treasury’s assessment of the risk a given entity represents. Is that what you’re suggesting?

How does that give me any certainty you know, if I’m in this space? Because it seems like to me that could differ from an Administration that listens to Thom Tillis on financial regulations, first Administration that listens to Elizabeth Warren on financial regulations.

She’s a friend and colleague of mine. We have differences in terms of the role Government should play or just how far down they should go. So, it sounds like to me, that could ebb and flow and not necessarily provide certainty that provides the sort of fertile ground for us being able to define the gold standard of digital assets and crypto regulations?

Mr. ADEYEMO. So, Senator, the one thing that I think we’ve all seen is that as the crypto ecosystem evolves and it evolves quickly, we’re going to need to think about the regulatory approach as that evolution takes place.

The goal here is to use the regulatory process to do this. And part of the—one of the things that the regulatory process provides to these companies is a bit of certainty because there’s a notice and comment piece of this where those companies have the ability to provide feedback, and that once those rules are in place, what we found—

Senator TILLIS. What kind of timeframe? My time is up. I don’t want to go too far over. I did have a closing comment for you—Mr. Chair, if I may—But what kind of timeframe are we talking about, through notice and comment before you’d promulgate a rule?

Mr. ADEYEMO. So, Senator, it all depends on how complicated it is—

Senator TILLIS. Roughly.

Mr. ADEYEMO. —but it could be as quickly as a year before you have a full, you go through a—

Senator TILLIS. So, I guess the question that I have that—we’ve got an election coming up—there may be a change of Administration. If there is a change of Administration, there will be a vastly different view about how you go and regulate in this space.

And so, I for one, would like to look at the possibility of working with your office to address some of the things in your punch list that we agree with, so that we may be able to get regulations on the books in this Congress. That will certainly not go as far as some of my colleagues on the other side of the aisle want to go, but far short of the wild, wild west that we find ourselves in now.

Mr. ADEYEMO. I look forward to working with you on that Senator.

Senator TILLIS. And Mr. Chair, the only other thing I was going to suggest, I know that we’re talking about maybe this being illicit finance and terrorism. But Senator Warren and I have talked about the broader issue. Cartels, now—it’s passe to launder the old way—cartels use digital and crypto platforms to launder at scale.

And by scale, I mean in the billions. I think it'd be very helpful—I got a briefing about a year and a half ago from DEA, I mentioned this to Senator Warren before—I think it'd be very helpful to have a joint classified briefing to have Treasury and DEA in the room and see how we can, if we get right here and we implement a good regulatory regimen. We're going to put cartels, transnational criminal organizations and terrorist organizations in a much more difficult position to move cash around. Because now they're doing it really without any obstacles whatsoever.

Chair BROWN. Thank you. Senator Warren of Massachusetts is recognized.

Senator WARREN. Thank you very much, Mr. Chairman. It's good to see you, Deputy Adeyemo and thank you Senator Tillis. I just want to follow up in the same area, and if I can, I want to lay a little background here. In November, after reports that Hamas had received millions of dollars in crypto funding in the months before its terrorist attack on Israel, Treasury wrote a letter requesting Congress' help in closing the gaps in our anti-money laundering rule.

Deputy Adeyemo, can you explain why you sent us this letter? What were you seeing that caused you to send us this letter asking for us to change the law?

Mr. ADEYEMO. Senator, as I spoke to my team about increasingly targeting Hamas' financial network, what I was seeing was the fact that as we went after their traditional financial resources in banks, that they were going to turn to other means of financing that could frankly even be faster and harder for us to track in cryptocurrency.

And yesterday I had an opportunity to sit down with the families of Americans who are being held hostage by Hamas today. And they asked me, what, if anything, can we do to cutoff their finances? And I explained to them the actions we're taking in the traditional financial sector.

But I told them frankly, that one of the places where we need additional tools is to be able to make sure that we don't allow Hamas to buildup assets in the digital ecosystem using virtual currencies that are hard for us to track. Because that is money that they will use to continue to come after, not only Israel, but also to destabilize the region.

Senator WARREN. So how is it right now that Hamas has access to money or some form thereof of financing for themselves?

Mr. ADEYEMO. They are increasingly in my view, turning to alternative means of financing, given what we've done in terms of their ability to do the traditional financial system.

Senator WARREN. So, what does that mean, alternative means of financing?

Mr. ADEYEMO. One of those is cryptocurrency. And cryptocurrency is a means that while we're using every tool we have, we need additional tools to go after.

Senator WARREN. OK. And it's not just Hamas and terrorists that are using crypto financing. North Korea, ransomware gangs, drug traffickers, distributors of child sexual abuse materials—name your bad guy—and crypto is the way that they can move money around.

Now, your letter that you sent to Congress follows a basic principle. Activities with similar functions and similar risks should follow similar rules. So, I want to look at an example of that. I want to look at one of the middlemen examples, validators.

So, validators are the middlemen between the payer and the receiver, and they help process crypto transactions. In the traditional banking world, if a bank transacts with somebody who's laundering money, then they are breaking the law. But validators in the crypto world don't have that same set of rules.

Are there crypto validators right now that are processing transactions for North Korea and pocketing a fee for each of those transactions? Same for Hamas, same for drug lords and child traffickers.

Mr. ADEYEMO. There's reporting that I am familiar with that's public about the fact that those threat actors that you've mentioned are conducting that type of activity.

Senator WARREN. OK. So bad guys can use crypto right now because we don't have the right rules to keep them out. But I think it's worse than that. We know, for example, that Iran, one of Hamas' biggest funders, makes millions of dollars validating transactions for others that have no connection to Hamas or Iran.

So, if I wanted to send a thousand dollars worth of crypto to you, Mr. Secretary. Is it possible that when I just send it, just to send this, that Iran could be our validator and would be collecting a fee processing our crypto. All of that without either one of us knowing it?

Mr. ADEYEMO. Senator, a transaction like that is certainly possible.

Senator WARREN. OK. So, Iran, which is subject to all kinds of sanctions, is moving money through crypto and actually making millions of dollars validating crypto transactions for Americans and for everyone else. All because we don't have the right any money laundering rules in place.

One more quick question. If the crypto market grows and the number of crypto transactions increases, does that mean more money would likely end up in Iran's pockets?

Mr. ADEYEMO. Everything that we've seen says that when markets grow, threat actors use them more. And we should expect that that is what would happen here as well.

Senator WARREN. OK. And more activity, more money. You know, currently the house is working on a bill to create a regulatory framework for stable coins. Stable coins make it easier to convert dollars into crypto and crypto into dollars.

So, they are an on-ramp into the crypto world. If we're going to create new on-ramps increasing traffic, which is exactly what the house bill does, then we need a regulatory framework that will put the rules for any money laundering in place.

So that we do not have more opportunities for Iran and terrorists and drug lords and human traffickers to make more money. We've got to get those AML rules in place. Thank you, Mr. Secretary.

Chair BROWN. Senator Vance from Ohio is recognized.

Senator VANCE. Thank you Mr. Chair. Thanks to Deputy Secretary for being here. I would ask just a couple of questions about our sanctions regime and potentially, you know, efforts within this body to really ramp up that sanctions regime.



So, you and I, I believe discussed last year, excuse me you know, how the sanctions on Russia after Putin's invasion of Ukraine. What effect they were having on the Russian economy, what effects actually matched our expectations and what effects didn't match our expectations.

You know, we're a little further down the road here it's April of 2024. Do we have a good sense of how the Russian economy did in 2023, and how effective the sanctions were or were not at inhibiting Russian growth?

Mr. ADEYEMO. We have a better sense now than we did earlier this year. And to answer your question, Senator, I think what we have found is that the Russian economy has largely transitioned to a war economy.

Where all the tools of production have went from building out a diversified economy that was styled for long term growth to one that is driven by a short term need to build as many weapons as possible to further their war aims in Ukraine.

Senator VANCE. And what did their GDP grow last year do you know?

Mr. ADEYEMO. Their GDP I believe grew somewhere in the neighborhood of one to 2 percent.

Senator VANCE. OK. Which is, you know, frankly at or above some of our European allies. And I really do worry here and I agree with you that they've transitioned their economy to a war footing. That has its own internal momentum.

And one of the things I worry—I know this isn't your area of focus. One of the things I worry some of my colleagues under appreciate, is that that war footing has a certain momentum to it.

And we should be trying to arrest that war footing as much as possible. Not leaning into it and prolonging this thing. Because I worry that once Russia becomes an economy that only works in a time of war, that actually makes it more likely and—that they're going to show aggression now and in the future.

I want to sort of transition, and Mr. Secretary how aware are you of sort of the REPO Act, R-E-P-O, that's sort of moving through this chamber? Are you sort of aware broadly with its outline?

Mr. ADEYEMO. Yes, I am.

Senator VANCE. OK. So, one of the things that that does, and correct me if I'm wrong here because I'm trying to sort of think through my own view on it. But one of the really worrying provisions is that as I understand it, it would actually freeze the current sanctions regime that we have on Russia in place legally as an Act of Congress.

And so, if a future President or a second Biden term wanted to change that sanctions regime, they would need an Act of Congress to do so. Is that correct?

Mr. ADEYEMO. I'm not certain of that provision. My understanding is that it gives the President certain authorities, I don't know that it freezes the current regime.

Senator VANCE. OK. That's my understanding at least. But I think worth having a follow-up conversation, and certainly my staff will follow up as well on that particular topic. Here's the thing that

I worry about. I imagine that we have different preferences for who wins the next Presidential election, Mr. Secretary.

But whether it's President Biden or President Trump, I think it's really important for the next Administration to have diplomatic flexibilities to negotiate what will certainly, I think, be an end to the Russia-Ukraine War. Whatever end that ultimately takes. I hope to God that it doesn't last another 5 years.

And what I worry about with the REPO Act is that we actually—if we are freezing the sanctions regime, we prevent the President from having an important tool at his disposal and actually negotiating a peaceful settlement to that conflict.

Let me ask just one final question on the REPO Act. As I understand it, it would give—it would effectively force asset seizure of all Russian assets. And I'm wondering, you know, have we done that in a time of peace with a country that we're not directly at war with? Have we ever done something like what the REPO Act envisions?

Mr. ADEYEMO. So, Senator, the one thing I am clear of is that my understanding at least is the Senate version of the REPO Act gives the President the ability to, doesn't require him to do so.

And I think part of the reason for that is because we know that the vast majority of those assets are in Europe, and we'd only want to act alongside our European allies if we did something like that.

In terms of seizing the assets against a country that we're not engaged in hostility against, I don't know that we have done something like that at this juncture.

Senator VANCE. I appreciate that, Mr. Secretary. and with that, I yield the remainder of my time. Thanks for being here, and thanks for answering my questions. Thanks.

Mr. ADEYEMO. Thank you.

Chair BROWN. Senator Warnock of Georgia is recognized.

Senator WARNOCK. Thank you, Chair Brown. The United States has become increasingly reliant on sanctions as a foreign policy tool over the past 20 years. I remain concerned that untargeted sanctions may only harm the poorest of the poor throughout the world.

Oftentimes, economic sanctions as well-intentioned as they may be, are not felt by the governing class, the people who are actually making the decisions. Instead, they're felt by the poor and the meek. Those with little say over the activities of those in power, there literally caught in the crossfire. There's an old African statement that when the elephants fight the grass suffers.

Deputy Secretary Adeyemo, shortly after you took office in 2021, you led a broad review of the sanctions administered and enforced by the Treasury Department. What were the reviews findings regarding how we can best ensure that our sanctions have the intended effect and deter bad behavior?

Mr. ADEYEMO. So, Senator, I appreciate you asking this question because I think it is an issue that we don't speak enough about, which is that we need to make sure that our sanctions are targeted toward the threat actors, and that we do as much as possible to reduce the harm against innocent individuals.

That's why one of the findings of the sanctions review was the need to have very clear humanitarian carve outs for the vast majority of our sanctions programs. But in addition to that, we needed

to make sure that these sanctions are tied to a clear foreign policy objective.

And that two, they're narrowly targeted in order to make sure that we have an impact on the threat actor, but not on the overall population. I think the findings of that sanctions review has influenced what we've done with regard to Russia and continues to influence the way we think about using sanctions going forward.

Senator WARNOCK. Thank you so much. It's, so important that the sanctions do what they're actually intended to do, and that we don't create needless harm on suffering in innocent people who are already marginalized.

Speaking of humanitarian aid, and you talked about this humanitarian carve outs as part of your response given the findings of the study. As you know, Gaza is experiencing right now a humanitarian crisis of unspeakable—at unspeakable levels. The trickle of aid entering Gaza is not nearly enough, not even close, to meet the needs of the Palestinian people. And the majority of Palestinians in Gaza are at severe risk of famine.

We must ensure that U.S. policy is not standing in the way of providing urgent humanitarian assistance to Palestinian civilians, particularly the children. And at the same time, there's a real risk of terrorist groups like Hamas diverting aid for its own benefit.

That's why I was glad to see Treasury issue guidance on providing humanitarian assistance to the Palestinian people without inadvertently financing Hamas very shortly after October 7th.

Deputy Secretary Adeyemo can you update us on the implementation of this guidance regarding issuance of general licenses and regarding oversight?

Mr. ADEYEMO. So, Senator, one of the things—the early things we did after Hamas' brutal attack on Israel was take actions to go after Hamas' finances. But we also sat down with financial institutions and humanitarian groups to make sure that they had the ability to continue to provide legitimate aid and financial assistance in Gaza.

One of the things that we learned at that point was the challenge wasn't U.S. sanctions given our humanitarian carve out, but was the sanctions put in place by some of our allies.

Soon after I traveled to Europe and with our European allies, worked with them to put in place a similar humanitarian carve out in their program in order to put us all in the same position where we could both target actions to go after Hamas, but to ensure that legitimate humanitarian assistance can flow through.

My goal and my team's goal is to continue to meet with financial institutions, but also with aid groups to ensure that our sanctions are in no way prohibiting the legitimate flow of financial resources and other resources into Gaza.

Because to your point, I agree that not enough is being done, not enough is getting through. And we have to do everything in our power to make sure that we change that dynamic.

Senator WARNOCK. So, what needs to happen for the delivery of aid to be more effective?

Mr. ADEYEMO. So, Senator, this is not primarily in my domain. The issues that are in my domain though are making sure that financial resources are able to flow. And the goal there has to be the

continued engagement, not only of the United States Government, but of the U.K. Government and the EU Government.

The countries that are primarily putting sanctions in place with our financial institutions and with our humanitarian groups to ensure that they are not in any way being blocked in the delivery of legitimate humanitarian assistance.

What I've heard from those groups to date is that the challenge they face is a fiscal one in terms of being able to get aid in not a financial one. And, but what I've also told them is the moment they feel as if in some way they have a financial block, I want them to call me immediately.

Because our goal is to make sure that our sanctions are targeted toward Hamas, not toward impacting the innocent Palestinian people.

Senator WARNOCK. I couldn't agree more. Thank you so very much. We have to work to ensure that there's rigorous oversight of aid to Palestinians working also with our European and other allies to both ensure that it actually provides assistance to those in need.

And we want to certainly make sure that Hamas does not divert any sort of aid for its own purposes. Thank you so very much, Mr. Secretary.

Mr. ADEYEMO. Thank you.

Chair BROWN. Thanks, Senator Warnock. Senator Britt of Alabama is recognized.

Senator BRITT. Thank you, Mr. Chairman. I will get right to it. Thank you so much for being here. I appreciate the opportunity to have the conversation. Is there any doubt in your mind that the Iranian regime is the largest State sponsor of terrorism against the United States and our allies across the globe?

Mr. ADEYEMO. None, Senator.

Senator BRITT. None. So, when we look at this, you know, I take a step back and kind of—it's frustrating for me because I see this Administration take a posture of appeasement. When I'm looking at it, you look from the decline of the strategy of maximum pressure under the previous Administration to kind of where we are now.

And I'm thinking if we all agree that Iran is the largest State sponsor of terrorism, why wouldn't we be using, you know, every tool in our toolbox to make sure that we prevent them from benefiting financially?

And so, we've seen Iran's oil profits soar since January, 2021, reaching over 80 billion and counting. And its steel exports have actually increased twofold. So, I guess my question is, has the Biden administration's enforcement authorities—have your sanctions enforcement authorities been limited at all since you've gotten to Treasury?

Mr. ADEYEMO. No, Senator. We've put in place 571 sanctions against the Iranian regime. And I know that we've spoken personally about what's happening with steel, where we've sanctioned the top steel producers in Iran. And the steel they're selling today is illicit and illegal. We have to do more and must do more to cutoff that illicit transaction. But those companies have been sanctioned by us.

Senator BRITT. So, let's talk about the steel specifically. What more do you think we could be doing? What tools do you need or could we use at a greater level in order to crack down on that?

Mr. ADEYEMO. So, Senator, one of the things we have to do and that we are doing is working closely with the intelligence community to find out how they're illicitly selling what is illegal steel at this point. To go after those nodes that are helping them to do that. So, what you should expect is we're going to continue to take actions there.

One of the reasons I'm here though is that you mentioned oil and while Iran is selling oil, one of the challenges they're having is getting the money back to Iran. Given what we're doing in the financial sector.

The thing that I am worried about is that Iran will increasingly turn from using the formal financial sector to move their assets and increasingly use cryptocurrency because we don't have tools there.

Senator BRITT. Well, if you just look at where you are right here on—so if you look at, you know, we hit Iran's oil, you mentioned the oil exports receipt. They reached a 5-year high last year of 42 billion compared to, if you look at the 2020 numbers, 7.9 billion. What do you attribute to that difference?

Mr. ADEYEMO. One of the things that the Iranians are increasingly doing is, they're consistently looking for ways to do everything from ship-to-ship transfers, using the gray fleet, using intermediaries to try and sell their oil.

While we've put in place more than 500 sanctions against Iran, what we're finding is that the Iranian regime, given their desperate need for cash, is doing things to try and get around our sanctions.

So, we're going to continue to use our sanctions authorities, but ultimately that is going to continue to make it more costly for Iran to try and get around them, but they're going to continue to try.

Senator BRITT. Are there any kind of—given the data points of this past year and it being a high versus where we were in 2020. Are there any tools in your toolbox that you're not using to the fullest extent possible?

Mr. ADEYEMO. So, Senator, I think the thing that I've asked my team to do is to come back to me and talk about what else we can do. And I think the key for us is not only what the United States can do, but how do we build an international coalition, frankly. Because one of the things that we benefited from in the past was that it wasn't just the United States acting, but we were acting alongside our allies and partners.

And while today we've been able to get in other countries to come alongside actions we've taken against UAVs when it comes to Iran and some of their military components, we've been less successful in terms of going after their petrochemical industry.

So, I think part of this is a diplomatic effort to get other countries to join us and taking those actions because what Iran is doing is that they're moving their petrochemical industry into the shadows and they have—and they're doing things that have fewer touch points with the U.S. dollar, which is the thing that I can use. So, we need to get other—

Senator BRITT. Are there loopholes specifically that they're using with regards to Russia and China that where we need to close those?

Mr. ADEYEMO. So, in terms of the petrochemical industry, they're actually a competitor to Russia because fundamentally they're selling the same thing on the market. So, I think they are not working together in this space.

I think from my standpoint, we're using the tools that you've given us to try and impact them using our dollar-based tools. But they're often trying to transact in ways using everything from front companies to other currencies that require us to build a broader coalition.

Senator BRITT. So last thing, I only have a few seconds left. When you look at the switching gears at the Corporate Transparency Act for small businesses, what are you doing to ensure small businesses are aware of those new reporting requirements?

Mr. ADEYEMO. One of the things I'm personally doing is speaking to small business interest groups and talking to them about what we can do to try and make sure that the small businesses they represent know about the Act.

And I think one of the things that we would appreciate is working with your offices so that we can go back to your district offices and do presentations about how small businesses can sign up. Fundamentally, what we know is that the vast majority of small businesses throughout our country want to do the right thing, will want to sign up.

And by doing that, it allows us to find those illegitimate small businesses that are often creating threats. So I'm happy to work with your office to set up webinars in your district to send people down to your States to help make sure your small businesses are aware.

But we're launching an all-out campaign to make sure that small businesses throughout the country are aware of the need to register.

Senator BRITT. Excellent. I just want to make sure that they have that outreach. So look forward to working with you on that. Thank you, Mr. Chairman.

Mr. ADEYEMO. Thank you.

Chair BROWN. Senator Cortez Masto of Nevada.

Senator CORTEZ MASTO. Thank you Mr. Chairman. Deputy Secretary, it's good to see you.

Mr. ADEYEMO. Good to see you as well.

Senator CORTEZ MASTO. Thank you for being here. Last year, Treasury's Office of Foreign Asset Control brought sanction against several individuals and companies involved in the manufacturing and distribution of fentanyl among other illicit drugs.

In addition to sanctioning these individuals, OFAC identified several cryptocurrency addresses associated with these known traffickers. And OFAC investigation shows a pervasive and deep interconnectedness of illicit drug trafficking and crypto.

The addresses identified by OFAC collectively received just under \$3.8 million worth of cryptocurrency. So, my question to you is, do you think Treasury has the adequate tools and expertise to effec-

tively combat the use of crypto in financing drug trafficking rings? And if you don't, what do you need?

Mr. ADEYEMO. Senator, several months ago, Secretary Yellen set up a strike force to go after fentanyl because she sees the threat that it presents, not only to American lives, but to our national security as well. And what we know is that these actors, these drug kingpins who are often just criminal business executives, are increasingly moving to using crypto, as you mentioned.

And the reason I'm here is because we need additional tools from you and the Senate to go after them. Those tools include the ability for us to, for example, go after cryptocurrencies or other parts of the crypto ecosystem that claim to be dollar backed, but to be trying to escape U.S. jurisdiction. Which makes it harder for us to go after them.

We also need to update the definitions in our rules. So, they include the crypto ecosystem, so the Bank Secrecy Act, and also IEEPA. And finally, we would like to have a secondary sanctions regime that allows us to also make clear to traditional financial institutions that you should not engage with parts of the crypto ecosystem that are doing illicit transactions.

Senator CORTEZ MASTO. Thank you. And would the FEND Off Fentanyl Act support your enforcement actions?

Mr. ADEYEMO. Taking actions like that and taking actions that would provide us with additional authorities to go after fentanyl would be quite helpful. I think the challenge we have is that taking those actions in the traditional financial system will mean that more of these actors will likely turn to things like virtual currencies to try and escape us, unless we update and reform some of the rules that we have today for going after those actors.

Senator CORTEZ MASTO. I'm interested also in learning about—and this is a new term because of crypto. But learning about cryptocurrency mixers, and you talked a little bit about that, that help facilitate illicit financing.

My understanding is that mixers are crypto platforms that enable users to exchange cryptocurrency anonymously, by blending the cryptocurrencies of many users to obfuscate the origins and owners of the funds. And in 2022, almost 10 percent of all crypto addresses tied to illicit activity were laundered through mixers.

So, Deputy Secretary, can you explain a little bit about these mixers and the acute risk of bad actors using them to engage in illicit finance?

Mr. ADEYEMO. Senator, I think you made it very clear what they are. They are ways for people and for entities to hide their identity and to move money illicitly through the crypto ecosystem with the hope that they can turn that into hard currency at some other point, and be able to get access to their ill-gotten gains.

We've taken some actions against mixers, including using a 311 action to go after them. But my concern is that without the tools that we have requested from the Senate, we don't have the ability to go after these parts of the virtual currency ecosystem that are being used by threat actors, but may not be based or have U.S. jurisdiction.

That's why we think it's essential that we get these tools because as we take steps to go after the traditional financial system, where

we have a great deal of visibility where these threat actors exist, they're naturally going to turn to new tools like mixers to hide their identity.

Senator CORTEZ MASTO. Absolutely. And that's why I appreciate the need for the expanded tools of enforcement for areas like this and support it.

Mr. ADEYEMO. Thank you.

Senator CORTEZ MASTO. I do think it is so important we address the use of cryptocurrency for money laundering and to engage in illicit activities for so many reasons. So, thank you for being here again. Thank you, Mr. Chairman.

Chair BROWN. Thank you, Senator Cortez Masto. OK. Mr. Secretary, thank you for joining us, for being here and providing testimony. Senators who wish to submit questions for the record, those questions are due 1 week from today, Tuesday, April 16th. The witness will have 45 days to respond to those. Thank you, again.

The meeting's adjourned.

[Whereupon, at 11:59 a.m., the hearing was adjourned.]

[Prepared statements and responses to written questions supplied for the record follow:]



# **PREPARED STATEMENT OF CHAIR SHERROD BROWN**

We face threats to American national security and global stability every day. Autocrats and terrorists and drug traffickers work to undermine our economy, our values, and our way of life.

Sophisticated international cartels traffic fentanyl into our communities. China supplies precursor chemicals to Mexican cartels, feeding our deadly fentanyl epidemic.

Russia's brutal invasion of Ukraine continues, and Putin looks for new ways to fund his war machine.

Iran is financing terrorist proxies that wreak havoc all over the Middle East, from Hamas' brutal October 7th attack on Israel, to the Houthis attacks on shipping in the Red Sea and Hezbollah's menacing activity.

All of these bad actors need one thing: money.

Terrorists, fentanyl traffickers, the Russian military—they all need to spend and move money, and they all use the financial system, in a variety of ways, to do it.

That's why we must use all available economic tools to defend American interests and American values.

That means denying bad actors access to the global financial system and broadening our coalition of partners to prevent terrorism and the flow of illicit finance that supports drug traffickers and money launderers.

Terrorists, criminals, and rogue Nations will never stop in their efforts to evade our sanctions regime. We must be equally vigilant.

Vigilance requires that our national security leaders have the authorities and the resources they need to stay ahead of these bad actors.

Today, we will hear from Deputy Treasury Secretary Adeyemo and discuss our strategy for combatting illicit finance.

Treasury leads the work to stop illicit actors from exploiting the international financial systems to fund their crimes and terror activity.

Deputy Secretary Adeyemo should provide an assessment of the effectiveness of our recent sanctions enforcement efforts. And we will hear about what statutory gaps stand in the way of our ability to root out and stop illicit finance.

Congress must respond.

Last year, this Committee worked together in a bipartisan way to design a new sanctions program—the FEND Off Fentanyl Act—that can help reduce the flow of fentanyl into our communities.

FEND Off Fentanyl has 67 cosponsors. It passed out of our Committee unanimously. It passed in the Senate—twice.

Americans can't wait any longer. This needs to get to the President's desk and be signed into law.

As FEND makes clear, our Committee plays a critical role in protecting our communities and protecting our national security. This Committee works to strengthen tools we have to go after anyone who threatens us, and it conducts oversight over how the Administration uses those tools, including their use of waivers or exceptions.

And when bad actors turn to new routes to raise and move money—like crypto—this Committee must respond. Our adversaries are going to innovate, and we must make sure our illicit finance tools keep up.

Last November, the Justice Department, in an effort led by the U.S. Attorney for the Northern District of Ohio and the DEA, charged eleven people in a drug ring. They allegedly trafficked fentanyl, synthetic opioids, and other drugs across Ohio, Pennsylvania, Kentucky, and Tennessee.

And they paid their suppliers in Bitcoin.

Just last week, the *Wall Street Journal* reported how Russian smugglers use the stablecoin Tether to evade sanctions on Russia's war machine. Tether is a "key step in the chain" of illicit transactions, one smuggler said.

North Korea has hacked, stolen, and laundered hundreds of millions of dollars in crypto—a strategy to avoid sanctions.

All these bad actors—from North Korea to Russia to terrorist groups like Hamas—aren't turning to crypto because they've seen the ads and bought the hype.

They're using it because they know it's a workaround. They know that it's easier to move money in the shadows without safeguards, like know-your-customer rules or suspicious transaction reporting.

These commonsense protections help identify illicit money and keep it out of the financial system.

We must make sure that crypto platforms play by the same rules as other financial institutions. And we need to make sure that we have the tools to crack down on illicit finance with digital assets, just as we would with any other asset.

Many, including the Deputy Secretary, have pointed out possible gaps in illicit finance authorities over digital assets. It's time we worked together to close any loopholes and protect our national security.

We need to think not just about how terror groups and drug traffickers use crypto today, but also about how they could exploit it tomorrow.

If we leave loopholes on the books, this problem will only get worse. We can't take that risk.

Given the range of threats we face, it is clear that the Administration needs to do more to use its illicit finance tools to stop terrorism; to push back on Iran, Russia, and China; and to stop the funding streams to the traffickers supplying illicit fentanyl to our children and our communities.

I look forward to hearing from the Deputy Secretary this morning.

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#### PREPARED STATEMENT OF SENATOR TIM SCOTT

Thank you, Mr. Chairman, and the Secretary, thank you for being here with us this morning.

Today is an important opportunity to discuss American leadership, especially on the global stage.

I've often said that we, the United States, must leverage our international toolkit to stop bad actors, curb illicit activity, and protect American families.

Thankfully, agencies like the Treasury Department already have robust toolkits available, as well as in instances where additional direction is needed, I have not shied away from providing more resources and direction like those in my FEND Off Fentanyl legislation and my Revoke Iranian Funding Act, as well.

So I appreciate having you here with us this morning.

South Carolina is the proud home to many of our U.S. servicemembers, their families, and our veterans.

I'm proud of this fact and my important duty to serve their interests.

Which is why it was particularly profound and deeply troubling when three U.S. servicemembers were killed in January's Iranian-backed terror attack.

I will keep saying this, because it's true, every dollar this Administration gives to Iran is another dollar that will be used against our sons and daughters and puts them in harm's way in the military.

Thankfully, the Treasury Department has the ability to stop the dollars moving around our global economy that bolsters the Iranian regime.

However, this White House has reduced those barriers through so-called electricity waivers with expanded currency access to euros, licenses, and further billion-dollar payouts.

Going even so far as to give a lifeline to Nicholas Maduro's corrupt regime in Venezuela, a known ally of Iran, China, Russia, and Cuba—an axis of terror—through broad oil and gas sanctions relief.

Of which we have seen no benefit to U.S. national security or to the Venezuelan people who suffer under Maduro.

This is beyond troubling.

Especially when our servicemembers are killed in terror attacks by Iranian proxies and our families here at home are struggling to put food on the table.

When we look here at home, there's not a single neighborhood, whether that's Charleston, South Carolina, or Cleveland, Ohio, that has escaped the death grip of fentanyl.

And I'm very proud of this Committee's work to address this crisis, and for the support of all the Members of this Committee working together to stop this deadly drug.

Because what fentanyl, produced and trafficked by the Mexican cartels and supported through Chinese precursors, has done to our communities is a national security crisis.

I remain committed to seeing this legislation pass into law and to stopping the flow of illicit money and drugs across our border.

Every family in America deserves to be free from the scourge of this deadly drug.

I started with these two issues because I believe they should be top of mind for this Administration and this Committee.

And yet, just last week, Secretary Yellen was in China to discuss how cheap Chinese exports of green energy technology are harming electric vehicles and solar energy here in the United States.

This is a clear climate goal of this Administration, but far from the top goal we should be pushing back China on.

A perspective that's frankly hard to stomach when Hamas is enabled by support from Iran to carry out horrific attacks against our ally Israel.

All while China continues to be the top purchaser of Iranian oil and top financier to international web of illicit financing used by the Mexican cartels to kill people using fentanyl.

This needs to stop. Saving lives cannot play second fiddle to progressive climate goals.

We need to see real efforts by China to stop these activities that undermine U.S. national security interests.

America must be a strong leader.

Fentanyl and terrorism are leading threats and should be treated as such.

American families deserve to know that their Government is protecting them of these threats and punishing those who trouble us.

Thank you, and thank you for holding this hearing, and I look forward for the opportunity to question the witness.

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### **PREPARED STATEMENT OF ADEWALE O. ADEYEMO**

DEPUTY SECRETARY, DEPARTMENT OF THE TREASURY

APRIL 9, 2024

Chairman Brown, Ranking Member Scott, and Members of the Committee, thank you for the invitation to join you here today.

As you all know, the Department of Treasury—alongside our colleagues across the U.S. Government—have committed to using our tools to protect our national security. Today, I'm grateful for the opportunity to talk with you about the ways we can continue driving this work forward.

As we take steps to cut terrorist groups and other malign actors off from the traditional financial system, they look for innovative ways to move resources. Over the past several years, we have seen terrorist groups trying to take advantage of innovations in cryptocurrencies. For example, 5 years ago, al-Qaeda and affiliated terrorist groups, largely based out of Syria, operated a bitcoin money laundering network using social media platforms to solicit cryptocurrency donations. After receiving virtual currency, they laundered the proceeds through various online gift card exchanges to be able to purchase what they needed to advance their violent agenda.

More recently, over the past year, we have seen the Islamic Revolutionary Guard Corps—Qods Force (IRGC-QF) transfer cryptocurrency to Hamas and the Palestinian Islamic Jihad (PIJ) in Gaza. In addition, we have seen Hamas use virtual currencies to solicit small-dollar donations, and we have been able to take action against these networks.

Our problem is that actors are increasingly finding ways to hide their identities and move resources using virtual currency. What has always been true is that terrorists and other malign actors seek new ways to move their resources in light of the actions we are taking to cut them off from accessing the traditional financial system.

Today, because of the authorities Congress has provided us, we have a long track record of taking action to make it harder for these groups to use the traditional financial system to move money. We continue to use our authorities aggressively to cut off the illicit finance networks that enable illicit actors worldwide, including Hamas and other Iran-backed proxies, Russian oligarchs, and ISIS, to name a few.

The more effective our targeting has been, the more reason there is for these terrorist groups to look into virtual assets. And, to be clear, it's not only terrorist groups, but State actors like the DPRK and Russia as well.

The DPRK, which through numerous complex State-sponsored cyber heists, is able to acquire, launder, and store illicit revenue. It relies on anonymity-enhancing technologies like mixers to hide the sources of its funds. And it leverages over-the-counter digital assets traders to acquire

fiat currency. In addition, we've seen Russia increasingly turning to alternative payment mechanisms—including the stablecoin tether—to try to circumvent our sanctions and continue to finance its war machine.

While we have had some success in rooting out illicit finance in the digital asset ecosystem, we need to build an enforcement regime that is capable of preventing this activity as more terrorists, transnational criminals, and rogue States turn to digital assets. That's why we sent the Committee proposals to strengthen counter-terrorist financing authorities, and we look forward to working with the Committee on your ideas and proposals.

The options I sent over to the Committee in November focused broadly on three reforms. The first is the introduction of a secondary sanctions tool targeted at foreign digital asset providers that facilitate illicit finance. Today, Treasury has authorities that enable us—in many cases—to prohibit U.S. correspondent accounts and transaction processing for foreign financial institutions that have operated with a designated person. These authorities have enabled us to disrupt high-priority illicit finance streams in Russia, Iran, and North Korea. But, unlike banks, foreign cryptocurrency exchanges and some money services businesses do not have or depend on correspondent accounts for all of their transactions. A new secondary sanctions tool would help Treasury to evolve its targeting capabilities and would account for the technological changes that have rendered highly effective tools in traditional payments contexts less effective against virtual currencies.

The second reform centered on modernizing and closing gaps in existing authorities by expanding their reach to explicitly cover the key players and core activities of the digital assets ecosystem. Entities such as virtual asset service providers (VASPs) and cryptocurrency exchanges didn't exist when the BSA and IEEPA were enacted, but we know that today, they play a major role in how currency moves digitally and should be regulated as such.

Finally, a third reform addresses jurisdictional risk from offshore cryptocurrency platforms, which is a key challenge. By reforming existing authorities, we can clarify that our authorities can reach extraterritorially when digital asset entities harm our national security while taking advantage of our financial system. This will also promote a level playing field for U.S.-based VASPs.

There is clear overlap between these proposals and the bills coming out of this Committee. We agree that the use of these emerging technologies by illicit actors can have impacts on the national security, foreign policy, and economy of the United States. That's why the United States has a strong interest in ensuring that our tools and authorities are available and ready to mitigate the risks in this quickly evolving ecosystem, including for dollar-based digital assets in particular.

As you know, my team has been actively involved in providing technical assistance on these topics and we are working to find solutions that balance the threat, our current capabilities, and where we may require additional authorities. The Treasury Department is eager to continue working together through the details of this Committee's proposals. We all share the common aim of ensuring that in the pursuit of technological innovation we do not disregard the safeguards that instill trust and reliability in the U.S. financial sector.

While we continue to assess that terrorists prefer to use traditional financial products and services, we fear that without Congressional action to provide us with the necessary tools, the use of virtual assets by these actors will only grow. We are grateful for the partnership of Congress and this Committee in helping Treasury root out illicit finance from the U.S. financial system and to hold illicit actors accountable. I look forward to today's discussion on how we can continue this work.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR SCOTT  
FROM ADEWALE O. ADEYEMO**

**Q.1.** I remain extremely concerned by this Administration's pattern of sanctions relief to Iran. Any dollar to Iran can be used to facilitate its terrorist activities and nuclear developments. In light of this could you provide an accounting of all Iranian assets over \$1 million that are currently blocked by U.S. sanctions?

**A.1.** Yes. To the extent that the relevant blocks were reported to OFAC in accordance with its Reporting, Procedures and Penalties Regulations (31 CFR Part 501), OFAC can provide an estimate of Iranian assets valued over \$1 million that are currently blocked pursuant to OFAC regulations.

As of May 2, 2024, OFAC estimates that there is approximately \$241 million in blocked Iranian assets that were reported to OFAC as valued over \$1 million.

**Q.2.** Regarding the previously mentioned blocked assets, what steps is the Treasury Department taking to ensure that these funds remain blocked and inaccessible to Iran?

**A.2.** Iranian assets blocked pursuant to OFAC sanctions may not be transferred or otherwise dealt in without prior authorization from OFAC. Blocked assets of the Government of Iran held in the United States are often attached by terrorism victims seeking to satisfy judgments against Iran, and other blocked Iranian assets may be subject to seizure and, ultimately, forfeiture, by the U.S. Department of Justice pursuant to civil and criminal authorities. OFAC generally does not authorize Iran to have access to blocked funds and would only authorize the transfer of blocked Iranian assets in exceptional circumstances.

**Q.3.** What steps is the Treasury Department taking to ensure that Iran does not leverage these funds as collateral for loans?

**A.3.** Iranian assets blocked in U.S. jurisdiction pursuant to OFAC sanctions may not be used as collateral for loans.<sup>1</sup> In addition, Treasury continues to monitor information regarding Iran's attempts to gain access to loans and other financial resources from third countries. Such transactions could be subject to a range of sanctions, including, sanctions impacting the correspondent and payable through accounts of foreign financial institutions that engage in significant transactions with Iranian persons on OFAC's List of Specially Designated Nationals and Blocked Persons (SDN List). Foreign financial institutions risk being sanctioned by the United States for facilitating such transactions.

**Q.4.** Have there been any documented instances of Iran or the Iranian Revolutionary Guard Corps abusing so-called humanitarian transactions?

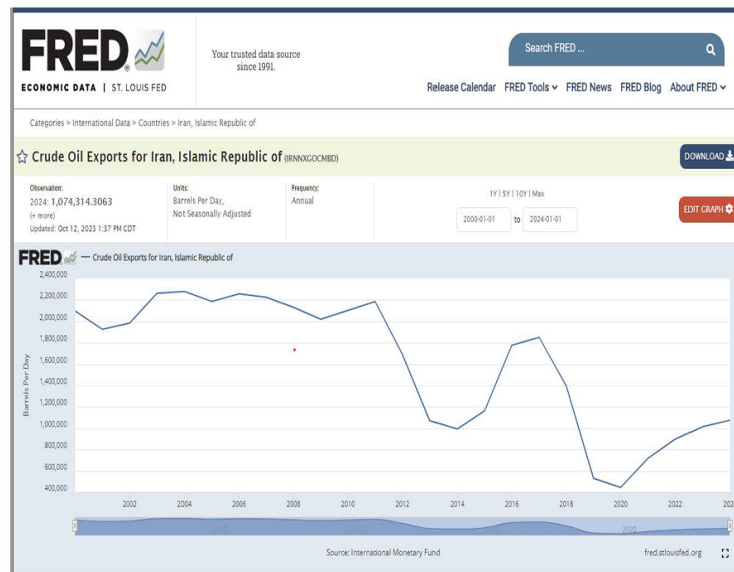
**A.4.** Restricting IRGC funding is a top Treasury priority. Treasury continues to use all available authorities to degrade IRGC revenue streams. In the last several months, we have taken multiple actions targeting IRGC-QF commercial activities, designating front companies in jurisdictions including the PRC involved in the sale

<sup>1</sup> eCFR 31 CFR 560.213—Holding of funds in interest-bearing accounts; investment and reinvestment.

of hundreds of millions of dollars' worth of Iranian commodities, including oil, for the benefit of IRGC-QF.

Additionally, humanitarian funds are being closely monitored in relevant jurisdictions, and the U.S. Government remains in close communication with those Governments and financial institutions holding restricted Iranian funds in order to prevent diversion.

**Q.5.** Iranian oil shipments have greatly expanded under your watch leading to upwards of tens of billions in yearly extra revenue for the Iranian regime. The attached chart shows the decrease in oil production that occurred during the Trump administration, which went from roughly 1.8 million barrels of oil per day at the start of the Administration to roughly 400,000 barrels of oil per day by the end of the Administration. Now, Iran is exporting over 1 million barrels of oil per day, a daily increase of 600,000 barrels under the Biden administration. This extra revenue is deeply concerning.



Why have Iran's oil exports increased under the Biden administration?

**A.5.** Under this Administration, Treasury has sanctioned more than 200 entities and individuals involved in the production, sale, and transfer of Iranian petroleum and petrochemical products abroad. We attribute the rise in Iranian oil sales, at least in part, to the recovering demand in global oil markets coming out of the pandemic. As economies recover and demand grows, we have seen an increase in entities willing to purchase or facilitate the sale of sanctioned oil, despite the risk of U.S. sanctions.

**Q.6.** What specific steps are you personally and the Treasury Department more broadly taking to stop, or at least slow down, Chinese refineries that currently buy 90 percent of Iran's sanctioned oil?

**A.6.** Treasury continues to leverage multiple Iran, counterterrorism, and counterproliferation authorities to target Iran's export of oil and other energy sector commodities.

Under this Administration, Treasury has sanctioned more than 200 entities and individuals involved in the production, sale, and transfer of Iranian petroleum and petrochemical products abroad. Since January 2024, Treasury has sanctioned over 20 Iranian petroleum brokers and 22 ghost fleet tankers involved in shipping of Iranian oil. In early February, we sanctioned Hong Kong-based IRGC-QF front company China Oil and Petroleum Company Limited, which has arranged contracts and sold hundreds of millions of dollars' worth of Iranian commodities for the benefit of IRGC-QF. Since December, OFAC has issued six rounds of sanctions targeting the network of IRGC-QF and Houthi financial facilitator Sa'id al-Jamal, to include a range of shipping facilitators and vessels in multiple jurisdictions helping the network illicitly ship Iranian commodities to the People's Republic of China (PRC). In late November 2023, Treasury sanctioned over 20 persons for their involvement in the sale of the equivalent of billions of dollars' worth of oil and other commodities, the proceeds from which benefited Iran's Ministry of Defense and Armed Forces Logistics (MODAFL) and the Islamic Revolutionary Guard Corps—Qods Force (IRGC-QF). In late January we sanctioned three entities and one individual in Lebanon and Türkiye that have generated hundreds of millions of dollars' worth of revenue for the IRGC-QF and Hizballah from selling Iranian commodities, including to the Syrian Government. Additionally, in late April, we designated MODAFL's main front company involved in the sale of the equivalent of billions of dollars' worth of Iranian commodities, Sahara Thunder, and a dozen shipping facilitators.

**Q.7.** Does the Treasury Department need additional authorities to combat Iranian oil exports?

**A.7.** Treasury leverages multiple authorities, as appropriate, to combat Iranian oil exports, including both counterterrorism and counterproliferation authorities, as well as Iran-specific authorities that allow us to target specific Iranian economic activities.

**Q.8.** I have several concerns regarding the Administration's shift in its usage of waivers that have allowed Iraq to purchase electricity from Iran. In House Testimony, Assistant Secretary Rosenberg identified that at least two transactions have occurred. We cannot make it easier for Iran to access funding abroad. As you mentioned in your verbal testimony, the Iranian Revolutionary Guard Corps will abuse any form of funding to fuel violence.

Since Assistant Secretary Rosenberg's testimony, have any more transactions from the Iraq electric waiver accounts occurred?

**A.8.** Regarding restricted Iranian funds held in Oman referenced in Assistant Secretary Rosenberg's testimony, due to changing circumstances in the region, we requested, and the Omani Government agreed, that financial institutions suspend all transactions through the channel. There have been no further transactions.

**Q.9.** The proceeds of Iranian electricity sales to Iraq held in restricted accounts at the Trade Bank of Iraq (TBI) are permitted to

be used exclusively for the purchase of humanitarian goods by Iran, as well as for a limited number of other nonsanctioned purposes subject to separate approval by Treasury. Across U.S. administrations, TBI has processed these types of transactions from restricted Iranian funds, mostly for agricultural commodities and medicine. TBI maintains a contract with a major, independent financial consulting firm to review each transaction for money laundering and terrorist financing risks. Treasury receives all reports from this independent monitor, including all trade documents. There are a limited number of international companies permitted to receive funds for these sales of humanitarian goods to Iran. Was anything suspicious identified from the transactions and has Treasury stopped any of the transactions?

**A.9.** There have been no subsequent transactions out of the humanitarian channel in Oman. The Oman channel's operation and stringent reporting requirements made possible an investigation into one transaction that raised potential trade-based money laundering concerns. Reports produced on a regular basis made Treasury aware of a potential problem, and we took immediate remedial steps to address our concerns. We continue to engage with our Omani partners to better understand this transaction.

**Q.10.** Why did your Administration change the Iraq electric waivers to allow Iraqi Dinars to be converted to euros? Why were Oman, France, and Italy added to the waiver?

**A.10.** The State Department waiver applies to payments by Iraq into restricted accounts at the Trade Bank of Iraq (TBI) in dinars as well as in euros. In general, foreign financial institutions, including TBI, manage their foreign exchange consistent with their own reserve management policies. The funds that moved from restricted accounts in Iraq to restricted accounts in Oman were in euros and remain in euros. No currency conversions were affected as part of the transfer to Oman, and the transfer from the TBI to Oman was executed completely outside the U.S. financial system.

For specific questions related to the waiver, Treasury defers to the State Department. We understand, from the State Department, that these jurisdictions are not seeking oil imports, but are jurisdictions that may have correspondent banking relationships or recipient banks in connection with the funds transfers covered by this waiver.

**Q.11.** Are Oman, France, and Italy purchasing oil subject to U.S. sanctions from Iran?

**A.11.** We understand, from the State Department, that these jurisdictions are not seeking oil imports, but are jurisdictions that may have correspondent banking relationships or recipient banks in connection with the funds transfers covered by this waiver.

**Q.12.** What are the exact amount of funds that have been transferred from Iraq to Oman under the Waiver?

**A.12.** Under Secretary Nelson testified to the House Financial Services Committee on February 14, 2024, that about \$500 million EUR have been transferred from restricted accounts in Iraq to restricted accounts in Oman under the Iraq electricity waiver.



**Q.13.** I am concerned that under your watch, the U.N.'s ballistic missile sanctions on Iran ended. We must do all that we can to deny Iran the resources to build ballistic missiles that threaten U.S. servicemembers and our allies in Israel and Europe. Iran's direct attack on Israel on April 13 makes a clear case for why Iran's ballistic missile program must be denied. Given this:

What efforts did the Treasury Department take, under your watch, to ensure that the U.N. ballistic missile sanctions were kept in place and did not expire?

**A.13.** In the lead up to the October 18, 2023, expiration the UN's restrictions on Iran's missile-related activities under U.N. Security Council Resolution 2231 (UNSCR 2231), Treasury worked with European counterparts to enable its action to retain the nuclear, conventional arms, and missile-related restrictions on Iran that were set to expire under its nonproliferation sanctions regime. Treasury, along with the State Department, met with key European counterparts involved in developing sanctions to (1) discuss the U.S. Government's position that these sanctions should not be lifted given Iran's ongoing activity related to its nuclear and ballistic missile programs; and (2) determine ways in which Treasury could support the EU's efforts to maintain sanctions on missile-related entities and individuals.

As a result of the ongoing discussions with EU counterparts, Treasury gathered information to support designations under the EU's nonproliferation sanctions of any entities or individuals on which restrictions would lift pursuant to UNSCR 2231 on October 18, 2023. Treasury passed to key EU partners information on 25 entities and 17 individuals on which restrictions would lift pursuant to UNSCR 2231 in support of the EU's planned designations under domestic authorities. On October 18, 2023, the Council of the European Union acted to maintain the restrictive measures under the EU nonproliferation sanctions regime on Iran by adopting legal acts to maintain the designations that had initially been imposed by the United Nations for individuals and entities involved in nuclear or ballistic missiles activities or affiliated to the Islamic Revolutionary Guard Corps (IRGC). The Council of the European Union also agreed to maintain sectoral and individual measures, existing under the EU's sanctions regime, notably those related to Iran nuclear proliferation, as well as arms and missile embargoes.

In coordinated actions, the United Kingdom transferred 78 designations from U.N. sanctions to the U.K.'s autonomous sanctions under the Iran Nuclear sanctions regime, and Treasury sanctioned 11 individuals, eight entities, and one vessel based in Iran, Hong Kong, the People's Republic of China (PRC), and Venezuela for enabling Iran's destabilizing ballistic missile and unmanned aerial vehicle (UAV) programs.

**Q.14.** How many meetings did you have with your European counterparts on the expiration of these U.N. sanctions?

**A.14.** Treasury, along with the State Department, was frequently in contact with EU counterparts in the lead up to October 18, 2023, regarding the expiration of these U.N. sanctions.

**Q.15.** How many times did you discuss the U.N. ballistic missile sanctions sunset with U.K. or French counterparts?

**A.15.** Treasury met with French counterparts frequently as part of its engagements with EU counterparts in the lead up to October 18, 2023, regarding the expiration of these U.N. sanctions. Treasury was in contact with the U.K. in the lead-up to October 18, 2023, regarding the expiration of these U.N. sanctions and aware of its intention to maintain sanctions on relevant individuals and entities.

**Q.16.** How many interagency meetings or calls did you have with other Executive Branch agencies on the expiration of these sanctions?

**A.16.** Treasury was frequently in contact with interagency partners, primarily the State Department and National Security Council staff, in the lead up to October 18, 2023, regarding the expiration of these U.N. sanctions.

**Q.17.** How many interagency meetings or calls did the Treasury Department participate in with other Executive Branch agencies on the expiration of these sanctions?

**A.17.** Treasury was frequently in contact with interagency partners, primarily the State Department and National Security Council, in the lead up to October 18, 2023, regarding the expiration of these U.N. sanctions.

**Q.18.** Will you commit to working to reinstate the U.N. missile sanctions on Iran?

**A.18.** Treasury maintains sanctions on all possible individuals and entities that were subject to UNSCR 2231 under its existing sanctions programs. Treasury defers to the State Department and USUN on working to re-establish U.N. missile sanctions on Iran.

**Q.19.** Do you support snapping back the U.N. ballistic missile sanctions on Iran?

**A.19.** Treasury defers to the State Department and USUN on snapping back relevant U.N. sanctions on Iran.

**Q.20.** I am extremely alarmed at your Administration's decision to provide sanctions relief to Venezuelan Dictator Nicolas Maduro. Maduro's brutal and murderous regime is the exact opposite of everything that America stands for. Maduro and his cronies steal from the citizens of Venezuela and threaten U.S. national security due to its cooperation with Iran, Russia, China, and Cuba. Additionally, his actions have further perpetuated the migration crisis that we are experiencing on our Southern Border. It is unclear to me why the Biden administration engaged in such a rushed deal with a dictator who could not be trusted. Further, I am concerned that the sanctions relief for Venezuela could then be used by Maduro to repay debts to China, Russia, and Iran, and that the relief did not sufficiently address the wrongfully detained Americans in Venezuela. In light of this:

Given Maduro's nonadherence to the terms of the provided sanctions relief, why have you not snapped back sanctions and revoked the general licenses associated with this sanctions relief?

**A.20.** The U.S. Government has not renewed General License (GL) 44, which authorized certain activity in the Venezuelan oil and gas sector. On April 17, 2024, OFAC issued GL 44A, which authorizes

a limited wind-down period for those activities that were authorized under GL 44.

**Q.21.** Moving forward, will you seek to expand sanctions pressure on the Maduro regime?

**A.21.** OFAC does not preview sanctions nor comment on future OFAC actions.

**Q.22.** What steps are you taking to ensure that our sanctions relief does not go to pay Venezuelan debts to Iran, Russia, and China?

**A.22.** U.S. persons were not authorized to engage with Russian entities pursuant to GL 44 and these restrictions remained in place during the wind down period authorized under GL 44A. In addition, GL 41, “Authorizing Certain Transactions Related to Chevron Corporation’s Joint Ventures in Venezuela”, does not authorize U.S. persons to engage in any transaction involving an entity located in Venezuela that is owned or controlled by an entity located in the Russian Federation. Regarding Iran—a general license under the Venezuela program would not authorize U.S. persons to engage in transactions prohibited by any of OFAC’s other sanctions programs, including those related to Iran.

**Q.23.** Can you assure to me that Iran, Russia, and China will not be repayed with Venezuelan revenues stemming from the General Licenses that your department provided?

**A.23.** GL 44 did not authorize U.S. persons to engage with Russian entities nor did it authorize any transactions prohibited by OFAC’s Iran sanctions authorities, and these restrictions remained in place during the limited wind down period authorized under GL 44A. Similarly, GL 41 does not authorize U.S. persons to engage with Russian entities or transactions prohibited by OFAC’s Iran authorities. Regarding Iran—a general license issued under the Venezuela program would not authorize U.S. persons to engage in transactions prohibited by any of OFAC’s other sanctions programs, including those that prohibit transactions related to Iran.

**Q.24.** What are you doing to combat the growing cooperation between Venezuela, Iran, Russia, and China?

**A.24.** Treasury will continue to use its range of tools and authorities to deter and disrupt threats to the U.S. financial system and will take appropriate action as necessary to address threats from malign actors.

**Q.25.** Recent reports allege that the African National Congress (ANC), South Africa’s ruling party since 1994, has accepted party donations from entities linked to Russia and Iran. I am concerned that Moscow and Tehran are seeking to buy influence in South Africa. I’m specifically concerned about donations from the Chancellor House Trust, a Kremlin-linked, institution, and United Manganese of Kalahari Ltd, which is linked to the sanctioned Russian oligarch Viktor Vekselberg.

Were any of these allegations discussed in your recent visit to Pretoria? If so, with whom were these discussions had, and what was the response?

**A.25.** No, these allegations were not discussed during my trip to South Africa.

**Q.26.** Is the Department investigating donations of Chancellor House Trust and United Manganese of Kalahari Ltd to the ANC?

**A.26.** Thank you for raising these concerns. However, Treasury is unable to comment on any potential investigations at this time.

**Q.27.** Can you shed light on any reforms being made by the South African Government to remediate issues identified by the Financial Action Task Force?

**A.27.** Since February 2023, South Africa has taken steps towards enhancing its anti-money laundering/countering the financing of terrorism (AML/CFT) regime including by addressing technical deficiencies in its targeted financial sanctions regime related to terrorist financing and proliferation financing, increasing the use of financial intelligence to support money laundering and terrorist financing investigations, bolstering resources of AML/CFT supervisors, improving its criminalization of terrorist financing, and developing national AML/CFT policies to address higher risks. Through active participation in the Financial Action Task Force, the United States continues to work with South Africa to encourage and support AML/CFT reforms.

**Q.28.** China has a leading role in facilitating fentanyl trafficking, both from a money laundering perspective and from their sales of precursor chemicals. In January, U.S. and Chinese officials announced a counter-narcotics working group. The announcement was an attempt to restart a working relationship with China to thwart the flow of fentanyl into U.S. towns and communities.

Has China shared any information with the United States about the financial networks supporting the money laundering activities tied to fentanyl?

**A.28.** Treasury participated in the inaugural meeting of the U.S.-PRC Counter Narcotics Working Group (CNWG) in Beijing in January 2024 to engage the PRC directly on the misuse of precursor chemicals and equipment to manufacture illicit drugs. At the CNWG, Treasury pressed our PRC counterparts to investigate a group of PRC entities and individuals recently designated by Treasury for illicit fentanyl precursor production and sale, highlighting their use of virtual currency which may also contravene the PRC's own domestic laws. The People's Bank of China (PBOC) has shared back limited information and told us that Chinese authorities are evaluating the information and will report back to us on their findings, and Secretary Yellen reiterated this request while in China last month.

In addition to the CNWG, Secretary Yellen established a new joint Treasury-People's Bank of China (PBOC) Cooperation and Exchange on Anti-Money Laundering (AML) on her trip in April 2024 to enable us to better share best practices and information to address illicit financial activity in our respective financial systems.

**Q.29.** Are there any specific results you can point to that have come from the discussions of the Counter-narcotics Working Group with China?

**A.29.** The PRC has reported taking action on certain chemical companies. We continue to press the People's Bank of China (PBOC) to take action on the group of PRC entities and individuals recently

designated by Treasury for illicit fentanyl precursor production and sale. While we continue to engage the PRC, we will not hesitate to take the necessary actions to counter the export of precursor chemicals from China.

**Q.30.** Your department's 2024 Money Laundering Risk Assessment identified the role of Chinese Money Laundering Organizations as the preferred third-party professional money laundering service provider to drug traffickers. What is the Treasury Department doing to combat the growing threat to the U.S. posed by Chinese Money Laundering Organizations?

**A.30.** Treasury is focusing on several key lines of effort to identify, combat, and disrupt Chinese Money Laundering Organization (CMLO) activity taking place through the U.S. financial system through its analysis of Bank Secrecy Act (BSA) data. The Financial Crimes Enforcement Network (FinCEN), in coordination with other interagency partners, provides direct support to U.S. law enforcement agencies investigating CMLOs and their affiliates, and strategic reporting to highlight CMLO tactics, techniques, and procedures, as well as potential points for law enforcement interdiction. FinCEN currently has analysts assigned to the Drug Enforcement Administration-Special Operations Division (SOD) to support these investigations. FinCEN also works with the Federal Bureau of Investigation-led Joint Criminal Opioid Darknet Enforcement (J-CODE) team, which, among other investigative activities, targets illegal opioid distribution on the Darknet.

Utilizing multiple sources of information, FinCEN is also working to identify the illicit financial networks and related financial activity directly linked to Mexican cartel money laundering. This illicit financial activity includes money laundering conducted through networks of money brokers, as well as the outsourcing of money laundering activity to professional or third-party money laundering organizations, such as CMLOs.

Treasury also leverages its unique expertise and capabilities to interdict and disrupt the illicit financial networks upon which these drug trafficking networks rely. Treasury does this by targeting the financial supply chain facilitating the trafficking of illicit fentanyl, other deadly drugs, and their precursors with sanctions authorities through Treasury's Office of Foreign Assets Control (OFAC). These actions cut off illicit actors from the U.S. financial system and shed light on their activity.

**Q.31.** Why has FinCEN not updated its fentanyl guidance since 2019?

**A.31.** On June 20th, FinCEN issued an advisory to alert U.S. financial institutions to new trends in the illicit fentanyl supply chain and urge vigilance in identifying and reporting suspicious activity associated with Mexico-based transnational criminal organizations and their illicit procurement of fentanyl precursor chemicals and manufacturing equipment from based suppliers based in the People's Republic of China (PRC).

FinCEN also engages with the private sector on fentanyl trafficking and related money laundering activities through its FinCEN Exchange programs. FinCEN has launched a series of fentanyl-focused regional FinCEN Exchanges called "Promoting Re-

gional Outreach to Educate Communities on the Threat of Fentanyl” or PROTECT. This series of FinCEN Exchanges have thus far been held in Boston, Massachusetts and Tucson, Arizona and will continue to be held in U.S. cities around the country that are among the most impacted by the opioid epidemic and opioid-related financial flows. FinCEN is undertaking these events in coordination with the Internal Revenue Service—Criminal Investigation and other U.S. law enforcement agencies as part of the Counter-Fentanyl Strike Force. Even before the PROTECT series of FinCEN Exchanges, FinCEN brought together Federal and local law enforcement and financial institutions to discuss fentanyl-related financial flows in regionally focused FinCEN Exchanges hosted in San Antonio, Texas; Los Angeles, California; Phoenix, Arizona; and Cincinnati, Ohio.

**Q.32.** FinCEN is now in the process of the rollout of the beneficial ownership registry and I am closely following the rollout of the registry. This rollout must balance national security with compliance and burden realities for our small businesses, which are the lifeblood of our county. That is why I introduced the Protect Small Businesses and Prevent Illicit Financial Activity Act to extend the timeline for small businesses to comply with the beneficial ownership requirements.

How many businesses are currently registered with the FinCEN beneficial ownership database?

**A.32.** FinCEN had received more than 2.4 million filings as of June 20, 2024.

**Q.33.** How many businesses are required to file with the FinCEN beneficial ownership database?

**A.33.** In the regulatory impact analysis for the beneficial ownership information reporting final rule, FinCEN estimated that approximately 32.6 million reporting companies will be required to report in the first year and 5 million new reporting companies will be required to report in each of the subsequent nine years. To estimate the number of reporting companies, FinCEN first estimated the total number of entities that could be reporting companies and then subtracted the number of entities FinCEN estimates will be exempt from the reporting company definition.

As noted in that analysis, FinCEN does not have definitive counts of reporting companies. Although FinCEN has identified information that is relevant to the estimate, that information cannot be used in the analysis to estimate the number of reporting companies without caveats.

For instance, only certain types of domestic entities are reporting companies (i.e., a corporation, limited liability company, or other entity that is created by the filing of a document with a Secretary of State or any similar office under the law of a State or Indian Tribe, with certain exemptions). To determine the number of domestic reporting companies in the final rule’s analysis, FinCEN first estimated the total number of domestic entities, regardless of type, that would be in existence at the rule’s effective date and then created yearly thereafter. FinCEN, however, was not able to limit its estimate of domestic entities to specific entity types that fall under the rule’s requirements. FinCEN could not do so because

not all entity types are specified in the underlying data and State-by-State filing practices vary. Thus, while FinCEN's methodology simplified the analysis, it may have overestimated the number of affected entities and total burden and costs.

**Q.34.** What is your end-of-year projection for the number of small businesses to be registered with FinCEN?

**A.34.** As noted above, FinCEN estimates that 32.6 million existing companies will be required to report in the first year.

**Q.35.** What will happen when criminal penalties go live and there are a large number of small businesses which are noncompliant?

**A.35.** The ultimate goal of the Corporate Transparency Act (CTA) is to protect U.S. economic and national security, and not burden America's small businesses with excessive fines, penalties, or burdens. Furthermore, the statute penalizes only willful noncompliance.

FinCEN continues to prioritize outreach efforts to small businesses to spread awareness about the CTA's requirements and encourage compliance. [We have created a range of tools to help promote compliance—including Frequently Asked Questions, a Small Entity Compliance Guide (available in multiple languages), and a Beneficial Ownership Contact Center—that can be found on our website at [www.fincen.gov/boi](http://www.fincen.gov/boi).]

**Q.36.** How will FinCEN handle enforcement in this scenario? Are we setting ourselves up for a case of selective enforcement?

**A.36.** The civil and criminal penalties in the Corporate Transparency Act (CTA) apply to willful violations, which the CTA defines as a voluntary, intentional violation of a known legal duty. Should a person willfully fail to report complete or updated beneficial ownership information to FinCEN in accordance with the regulations, FinCEN will consider the appropriate enforcement response in light of relevant facts and circumstances.

**Q.37.** What steps are you taking and what commitments can you make that the beneficial ownership registry won't be used to target politically unsavory businesses?

**A.37.** FinCEN is working closely with authorized recipients of beneficial ownership information to ensure that they understand their roles and responsibilities with respect to access and use of that information. This includes ensuring that authorized users are aware of the limitations on the use the reported information, as well as the protocols for handling beneficial ownership information in a way that protects its confidentiality.

**Q.38.** I am extremely concerned by the growing influence of China on our educational institutions—from our elementary schools to our college campuses. Education is a cornerstone of our country and the path to innovation, the lifeblood of our economy. It's no secret that China has long targeted our educational institutions for their research and innovations. Which is why I passed a bill in last year's NDAA that required your department to review Chinese gifts and grants to U.S. institutions of higher learning. I look forward to the findings from the report which are due by June 19th of this year.

Mr. Deputy Secretary, as part of my reporting requirements, has Treasury considered expanding the use of the non-SDN Chinese Military Industrial Complex list to limit CCP influence over our education system?

**A.38.** Treasury is using all the tools available to it to counter PRC malign activities. We have multiple sanctions authorities, in addition to E.O. 13959 pursuant to which we have taken action in response to PRC malign behavior and influence. We would be interested in hearing about the specific PRC activity or behavior of concern in the education sector and ascertaining whether a sanctions response is the appropriate tool.

**Q.39.** Tutor.com, one of the largest tutoring companies that services K-12, libraries, and the U.S. military, was recently purchased by a Chinese private equity firm. It was my understanding that this went through CFIUS review, and a binding legal commitment with the U.S. Government was reached. As you well know, China's national security law means that the acquiring Chinese firm could be compelled to share information with the Chinese Government. Therefore, it is a very real possibility that information on American children, our most precious resource, would be shared directly with the Chinese Communist Party.

Did the Treasury Department review this case?

If so, what mitigation procedures were put in place?

What assurances can you provide to Congress that the CCP will not be able to access data or influence content on a platform that serves the U.S. educational system and our military?

What are you doing to combat CCP-influence in our education system?

**A.39.** The Department of the Treasury is fully committed to keeping Congress informed about the activities of CFIUS. CFIUS is subject to strict statutory confidentiality provisions and, consistent with law and practice, does not comment publicly on whether a particular transaction has been reviewed or is undergoing review. After consideration of a transaction is complete and consistent with its authorizing statute, CFIUS provides Members of Congress specified in its authorizing statute with a summary of the transaction, and upon request, classified briefings. As required by law, CFIUS also provides Members of Congress specified in its authorizing statute with a classified annual report detailing information about transactions and related information.

**Q.40.** Your testimony focused on how effective Treasury has been in combating illicit finance with digital assets through the use of its existing tools.

What specific actions have you not been able to take with the current tools that Treasury has at its disposal?

**A.40.** Our 2024 National Risk Assessments identified that a variety of threat actors, including ransomware actors, drug traffickers, North Korean cyber actors, and terrorists, often use foreign-based virtual asset service providers, or VASPs, operating in jurisdictions without effective AML/CFT obligations to launder or move their funds. Treasury is using our authorities when available to address these risks. In November, FinCEN and OFAC, along with the Department of Justice and the Commodity Futures Trading Commis-



sion, took unprecedented enforcement actions with a total settlement amount over \$4 billion against Binance. These actions were the largest in the history of Treasury and for FinCEN and OFAC.

However, to fully address illicit finance risk associated with digital assets, Treasury should be equipped with additional tools and resources. Treasury has been working with Congress on a number of proposals, including several that would enhance Treasury's ability to control risk associated with foreign actors, including VASPs. Several of the proposals would extend our sanctions authorities to address risks presented by foreign VASPs, including some stablecoin issuers. For example, one proposal is designed to ensure that OFAC sanctions apply to issuers of U.S. dollar-backed stablecoins. This would be a critical tool as evidenced by recent press articles indicating that such stablecoins have been used to make payments involving OFAC-designated persons. Treasury also proposed that legislation clarify that Bank Secrecy Act (BSA) jurisdiction extends to entities abroad with U.S. touchpoints.

Additionally, Treasury is seeking creation of a new financial institution type in the BSA for digital asset entities, which could clarify coverage of entities in the digital asset ecosystem. This could be particularly helpful for instances in which digital asset entities have claimed that they do not meet the definition of financial institutions for the BSA because they may lack a centralized operator or organization, or may not take custody of funds. Our proposal ensures that the BSA comprehensively covers digital asset actors and that the relevant entities in the digital asset ecosystem have the necessary obligations to mitigate illicit finance risks under the BSA.

**Q.41.** Deputy Secretary Adeyemo, recent reporting has indicated that Russian oligarchs are using Third Party Litigation Financing (TPLF) through the U.S. court system as a method of sidestepping U.S. sanctions, detailing how Russian billionaires with ties to President Vladimir Putin are funneling money into active litigation in exchange for a portion of any settlement or award from a lawsuit.

Has Treasury analyzed how foreign entities could use TPLF as a way to get around U.S. sanctions?

**A.41.** Treasury continues to analyze and take steps to counter sanctions evasion in many forms. Financial institutions and other market participants should exercise risk-based compliance and due diligence in scrutinizing transactions linked to TPLF as they do for other types of financial transactions.

**Q.42.** If so, has Treasury taken any steps to prevent these attempts to sidestep U.S. sanctions?

**A.42.** Treasury engages in robust outreach to financial institutions and other stakeholders to promote sanctions compliance in all types of financial transactions and structures, including TPLF, and to investigate and enforce against potential violations.

**Q.43.** Will Treasury take steps to work with Congress in order to increase transparency regarding foreign TPLF within the U.S. court system?

**A.43.** Treasury will come back to Congress quickly if we conclude that additional authorities are necessary to address this issue.

**Q.44.** What additional threats to U.S. national security are posed by foreign adversaries engaged in TPLF?

**A.44.** Undisclosed financing by foreign adversaries can pose a national security threat. Additional transparency can be very important to mitigating this risk. A better understanding of when activities are financed by foreign adversaries generally will help Treasury better use our tools and ensure that the American people are aware of who is financing what.

**Q.45.** I am closely monitoring the effectiveness of our sanctions on Russia and their ability to deny Russia resources for its war in Ukraine.

In your opinion, has the Russian oil price cap been effective?

**A.45.** Under the price cap, the United States, along with members of the G7 and Australia and New Zealand, have worked together to restrict Russia's oil revenues, while supporting global energy market stability. Russia has responded by selling its oil at a significant discount. The discount on Russia's Urals grade, Russia's main crude grade, averaged over \$23 per barrel in 2023—in oil markets where discounts of a dollar or two normally cause arbitrageurs to swoop in. Kremlin oil tax revenue was approximately 30 percent lower in 2023 as compared to 2022. Over the past year, Russia has been forced to invest resources to try and evade our restrictions and, in response, we have increasingly tightened enforcement of the price cap. Our data shows that Coalition sanctions enforcement is forcing Russia to sell oil at a steeper discount—a reassuring endorsement of our multilateral approach.

**Q.46.** What steps are you taking to curb long-term Western reliance on Russia's State-owned nuclear energy provider, Rosatom?

**A.46.** The United States is working together with partners to reduce our coalition's remaining dependence on Russian nuclear fuel and other civil nuclear services. We are working to create shared supply chains for nuclear fuel and we are ramping up production of enriched uranium from non-Russian sources. Our efforts to reduce Russian revenues are enhanced by the cohesion of our coalition, and so we remain mindful of the need to work closely with our partners to mitigate the potential collateral effects of our actions.

**Q.47.** The Biden administration's February 1, 2024, Executive order and sanctions on Israeli settler violence, of which three of the four sanctioned individuals were already undergoing prosecution by Israel, a close U.S. ally. This E.O. and the use of the Specially Designated Nationals and Blocked Persons list, which is overseen by your department, occurred on the same day that President Biden made a political visit to Michigan. While violence should never be condoned, I am concerned that this exercise could have political issues.

How do sanctions on individuals in allied Nations who are already facing criminal prosecution strengthen our national security?

**A.47.** These sanctions, like all sanctions, strengthen our national security by cutting off the SDNs' ability to access and profit from

the U.S. financial system. Violent West Bank extremist settlers, including those sanctioned, rely on financial support from across the world to pursue their illegal and destabilizing activities. These sanctions also demonstrate to the Government of Israel (GoI) how concerning the worsening violence in the West Bank is and that greater steps need to be taken to protect the safety and security of both Israelis and Palestinians. Absent urgent GoI action, Treasury will continue to assure that the U.S. financial system is not involved in facilitating the activities of destabilizing extremists.

**Q.48.** In your meetings in advance of the Executive order, was the President's visit to Michigan mentioned?

**A.48.** No. The President's travel to Michigan was not mentioned to me in connection with the release of the Executive order.

**Q.49.** Could you provide me an update on the status of OFAC's creation of a sanction's violation whistle-blowing program?

What steps are you taking to ensure that the program protects national security and is not abused by bad actors and criminal organizations?

**A.49.** The AML Act of 2020 (AML Act) enabled the creation of the Office of the Whistleblower (OWB) within FinCEN and provided for the payment of awards for certain violations of the Bank Secrecy Act and certain sanctions authorities. In December 2022, Congress enacted the AML Whistleblower Improvement Act (the Act), which expanded the scope of violations to include most U.S. economic sanctions. Since February 2023, OFAC has been actively reviewing and investigating whistleblower tips received and processed by FinCEN's OWB. Pursuant to the statute, OFAC will not create its own whistle-blower program, but will use FinCEN's.

To help ensure that the program protects national security and is not abused by bad actors and criminal organizations, OFAC coordinates closely with FinCEN's OWB.

#### **RESPONSES TO WRITTEN QUESTIONS OF SENATOR CORTEZ MASTO FROM ADEWALE O. ADEYEMO**

**Q.1.** Last year, the Federal Reserve Bank of Kansas City published research<sup>1</sup> that alleged many Bitcoin ATM operators "do little or nothing to comply with existing regulations." Bitcoin ATMs are money services businesses and therefore are subject to State and Federal rules related to the Bank Secrecy Act and anti-money laundering (AML) rules.

Do Federal and State regulators both have authority to regulate and oversee Bitcoin ATM and other cryptocurrency ATM operators?

Does the Department of the Treasury coordinate with State regulators to ensure Bitcoin ATM and other cryptocurrency ATM operators are complying with BSA and AML regulations?

Are all cryptocurrency ATMs considered money services businesses? Is there any regulatory arbitrage that operators can take advantage of to skirt Federal and State regulation?

<sup>1</sup>Noll, Franklin, "The Controversial Business of Cash-to-Crypto Bitcoin ATMs", Federal Reserve Bank of Kansas City, August 30, 2023. <https://www.kansascityfed.org/research/payments-system-research-briefings/the-controversial-business-of-cash-to-crypto-bitcoin-atms/>

Is Treasury, or other Federal or State regulators, aware of the level of money laundering and scams facilitated through cryptocurrency ATMs?

**A.1.** As articulated in FinCEN’s 2019 guidance on the treatment of business models involving convertible virtual currencies under the Bank Secrecy Act (BSA), FinCEN views virtual asset kiosk owners and operators, often called cryptocurrency ATMs, to be money services businesses (MSBs) under the BSA.<sup>2</sup> As such, virtual asset kiosk owners and operators must register with FinCEN, establish and implement an effective AML program and comply with applicable recordkeeping and reporting requirements, including suspicious activity report (SAR) filing obligations.

Like other MSBs, virtual asset kiosk owners and operators are subject to routine compliance examinations to determine their compliance with anti-money laundering/countering the financing of terrorism (AML/CFT) requirements by FinCEN’s delegated examiners for MSBs, the IRS Small Business/Self-Employed Division. The IRS refers matters to FinCEN when its examinations of MSBs find significant violations of the BSA. FinCEN may then take enforcement action against such MSBs.

Like other financial institutions, virtual asset kiosk owners and operators may be exploited to facilitate illicit finance when appropriate controls are not in place. Treasury is aware of risks associated with such kiosks and has undertaken efforts to highlight risks to industry, law enforcement, and other regulators. As noted in Treasury’s 2024 National Money Laundering Risk Assessment, for example, some perpetrators of scams or fraud may direct victims to use virtual asset kiosks to purchase virtual assets with fiat currency and send virtual assets to the perpetrator. In April 2024, FinCEN’s *Financial Trend Analysis on Elder Financial Exploitation* noted that kiosk operators filed over 4,000 SARs in a 1-year period related to suspected elder financial exploitation.<sup>3</sup> In February of this year, FinCEN’s *Financial Trend Analysis on Use of Convertible Virtual Currency for Suspected Online Child Sexual Exploitation and Human Trafficking*, identified 17 BSA reports involving virtual asset kiosks and suspected human trafficking activity.<sup>4</sup>

Treasury recognizes that MSBs that fail to meet their obligations under the BSA present risks and is looking closely at the illicit finance risks that virtual asset kiosks present.

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## RESPONSES TO WRITTEN QUESTIONS OF SENATOR WARNOCK FROM ADEWALE O. ADEYEMO

**Q.1.** It has widely been reported that the payment stablecoin tether, or USDT, is the most used stablecoin for criminal activity in

<sup>2</sup>Financial Crimes Enforcement Network, “Application of FinCEN’s Regulations to Certain Business Models Involving Convertible Virtual Currencies (FIN-2019-G001)”, (May 9, 2019) at p. 17.

<sup>3</sup>Financial Crimes Enforcement Network, “Threat Pattern & Trend Information, June 2022 to June 2023”, (Apr. 2024).

<sup>4</sup>Financial Crimes Enforcement Network, “Financial Trend Analysis: Use of Convertible Virtual Currency for Suspected Online Child Sexual Exploitation and Human Trafficking: Threat Pattern & Trend Information, January 2020 to December 2021”, (Feb. 2024).

cryptocurrency.<sup>1</sup> Additionally, in your written testimony, you specifically cite, “[W]e’ve seen Russia increasingly turning to alternative payment mechanisms—including the stablecoin tether—to try to circumvent our sanctions and continue to finance its war machine.”<sup>2</sup> Currently, Congress is considering legislation to regulate payment stablecoins,<sup>3</sup> with the House of Representatives having marked up legislation that would create a regulatory framework for payment stablecoins.<sup>4</sup>

Will this legislation be sufficient in halting the use of tether to finance illicit activities by Russia, Hamas, Iran, North Korea, China, and other American adversaries?

If not, what additional tools does the Administration require from Congress to crack down on tether being used to evade sanctions and fund adversaries through illicit means?

**A.1.** Treasury is looking closely at how illicit actors are misusing virtual assets and taking steps to mitigate these risks, and we assess that the legislation to create an improved regulatory framework for payment stablecoins would be a positive step forward in addressing these risks. While we note that stablecoin administrators, which are entities engaged as a business in issuing or putting a virtual currency into circulation, currently have AML/CFT obligations as money services businesses under the Bank Secrecy Act, Treasury supports the imposition of bank-like prudential and AML/CFT obligations under the BSA on stablecoin issuers, with the Federal Reserve (or another banking agency) being responsible for supervision and examination. These changes would strengthen the U.S. Government’s ability to mitigate illicit finance risks within the stablecoin ecosystem.

In addition to this legislation, Treasury has proposed other commonsense reforms specific to our AML/CFT and sanctions frameworks that update our tools and authorities to match the evolving challenges in the virtual asset ecosystem. These proposals include a proposal related to ensuring that OFAC regulations apply to issuers of U.S. dollar-backed stablecoins, and a proposal clarifying that the BSA applies extraterritorially.

## RESPONSES TO WRITTEN QUESTIONS OF SENATOR FETTERMAN FROM ADEWALE O. ADEYEMO

**Q.1.** Hezbollah financier Nazem Ahmad was indicted by the Federal Government for using works of art to evade sanctions. Russian Oligarch Roman Abramovich used his billion-dollar art collection to

<sup>1</sup> See Ben Foldy, “From Hamas to North Korean Nukes, Cryptocurrency Tether Keeps Showing Up”, *Wall Street Journal* (October 27, 2023), <https://www.wsj.com/finance/currencies/most-popular-cryptocurrency-keeps-showing-up-in-illicit-finance-71d32e5e>; Suvashree Ghosh, “Tether Is the Most Used Stablecoin in Illicit Crypto Flows, TRM Says”, *Bloomberg* (March 27, 2024), <https://www.bloomberg.com/news/articles/2024-03-27/tether-usdt-is-most-used-stablecoin-in-illicit-crypto-flows-trm-says>.

<sup>2</sup> An Update from the Treasury Department: “Countering Illicit Finance, Terrorism and Sanctions Evasion Before the U.S. Senate Committee on Senate Banking, Housing, and Urban Affairs”, 118th Cong. (April 9, 2024) (statement of Mr. Wally Adeyemo, United States Deputy Secretary of the Treasury), <https://www.banking.senate.gov/imo/media/doc/adeyemo-testimony-4-9-243.pdf>.

<sup>3</sup> Clarity for Payment Stablecoins Act of 2023, H.R. 4766, 118th Cong. (2023).

<sup>4</sup> Markup of H.R. 4766, H.R. 4841, H.R. 4790, H.R. 4767, H.R. 4823, H.R. 4655, H.J. Res. 66, 118th Cong. (July 27, 2023), <https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=408925>.

evade sanctions. The art market is largest asset class not yet covered by compliance with the Bank Secrecy Act. Do you agree that players in the art market should have to abide by the same level of counter terror-financing and anti-money laundering compliance as banks, jewelers, and pawn shops?

**A.1.** As discussed in the 2022 Treasury study on illicit finance in the art market, while there is little risk of terrorist financing in the art market, the art market has several characteristics that make it susceptible to money laundering. However, there are also several mitigating factors unique to the art market that alleviate some of this money laundering risk. For example, art market participants such as auction houses and galleries also have other business incentives to identify and evaluate the ultimate seller and purchaser of works, such as reputation concerns and credit risk.

The use of shell companies is pervasive in the art market, often for legitimate reasons such as privacy and protection of high-value assets. Illicit actors (including in both highlighted cases) abuse this standard practice to facilitate their crimes. Implementation of the Corporate Transparency Act, which requires certain companies doing business in the United States to report their beneficial ownership information to FinCEN, will help to alleviate this transparency problem.

Further, the scale and structure of the art market make it comparatively less risky than banking or the precious metals, stones, and jewels (PMSJ) sectors. The art market is an estimated \$27 billion in the United States, while the jewelry market alone is estimated to be more than twice that size, the U.S. banking sector holds over \$20 trillion, and investment advisers, which are not subject to comprehensive AML/CFT requirements, manage over \$120 trillion in assets.

Any regulatory regime focused on the art market would also require commensurate supervisory and enforcement resources so that the regime could be implemented effectively. At the moment, Treasury is focused on work to close outstanding gaps in the U.S. AML/CFT regime related to real estate, and investment advisers.

**Q.2.** In 2020 congress overhauled protections for whistleblowers calling out money laundering. However, the bill specifically excluded bank and credit union employees from anti-retaliation protections, under 31 U.S.C. 5323(g)(6). Do you agree that bank employees should get robust protections when they blow the whistle on money laundering?

**A.2.** Regardless of which statutory framework applies, eligible whistleblowers participating in FinCEN's whistleblower program should be afforded robust anti-retaliation protections. The anti-retaliation protections that are afforded under 31 U.S.C. 5323 are administered by the Department of Labor's Occupational Safety and Health Administration (OSHA).

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**RESPONSES TO WRITTEN QUESTIONS OF SENATOR BUTLER  
FROM ADEWALE O. ADEYEMO**

**Q.1.** *Emerging Threats to Younger Investors*—Deputy Secretary Adeyemo, thank you for appearing before this Committee today

and for your service to our country. You have taken substantial efforts at Treasury to crackdown on the illicit financing of terrorism, especially the involvement of cryptocurrencies. Fraud and crime focused on cryptocurrency is also a growing problem as you know. According to the FBI's Internet Crime Complaint Center's annual report, crypto related fraud complaints have expanded substantially over the last few years, with \$907 million record in 2021 to \$2.57 billion only one year later. I am concerned about younger generations who have become the largest group of cryptocurrency holders; Pew Research has published that 28 percent of U.S. adults between 18 to 29 have invested traded, or used a cryptocurrency. Data also showed that Gen Z Americans were three times more likely to get caught up in an online scam than boomers and the cost of falling victim to online scams has risen.

Deputy Secretary, while reading the 2024 anti-money laundering report which discussed pig butchering scams, virtual asset investment schemes, among other methods to defraud Americans, I am specifically concerned for younger generations who comprise the largest cryptocurrency customer base and seem to be vulnerable to the risks associated with emerging cryptocurrencies and their lack of regulation. Could you elaborate on the emerging fraud tactics that target entry-level, younger investors in the crypto space?

**A.1.** Treasury shares your concern about virtual asset investment schemes (VAIS), which include a variety of traditional fraud patterns based on misrepresentations concerning potential investment opportunities in virtual assets. As you note, VAIS often target a younger demographic, with victims having a median age of between 30 and 49. While many of the methods used by these scammers are similar to those used by traditional fraudsters, they often take advantage of the publicity around virtual assets to victimize investors.

With regards to emerging fraud tactics, U.S. law enforcement is seeing fraudsters use a wide variety of platforms to initiate "pig butchering" scams, including contacting victims on social media, dating platforms, or text messages purportedly sent to the wrong number. Scammers often build rapport and gain trust with the victim before luring victims into investing virtual assets using fake websites or applications. The deception becomes apparent when victims attempt to cash out their investments, or when the fraudster terminates communication with the victim. Treasury has taken steps to mitigate risks associated with these types of schemes, including by publishing a FinCEN alert on "pig butchering" scams to help financial institutions detect, prevent, and report potential suspicious activity related to these scams. These red flags include behavioral, financial, and technical indicators that may be indicative of a pig butchering scam.

**Q.2. *Crypto ATMs***—One growing area of concern is crypto automated teller machines (ATMs) that allow users to buy and sell cryptocurrency for cash. After discussion with California's Department of Financial Protection and Innovation, I am concerned about these ATMs, which may charge up to 20 percent in exchange fees. In addition, the FBI noted an increase in illicit actors that direct victims to use these ATMs under false pretenses. Furthermore,

these ATMs are not insured by the FDIC, which prevent protections against theft or loss of funds. Nationwide, there are over 31,000 of these ATMs with over 10 percent (3,163) in California alone, with one of these ATM operators generating over \$700 million dollars in revenue.

Deputy Secretary, while the 2024 anti-money laundering report briefly mentioned how scammers may direct victims to use virtual asset kiosks to purchase virtual assets with cash, I believe the scale of revenue warrants greater investigation and regulatory oversight. Can you elaborate on the shortfalls in implementing AML/CFT (anti-money laundering and combating the financing of terrorism) compliance at these crypto ATMs?

**A.2.** As articulated in FinCEN's 2019 guidance on the treatment of business models involving convertible virtual currencies under the BSA, FinCEN views virtual asset kiosk owners and operators, often called crypto ATMs, to be money services businesses (MSBs) for purposes of the Bank Secrecy Act (BSA). As such, kiosk owners and operators have AML/CFT obligations, including requirements to register with FinCEN, establish and implement an effective AML Program, and recordkeeping and reporting requirements, including suspicious activity report (SAR) filing obligations. Like other MSBs, virtual asset kiosks owners and operators are subject to routine compliance examinations to determine their compliance with the AML/CFT requirements by FinCEN's delegated examiners for MSBs, the IRS Small Business/Self-Employed Division. MSBs that are found to have significant violations of the Bank Secrecy Act are referred to FinCEN for possible enforcement. Treasury recognizes that MSBs that fail to meet their obligations under the BSA present significant risks and is looking closely at the illicit finance risks that virtual asset kiosks present.

**Q.3.** *New Legislative Authority From Congress*—I want to discuss your efforts to expand Treasury's authority to go after illicit actors in the digital asset space and to expand investor protections and safeguards. I commend you on your efforts to increase transparency of cryptocurrency to prevent future exploitation of bad actors. With your efforts to expand regulation of self-custody crypto wallets, I am interested in hearing how expanding this regulation will prevent exploitation of bad actors.

Deputy Secretary, could you elaborate on how the implementation of self-custody crypto wallets would increase consumer and investor protections, and if it would improve consumer safety for crypto ATMs?

**A.3.** Treasury is concerned by the increasing disintermediation of financial services in the digital assets sector, which complicates efforts to identify and prevent abuses, such as consumer fraud. We are carefully examining the use of self-custody wallets, also referred to as unhosted wallets, that may not involve a traditional financial services provider subject to AML/CFT obligations.

As part of Treasury's efforts to ensure comprehensive coverage of digital asset actors under the BSA, it is supporting legislative efforts to provide for a new category as a "financial institution" under the BSA that would more fully cover actors in the digital asset space. This new category could include, but is not limited to,



virtual asset service providers (VASPs), virtual asset wallet providers, and so-called decentralized finance (DeFi) services. While many virtual asset entities are currently considered financial institutions under the BSA and its implementing regulations, some have claimed that they are not subject to BSA requirements at all.

The creation of a new financial institution would present the opportunity to clarify the application of the BSA. It would also help ensure that relevant entities in the digital asset ecosystem have AML/CFT obligations to mitigate illicit finance risks and that FinCEN promulgate appropriate obligations under the BSA for particular types of activity based on the risk that activity represents.

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**RESPONSES TO WRITTEN QUESTIONS OF SENATOR KENNEDY  
FROM ADEWALE O. ADEYEMO**

**Q.1.** *Cryptocurrency*—What does the U.S. Government do to limit the misuse of cash that Stablecoin issuers are not doing?

**A.1.** In contrast to real currency (including cash), stablecoins and other virtual assets are considered a medium of exchange that operate like a currency in some environments, but they do not have all the attributes of real currency. For instance, virtual currency generally does not have legal tender status in any jurisdiction. In this respect, virtual currency either has an equivalent value of real currency, or acts as a substitute for real currency. Additionally, stablecoins and other virtual assets are not subject to the physical limitations of paper money. Visibility into the movement of the asset also differs between cash and stablecoins. There is limited ability to track cash transactions outside financial institutions, but blockchain technology typically provides some visibility into virtual currency transactions, including stablecoin transactions.

Currently, stablecoin administrators operating in the United States are considered money services businesses under the Bank Secrecy Act (BSA) and are required to register with FinCEN, establish and implement an effective AML program, and comply with applicable recordkeeping and reporting requirements, including suspicious activity report (SAR) filing obligations. All U.S. persons, wherever located—as well as foreign companies engaging in transactions with a U.S. nexus—are likewise required to comply with Office of Foreign Assets Control (OFAC) sanctions. Failure to comply with these requirements may result in criminal or civil penalties.

Under the BSA, financial institutions must report suspicious activity conducted by, at, or through the institution, whether that activity is cash or a virtual asset. Additionally, physical currency transactions also have additional reporting requirements when conducted in person. For example, a financial institution is required to file a Currency Transaction Report for one or more transactions in physical currency with a customer that aggregate over \$10,000 in a business day. Separately, for transactions in physical currency over \$10,000 (in a single or related transactions) conducted by a nonfinancial trade or business, relevant persons are required to file an IRS/FinCEN Report of Cash Payments Over \$10,000 in a Trade or Business (referred to as the “Form 8300”). These reports are not currently required to be filed for transactions that are not con-

ducted in physical currency, including stablecoins or other virtual assets.

**Q.2.** What kind of harms occur if illicit activity is conducted using a digital asset rather than cash? Is the harm greater or lesser?

**A.2.** Illicit actors use a variety of means to generate and launder illicit funds, including through the use of cash or virtual assets. In Treasury's National Risk Assessments on Money Laundering, Terrorist Financing, and Proliferation Financing, we consider the various threats to the U.S. financial system and the vulnerabilities that they often exploit to generate, launder, or otherwise move funds. Illicit actors attempt to identify and exploit vulnerabilities in specific financial sectors or products or weaknesses in regulation, supervision, or enforcement.

The National Money Laundering Risk Assessment (NMLRA) identified that cash presented vulnerabilities, including bulk cash smuggling, cash consolidation cities, funnel accounts, and cash-intensive businesses and front companies. The NMLRA also identified several vulnerabilities associated with virtual assets, including jurisdictional arbitrage, noncompliance by virtual assets service providers (VASP) with BSA or sanctions obligations, and the use of anonymity-enhancing technologies. Overall, the risk assessments also noted that money laundering and terrorist financing predominantly occur via traditional methods, like cash, that do not involve virtual assets.

**Q.3.** Considering that the global financial system processes trillions of dollars daily, can you provide concrete data that clearly delineates the scale of cryptocurrency's use in illicit finance compared to traditional financial systems? How do you justify the disproportionate focus on cryptocurrencies given their relatively minor role in global illicit transactions?

**A.3.** Treasury's 2024 National Risk Assessments reaffirm findings from our 2022 risk assessments that money laundering, proliferation financing, and terrorist financing most commonly occurs using fiat currency or other traditional assets as opposed to virtual assets. While this is important to keep in mind, our assessments illustrate how illicit actors, including ransomware actors, North Korean cybercriminals, and scammers use virtual assets to generate and launder their illicit funds. We have also seen the use of virtual assets by other illicit actors grow as virtual assets become more widely used—for example, drug traffickers are increasingly using virtual assets in the procurement of fentanyl precursor chemicals. As such, the United States is compelled to consider and take steps to address these illicit finance risks associated with virtual assets as we do with risks associated with fiat currency and traditional money laundering methods.

**Q.4.** What empirical evidence can Treasury provide to support the notion that cryptocurrencies significantly contribute to terrorism financing compared to traditional financial systems? How do these findings justify the current regulatory approach?

**A.4.** Through consultations with the interagency and a review of law enforcement cases, Treasury identified in the 2024 National Terrorist Financing Risk Assessment (NTFRA) that both inter-

national terrorist and domestic violent extremist groups have continued using virtual assets to generate and transfer funds. Since the 2022 NTFRA, certain terrorist groups, such as ISIS-Khorasan and Hamas, have increased their understanding of and are experimenting with different types of virtual assets. We identified that terrorist groups using virtual assets mostly do so for fundraising online, and the NTFRA includes a case example in which DOJ filed a complaint charging four defendants with conspiring to provide material support to ISIS.

The U.S. Government assesses that terrorists still prefer traditional financial products and services, although we recognize that terrorists, like other illicit actors, are drawn to where liquidity meets gaps in our AML/CFT framework. As such, we continue to assess illicit finance risks associated with virtual assets and take steps to mitigate those risks in the same way as we do with other parts of the U.S. financial system.

**Q.5.** Given the evidence that cryptocurrency-related illicit activities represent a minimal fraction of overall transactions, can you justify Treasury's disproportionate focus on digital currencies? Is this focus truly about combatting illicit finance, or is there an underlying agenda to expand regulatory control over the burgeoning cryptocurrency market?

**A.5.** As stated above, while we assess that money laundering, proliferation financing, and terrorist financing most commonly occurs using fiat currency or other traditional assets as opposed to virtual assets, we are compelled to consider and take steps to address these illicit finance risks associated with virtual assets as we do with risks associated with fiat currency and traditional methods.

**Q.6.** Given the blockchain's inherent transparency and the advanced capabilities of traceability tools, can you explain how Treasury is leveraging this technology to enhance law enforcement efforts?

**A.6.** Importantly, not all blockchains have the same attributes and, as such, some provide more transparency into transactions than others. With that said, public ledgers can generally support investigations by competent authorities in tracing the movement of illicit proceeds. While the ledgers do not contain names or traditional account identifiers associated with any particular address, regulators and law enforcement can in some cases take viewable pseudonymous user and transaction information and pair it with other pieces of information to identify transaction participants. Regulatory agencies and law enforcement may use multiple complementary third-party tools to identify, trace, and attribute many virtual asset transactions on most virtual asset blockchains. Additionally, records from the blockchain have been admitted as evidence in court cases, and blockchain analysis was determined to be a reliable foundation for probable cause for a search warrant application.

**Q.7. *Sanctions and Third Party Litigation Funding***—A recent article in Bloomberg Law found that an investment firm founded by Russian billionaires with ties to Vladimir Putin has financed lawsuits around the world, in some cases working with the company's directors, clients, and Russian banks in an effort to evade inter-

national sanctions. The article goes on to highlight that: “While banks and financial firms are easy targets for Western Governments, the opaque world of litigation finance is more elusive. With no reporting requirements and few regulations, deep-pocketed investors can pour millions of dollars into a case without ever appearing on a court docket. That’s opened a new kind of cross-border cash spigot used to skirt international law and the spirit of why sanctions were imposed in the first place.”

Are you familiar with foreign investment in third-party litigation financing? What role do you think that the Treasury Department should play to protect against sanctions evasions and other national security issues?

**A.7.** While I cannot comment on the specific reporting from Bloomberg Law, I am aware of reports that foreign adversaries are using third-party litigation financing (TPLF) to evade U.S. and other sanctions. Treasury staff have met with stakeholders on this issue, and we continue to learn more about the issue. Treasury continues to analyze and take steps to counter sanctions evasion in any form. Financial institutions and other market participants should exercise the same risk-based diligence in scrutinizing transactions linked to TPLF as they do for other types of financial transactions.

**Q.8.** Would you agree that Treasury should know when and how foreign-sourced money is being invested in U.S. litigation against American businesses in exchange for a cut of the settlement or awards through third-party litigation finance?

**A.8.** Increasing transparency is one of the most important steps to prevent abuse of the U.S. financial system.

**Q.9.** Should we limit the ability of foreign Governments to negatively impact various U.S. industries by accessing sensitive information and tying up critical industries in anonymous third-party litigation?

**A.9.** We agree that it is important for U.S. industries to protect sensitive information. Treasury will come back to Congress quickly if we conclude that additional authorities are necessary.

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**RESPONSES TO WRITTEN QUESTIONS OF SENATOR CRAMER  
FROM ADEWALE O. ADEYEMO**

**Q.1.** Proposed legislation from the State of New York to restructure sovereign debt contracts is estimated to affect over \$850 billion in outstanding debt from emerging markets (Campos). While the bill sponsors seek to address the economic impact of holdout creditors on the poorest of these sovereign issuers, they ignore the negative impact that the bill’s retroactive application will have on all sovereign bonds governed by N.Y. law. The \$850 billion in bonds are held by N.Y. investors, either directly or indirectly through mutual funds, retirement plans, and other pension vehicles. Additionally, some of this \$850 billion is also held by other State and city retirement systems; therefore, extending the potential negative ramifications well beyond New York constituents.

Does the Treasury Department plan to conduct an impact analysis to determine the potential effect the bill may have on the as-

sets on New York retirement and pension plans, as well as the potential impact on pension plans throughout our country?

**A.1.** Treasury has not commented on the proposed New York legislation. The scoring and effects of proposed legislation in New York would be handled by the appropriate New York State office or agency.

**Q.2.** The Sovereign Debt Stability Act “seeks to encourage constructive resolution and ensure that access to N.Y. courts is not abused by holdout creditor”. However, it is important to note that “collective action clauses have been included in [over 90 percent] of the new issuances from 2014 to 2020,” (Republic of Argentina v. NML Capital, Ltd., 2012) and the International Monetary Fund (IMF), in referencing Collective Action Clauses, has stated that “these clauses appear to be the best protection for sovereigns against so called ‘holdout’ litigation” (International Monetary Fund).

Why is legislation needed if the IMF has noted existing collective action clauses are the best protection?

Could the Treasury Department provide insights on the necessity of legislation given the IMF’s assertion that existing collective action clauses offer the best protection? In light of the IMF’s view, is there consideration in limiting the applicability of the proposed bill to sovereign bonds that do not have an existing collective action clause.<sup>1</sup>

**A.2.** Treasury has not commented on the proposed New York legislation and cannot speak for members of the New York State legislature regarding their consideration of any limitations to the proposed bill. In general, Treasury has long supported voluntary and consensual sovereign debt restructuring processes consistent with the principle of comparability of treatment and enforceability of contractual rights, and views collective actions clauses as an important enhancement to the sovereign debt restructuring framework.

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#### **RESPONSES TO WRITTEN QUESTIONS OF SENATOR DAINES FROM ADEWALE O. ADEYEMO**

**Q.1.** Deputy Secretary, there is common agreement that there are roughly \$300 billion in frozen Russian Government assets around the world. Can you confirm that this number is relatively accurate, and what is the Treasury’s estimate of how much of that is frozen within the United States?

**A.1.** It is our understanding that the sum of immobilized Russian sovereign assets held around the world totals nearly \$300 billion. We would point you to press reporting indicating that approximately \$5 billion worth of these immobilized Russian sovereign assets are within U.S. jurisdiction.

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<sup>1</sup>References: Campos, R. (2024, March 11). “Explainer: New York Lawmakers Tackle Sovereign Debt Reworks Again”. Retrieved from Reuters: <https://www.reuters.com/business/finance/new-york-lawmakers-tackle-sovereign-debt-reworks-again-2024-03-11/>; International Monetary Fund (2020). “The International Architecture for Resolving Sovereign Debt Involving Private-Sector Creditors—Recent Developments, Challenges, and Reform Options”. International Monetary Fund. NML Capital, Ltd. v. Republic of Argentina. (2012, October 26). Retrieved from Casetext: <https://casetext.com/case/nml-capital-ltd-v-republic-of-argentina>.