

Excerpt of Testimony by John J. Byrne
On Behalf of the
American Bankers Association
Before a Joint Hearing of the
House Financial Services Oversight and Investigations Subcommittee &
The House International Relations International Terrorism and
Nonproliferation Subcommittee
United States House of Representatives
May 4, 2005

The Financial Action Task Force and Typologies on Charities

As Congress reviews how best to detect terrorist financing conducted through charities, it must be restated that the financial profile for this crime gives no direction to the financial sector on what can be done to prevent this activity in the absence of additional government information. This crime is difficult, if not impossible, to discern as it often appears as a normal transaction. We have learned from many government experts that the financing of terrorist activities often can occur in fairly low dollar amounts and with basic financial products (e.g., retail checking accounts). Guidance in this area is essential if there is to be effective and accurate industry reporting. The bottom line is that terrorist financing can only be deterred with government intelligence. **A renewed commitment by law enforcement to real “information sharing” must become a priority, not a second thought.** (Emphasis added).

The financial industry continues to struggle over how to assess what types of risks are relevant to spotting terrorist financing. To date, the only public examples are the typologies listed by the FATF for charities or “non-government organizations” (NGO’s). The FATF “warning indicators” in this area do not, in our opinion, offer any real insight as to what types of activities are inherent to risky charities as opposed to risks in any other entities. Consider this sample of FATF warning indicators, for example:

- “Incongruities between apparent sources and amount of funds raised or moved, such as situations in which large amounts of funds are apparently raised within communities that have a very modest standard of living;
- A mismatch between the pattern and size of financial transactions on the one hand and the stated purpose and activity of the NGO on the other;
- A sudden increase in the frequency and amounts of financial transactions for the account of an NGO or the inverse, that is, the NGO appears to hold funds in its account for a very long period;
- Large and unexplained cash transactions by NGOs; and,
- The absence of contributions from donors located within the country of origin of the NGO.”

And so on. None of these examples are specific to charities; instead the factors are inherent to any suspicious activity. ABA believes that government organizations such as FATF could benefit from developing typologies after active consultation with the private sector, a goal that ABA is pursuing through the International Banking Federation. There appears to be progress in this area, but we urge Congress to recommend to FATF that there be a formal opportunity for the financial sector to be part of the FATF efforts in the areas of money laundering and terrorist financing.