



SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
“Combating the Networks of Illicit Finance and Terrorism”

October 26, 2023 – 10:00 AM

OVERVIEW

On Thursday, October 26, the Senate Committee on Banking, Housing, and Urban Affairs House held a hearing titled, “Combating the Networks of Illicit Finance and Terrorism.” During the hearing, Senators and witnesses discussed: financing in Palestine, including solutions; Iran; and cryptocurrency.

OPENING STATEMENTS

- [Chairman Sherrod Brown](#) (D-OH)

WITNESS PANEL

- [Dr. Matthew Levitt](#), Director, Reinhard Program on Counterterrorism and Intelligence, Fromer-Wexler Senior Fellow
- [Ms. Danielle Pletka](#), Distinguished Senior Fellow, American Enterprise Institute
- [Dr. Shlomit Wagman](#), Affiliated Scholar and Former Chair, Harvard Kennedy School, Israel Money Laundering and Terror Financing Prohibition Authority

QUESTION AND ANSWER SUMMARY

Financing in Palestine

Senators asked the panel about the sources of financing for terrorist groups such as Hamas, Hezbollah, and Houthis. Dr. Levitt explained Hamas, Hezbollah, and Houthi groups have all received money through extensive transfer networks utilizing multiple methods. He described one method in which physical cash and goods are flown to Syria then transferred to Hezbollah, which transfers money through trade-based money laundering and Hawala transactions to the West Bank and Gaza strip. He noted Hamas frequently uses a strategy of depositing funds into a third-party account of individuals distantly associated with Hamas, or sending individuals with credit cards to transfer funds. Dr. Levitt noted Hamas has between \$70 to \$120 million in funding, while Hezbollah has \$700 million to \$1 billion in funding, both of which are mostly comprised of money and aid from Iran. He and Ms. Pletka also confirmed Hamas receives money from the Qatari government, which is currently holding the \$6 billion the U.S. paid to secure the release of American hostages.

Senator Jack Reed (D-RI) asked Dr. Levitt about the U.S.’s knowledge of the funding from Syria and Iran to Hezbollah and Hamas. Dr. Levitt argued the U.S. conducted a “major policy error” in its support for Syria and Iran while it funded terrorist groups. He stated the U.S.’s previous policy towards Syria and Iran was that as long as they deterred Hamas through financing, Gaza would remain a nonconflicted area. He affirmed the global

community mistakenly viewed Hamas as a smaller organized crime group, which is why there had been non-action in deterring Hamas.

Senator John Kennedy (R-LA) asked Dr. Levitt about the Palestinian Authority's relationship to citizens in Gaza. Dr. Levitt clarified individuals in Gaza did not reject the Palestinian Authority, and Hamas seized the area by force. He explained the Palestinian Authority provides salaries to individuals in Gaza, and funds some of their electricity. Senator Kennedy asked if the United Nations pays for education and hospitals in Gaza. Dr. Levitt answered in the affirmative. Senator Kennedy asked if Gaza taxes products at 16.5 percent. Dr. Levitt answered in the affirmative. Senator Kennedy noted how in June 2021, Treasury Secretary Janet Yellen allocated funding to the world's leading economies through Special Drawing Rights (SDRs), which provided \$4 billion in funding for Iran. He asked Dr. Levitt if the Biden Administration intends to give Iran additional funding and Dr. Levitt answered in the affirmative.

Senator Catherine Cortez Masto (D-NV) asked how the Biden Administration is working with European Union (EU) allies to target the illegal funding of terrorist organizations. Dr. Levitt noted the Deputy Secretary of the Treasury is scheduled to visit to discuss this issue, specifically as it relates to Hamas. He explained EU allies tend to see Hamas as only a threat to Israel, and the Deputy Secretary's visit could present an opportunity "to see Hamas for what it is." He suggested a finance coalition focused on investigating Hamas financing could be beneficial to deter illicit financing of terrorism. He noted the French president has previously suggested using an existing coalition focused on ISIS funding to address Hamas, which he asserted "is a step forward." Dr. Wagman expressed support for creating a global coalition focused on deterring Hamas. She argued countries around the world should all recognize the global designation on Hamas as a terror organization, and impose the appropriate secondary sanctions on Hamas' funding sources. She noted Turkish exchanges and banks have supported Hamas, an issue on which countries have not yet taken action. Dr. Wagman also advocated for further transparency on the economies in the region of the Israel-Palestine conflict, and opined that the Financial Action Task Force (FATF) should evaluate the Palestinian Authority to examine their relationship with the economies around Gaza.

Senator Tina Smith (D-MN) asked Dr. Levitt about Hamas' efforts to fundraise through charity and social media, and how the U.S. can counter the abuse of charitable giving. Dr. Levitt expressed he is "very concerned" that the U.S. does not hold social media platforms responsible for allowing fundraising for Hamas. He noted Financial Crimes Enforcement Network (FinCEN) recently issued an alert to financial institutions to counter Hamas financing, and issued indicators the public can look for in charitable giving to detect and report suspicious activity.

Solutions

Senators asked witnesses about measures the U.S. can take to restrict funding and the flow of resources to Hamas and Hezbollah. Dr. Levitt suggested the U.S. expand an anti-terrorism financing mechanism modeled after the Hezbollah International Financing Prevention Act focused on Hamas, and practice sanctions diplomacy. He stated the U.S. Treasury has already issued a designation of Hamas targeting finance and investment committees, which found one person still working for a Turkish-Hamas front company that had been previously designated. Dr. Levitt added secondary sanctions could offer "significant leverage" if sanctions diplomacy does not work. He also noted the U.S. could help provide Israel with more robust maritime support and surveillance of the flow of goods into Syria, specifically cash couriers. He asserted the U.S. "has made clear it can use [its unique capabilities] to support Israel." He argued the U.S. should continue to look at Iran's investment committees, which are raising millions of dollars for Hamas, as well as charity investments in Iran. He contended the U.S. should promptly address Iran's ability to finance terrorism and not just focus on its nuclear program, noting Hamas, the smallest of Iran's proxies, brought the region to the brink of war.

Senators Reed and Mark Warner (D-VA) asked the panel if their bill, [S.2355](#), could be an effective in helping target terrorist groups' decentralized finance arrangements. Dr. Levitt affirmed the U.S. should develop a set of tools to help trace decentralized finance arrangements and identify bad actors, noting that Hamas recently stopped fundraising through Bitcoin because the Israeli authorities were able to trace their transactions. He stated the number of funds Hezbollah raised through cryptocurrency are likely exaggerated, but it is still a growth area on which the U.S. should focus. He suggested the U.S. government could work with the private sector to identify bad actors, and highlighted there have already been crowdsourcing activities in which individuals review blockchains, identify networks, then report them to the authorities.

Senator Chris Van Hollen (D-MD) asked Dr. Wagman about the learnings the U.S. could take from Israel to help FinCEN target illicit financing for terrorism. Dr. Wagman emphasized international cooperation, enforcing sanctions, and working with FTAF to promote an international response to illicit transfers are all beneficial actions for the U.S. to take.

Iran

Senator Steve Daines (R-MT) asked Ms. Pletka how the Office of Foreign Assets Control (OFAC) could use its Foreign Sanctions Evaders (FSE) list to disrupt Iran's oil exports. Ms. Pletka opined the list is not currently used to its full potential. She argued the Biden Administration should widen its conditions on who to sanction and strengthen its enforcement, which would communicate to other countries the U.S.'s commitment to impeding bad actors.

Senator Reed asked Dr. Levitt if Iran was funding terrorist groups under the Maximum Pressure campaign. Dr. Levitt answered in the affirmative.

Senators Thom Tillis (R-NC) and Reed asked about the foundation for the Biden Administration's relationship with Iran, which was previously identified as a good-faith actor. Dr. Levitt responded during the Obama Administration, the U.S. justification for its relationship with Iran was that if it could get Iran to step away from its nuclear weapons program, they would evolve into constructive player in the region. He stated "the opposite has been true," and "no one in the Biden Administration thinks Iran has a constructive role to play."

Senator Tillis asked why the U.S. gave \$6 billion to Iran. Dr. Levitt explained the U.S. gave the money to Iran to secure the release of American citizens from the Gaza region.

Senator Van Hollen asked Dr. Levitt why the U.S. and Israel previously disbursed funds to Iran. Dr. Levitt responded the Israeli government previously believed the best policy to keep the calm in Gaza was to ensure there was enough economic activity in the region. He added before the October 7 attack, the Netanyahu administration had increased the number of Gazans who would be permitted to work in Israel.

Senator Katie Britt (R-AL) asked Dr. Levitt how the U.S. could stop Iran and other adversaries from benefitting from the U.S. not enforcing sanctions on Iran's oil trade. Dr. Levitt argued the U.S. should more closely watch how Iran transfers its funds to strategize on how to impede their efforts. Ms. Pletka advocated for a "crackdown" on sanctions violators, particularly purchasers of Iranian oil. Senator Britt asked Ms. Pletka about the loopholes allowing Iran to violate sanctions. Ms. Pletka stated the primary issue with Iranian sanctions is that the U.S. does not include triggers on when the executive branch should bring enforcement or penalty action.

Senator Bob Menendez (D-NJ) asked Ms. Pletka for recommendations on actions the U.S. can take to enforce existing sanctions. Ms. Pletka asserted the U.S. should target funding sources that allow Iran to fund terrorists, such as oil sales, and illegal transfers between Russia and Iran. She added the U.S. should impose additional costs on buyers of Iranian oil or products.

Senator Kennedy asked Dr. Levitt if the U.S. has enforced sanctions on Iranian oil. Dr. Levitt answered in the negative. Senator Kennedy then asked if President Biden imposed snapback sanctions on Iran. Dr. Levitt answered in the negative.

Cryptocurrency

Chairman Sherrod Brown (D-OH) and Senator Raphael Warnock (D-GA) asked Dr. Wagman how bad actors utilize and innovate in cryptocurrency, and how the U.S. can act to counter bad actors utilizing cryptocurrency. Dr. Wagman stated illicit actors benefit from cryptocurrency because it preserves anonymity in a decentralized environment. She stated because all data is transparent on cryptocurrency blockchains, the U.S. should establish efforts to ensure it has the ability to identify and designate bad actors. She added the U.S. should also closely examine crypto exchanges operating in non-Anti Money Laundering (AML) and Combating the Financing of Terrorism (CFT) countries. She noted FATF and law enforcement agencies have already established tools to trace activity, and referenced how Israeli authorities were able to seize and freeze \$7 million from Hamas, which they raised through a fundraising campaign. She also suggested the U.S. work with private crypto exchanges to

get them to turn off certain cryptocurrencies when they discover instances of terrorism financing. However, she suggested bad actors have avoided oversight by utilizing public funding, and transferring money between organizations. Dr. Wagman clarified most of Hamas' funding does not come from cryptocurrency, but it could grow in the future.

Senator Tillis asked Ms. Pletka if the U.S. should be concerned about fungible money flows from Qatar. Ms. Pletka stated both the U.S. and Israel are aware that Qatar has provided Hamas with funding. She added Qatar is home to the leader of Hamas and other terrorist groups, while also housing a U.S. base. She argued the U.S. cannot have a base in Qatar while it provides a home for terrorist groups.

Senator Bill Hagerty (R-TN) asked Dr. Wagman if terrorist groups have received more money through state funding or cryptocurrency. Dr. Wagman responded state funding is the most dominant source of funding to the Gaza strip, which can come from Turkish banks and exchanges, cash deliveries, and underground banking. Senator Hagerty asked Dr. Wagman if the U.S. has difficulty working with international entities when combating illicit flows via cryptocurrency, and if providing regulatory clarity to crypto companies in the U.S. could help reduce illicit funding. Dr. Wagman asserted a global cryptocurrency regime would be helpful to identify weak points, and to help enforce crypto regulation across countries. She stated weak crypto regimes and non-enforcement have contributed to illicit activity through crypto. She suggested the U.S. could help combat illicit crypto trade by sanctioning or designating specific exchange platforms if they are found to be associated with terrorist groups.

Senator Smith asked Dr. Levitt about the best strategy the U.S. could employ to combat illicit activity via cryptocurrency. Dr. Levitt stated as funding through Iran becomes less reliable for terrorist groups, they would increasingly move to crypto or abuse of charity. He advocated for the usage of designations on charities associated with funding Hamas. He noted the U.S. should also consider that Hamas holds much of its money in investments.

Senator Elizabeth Warren (D-MA) asked Dr. Wagman if non-custodial wallets pose a high risk of attracting terrorists or illicit actors. Dr. Wagman responded the current sanctions regime is "insufficient," and terrorist groups still utilize traditional channels of funding. She reiterated funding through cryptocurrency is not the primary concern, and it may be used for legitimate and illegitimate purposes. She recommended regulators first examine banking, exchanges, money exchanges, and cash to track illicit funding. She asserted if the U.S. could create a framework of compliance for crypto, regulators could trust more transactions coming through the network.

Senator Warnock asked Dr. Levitt about the factors his organization looks at when examining use of crypto in financing terror groups. Dr. Levitt explained his organization looks at an entity's ability to raise and move funds, as cryptocurrency operates across borders.

Senator John Fetterman (D-PA) asked the panel from where cryptocurrency derives its value. Dr. Wagman stated crypto is mostly decentralized, and can benefit individuals by providing a place to transact at a lower cost. She asserted regulators should create regimes on crypto oversight because of the increasing use of the technology, both legally and in terrorist groups.

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Please click [here](#) for the archived hearing.