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A/S Daniel Glaser's Remarks for the 2013 Annual Arab Banking Conference

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“Protecting the Lebanese Financial Sector from Illicit Finance”

Welcome

It is a great pleasure to be here today at the 2013 Arab Banking Conference. I would like to thank the Union of Arab Banks, the Association of Banks in Lebanon, and the Government of Lebanon for hosting this important dialogue and for inviting me to speak. My appearance here today is just the latest example of the close collaboration between the U.S. Treasury Department and the Lebanese financial authorities—both in the public and private sectors—in our joint and ongoing mission to combat illicit finance within the international and Lebanese financial systems. The Lebanese financial system is a critical asset to the Lebanese people and serves as a bedrock of the national and regional economy. Our partnership has already contributed to its resiliency and security, and I am confident this partnership will intensify in the months and years to come. And intensify it we must, for there is still much work to be done and many challenges ahead. These have only been magnified by recent political developments in this region. Lebanon's ability to retain its position as an important regional and international financial center requires constant vigilance, leaving no stone unturned in our collective efforts to uproot money laundering, terrorist financing, and other forms of illicit finance from the Lebanese financial system. Failing to do so would not only represent a missed opportunity to contribute to global efforts to uphold the rule of law and disrupt criminal and illicit groups, but might also allow regulators and financial institutions around the world to draw the conclusion that business with Lebanon comes at too high a risk. Such an outcome is not in our collective interest, so we must take action to ensure that strong counter illicit finance measures are adopted and implemented in Lebanon. In this regard, my remarks today will focus on the illicit finance threats to the Lebanese financial system, and discuss the steps that should be taken to secure the good standing of Lebanon's financial sector.

The Importance of Combatting Illicit Finance

As we all know, the international community for the past quarter century has been focused on safeguarding the financial system from abuse by illicit actors. These efforts have intensified over the past decade, with organizations such as the Financial Action Task Force (FATF) and the United Nations (UN) requiring countries to take both systemic and targeted measures to undermine the financial activity of organized criminal groups, narcotraffickers, terrorist organizations, WMD proliferators, and regimes such as Iran and Syria. The centrality of these efforts to the health and vitality of the fundamental international financial architecture was underscored by the G20 Leaders themselves at their historic Summit in Washington, D.C. in November 2008. There, in outlining a roadmap to recovery during the darkest moment of the global financial crisis, the G20 Leaders reaffirmed the importance of combating money

laundering and terrorist financing as a key component of promoting integrity in financial markets. They called upon countries to “implement national and international measures that protect the global financial system from uncooperative and non-transparent jurisdictions that pose risks of illicit financial activity.” The G20 Leaders’ statement makes it clear that part of the price of integration into the international financial system is the adoption and implementation of the full range of measures designed to combat illicit finance.

Our Lebanese partners recognize this imperative. As I mentioned earlier, the Lebanese financial system is a critical asset to the people of Lebanon and a bedrock of the national and regional economy. It has long been a source of professionalism and stability in a region often beset by crisis and upheaval. In the past, this was maintained by a studied neutrality and the guarantee of bank secrecy for all. As we all understand, this approach is no longer tenable. Moving forward, that professionalism and stability, which have been the hallmark of the Lebanese financial system, can be maintained only through the efforts of both the public and private sectors to ensure a hostile environment for terrorists, criminals, narcotraffickers, and sanctioned regimes such as Iran and Syria. Working together we can stop the illicit financial activities of groups that seek to destabilize the region such as al Qa’ida and Hizballah.

The Illicit Finance Threats to the Lebanese Financial System

It is important at the outset to identify the illicit finance threats that Lebanese financial institutions face. Some of the threats, such as narcotics-related money laundering, are universal challenges confronting financial centers around the world. Others, such as terrorist financing and sanctions evasion, while certainly not unique to Lebanon, are amplified by Lebanon’s geographic, historic, and political circumstances.

These threats and challenges are not hypothetical. Many are illustrated by the recent case of Lebanese Canadian Bank (LCB). That scheme involved the laundering of hundreds of millions of dollars in narcotics proceeds through the Lebanese financial system using bulk cash shipments and trade-based money laundering involving used car sales and consumer goods. These drug trafficking proceeds were often funneled to Lebanon through several Lebanese exchange houses that utilized accounts at LCB branches. The LCB narcotics money laundering scheme is indicative of a broader trend: international criminals are developing increasingly sophisticated means to move funds and obscure the illicit activities and actors involved. The narcotics trafficking exposed by our actions against LCB spanned several continents and involved financial flows of hundreds of millions of dollars across many jurisdictions. These transactions were accomplished with the assistance of dozens of individuals and entities, whose access to the international financial system ultimately centered on a bank here in Lebanon. So the important point to note here is that though the criminal activity occurred around the world, the funds were flowing to the Lebanese financial system. This underscores the need for Lebanese financial authorities to be both vigilant and proactive in cracking down on money laundering and send the message that the Lebanese financial system is not open for business to proceeds from illicit activities.

There are, however, additional lessons to be drawn from LCB. The facts of LCB demonstrate that what at first appears to be a criminal money laundering scheme might actually have broader implications. In the case of LCB, Hizballah benefitted from a global narcotics trafficking network. This should not be surprising given Hizballah’s involvement in a wide range of illicit activities. These illicit activities, combined with its ties to sanctioned regimes such as Iran and Syria, should call into question all financial relationships with Hizballah or

its agents. And the risks of engaging in such relationships will only increase as more countries apply sanctions on Hizballah, which continues to engage in destabilizing military activity in Syria and attacks in Europe. Most recently, we have seen the EU take exactly such a step with their inclusion of Hizballah on their proscribed entities list this past July. This came on the heels of the Gulf Cooperation Council's announcement in June that it would impose sanctions on Hizballah.

The threats to the Lebanese financial system, however, are not limited to traditional money laundering and terrorist financing. Particularly given Lebanon's geographic location, Lebanese financial institutions must also be alert to the threat of sanctions evasion. As a nearby regional banking hub, regimes such as Syria and Iran will continue to look to Lebanon as a potential financial access point into the global system. Lebanese financial institutions are therefore an important component of international efforts to isolate these regimes, and Lebanon's resistance to any attempts to use Lebanese banks as a gateway to the international financial system is essential.

U.S.-Lebanese Cooperation

Given this array of challenges, U.S.-Lebanese cooperation is critical. As U.S. actions targeting money laundering and terrorist financing demonstrate, the United States is prepared and will continue to take action to protect our financial system from threats when we deem necessary. The Lebanese financial authorities, however, must be proactive as well. Nobody knows the Lebanese financial system as well as they do, so they need to be the first line of defense. The good news is that we know we have strong partners here, in both the public and private sectors. The Lebanese government consistently cooperates in addressing specific illicit finance threats, including money laundering, terrorist financing, and sanctions evasion. We are confident that this collaboration will continue to deepen.

More broadly, over the last several years, the Lebanese authorities have been working to build a solid regulatory foundation to close the gaps in the system that are exposed to illicit finance threats. In so doing, they have identified some of the pressing risks and developed expanded regulatory requirements to address them. These include measures requiring Lebanese financial institutions to implement international sanctions and expanding anti-money laundering and counter terrorist finance regulation to financial institutions such as exchange houses. The Lebanese government is working to close gaps by putting a cross border currency declaration requirement in place and we urge Parliament to pass the legislation without delay. But as we have seen around the world, regulatory efforts will not be as effective as they should be without a strong partnership with the private sector. In that regard, I am pleased to see that relationship developing in Lebanon, where efforts by the public sector have been reinforced by a commitment to improving compliance in the private sector. In fact, many Lebanese banks seek to go beyond the minimum requirements of the law, in order to ensure that they are not unwittingly facilitating illicit finance. Such efforts will continue to solidify their standing in the international financial system.

Conclusion

Lebanon should be proud of the achievements of its financial sector and its position within the global financial system. This sector has remained a source of stability for the people of Lebanon during the crises of the past decades and it continues to provide essential services to Lebanon and the region. As Syria continues to be destabilized by horrific acts of violence, leading us to sanction both the Assad regime and al-Qa'ida affiliates, the region faces new

and unprecedented economic challenges. The Lebanese financial sector is clearly playing an important role as it works to maintain economic stability and prosperity. You have a partner in the United States in confronting the full range of challenges in your financial system because we share your commitment to ensuring your banks remain at key pillar of Lebanon's stability. Together we can institutionalize the important position of the Lebanese banking sector within the international financial system.

The people of Lebanon have invested significantly in their sovereignty and independence by strengthening key institutions of the Lebanese state and economy, like the Lebanese financial sector. I have had the privilege of working with many of you over the past few years and I know how seriously you take this duty. As the world changes around us and the risks facing the international finance system continue to fluctuate, I am confident that the historic bonds we have built and the friendships we have created will remain the guiding framework for our efforts.