

**INTERNATIONAL POLICY UPDATE: THE TREASURY
DEPARTMENT'S SANCTIONS POLICY REVIEW
AND OTHER ISSUES**

HEARING
BEFORE THE
COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE
ONE HUNDRED SEVENTEENTH CONGRESS
FIRST SESSION
ON
EXAMINING INTERNATIONAL POLICY ISSUES
OCTOBER 19, 2021

Printed for the use of the Committee on Banking, Housing, and Urban Affairs



Available at: <https://www.govinfo.gov/>

U.S. GOVERNMENT PUBLISHING OFFICE

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INTERNATIONAL POLICY UPDATE: THE TREASURY DEPARTMENT'S SANCTIONS POL- ICY REVIEW AND OTHER ISSUES

TUESDAY, OCTOBER 19, 2021

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

The Committee met via Webex and in room 538, Dirksen Senate Office Building, Hon. Sherrod Brown, Chairman of the Committee, presiding.

OPENING STATEMENT OF CHAIRMAN SHERROD BROWN

Chairman BROWN. The Senate Committee on Banking, Housing, and Urban Affairs will come to order. This hearing is in a hybrid format. Members have the option to appear both in person or virtually. Our sole witness is in person. Mr. Adeyemo, welcome.

If there is a technology issue we will move on to the next person. Our speaking order will be as usual, that is by seniority of the Members who have checked in, alternating Democrat and Republican.

Today we welcome Deputy Secretary Wally Adeyemo to this Committee for an update on international policy issues. Sanctions policy is an area where we have done important, bipartisan work on this Committee. I thank Senator Toomey and especially Senator Crapo, who was Chair when I was Ranking, up until this year. We were able to make important progress in holding countries like Russia and North Korea accountable. Senator Toomey and I worked together to pass tough new fentanyl sanctions, to help stem the flow of illegal opioids from China and Mexico that have taken such a toll. Another heartbreaking story on public radio today about what has happened in far too many families in this country.

I am confident that we will be able to build on the progress this year, in conjunction with President Biden and Deputy Secretary Adeyemo.

Two weeks ago in this Committee, we explored the economic and humanitarian crisis in Afghanistan, as Senator Toomey asked us to, the role of sanctions, and how we can get more aid to the Afghan people, without resources falling into the hands of the Taliban.

Last week, a broad coalition of countries agreed to substantially increase aid to Afghanistan. We continue to work with our allies to ensure that aid can be delivered effectively to the people there, despite sanctions against the Taliban.

Today, we will focus primarily on the findings and recommendations of the months-long sanctions policy review that Secretary Yellen, Deputy Secretary Adeyemo, and others directed the Treasury Department to undertake.

The Department consulted with agencies across the Government—State, Commerce, the intelligence community, and others—as well as an array of private sector actors, including banks, businesses, nonprofits, international NGO’s, and sanctions experts.

That comprehensive review examined important questions of our current sanctions policy: Does the U.S. Government have the right sanctions tools? Are we using them effectively with our allies? Are we reassessing their application and adapting them as we go? Are we targeting the right people, the right entities, the right countries, in the right way, with the right sanctions? Ultimately, are we actually changing the behavior of targeted countries, entities, or people, where that is obviously our goal?

I know that Treasury has recommendations on these and other questions.

There are some guiding, bipartisan principles that this Committee has recognized for years regarding sanctions, and let me just briefly outline those. Number one, we should impose sanctions on a multilateral basis whenever possible. They are more effective, and they garner broader political and diplomatic support if we impose them in coordination with our allies.

Number two, preserving and strengthening humanitarian exceptions and licensing are important to ensure that people do not suffer from shortages of food, medicine, and other necessities because of sanctions.

Number three, for sanctions to be effective they must have clear targets, goals, and objectives. If we are trying to change countries’ and other actors’ behavior, they need to understand how, once they do better, they can free themselves from sanctions.

Fourth, the U.S. must do a better job of regularly assessing the effectiveness of sanctions. We need to communicate those findings better to banks and other entities that are implementing sanctions policy.

And last, the Executive branch must continue to support and empower the dedicated public servants across the Government charged with implementation and enforcement. As with any job, workers are our greatest assets, whether at Treasury, at State, on the Senate Banking, Housing, and Urban Affairs Committee or in the intelligence community in our Government. They must have the funding, the analytical tools, the technical expertise—including in cryptocurrencies, as we have discussed—which need a much closer look. They need the technology and the time to do their jobs, particularly as we have increased the use of sanctions all around the world.

Today’s hearing will give Members a chance to survey other international policy issues within our jurisdiction, and pose any questions to the Deputy Secretary, which I am sure he is prepared to address.

I thank Deputy Secretary Adeyemo for your work on these issues, and look forward to your testimony.

Senator Toomey.

OPENING STATEMENT OF SENATOR PATRICK J. TOOMEY

Senator TOOMEY. Thank you, Mr. Chairman. Deputy Secretary Adeyemo, welcome back. Under President Biden, the Treasury Department has advanced a number of troubling international policies, some of which are clearly intended to circumvent the will of Congress.

Let us take sanctions to start with. The Administration has offered sanctions relief to our adversaries in the unrealistic hope that they will make concessions inimical to their own interests and nature. Consider Iran, for instance. To entice Iran to reenter the flawed JCPOA, the Administration appears willing to lift sanctions on Iran. Then the Administration hopes Iran will commit to cease supporting terrorism and to curb its ballistic missile program.

But let us be clear. Once sanctions are lifted, Iran will never limit its malign behavior. The Administration clearly intends to repeat the mistakes of the Obama administration and reenter a treaty with Iran, despite bipartisan opposition and without Senate approval.

In addition, the Administration has repeatedly failed to comply with mandatory sanctions laws. Also, let us look at Iran. Since President Biden was elected, according to the International Energy Agency, Iran has doubled the amount of crude oil it is selling to China to 600,000 barrels each day this year. Even though these sales are illegal under sanctions laws, the Administration has refused to impose congressionally required sanctions on the Chinese buyers.

Take the case of Russia. The Administration has also chosen to ignore a law requiring sanctions on Russia's Nord Stream 2 pipeline. The pipeline's project manager has been using sanctioned Russian entities to construct and finance Nord Stream 2, meaning the manager's integral role in the pipeline is predicated on a massive sanctions evasion campaign.

Congress passed the Countering America's Adversaries Through Sanctions Act, or CAATSA, to punish, among other things, this very type of conduct: sanctions evasion. Congress did this because sanctions evasion harms U.S. national security interests, and in this instance, it is increasing Putin's malign influence over Europe. But the Administration continues to violate this statute in order to give Putin a pass.

Take the OECD tax agreement. As if all this were not enough, the Administration is trying to enact an international tax treaty that will harm U.S. competitiveness, and to do it without obtaining the necessary two-thirds approval of the Senate.

You will recall the tax increase consists of two pillars. Pillar One is an unprecedented treaty change that would allow foreign countries to tax American companies based on the American companies' sales overseas. It is a tax revenue transfer from us to them. Unsurprisingly, this is the priority for other countries, who have long sought this tax transfer.

Pillar Two is a 15 percent global minimum tax on multinationals' foreign income. Now this is the Administration's attempt to justify the huge tax increase it wants to impose on U.S. companies. Unsurprisingly, this is the Administration's priority since it is an integral part of dismantling the successful 2017 tax reforms.

But by imploring other countries to implement a global minimum tax that will harm their own workers and businesses, the Administration has implicitly acknowledged that their proposed multinational tax increase will make U.S. workers and businesses less competitive, if other countries either do not implement a global minimum tax of their own or implement a significantly lower rate than what the Administration is proposing.

But here is a problem. There is a very real possibility that other countries will not implement a global minimum tax. They have only reluctantly agreed to that global minimum tax as a condition, I mean, in return for getting Pillar One, the U.S. tax revenue transferred to them. But as I say, implementing Pillar One requires two-thirds approval in the Senate, and I do not think that is going to happen.

So the Administration is either going to impose its global minimum tax increase on American companies anyway, without the countries we compete with having enacted a corresponding tax increase, or they are going to violate the Constitution by modifying our existing tax treaties without obtaining the two-thirds consent of the Senate.

Let us turn quickly to the FSOC Climate Risk Report. This is the latest troubling international policy proposal from the Administration. We expect this report to come out soon. It is likely to claim that global warming poses a systemic risk to the financial system.

Now I acknowledge that global warming is real. However, it does not follow from this that there is a new systemic risk to the financial system. We have had severe weather events since the dawn of time. And as the economist, John Cochrane, has explained to this Committee, major weather events, and I quote, “have never come close to causing systemic financial crises,” end quote, and there is no scientifically validated possibility to change this in the near future.

Our Democratic colleagues should acknowledge this reality and offer their proposals on climate change through the legislative process, which they are doing, including calling for a “carbon” tax, in which this very dangerous tax-and-spend measure they are contemplating will make energy prices higher.

But that legislative approach is not enough for our Democratic colleagues. They also want to use unaccountable financial regulators to really misuse their power and essentially cutoff the supply of capital to fossil fuel companies.

Well, all across America we are already seeing what happens when the regulatory environment discourages the development of necessary energy sources. Energy prices spike. This dynamic will only get much worse if financial regulators are pressured to starve the energy sector of the capital it needs to provide Americans the energy they need.

Deputy Secretary Adeyemo, I look forward to discussing these issues with you today.

Chairman BROWN. Thank you, Senator Toomey.

Wally Adeyemo was sworn in as Deputy Secretary of the Treasury in March of 2021. He has spent the majority of his career in public service convening Governments and companies and organizations to move toward achieving common goals. He came to the

Treasury Department from the Obama Foundation, where he served as president beginning August 2019. He served as a senior advisor before that at the Center for Strategic and International Studies and at BlackRock. He held a number of roles in public service before this. He holds a BA from the University of California at Berkeley and a JD from Yale Law School.

Deputy Secretary Adeyemo, it is good to have you here. Welcome. Please begin.

**STATEMENT OF WALLY ADEYEMO, DEPUTY SECRETARY,
DEPARTMENT OF THE TREASURY**

Mr. ADEYEMO. Chairman Brown, Ranking Member Toomey, and Members of the Committee, thank you for giving me the opportunity to speak to you today about the National Advisory Council on International Monetary and Financial Policies report to Congress, the Treasury Department's priorities, and our outlook for the global financial system.

As you know, the international financial institutions form the core of the international financial architecture that is consistent with our economic interest. It is no accident that the U.S. economy is the largest in the world, that our financial markets are the deepest and most liquid, and that dollar is the world's reserve currency. Our economic success is the result of the policy choices we made coming out of World War II, alongside the hard work and determination of the American people.

America's interest in a strong, stable, and rules-based economic order is also deeply entwined with our foreign policy and national security interest. Our economic objectives cannot succeed if the international financial system facilitates the illicit flow of funds to oppressive regimes, terrorist groups, cybercriminals, and other malign actors.

Bearing this in mind, Secretary Yellen requested a review of Treasury's use of financial and economic sanctions since the terrorist attacks of September 11, 2001. The review identified four primary challenges to the continued effectiveness of our sanctions regime: one, our adversaries' attempts to build payment systems allowed them to avoid the dollar-based financial system; two, technological changes like the growth of digital currencies; three, the need to permit the flow of legitimate humanitarian assistance and avoid collateral impact on nontarget populations; and finally, four, ensuring that sanctions are always deployed alongside other measures as part of an overarching national security strategy.

I want to briefly describe to the Committee the five initiatives Treasury is advancing to respond to these challenges and modernize the use of sanctions.

One, adopting a policy framework. Treasury will adopt the use of a structured policy framework in order to inform its recommendations on the use of sanctions. This framework will seek to ensure that sanctions support clear policy objectives within a broad strategy; reflect input from technical experts and other critical sources of information, including the intelligence community; incorporates multilateral cooperation and are easily understood, enforceable, and reversible. The framework will be a tool to improve the use of sanctions, not a means to prevent it.

Two, improving access to humanitarian assistance. Treasury will work to expand sanctions exceptions, where appropriate, to support the flow of legitimate humanitarian assistance, incorporating lessons learned from the last 20 years. The Department is committed to consistently providing clear guidance in the context of all applicable sanctions regimes, including the continued flow of legitimate humanitarian aid to heavily sanctioned jurisdictions.

Three, regular assessment of sanctions programs. Treasury plans to use the sanctions policy framework on a regular basis to review sanctions programs and authorities and make recommendations to augment, adapt, or wind down individuals' authorities, or to list or delist particular entities.

Four, improve sanctions coordination and communication. The threat of sanctions alone, not even the imposition, remains a powerful tool of economic statecraft. In order to calibrate the use of this tool, Treasury needs to communicate and coordinate more effectively with stakeholders affected by the use of financial sanctions. This includes U.S. allies and partners, financial institutions, and other actors within the financial system, nonprofit organizations, and the media. We will do this by using existing forms where we meet with our allies and partners to coordinate and collaborate on sanctions as well as build a more formal mechanism for receiving feedback and advice and providing information to stakeholders.

Five, we plan to modernize our operational capabilities. As the threats to our Nations change, sanctions must also adapt. Treasury must invest in changes to its workforce and technical capabilities to meet these evolving threats. This will involve streamlining current functions as well as making workforce and infrastructure investments to take on growing threats like ransomware and other cybercrime. This effort will require building on current processes in some areas and changes in others. Certain changes may be implemented in the near term while other will require further deliberation and analysis to determine the best path forward in collaboration with the State Department and other Executive branch partners. In many cases, support and advice from key partners like Congress will be critical.

Members, sanctions are not only an important tool of the United States, they play an important role in maintaining the rules-based global economy, which has benefited the world for generations. I look forward to working with Members of this Committee to continue advancing U.S. international economic leadership abroad and creating opportunities for Americans at home. I am happy to take your questions.

Chairman BROWN. Thank you, Mr. Deputy Secretary. Your staff has put a lot of time and work into this. You have laid out general principles and recommendations. What are the most important and urgent findings and recommendations, and will any of them require congressional approval?

Mr. ADEYEMO. Thank you, Senator, and I want to thank you and your staff and the staff of this Committee for spending a great deal of time with those of us at Treasury, talking about the sanctions review. As you will see from the report and also from my testimony this morning, the findings we have largely align with the principles this Committee has outlined.

The key for us is making sure that as we think about sanctions on a go-forward basis we are making the investments today to keep up with innovations, not only technology but innovations by our adversaries that are attempting to bypass our sanctions. This will require us to do more multilaterally, frankly by doing more multilaterally put ourselves in a place where when we decide to act unilaterally we have greater power in terms of our ability to effect change, the change of behavior, which is the ultimate goal of sanctions.

We are going to need to work with Congress to advance things like creating the type of opportunities within the Executive branch to hire staff who understand issues like crypto going forward, so looking to Congress to help us with hiring authorities. The President's fiscal year 2022 budget includes additional resources which will allow us to build on the technological expertise that we need in the Treasury Department, and will also help us bring on the type of workforce we need to ensure that we are able to meet these challenges going forward.

A great deal of the work that we need to do will need to happen with our Executive branch colleagues, but we look forward to also working with Congress to advance these important goals.

Chairman BROWN. Thank you. This review strikes me as especially important because the last time U.S. sanctions were reviewed comprehensively was 20 years ago, and it resulted in the enactment of a new law requiring exclusion of trade and agriculture and medicine and medical products from sanctions. Clearly we need to work harder to avoid collateral consequences in sanctions on humanitarian aid.

So my question is this. Especially as the pandemic continues to put all of us at risk, as variants mutate around the globe, what specific new steps are you recommending that Treasury take to mitigate the harm to humanitarian aid efforts?

Mr. ADEYEMO. Senator, it is critical that especially in areas where sanctions are used, humanitarian assistance is able to continue to flow. We have learned a great deal from what we have done over the last 20 years. You will see that some of that has been applied to some of the sanctions programs that we have introduced recently. For example, the President's Executive order with regard to actions occurring in Ethiopia. When we issued that Executive order we also put out general licenses at the same time to assure that humanitarian assistance would continue to flow.

One of the challenges that we have is that we often will announce sanctions programs and then wait to hear from humanitarian groups before we then issue guidance to provide them with the ability to continue to flow humanitarian assistance into these areas. Our goal now needs to be to ensure that we take the lessons that we have learned from the last 20 years and ensure that humanitarian assistance can be provided alongside our sanctions programs in order to meet the needs of people who are suffering in these areas. Especially during this moment of COVID, ensuring that medicine and food can get to these affected people is not only consistent with our values but it will help us end the pandemic globally.

Chairman BROWN. A number of critics have argued that the sort of clumsy use or the overuse of sanctions, of unilateral sanctions by the U.S., especially during the Trump administration, played into the hands of our adversaries. How concerned are you about efforts by China and Russia and others to insulate themselves from U.S. sanctions, including by moving away from dollarized transactions, creating new financial messaging systems, or taking other similar steps? Do you view these efforts, if they were to persist and intensify, as posing a threat to the U.S. dollar as the world's reserve currency?

Mr. ADEYEMO. Senator, my view is that the U.S. dollar as the world's reserve currency will remain, for a number of reasons, including the fact that we have made the needed investments in America. Ultimately, people are going to want to invest in America and do business here because of the strength of our economy and the openness of our system and the certainty of our laws.

But it is true that if we do not use sanctions appropriately it will drive not only our adversaries but a number of others to look for ways around the use of the dollar in their financial dealings. Our goal then needs to be to make sure that we do two things. One is that in using our sanctions we need to use a framework that is consistent with the principles, frankly, that this Committee has been outlining for a long time, but in addition to doing that we need to try and multilateralize our sanctions whenever possible. While it is hard to avoid being engaged in financial transactions that avoid the dollar, it is even harder to avoid financial transactions that avoid the dollar, the euro, the pound, and the yen. That is why it is critical that more often we try to do things multilaterally with our allies and partners going forward.

Chairman BROWN. Thank you. Senator Toomey.

Senator TOOMEY. Thank you, Mr. Chairman. Deputy Secretary Adeyemo, I cannot help but note the irony of your discussing how and why it is so important that we preserve the ability to impellent a sanctions regime in the future when you and the Administration choose not to implement sanctions that statute currently requires.

Let us take the case of Iranian oil sales to China. The Iran Freedom and Counter-Proliferation Act, IFCA, prohibits the purchase of Iranian oil. Yet according to the International Energy Agency satellite data, since January of this year China has been importing around 600,000 barrels of Iranian oil per day.

And the Administration knows it. On September 28, Reuters reported that, and I quote, "A senior U.S. official said, 'We are aware of the purchases that Chinese companies are making of Iranian oil,'" end quote.

Now I am sure you acknowledge that IFCA requires sanctions on purchase of Iranian oil, right?

Mr. ADEYEMO. Senator, the law does require that.

Senator TOOMEY. OK. And you acknowledge that Chinese companies are buying Iranian oil in very significant quantities, right?

Mr. ADEYEMO. Senator, I am aware that a number of people are attempting to buy Iranian oil, and our goal is to make sure that—

Senator TOOMEY. OK. But we are not talking about attempts. It is a factual matter that Chinese entities are routinely, daily, buy-

ing hundreds of thousands of barrels of Iranian oil, in direct violation of our sanctions regime, right?

Mr. ADEYEMO. Senator, we continue to monitor purchases of Iranian oil, and we look forward to using——

Senator TOOMEY. OK. So you are making my point. I am going to submit a written question, and for the sake of time I would appreciate a written answer as to why it is that you believe that the mandatory nature of this sanctions statute is somehow optional, because it is actually not, and we all know that this is going on.

Let us move on to Nord Stream 2. So since early July, several other Senators and I have been very concerned that the Administration is again violating the statute by not sanctioning the project manager of the Nord Stream 2 pipeline, that is Nord Stream 2 AG, under Section 228 of CAATSA. And here is the problem. Nord Stream 2 pipeline project, the whole project is riddled with sanctioned Russian entities, ranging from the project owner to various contractors, vessels, certain employees, they are all subject to sanctions, already established sanctions.

OK. So Gazprom illustrates why the Treasury Department is violating this law. The Obama administration imposed sectoral sanctions, or SSI sanctions, on Gazprom due to Russia's efforts to destabilize Eastern Ukraine. Now I am sure you do not dispute that Gazprom is currently subject to SSI sanctions, right?

Mr. ADEYEMO. Yes, Senator.

Senator TOOMEY. OK. So CAATSA Section 228 goes after entities facilitating sanctions evasions on behalf of, and I quote, "any person subject to sanctions imposed by the United States with respect to the Russian Federation," end quote. On OFAC, that is to say the Treasury's own website, the answer to FAQ Number 546 explicitly makes it clear that persons subject—I am quoting now—"Persons subject to sanctions imposed by the United States with respect to the Russian Federation includes persons listed on the SDN list or the SSI list," end quote.

So we have established that Gazprom is a party sanctioned by the U.S. Government for the purpose of CAATSA 228, so you could ask, OK, so what does that have to do with Nord Stream 2 AG? Well, on its own website, Nord Stream 2 AG describes itself as a project company established by Gazprom for the purpose of planning construction and subsequent operation of Nord Stream 2 pipeline. And again, I am sure you agree that Gazprom did, in fact, set up Nord Stream 2 AG to construct and operate the pipeline, right?

Mr. ADEYEMO. Senator, we have talked about this issue several times, and I agree with you that we need to do everything we can to implement CAATSA. As I have said to you previously, we are currently working with intelligence community to——

Senator TOOMEY. I understand. But let me just finish this, because this is important and we are going to run out of time.

So we also know that Nord Stream 2 AG has facilitated sanctions evasions for Gazprom. Now you might ask, well, how do we know that? Well, we know this because the State Department has told us this, right? In a May 2021 report, the State Department said that Nord Stream 2 AG has, and I quote, "knowingly facilitated deceptive or structured transactions to provide vessels for the construction of Nord Stream 2 pipeline." And just adding on, and I am

sure you will confirm again, that it was, in fact, Treasury lawyers signed off on the evidentiary package that the State Department used for this determination.

So you have acknowledged that Gazprom is sanctions. You acknowledged that Gazprom set up Nord Stream 2 AG. I believe you acknowledged that Nord Stream 2 AG has facilitated sanctions evasions, and certainly your lawyers did when the State Department concluded that Nord Stream 2 AG has facilitated sanctions evasions to get vessels involved in this.

Do you acknowledge that Nord Stream 2 AG did all this on behalf of Gazprom?

Mr. ADEYEMO. Senator, as I have said, we are committed to working with you and this Committee to hold Gazprom responsible for its activities that violate our sanctions.

Senator TOOMEY. But you are not answering a direct question here. Do you knowledg that Nord Stream 2 AG has engaged in the activity that is laid out by the State Department, on behalf of Gazprom?

Mr. ADEYEMO. Senator, we support the State Department's report. We worked with them on that report. Their report was based on a separate authority than the one that we are talking about today, which is CAATSA. With regard to CAATSA, we are committed to making sure that we work with—

Senator TOOMEY. Let me just close by saying, look, it is very clear what is going on here. Gazprom created Nord Stream 2 to evade sanctions. That was the entire purpose. Everything around this picture are the sanctioned entities, and they needed Nord Stream 2, they needed an unsanctioned entity in order to bypass the sanctions. That is exactly what we passed CAATSA for, on a bipartisan basis, and it is completely unacceptable that it is not being implemented.

Chairman BROWN. Thank you, Senator Toomey. Senator Tester is recognized for 5 minutes, from Montana.

Senator TESTER. Yeah. Thank you, Mr. Chairman. Look, your testimony highlighted the important work of countering China's unfair trade practices, and it is true they are the pacing threat to us and the world today. It is a key focus of mine in the Defense Subcommittee, which I chair, and it is why I pushed so hard to get the Bipartisan Infrastructure Bill across the finish line in the Senate, and will continue to push to get across the finish line in the House.

But from your perspective, in your role as Deputy Secretary, what is the most effective way to address what China is doing with particularly currency manipulation?

Mr. ADEYEMO. Senator, thank you for the question and thank you for your work on those important issues. My view is that the most important thing that we can do with regard to competing with China is making the investments in the United States that you have taken a leadership role on, like the Infrastructure Bill that has passed the Senate and is currently in the House.

In terms of the issue of currency manipulation, the President and Secretary have been very clear that we will not allow any country to unfairly use its currency to push for more exports. As you know, on a semiannual basis the Treasury Department puts out a report

on foreign exchange intervention that highlights countries that violate the international rules in this area. When it comes to China, we are committed to holding them accountable for all of their unfair actions, both unilaterally, in the United States, but also working multilaterally with our allies and our partners, because know that fundamentally the actions that China takes do not only hurt American consumers and American workers but they hurt the consumers and workers around the world.

Senator TESTER. So let me ask you this. Is there anything that you need from Congress, specifically this Committee, any additional authorities?

Mr. ADEYEMO. Senator, at the moment I think that Congress providing us with the authorities to pull together the foreign exchange report is what we need. We are working actively with the USTR and other agencies within the Government to use our tools to hold China and others accountable, and we look forward to continuing to consult with you if there are additional authorities that we need.

Senator TESTER. OK. From the standpoint of cryptocurrency, has that changed how the Treasury Department deals with sanctions?

Mr. ADEYEMO. Senator, as we highlighted in the sanctions review, cryptocurrencies has required us to look at ways that we can try to deal with potential sanctions evasions, and we have highlighted this by taking certain actions with regard to cryptoactors who are using this means of payment for things like ransomware. It will require us to also invest more in different parts of our workforce going forward and improving our technology infrastructure.

Senator TESTER. How often are you seeing cryptocurrencies being used to avoid sanctions?

Mr. ADEYEMO. Senator, we recently put out a report, just last week, highlighting the use of cryptocurrencies in ransomware, to the tune of several hundred million dollars of collections through cryptocurrencies. We recognize that a number of actors who seek to impact our national security are using cryptocurrencies to try and get around our sanctions regimes. In terms of a quantifiable number, we know it is more than several hundred million dollars, and our goal has got to be to try and identify those where it exists and to stop it using the tools that Congress has provided us.

Senator TESTER. So from your perspective, do you think that cryptocurrency should be a regulated market in a way that is similar to our conventional monetary system?

Mr. ADEYEMO. Senator, from my perspective, one of the things that we have benefited from a great deal in the United States is innovation. Innovation has helped drive our economy, and financial innovation has done that. But it is important that as we think about those innovations we also have a regulatory regime that protects consumers and protects our national security. We are going to need to use the tools like the BSA and AML laws to make sure that we are protecting our national security, but there is also going to be a need to work with Congress to decide on whether we need additional tools in this space as well.

Senator TESTER. OK. Last question. You talked about reserve currency quickly, and you talked about the fact that we have it and we are probably not going to lose it. I have a little different perspective, but I want to hear yours. Could you tell me what impact

defaulting on the debt might have on our status with reserve currency and the uncertainty that might create?

Mr. ADEYEMO. Senator, as Secretary Yellen has said, a default on the U.S. debt would be catastrophic from the standpoint of our credibility, not only to our creditors but our credibility in the world, and would have a clear impact on people's trustworthiness in the United States and our ability to meet our commitments.

Senator TESTER. And so you would see that as a giant step in the wrong direction as far as maintaining our reserve currency status?

Mr. ADEYEMO. Yes, Senator. Ultimately, the reason that the United States dollar is the reserve currency in the world is because people trust the United States economy. They have confidence in the investments and the decisions that we make. And if we were to not pay our bills on time it would send ricochets through those people who have confidence in our economy.

Senator TESTER. OK. Thank you, Mr. Chairman. Thank you.

Chairman BROWN. Thank you, Senator Tester. Senator Scott is recognized from South Carolina, from his office.

Senator SCOTT. Thank you, Mr. Chairman, and thank you, Mr. Adeyemo, for being with us today. I have a couple of questions for you. I noticed that Senator Tester started asking questions about the plan to make sure that we do not default on our debt, or the consequences of us defaulting on our debt, and without any question I have read a number of reports that suggest that the plan that was going to be in place to make sure that we did not default on our debt was already being thought through, wise planning from my perspective.

Here is a question, though, that is not related to sanctions, even though I know that we are talking about sanctions, but it would be impossible for me not to ask a question about the current proposals coming out of the Administration as it relates to the ability to investigate and/or have access to every transaction in every American's banking accounts or financial accounts, based on simply \$600 of flow coming through. I know that some proposals have \$600, others have \$10,000.

The challenge is, whether it is \$600 or \$10,000, it captures basically the same number of accounts. Ultimately, if someone pays \$800 a month in rent, that is \$9,600. With any other transactions you break the \$10,000 threshold. If you were a senior citizen receiving Social Security, with the average Social Security check being around \$1,500, or \$18,000 a year, your financial institution then has to report to the IRS your account.

I do not know what in the world the IRS will do with the information that they receive from these financial institutions. I say this with the backdrop of the last Democrat administration. We saw the IRS not peering into but investigating nonprofit religious organizations and conservative organizations without expanding their power or their reach.

So my concern is that as we see this Administration's proposal to give more access to the IRS to peer in and investigate, frankly, \$600 of flow in and out of accounts of every American, that essentially captures all Americans' transactions in this country. If you are looking for tax cheats, that is a terrible way of figuring it out.

But if you are, in fact, looking at a big Government proposal to have the ability to investigate every single transaction of a financial institution of your account, my account, and their accounts, well, this might be a good direction to go in. And I would love to hear why you think it is important for every American's transactions to be made available to the IRS.

Mr. ADEYEMO. Senator, thank you for that question because it gives me an opportunity to make clear the President's policy goal, which is to make sure that wealthy taxpayers who are avoiding taxes in this country pay the taxes that they owe. As you know, the top 1 percent of income earners in this country fail to pay more than \$150 billion in taxes each year. And the reason for this is because they do not earn income the same way that most of your constituents do, which is by getting a W-2, which is information that a teacher or a truck driver or any other employees' company provides to them, but also then provides to the IRS.

The reality is wealthy people often earn their income through partnerships or other ways in which they can sell an asset for \$2 million, put that \$2 million in the bank account, and tell the IRS that they only earned \$100,000.

What the President seeks to do is level the playing field so that wealthy individuals are forced to pay taxes in the same way that working-class people do every day in this country. We are committed to—

Senator SCOTT. Thank you. Let me just follow up on your answer, because I do think you raise an important point, and I hope everyone who is watching is listening to what I think is an explanation that requires a little more questions.

Let me think of it this way. The top 2 percent of Americans make about \$18 out of every \$100 but they pay about \$36 out of every \$100 in taxation. Sixty percent of Americans pay no Federal taxes. Here is my question. For those 60 percent that pay no Federal taxes, you are literally going to be having the access to investigate their accounts too.

So if you are looking to simply find the tax cheats of the top 1 percent or 2 percent of Americans, you do not need a threshold of \$600. You do not need a threshold of \$10,000. Frankly, you do not even need a threshold of \$100,000. What this threshold of \$600 or \$10,000 does, it captures all the information, all the transactions of everyday Americans, not the rich ones but the ones working paycheck to paycheck, should not be forced to have an additional burden on their plates about whether or not the IRS is going to be investing them, whether or not someone is going to be harassing them. That is not about millionaires and billionaires. That is an actual additional burden on working-class Americans. We can do better than that.

Thank you for your answer.

Mr. ADEYEMO. Can I just respond quickly?

Chairman BROWN. Mr. Secretary, of course.

Mr. ADEYEMO. The President is willing to work with Congress on the threshold, on ways to protect those who earn W-2s, and those who get Social Security payments. Our ultimate goal is making sure that wealthy people who do not pay the taxes that they owe,

pay those taxes in order to make sure that we have the money to pay for things like infrastructure and childcare in this country.

Chairman BROWN. Senator Menendez—

Senator SCOTT. Mr. Chairman, I appreciate you giving my time to the witness to respond. I will simply say this, that if you are looking for a way to make sure that people pay their fair share of taxes, I have got to tell you that this proposal is not in the same universe of accomplishing that goal. This proposal, whether it is \$600 or \$10,000, if you exclude the Social Security recipients at \$1,500, you still have the vast majority of Americans, working paycheck to paycheck, with an additional burden, with another thing to be concerned about, from their Government. That is not the way the free market should work. It is certainly not the way that we want our country working, that every single American has to be concerned about the IRS. Those three letters are scary enough without giving them more access to our accounts unnecessarily, especially for working-class Americans.

Thank you very much for your response.

Chairman BROWN. Senator Menendez from New Jersey is recognized.

Senator MENENDEZ. Thank you, Mr. Chairman. Mr. Secretary, would you agree that sanctions are one of the few peaceful tools of diplomacy?

Mr. ADEYEMO. Senator, I do agree that sanctions are an effective tool of diplomacy that are peaceful.

Senator MENENDEZ. I appreciate that the Treasury Department is thinking through how to ensure that sanctions remain an effective tool, but I am concerned that this review does not reflect a holistic approach to sanctions. I mean, I see the Treasury Department as basically the entity that once an Administration decides to pursue sanctions in pursuit of peaceful diplomacy somewhere in the world is the executor of those sanctions.

I think most people would agree that sanctions are a foreign policy tool, but this review is basically a Treasury-centric product that does not address the many sanctions authorities implemented by the State Department and largely pays lip service to the State Department's role in sanctions.

At the same time, I get the sense that the State Department often struggles to play an effective role. They do not match up well to Treasury's resources and capacity in this area.

So my question to start off is, why spend all of this time and effort on a review when it is a single-agency product rather than one that is reflective of the overall foreign policy component that should be the driving force, I think, in our sanctions policies?

Mr. ADEYEMO. Senator, I completely agree that sanctions are a tool that are driven by foreign policy decisions that are made, and mainly driven by the State Department and the National Security Council. But given the importance of this tool and the use of the tool, we wanted to make sure that we are ensuring that the tool is effective going forward, and we worked closely with the State Department with regard to this report, and we look forward to working closely with them—

Senator MENENDEZ. Well, let me ask you this. I do not know how closely you worked, but would you consider a joint effort with State, moving forward?

Mr. ADEYEMO. We do plan a joint effort with State, going forward.

Senator MENENDEZ. Let me ask you, you know, sanctions are only as good as they are enforced, like any other law. If you have a law—you know, there is a red light and you go through the red light, unless there is the likelihood there will be an enforcement against you for doing so, you will go through the red light. Same thing in terms of sanctions, in a more significant context.

I have raised this before, but I am deeply concerned that China is continuing to buy oil, in significant—significant—quantities, from Iranians, both subverting international sanctions and impacting the oil market. I am disappointed that the United States, and for that fact the rest of the international community, does not seem to be holding China accountable for these violations.

What steps are you taking to enforce sanctions on China to comply with the law?

Mr. ADEYEMO. Senator, at the Treasury Department we are committed to complying with the law and to seeking intelligence on the companies and entities that are purchasing illegal oil and to holding them accountable. We are happy to provide you and your staff with a classified briefing on the steps we are taking with regard to those entities.

Senator MENENDEZ. Well, I appreciate that you are committed to it, but only sanctioning actually makes it relevant, at the end of the day. And this is being done in plain view. I mean, we are talking about, you know, millions and millions of barrels of oil that are being purchased by China from Iran, in clear view of everyone in the international community. I do not know how much due diligence is ultimately necessary to find out that which is available to the public eye. So I really look forward to hearing what you are going to do in that regard.

I also look forward to understanding, for example, you know, Turkey and the S-400. They are talking about making more purchases. When we wrote this law, we wrote it in such a way so that certain actions are mandatory in nature, not discretionary, but yet we have seen, both the past Administration and this Administration, not necessarily enforcing the mandatory nature of the sanctions. Why not?

Mr. ADEYEMO. Senator, I am committed to enforcing mandatory sanctions where we have the proof and evidence to do so. We rely heavily on the counsel of career lawyers at the Treasury Department and the DOJ in terms that enforcement and also on the intelligence that we have at hand.

Senator MENENDEZ. Well, I love lawyers but they can kill every process in the world. The reality is that I find that Congress' intent is habitually subverted by both the previous Administration, and so far, in some cases, this Administration.

Last question. When can expect to see designations related to the Executive order on imposing sanctions on certain persons with respect to the humanitarian and human right crisis in Ethiopia that was issued by the Administration on September 17th?

Mr. ADEYEMO. Senator, we are committed to finding a peaceful resolution to the situation in Ethiopia, and the President has issued an Executive order and we continue to work with parties to bring them to the table. But it made it very clear that we are also willing to use that Executive order to do so. As the process continues, we will continue to evaluate sanctions targets and are committed to keeping you informed as we do so.

Senator MENENDEZ. OK. I appreciate you are very committed, but I have to be honest with you, I do not see the commitment in action, and so I am looking forward to the action on these and others. And I have other questions I will submit for the record.

Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Menendez. Senator Daines from Montana is recognized from his office.

Senator DAINES. Mr. Chairman, thank you, and I want to extend a warm welcome to our witnesses, and I appreciate this opportunity to discuss a few matters that are affecting the security of our Nation.

Over the past year, China has exerted increasing pressure, both militarily as well as financially on Taiwan, its neighbors in the South China Sea, while at the same time hedging itself from international pressure with new antisanktions laws.

Mr. Adeyemo, how does China's decision not to extend antisanktions laws into Hong Kong inform our own strategy for deterring aggression and assuring our allies in the South Pacific?

Mr. ADEYEMO. Senator, thank you for the important question, and I think this speaks to why we believe it is critical that as we move forward on sanctions we look for, at every opportunity, the ability to do them multilaterally. Frankly, our adversaries are seeking to find ways around our sanctions every day, and the best way to ensure that they are unable to do that is by making sure that our sanctions are not just driven by the United States but by the international community made up of our allies and partners.

While the economic impact of our sanctions is great, my bringing along our allies and partners we increase the political impact of isolation, which matters to our adversaries and puts us in a better position to enforce these sanctions over the long term.

Senator DAINES. Mr. Adeyemo, I agree with you, the multilateral approach is a good approach, and I would encourage you to head in that direction.

In addition to these antisanktions laws, China's main goal in the development of the digital yuan is to establish an alternative to the U.S. financial system and one that is immune to sanctions. How can we ensure that our sanctions policy does not risk the centrality of the U.S. dollar as a dollar-based institution and the U.S. payment networks that carry importance that are far beyond the specific country that is being sanctioned?

Mr. ADEYEMO. Senator, again I think that one of the things we need to do as we think through how to make sure that we further enhance the dollar-based financial system is ensuring that our allies and our partners remain bought into that system, by working more with them going forward.

In addition to doing that, we need to do many of the things this Committee has been calling for, for a long time, in terms of the

principles that you have outlined, making sure that when we do use sanctions we are using them as part of a clearly defined strategy, that we are allowing for humanitarian access to continue to flow. When it comes to a country like China, it is true that they are trying to find means around our financial system to avoid sanctions, but it is difficult for countries, our adversaries, to find a means around not only the U.S. financial system but the financial systems of our partners and allies as well.

Fundamentally, by taking actions in unison with other countries, we put ourselves in a better position to make sure that we maintain the dollar-based financial system globally and also that we are able to hold our adversaries accountable for actions that they take that are in violation of international laws and norms.

Senator DAINES. Thank you. Speaking of adversaries, just earlier this month, without warning or explanation, the Biden administration lifted sanctions on two Iranian entities involved in the military missile programs, the Mammut Industrial Group and a subsidiary, Mammut Diesel. This action contradicts earlier assurance by President Biden that he would not ease sanctions until Iran reversed its course on the pursuit of a nuclear weapon.

Mr. Adeyemo, why did the Administration lift sanctions on these two entities?

Mr. ADEYEMO. Senator, I want to assure you this was not in response to a change in Administration policy but rather in response to legal actions that were taking place. I am happy to provide you with a more detailed briefing on those legal actions in another setting.

Senator DAINES. Of course, it gave us, I think, great concern. And so perhaps a more direct question would be, does the President remain committed to preventing Iran from obtaining a nuclear weapon, or should we expect to see more of these, I think what I would call them, quiet concessions?

Mr. ADEYEMO. So Senator, again, I want to make clear that this was not a concession but rather in response to a legal action. The President remains committed to ensuring that Iran does not have a nuclear weapon. He has made that if Iran reenters the JCPOA we are willing to take steps in that regard, but not before.

Senator DAINES. Last, on Afghanistan, as the Nation continues to deal with the terrible aftermath of President Biden's very abrupt withdrawal from Afghanistan, questions remain as to how the U.S. is going to prevent the rise of terrorism and address the growing humanitarian crisis in that Nation. Do you foresee a scenario where the United States would relinquish the frozen Afghan Central Bank reserve to the Taliban?

Mr. ADEYEMO. Senator, I see no situation in which we would allow the Taliban to have access to the reserves that belong to the Afghan people. We believe that it is essential that we maintain our sanctions against the Taliban, but at the same time find ways for legitimate humanitarian assistance to get to the Afghan people, and that is exactly what we are doing.

Senator DAINES. Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Daines. Senator Van Hollen of Maryland is recognized for 5 minutes.

Senator VAN HOLLEN. Thank you, Mr. Chairman. Welcome, Mr. Adeyemo. Good to see you. And I agree that sanctions are only one tool in our national security and foreign policy toolbox, but as you indicated, they can play an important role in enforcing a rules-based international system.

You would agree, would you not, that China grossly violated its international obligations when it cracked down on democracy in Hong Kong.

Mr. ADEYEMO. I agree, Senator.

Senator VAN HOLLEN. And while we know that sanctions cannot always succeed in reversing malign conduct, if we raise the costs of those actions we send a signal that, whether it is China or another country, if they want to engage in this kind of aggressive behavior elsewhere they will pay a price. But that only works if they actually pay a significant price.

After China's actions in Hong Kong, the Congress passed legislation—Senator Toomey and I authored legislation, the Hong Kong Autonomy Act—which requires the Executive branch to impose sanctions on officials that are complicit in the crackdown in democracy, and importantly, on financial institutions that helped facilitate those individuals.

Senator Toomey and I wrote to Secretary Yellen back in June, applauding the Administration for sanctioning some individuals, but raising the question about whether or not the Administration had been successful in identifying any financial institutions that facilitated those.

There have been conversations since, but as of today, is it your testimony that the Department of Treasury cannot identify any financial institutions that facilitate the individuals that you have applied sanctions to?

Mr. ADEYEMO. Senator, as we said then, we have not found financial institutions that facilitate those types of transactions, but it is something we are continuing to look at. I think you made a clear point that one of the goals is to increase the cost to people who take these types of actions, and from our perspective, not only doing this unilaterally but working with our allies to raise the cost is critically important as well.

Senator VAN HOLLEN. Well, let me turn to another piece of legislation that Senator Toomey and I, and Senator Brown passed, called the BRINK Act, which applied sanctions against any financial entities facilitating North Korea's malign activities. And it was modeled after the Iran sanctions legislation so it was mandatory and secondary sanctions.

To date, despite the fact that a U.N. group identified lots of financial institutions that they say are helping North Korea evade those sanctions, the Administration, neither the previous one nor the current Administration, the Biden administration, has imposed sanctions on any of these financial institutions since the passage of the BRINK Act. Is it your testimony today that we have not identified any financial institutions that are helping North Korea violate the sanctions?

Mr. ADEYEMO. Senator, as you know well, over the last decade we have sanctioned a number of financial institutions that have been facilitating trade with North Korea and holding responsible a

number of people who have taken these actions. While we may not have taken sanctions under the act that has been passed, we do appreciate the authority that Congress has given us that will allow us, in the future, to do so. And as we find financial institutions that violate the law and facilitate this trade we are committed to taking these actions.

Senator VAN HOLLEN. Yeah, here is the issue. The issue is that it is not just authority in the BRINK Act. It is a requirement. They are mandatory sanctions. And they are mandatory sanctions on any entities, anywhere in the world, that are facilitating the North Korean regime. And so my question remains—and you can get back to me—are you familiar with the U.N. reports that have been done, where they actually identify, by name, entities around the world that are helping North Korea violate the sanctions regime? Are you aware of those reports?

Mr. ADEYEMO. Senator, I am aware of those reports.

Senator VAN HOLLEN. OK. And have we looked at the reports, and have we concluded that they are wrong?

Mr. ADEYEMO. Senator, we have not concluded that the reports are wrong. What we have not done is found evidence sufficient for the mandatory sanctions that are required under the BRINK Act. But we look forward to continuing to look for that evidence and to working with you and your staff to use the mandatory sanctions that have been passed by Congress to hold North Korea accountable and to make sure that we are able to prevent them from advancing their weapons of mass destruction program.

Senator VAN HOLLEN. Well, I appreciate that. You know, the Appropriations Committee, we just released our appropriations bills for public review yesterday. I chair the FSGG Subcommittee, and we have language in there really directing the Executive branch to provide us with an update. Because we have, on the one hand, the U.N. report that identifies, by name, these entities, and yet we have not seen any action. And if the reason is that we do not have sufficient evidence, I would love to sit down with you and go over that.

Thank you, Mr. Chairman.

Mr. ADEYEMO. Senator, I am happy to do that.

Chairman BROWN. Thank you, Senator Van Hollen. Senator Cramer from North Dakota is recognized for 5 minutes.

Senator CRAMER. Thank you, Chairman Brown. Thank you, Ranking Member Toomey. Thank you, Mr. Secretary, for being here.

I want to follow up on a couple of things. First of all, both Senator Toomey and Senator Menendez and others, but especially the two of them, have certainly emphasized the expressions of commitment have not led to action in terms of enforcing, and in the case of Nord Stream 2, where I want to drill down a little bit, certainly CAATSA.

And that is a pretty big problem, because you said something else about, I think it was to Senator Scott, about multilateral coordination is really important. Nord Stream 2 has been strongly opposed by the European Union Parliament, I mean on two votes of like 400–100, and that is just rounding up the lower number and down the higher number.

So it is hard for me to see much commitment when the President announces, just sort of out of the blue, the lifting of sanctions on Nord Stream 2, an authority he does not even have.

And I think that we have concluded that the State Department determined that Nord Stream 2 AG has facilitated sanctions evasion. On whose behalf? On whose behalf? I mean, who is the winner here? Why did the President lift the sanctions? Why are we facilitating this? I mean, on whose behalf is this being done?

Mr. ADEYEMO. Senator, I appreciate the concerns, and they are concerns that we share. What we are doing, within the Treasury Department, is making sure that we are looking for any evidence that we can that will allow us to use the mandatory sanctions that Congress provided to us. We have met, on several occasions, with Members of the Committee staff here to hear from them in terms of the evidence that they have. We have also worked closely with the Department of Justice to make sure that we have a good understanding of the legal authorities that we have in order to be in a place where we can take actions when we have the appropriate evidence.

Senator CRAMER. But the President's actions are completely unilateral, they were outside of the law, and I want to know on whose behalf it was done? I mean, the European Union or multinational relationship, overwhelmingly opposed this completing of Nord Stream 2.

And let me tell you a couple of good reasons why it is a bad idea, in the first place, Nord Stream 2. Because it has natural gas, produced in Russia, moved via pipeline, like Nord Stream 2. Besides captivating European allies to a single source, setting that aside for a moment, has, through the lifecycle of that gas, a 41 percent higher greenhouse gas emission footprint than natural gas produced in the United States and liquified and sent to the same European allies. And that does not even include the methane leakage.

So what I am trying to wrap my mind around is what is the good reason for lifting sanctions? And I know you are looking for every legal reason to enforce the law, which is interesting to me, but what is your theory, if you do not know, why the President would have done something like this?

Mr. ADEYEMO. Senator, we share your concerns with regard to the Nord Stream 2 project. Ultimately, our goal here is the same as yours, which is to make sure that we provide for the security of our key allies while doing it in a way that does not further those that seek to destabilize the region.

Our role, at Treasury, is to make sure that we use the mandatory sanctions authorities that you have provided, and that is what we are committed to doing when we have the sufficient evidence to do so.

Senator CRAMER. Well, I am concerned about the bigger picture. I mean, here we are going to send the President, and most of the Cabinet, it seems, to Glasgow, to try to convince the world to be as good as we are. Although we have a Secretary of Energy who, in North Dakota last week, said we, the United States, does not have the moral authority to hold China accountable when they are emitting three times more greenhouse gas emissions than we are.

They are on a trajectory to become responsible for 100 percent of greenhouse gas emissions growth, while we are on the decline.

And I am just having a heck of a time understanding why we apologize for the United States while covering for China, who just, as you know, we just learned, had a very successful circumventing of the globe of a missile. It is very, very concerning, and I am just concerned about whose side this Administration is on when it comes to both our economy and, frankly, even, frankly, to climate change.

What I see is a transfer of climate guilt to big polluters as somehow making us feel better, and then I do not know what they are going to say in Glasgow that is going to be convincing to our allies. But thank you for your testimony, and I yield.

Mr. ADEYEMO. Senator, ultimately the President believes that climate change is a global responsibility, but the transition to a clean energy economy is an opportunity for the United States, in which if we make the investments that are needed we can become a leader in selling American goods and service around the world that help to meet the needs of climate change.

Senator CRAMER. And I am all on board. I argued to stay in Paris with the last Administration for those very reasons. But I am not seen that kind of leadership anymore. I mean, the approval of Nord Stream 2, there are multiple bad things about it, and I have not found one good one, including on whose behalf we facilitated these sanctions breaches.

Chairman BROWN. Senator Warren from Massachusetts is recognized for 5 minutes.

Senator WARREN. Thank you, Mr. Chairman. So giant corporations and the wealthy have worked hard to rig the tax code so that they can pay lower taxes than everyone else. And now the Democrats are looking to try to make the tax code just a little bit fairer, and hordes of lobbyists are fighting us, tooth and nail, to stop it.

The whole thing is disgusting, but one fight is downright breathtaking, even in this cesspool, and that is the lobbyists' fight to protect the ability of their wealthiest clients to cheat on their taxes.

Millions of hardworking Americans file their taxes honestly every year. Their employers send them W-2 forms that say exactly how much they earned in wages, right down to the penny. And then the employers also send a copy of that to the IRS. This is called third-party reporting, and it helps taxpayers fill out their tax forms accurately. It also helps the IRS zero in on tax cheats if the numbers do not add up.

Wage earners, from cashiers to teachers, are subject to third-party reporting, but the wealthy get their money in other ways, and mostly the IRS does not get any information, no third-party reporting, to keep them honest.

So Deputy Secretary Adeyemo, let us consider a multimillionaire with several mansions, who sells one of those mansions for several million dollars more than they paid for it. That is taxable income. But does the IRS get third-party verification of how much profit they made?

Mr. ADEYEMO. No, they do not, Senator.

Senator WARREN. All right. Let us ask about a partner in a law firm or a private equity fund. When they get millions of dollars as

a distribution of profits from their firm, does the IRS get true, third-party verification of how much money they make?

Mr. ADEYEMO. No, they do not.

Senator WARREN. OK. So when rich people rake in millions in sales or profit distributions, they are on the honor system. So tell me, Deputy Secretary, how is the honor system working right now?

Mr. ADEYEMO. It is not working well, Senator. As you know the top 1 percent of earners in America underpay their taxes by more than \$150 billion each year, almost \$2 trillion over the course of 10 years.

Senator WARREN. More than \$150 billion a year is lost by these top earners. And that is exactly why Congress is considering a simple new, third-party reporting requirement. Under this proposal, banks would report just two very general numbers to the IRS each year: total dollars that come into an account and total dollars that have gone out. This means the IRS can spot wealthy tax cheats that have millions of dollars flowing into an account but they are not reporting any money on their tax return.

Now many rich people are happy now with the current system, and the banks who serve them are also happy. So they have started a campaign to keep the IRS in the dark about tax cheating, and some of these folks are just outright lying about the proposal, claiming, for example, that it would give the IRS information on individual transactions. And some Republicans have picked up on these lies.

So let us go through some of these. Deputy Secretary Adeyemo, just to set the record straight, under this proposal if I bought new tires or a couch or a cow, would the IRS know about it?

Mr. ADEYEMO. No, they would not, Senator.

Senator WARREN. Well, if I paid my friend, Sherrod, back for buying me a cup of coffee, would the IRS know about it?

Mr. ADEYEMO. No, they would not, Senator.

Senator WARREN. Would anything, anything at all in this proposal, cause the IRS to increase audit rates on folks making less than \$400,000 a year?

Mr. ADEYEMO. No, Senator. It would actually allow us to reduce audits on those individuals and increase our ability to go after those who are more likely to cheat the system by underpaying their taxes, which are wealthy taxpayers.

Senator WARREN. Well thank you, Deputy Secretary. You know, this proposal would help unrig our tax system just a little bit, making sure that the wealthy have to pay the taxes they owe, just like everyone else does.

So tell me, why have the lobbyists been fighting this proposal so fiercely? Small businesses have been putting together W-2s for their employees every year for a zillion years. Do not tell me that the banks cannot do this.

Mr. ADEYEMO. Senator, those who do not seek to pay their fair share will go to no ends to try and avoid taxation, and that is exactly what we are seeing here. The President's goal, ultimately, is to level the playing field so that wealthy individuals have to pay taxes in the same way that working class pay every day in America.

Senator WARREN. Well, thank you very much. You know, the Democrats are fighting for tax reforms that will help ensure that the very rich and giant corporations start paying their fair share. And I get it that the lobbyists and the rich people that they represent are going to fight us with everything they have got, including spending millions and millions of dollars on these campaigns. But we need to make the tax system fairer, and this is one of the critical ways we can do it.

Thank you for your help on this. Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Warren.

I am not clear. No one is in the room, although Senator Hagerty is about to return, I understand. Senator Cortez Masto, or Senator Tillis from his office, perhaps, or Senator Cortez Masto from hers?

[No response.]

Chairman BROWN. Senator Ossoff from his?

[No response.]

Chairman BROWN. Senator Smith from hers?

[No response.]

Chairman BROWN. One moment.

[Pause.]

Chairman BROWN. Senator Hagerty is just a couple of moments out. I will ask one more question to the Deputy Secretary.

The White House gathered, as you know, over 30 Nations last week and called for accelerated cooperation to combat international ransomware efforts. This effort shows your focus, the Administration's focus on protecting the community of U.S. companies from such attacks.

How can Congress work more effectively and cooperatively, Mr. Deputy Secretary, with Treasury to address the problems of sanctions violations through cryptocurrency in cases of ransomware?

Mr. ADEYEMO. Senator, thank you for the important question, and as you know, recently we sanctioned our first cryptoexchange for the facilitation of ransomware payments. We are committed to continuing to look at using our sanctions authorities to go after those that use cryptopayments to violate our laws by committing crimes.

We want to work closely with Congress. One of the most important areas for us, frankly, is ensuring that we have a workforce that understands these issues, going forward. So we look forward to both looking for the authorities to hire the people we need but also to the budget increases that are part of the President's fiscal year 2022 budget, in order to make sure that we have the personnel needed to address the issues cryptocurrency, but also other changes that are happening in the payment system that are making it harder for our sanctions regimes to effectuate the type of behavioral changes we want from our adversaries.

Chairman BROWN. Talk for a moment, too, about international cooperation to disrupt ransomware.

Mr. ADEYEMO. As you know, Senator, many of these cryptoexchanges and cybercriminals that facilitate ransomware exist outside the United States and have an impact here. Our goal is to work closely with our allies and partners to disrupt those actors that exist in their countries, and a big piece of this is going to be ensuring that these countries also take actions to make sure

that anti-money laundering rules are followed by cryptoexchanges that exist in their countries, and that they are extending the protections that exist within their traditional financial sector to cryptocurrencies and to financial technologies that are started in their jurisdictions.

Chairman BROWN. Thank you, Mr. Secretary. Senator Toomey has one more question.

Senator TOOMEY. Thank you, Mr. Chairman. Mr. Adeyemo, my question is this. Does the Administration intend to try and bypass the Senate's treaty approval process to implement Pillar One of the international tax agreement that the Administration is pursuing?

Mr. ADEYEMO. Senator, we, of course, look forward to working closely with you on the implementation of the international tax agreement. As the agreement is not completed I cannot speak to the process for working with Congress on those portions. But what we do know, based on the conversations we have had with our international partners, with Congress, and with the business community, is that the American business community is supportive of Pillar One, because they see it as a way of creating a level playing field throughout the world for them, going forward.

Senator TOOMEY. Well, some of the business community are supportive and some are not. I would point out that the U.S. has 58 bilateral tax treaties in force. All of them were approved by a two-thirds vote in the U.S. Senate.

And here is the problem. If you cannot answer the question of how you are going to impellent this, that obviously suggests there is some uncertainty about whether it will be implemented. It was Pillar One that was the motivation for other countries to agree to Pillar Two, which is the increase in the global minimum tax. If they do not know for sure that they are going to get Pillar One, and they have good reason to doubt it, then it is not at all clear to me that they are going to go ahead and impose Pillar Two, which they were reluctant to do in any case.

So my suggestion would be before the Administration and our Democratic colleagues go ahead and impose this huge tax increase on American multinationals, which might not be met by a corresponding tax increase with other countries' multinationals, you might want to pause and get this figured out.

Mr. ADEYEMO. Senator, as you know, countries like Germany, France, the U.K., have higher minimum taxes than we do. Ireland and a number—

Senator TOOMEY. Not with respect to the income of foreign subsidiaries.

Mr. ADEYEMO. These countries are all committed to increasing them to the global minimum tax.

Senator TOOMEY. Yes. But as I said, that was as a condition. It was conditioned on them getting Pillar One, and you are not able to explain how you are going to get Pillar One implemented. So you have to question their commitment if they are not going to get what they bargained for.

Chairman BROWN. Senator Ossoff from Georgia is recognized from his office.

Senator OSSOFF. Thank you, Mr. Chairman, and thank you Mr. Adeyemo for your service and your testimony today.

The comprehensive sanctions review that Treasury has undertaken in the first 6 months of the Administration—I appreciate the details that have been referred to the Committee—you have highlighted a number of what you assess to be success stories in that document. Could you please identify for the Committee one or two high-profile instances where U.S. sanctions have been ineffective, have not achieved their objectives, or where the cost or externalities of the sanctions have exceeded the benefit, from Treasury's perspective?

Mr. ADEYEMO. Senator, as we say in the sanctions review we did not conduct a comprehensive review of each one of the 37 sanctions programs that are authorized by the Executive branch or Congress. Rather, this review was focused on a forward-looking assessment of what we can do to make sure this remains an effective tool.

What we learned, though, was that the places where we can improve sanctions going forward speak to some of the things that we could have done better in the past, for example, ensuring that we continue to use a framework for evaluating when sanctions are imposed and ensuring that humanitarian assistance is able to be provided to people in conflict zones.

We have learned a great deal about doing both of these things over the last 20 years, and we look forward to applying them on a go-forward basis to our sanctions program.

Senator OSSOFF. Thank you, Mr. Adeyemo, but you do specify a number of cases where you believe U.S. sanctions policy has been effective. So I think in the interest of ensuring that we are improving U.S. policy, having undertaken a clear review of past policy, can you please specify cases where U.S. sanctions policy has not functioned as intended or effectively? The cases, for example, that inform the general assessment that you just shared with respect to humanitarian aid in conflict zones.

Mr. ADEYEMO. Senator, I think one of the challenges that we identified was the fact that because we did not have a clear framework for evaluating the imposition of sanctions in each one of the instances in the past it makes it hard to evaluate the success of those sanctions programs. As we said in the report and I said earlier, we did not evaluate each sanctions program or each sanction that was put in place, so I am not in a position to tell you where one could have been done better or done differently.

What I can tell you is that on a go-forward basis we look forward to applying a framework that aligns with the principles that this Committee has spoken of, going forward, to ensure that we are in a place where we can evaluate the success of sanctions and decide where we need to do more or do less in order to effectuate our foreign policy goal and to ensure that sanctions are usable well into the future, as a foreign policy tool.

Senator OSSOFF. Mr. Adeyemo, the report—and I believe I am looking here at the full review and Executive summary—specifies cases in Iran, a case with respect to the Cali Cartel, sanctions targeting Libyan assets following the fall of Khadafi's regime in 2011, the designation of over 1,600 terrorist entities as success stories, I am asking you where our sanctions have not succeeded. Is it that you have not identified any such cases, or is there a lack of willingness to acknowledge policy failure in public?

Mr. ADEYEMO. No, Senator, you are right that in the report we do acknowledge a number of cases where we have seen clear success. As we said in the report, we did not focus in on each individual program or authority but rather we looked for themes, and we highlighted those themes, and I did so earlier in my testimony, of places where we need to make sure that we address challenges.

Some of those challenges are challenges that we need to address that are internal challenges, one making sure that we are able to allow humanitarian assistance to flow and to making sure that sanctions are used as part of an overarching strategy. But some of the challenges are created by our adversaries and changes in technology. For example, our adversaries are attempting to find ways to get around our sanctions program, and the advent of cryptocurrencies and things of that nature make it harder for sanctions to be effective.

Senator OSSOFF. Mr. Adeyemo, with respect to my time being limited—and I may already be over my time—what I am asking is for you to identify. We are trying to learn lessons here. You have conducted a review of U.S. sanctions policy. You have identified in that review specific success stories. Please, with my remaining time, identify one or two specific examples where U.S. sanctions policy has been ineffective, so that the Congress can benefit from the review you have undertaken and deliberate how best to improve the statutes that govern these policies.

Mr. ADEYEMO. Senator, as I said, the review was focused on the idea of us looking into the future as to what we can do to use sanctions going forward. We did not spend time looking at the individual sanctions policies. I am more than happy to follow up with you and your staff to talk about any of the sanctions programs that you would particularly like to discuss, but our goal of the review was to look at what we could do going forward to make sure that sanctions remain an effective tool. In order to do that, we do need to address the challenges that the review found, which we have clearly articulated, both in the report and I have done in my testimony today, in order to make sure that going forward this tool is effective.

Senator OSSOFF. Yeah. Mr. Adeyemo, we will need to meet in person, because the purpose of this hearing is a policy update on the Treasury Department's sanctions policy review, and if we are unable, in a public setting, to articulate or discuss any specific cases where U.S. sanctions policy has been ineffective, beyond generalities, then I think we have more work to do. So I look forward to meeting with you so that we can work together to improve U.S. policy. Thank you.

Chairman BROWN. Senator Hagerty from Tennessee is recognized for 5 minutes.

Senator HAGERTY. Chairman Brown, Ranking Member Toomey, thank you for holding this important hearing, and Deputy Secretary, it is very good to be with you today.

As I have said before, the financial system in America is the envy of the world, and we need to do everything that we can to safeguard it from malicious activity and malign behavior. The ability to access America's financial markets is a privilege. We must also appreciate the national security importance of using the finan-

cial tools in our arsenal to counter America's adversaries and to constrict our enemy's financial lifeblood.

Just this weekend, we saw reports that the Chinese Communist Party surprised the U.S. intelligence community over the summer as they tested nuclear-capable hypersonic weaponry. This is a missile that circles the globe at speeds more than five times the speed of sound in a way that is harder to track and defend against before racing toward its target.

Reports of such activity underscore the challenging environment that faces America today. We must use every tool in our arsenal to defend our interests and make it clear to our adversaries that America means business. We must do so in a manner that does not inadvertently harm U.S. dollar's current status in the world and make certain that we remain the world's reserve currency.

Mr. Deputy Secretary, I agree with a number of the recommendations in the report that you have been discussing today. For example, clarity around sanctions is critical for enforcement, and we must ensure that costs to American small businesses are minimized. The report notes that if allowed to proliferate unchecked, digital assets could offer our adversaries a means to end-run our sanctions and harm the efficacy of those sanctions. The Chinese Communist Party has taken the extreme approach of banning all private sector cryptocurrency activity.

Your predecessor at the Treasury Department recently wrote about the need to protect security in a manner that does not crush innovation, and I agree, and I think you do too. And we must understand China's ambitions in this space with its digital yuan, China's potential desire to facilitate sanctions evasion, and the associated national security implications for the United States.

So I would like to ask you, how will the Biden administration and the Department of Treasury continue to lead in the digital assets arena in a way that protects us from the malign behavior of actors that we have been discussing and criminal activities that we might foresee?

Mr. ADEYEMO. Senator, thank you for the question, and I think one of the most important things for us is to remind ourselves that innovation is something that has been good for our economy, and we need to make sure that we create an environment that allows that innovation to exist but that we want to make sure that we have regulatory rules for the road that protect consumers, investors, and our national security.

Doing that will require us to extend our existing regulatory apparatus to address these issues but also potentially work with Congress where we may need new regulatory rules of the road to address new innovation. But the thing that we want to make sure that we continue to do is that we create room for helpful innovation that will help advance our economic interest.

Senator HAGERTY. I appreciate the perspective, and I think that many of us look forward to working with you in that regard.

I would like to turn to another point, and that has to do with the World Bank and the IMF and the influence of Communist China. Last month, the law firm of WilmerHale released findings from its investigation into data irregularities with the important World Bank's Doing Business Reports. These reports bill them-

selves as providing objective measures of business regulations for local firms in some 190 economies.

The report found that the data describing the business climate in China was changed because of pressure by then-World Bank CEO Kristalina Georgieva. Her goal evidently was to inflate China's ranking at precisely the time that China was going to help the World Bank increase its capital, a clear conflict of interest. Despite legitimate issues and concerns, the Biden administration continues to support Dr. Georgieva to continue to lead the IMF.

So Deputy Secretary, what steps is Treasury taking to ensure that the World Bank and the IMF are safeguarded against corruption by the Chinese Communist Party?

Mr. ADEYEMO. Senator, when we reviewed the Wilmer report we saw issues that were of serious concern, and that is why the Secretary demanded that the IMF look into this closely by speaking to the lawyers from WilmerHale and speaking with the managing director. Based on the evidence that we reviewed, we did not find that it was appropriate at this point to remove the managing director, but we did make very clear, during those meetings and directly to the managing director, that changes needed to be made to ensure that whistleblowers' rights are protected, that the integrity of the institutions are protected, which is our overarching goal, and that we will be holding her and the other leaders of the international financial institutions accountable for making these changes.

Senator HAGERTY. Well, I think the WilmerHale report highlighted clear concerns about conflict of interest, and I hope that you will continue to work with us to ensure transparency as you hold the IMF and the World Bank and agencies like this accountable to prevent them from being influenced by malign actors like the Chinese Communist Party.

Mr. ADEYEMO. We are committed to working with you on that, Senator.

Senator HAGERTY. Thank you very much.

Chairman BROWN. Thank you, Senator Hagerty. Senator Cortez Masto from Nevada is recognized from her office.

Senator CORTEZ MASTO. Thank you, Mr. Chairman. Deputy Secretary, thanks for joining us today.

Let me talk a little bit about ransomware, which we know the attacks have doubled from 2019 to 2020, and there is no doubt they are a criminal menace and a national security threat. And I also know that in Nevada companies have been attacked by ransomware by criminals.

So two questions for you. One, what does the U.S. Government recommend firms in the private sector do to address this, and then two, how should local governments and businesses be looking to address this, and is there some support at the Federal level that they can seek to help really prevent or prepare and what to do if they are somehow attacked through ransomware?

Mr. ADEYEMO. Senator, thank you for that important question, and I think the important thing for us all to recognize is that ransomware is a symptom of a larger challenge, which is that of cybersecurity. The most important thing that companies, our Government, individuals can do is make sure that they are focused on

improving their cybersecurity in order to prevent criminal actors from being able to get into their system and potentially use them to ransom them in order to turn those systems back on.

If a company or Government is attacked, the first thing we recommend that they do is get in contact with the FBI and to notify them immediately of these attacks. Our goal, ultimately, is to make sure that payments do not flow into the hands of criminal actors and that especially those payments do not flow into the hands of those people who have been sanctioned by the United States. So oftentimes those who have been attacked need to also contact the Federal Government and the Office of Asset Control in order to make sure that we are in a position to best help them resolve the situation and hold those accountable who are taking criminal actions against these enterprises.

Ultimately, the President is committed to a whole-of-Government effort, which involves not only the FBI and the Treasury Department but all agencies of our Government to hold people accountable. And as I discussed with Senator Brown earlier, it is going to be critical that we not only do this in the United States but that we have a global effort, because many of these cybercriminals are domiciled outside of our country.

So we look forward to working with Members of Congress to address these issues and to making sure that we work with our allies and partners to do so as well.

Senator CORTEZ MASTO. Thank you, because listen, count me in. We need to address this and work together.

Let me ask you this. Do you think sanctioning cryptoexchanges makes it riskier for firms to pay ransoms?

Mr. ADEYEMO. Senator, I do think that paying a ransom is something that a firm should—that is risky. Ultimately, our goal is to make sure that we stop these criminal enterprises from using ransomware as a tool to gain economic resources. So our goal is to make sure that when a company is attacked they notify us immediately. Treasury is committed to using all the tools in our arsenal to go after those who are committing these ransomware attacks.

As you know, we recently sanctioned a cryptocurrency that predominantly facilitated ransomware attacks. We are also looking at other exchanges and other mixers that are doing the same, in order to hold them accountable, and working with our international counterparts to do so as well.

Senator CORTEZ MASTO. Thank you. Let me jump to something else. In 2018, I joined Senator Flake to request a report from the GAO on remittances to fragile Nations, and fragile Nations, as you know, have a weak financial system, high levels of poverty, and active criminal or terrorist activities. Can you expand on the sanctions review recommendations for careful calibration to limit the impact of sanctions on the flow of legitimate humanitarian aid to those in need, and how will you carefully calibrate sanctions to limit humanitarian suffering?

Mr. ADEYEMO. Senator, this is a critical issue. When we use our sanctions regime, our goal is to go after actors who violate our national security but to permit for humanitarian assistance to continue to flow. What we have learned over the last 20 years is that oftentimes when we do not permit humanitarian assistance as we

are announcing a new authority it creates a gap between, and some uncertainty for those who are acting in this space.

So part of our goals is to ensure that as we go forward we find ways to create exceptions, where possible, early on, so that humanitarian assistance can continue to flow, and to make sure that we are clearly communicating with the financial institutions that are facilitating humanitarian assistance going forward about what our policy intent is, and making clear what legitimate humanitarian assistance is permissible in order to make sure that as we hold people accountable for their violations of international laws and our national security we continue to allow people to receive the humanitarian assistance they need, going forward.

Senator CORTEZ MASTO. Thank you. Thank you again, Deputy Secretary.

Chairman BROWN. Thank you. Senator Moran from Kansas is recognized for 5 minutes.

Senator MORAN. Chair, thank you very much. Mr. Secretary, good morning. I want to echo, before I ask a couple of questions, I want to echo the concerns that I have heard a number of my colleagues raise in regard to sanction enforcement, and in that regard think about North Korea and Nord Stream 2, Iran. My point I would make to you is it seems like we have seen no change or modification in behavior in a positive way by any of those entities, those countries, while we are seemingly paused on our enforcement of sanctions.

Let me now ask a couple of—and I hope the Administration, maybe there is an explanation for that, but I hope that we are forceful in our efforts to change behavior in all those instances.

Let me start with this one in case I run out of time. I am trying to prioritize. Since 2014, the central banks of China, Russia, Iran, and Venezuela have all explored the creation of a central bank digital currency. As of now, China is well on its way to issuing its first CBDC. There is no question our adversaries will use Government-issued digital currency to evade U.S. sanctions, fund authoritarian regimes, and surveil civilian populations.

How do central bank digital currencies allow for bad actors to accomplish their goals without detection, what steps are being taken to promote stability of our dollar based on the international financial system, and how does the Treasury plan to mitigate the blatant attempts by these countries to circumvent our sanctions?

Mr. ADEYEMO. Senator, thank you so much for that question, and I think from my perspective the best way to maintain the dollar's rule in the world is by making the needed investments here at home. Ultimately, the reason that the dollar is the world's reserve currency is because of the underlying strength of our economy, so by investing in that strength, by continuing to maintain a stable, rules-based system in the United States, we will continue attract capital.

But you are right that other countries are developing things like the digital central bank currencies that will have an impact. Fundamentally, many of these countries seek to do this for a number of internal reasons, frankly, in order to better monitor their people and to make sure that they have greater control. But it will have an impact on the international financial system, but ultimately in

order for any currency to have staying power it needs to be permitted to be used outside of that country, going forward.

And what we are going to do, in terms of as we think about our sanctions regime, is to ensure that we are thinking through how we design sanctions in a way where, if a country attempts to subvert the U.S. financial system it will be harder for them to do that if we are taking sanctions actions with our partners and allies. While it is hard to get around the dollar-based financial system, it is nearly impossible to get around the dollar, the euro, the pound, and the yen. So when we are able to take actions together it puts us in a better position to hold our adversaries accountable.

Senator MORAN. Thank you. In fiscal year 2019, the NDAA provided for waivers under CAATSA, specifically, I think, with India in mind. Given India's importance as a partner in the Indo-Pacific, observers across the political spectrum note sanctions would do significant harm to our relationship.

Does India meet the waiver requirements Congress passed 3 years ago, and why is it taking a very long time to reach a decision?

Mr. ADEYEMO. Senator, that is a question that is driven by a foreign policy decision that I am not in a position to make. But what I can tell you is that we are committed to following the mandatory laws that Congress has passed and to using the authorities you provided appropriately, going forward.

Senator MORAN. You are sending me to the State Department?

Mr. ADEYEMO. I am saying that this is definitely a question that the Secretary of State is well positioned to answer, in consultation with others in the Administration.

Senator MORAN. You know, a similar circumstance arose in regard to Turkey, and it highlights, for me, that countries are making decisions that, regardless of our sanctions, they are continuing the behavior that the sanctions are designed to prevent or deter. Turkey is an example of that. India now presents, apparently, a similar kind of outcome. And it then highlights again—I would raise in the 16 seconds I have left, that there was a 2019 GAO report that found that officials at Treasury, State, and Commerce, quote, “stated they do not conduct agency assessments on the effectiveness of sanctions in achieving broader policy goals.” I would hope that this Treasury Department and others are responding to that GAO report to help us determine which sanctions work and in what circumstances, so that we can better mold our sanction policy.

Mr. ADEYEMO. And Senator, I appreciate the work of this Committee to lay out a set of principles that I think help us in doing that work. I think you are right that one of the most important things we can do is evaluate how these tools work, going forward. But in addition to new sanctions, a key is how do we enforce the sanctions that are on the books. That is not always done by making new announcements but rather in our engagement with our partners and allies to cutoff funding to countries that are malign actors, going forward. There are also interdictions at sea that are done in collaboration and coordination with our colleagues at the Defense Department. And we know that ultimately these things

are in service of a foreign policy that is driven by decisions made by Congress and the President.

So we appreciate the close working relationship with this Committee and the Foreign Relations Committee on making sure that we are enforcing Sanctions in a way that is in keeping with our national security.

Senator MORAN. Mr. Secretary, thank you.

Chairman BROWN. Thank you, Senator Moran. The Senator from Rhode Island, Senator Reed, the most senior Member in attendance on this Committee today, is recognized.

Senator REED. Thank you very much, Mr. Chairman. Mr. Secretary, welcome.

We are facing a very challenging, very daunting, and very complex situation in Afghanistan. We have sanctions in place upon the Taliban and are unlikely to lift them. In fact, Secretary Blinken has said that if behavior is not acceptable further we could increase those sanctions. But at the same time there is a humanitarian crisis in the country, caused by many factors—the violence, the climate effects, et cetera.

How do we manage this difficult balance between providing, or at least not interfering with the humanitarian assistance, and still maintaining sanctions effective against the Taliban?

Mr. ADEYEMO. Senator, thank you for your question, and you are correct that the situation in Afghanistan for the Afghan people is quite challenging, and those challenges are being brought on both by environmental circumstances, a number of circumstances that are unique to Afghanistan, but also by the lack of management of the Afghan economy by the Taliban.

Fundamentally, our goal is to make sure that we are implementing our sanctions regime against the Taliban and the Haqqani Network but at the same time allowing for the permissible flow of humanitarian assistance into the country.

To that end, we have met on a regular basis with humanitarian groups that are doing business in Afghanistan as well as our international partners, including the U.N. We have issued a series of general licenses that allow for the permissible flow of that humanitarian assistance going forward, and we are also consulting with these groups on specific issues that they continue to have.

We believe that ultimately in order for humanitarian assistance to flow the Taliban has to allow that to happen within the country, but we are in a position where we are taking every step we can, within our sanctions regime, to make clear to humanitarian groups that we want to facilitate the flow of legitimate humanitarian assistance to the Afghan people.

Senator REED. Now I presume that the State Department—well, I cannot presume that, because we have very little presence on the ground. Who is actually monitoring the distribution of these humanitarian support systems to ensure that they are not being abused, and, in fact, it is getting to the people who need it?

Mr. ADEYEMO. In many cases we are working directly with the State Department and USAID on these sets of issues, but a lot of the humanitarian assistance that flows around the world, including in Afghanistan, goes through the United Nations. As you know well, the U.N. themselves has a sanctions regime when it comes to

certain actors within the Taliban. A number of these groups that are doing this work are familiar with doing work and providing humanitarian assistance in conflict zones, where they are forced to do so where there are sanctions in use, and they have done this for a long time. By consulting actively with us and working closely with our international partners we feel confident that we can allow the flow of assistance to get to the Afghan people without having to provide undue benefit to the Taliban.

Senator REED. Thank you. And I appreciate this, and this is, again, as I said initially, complex and challenging, and it is almost on a day-to-day basis, I presume, that you and your colleagues in the State Department are looking at this issue and making judgments about the effectiveness of the program. And that is, I think, a fair statement.

Mr. ADEYEMO. It is, sir.

Senator REED. Thank you very much, Mr. Secretary.

Chairman BROWN. Thank you, Senator Reed.

Mr. Secretary, thank you for joining us today. It has been a comprehensive, useful survey of the policy issues surfaced in the course of your months-long sanctions policy review, and we are so glad you did that review. I thank you for sharing your insights and findings and recommendations for this Committee. This will be but the first in a series of ongoing conversations, a good beginning.

Senators who wish to submit questions for the record, those questions are due 1 week from today, Tuesday, October 26. Mr. Deputy Secretary, you will have 45 days to respond to any questions.

Thank you again for your public service. It is a pleasure always to work with you.

[Whereupon, at 11:45 a.m., the hearing was adjourned.]

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

PREPARED STATEMENT OF CHAIRMAN SHERROD BROWN

Today we welcome Deputy Secretary Adeyemo to the Committee for an update on international policy issues.

Sanctions policy is an area where we have done important, bipartisan work on this Committee, across Administrations of both parties.

Working with then-Chair Crapo, we were able to make important progress in holding countries like Russia and North Korea accountable. Senator Toomey and I worked together to pass tough new fentanyl sanctions, to help stem the flow of illegal opioids from China and Mexico that have taken such a toll on both of our States.

I'm confident that we'll be able to build on that progress this year and into the future, in conjunction with President Biden and Deputy Secretary Adeyemo.

Two weeks ago in the Committee, we explored the economic and humanitarian crisis in Afghanistan, the role of sanctions, and how we can get more aid to the Afghan people, without resources falling into the hands of the Taliban.

Last week, a broad coalition of countries, led by the United States and Europe, agreed to substantially increase aid to Afghanistan. And we continue to work with our allies to ensure that aid can be delivered effectively to the people there, despite sanctions against the Taliban.

Today, we'll focus primarily on the findings and recommendations of the months-long sanctions policy review that Secretary Yellen directed the Treasury Department to undertake.

The department consulted with agencies across the Government—State, Commerce, the intelligence community, and others—as well as an array of private sector actors, including banks, businesses, nonprofits, international NGOs, and sanctions experts.

That comprehensive review examined important questions of our current sanctions policy: Does the U.S. Government have the right sanctions tools? Are we using them effectively with our allies?

Are we reassessing their application and adapting them as we go? Are we targeting the right people, entities, or countries, in the right way, with the right sanctions?

And—ultimately—are we actually changing the behavior of targeted countries, entities, or people, where that's our goal?

I know that Treasury has recommendations on these and other questions, and I look forward to hearing from Deputy Secretary Adeyemo today.

There are some guiding, bipartisan principles that this Committee has recognized for years regarding sanctions policy:

First, we should impose sanctions on a multilateral basis whenever possible. They're more effective, and garner broader political and diplomatic support if we impose them in coordination with our allies.

Second, preserving and strengthening humanitarian exceptions and licensing are important, to ensure that people do not suffer from shortages of food, medicine, and other necessities because of sanctions.

Third, for sanctions to be effective, they must have clear targets, goals, and objectives. If we're trying to change countries' and other actors' behavior, they need to understand how they can free themselves from sanctions.

Fourth, the U.S. must do a better job of regularly assessing the effectiveness of sanctions. And we need to communicate those findings better to banks and other entities that effectively implement sanctions policy.

Finally, the Executive branch must continue to support and empower the dedicated public servants across the Government charged with sanctions implementation and enforcement. As with any job, workers are our greatest asset—whether at Treasury, at State, in the intelligence community or elsewhere in our Government.

They must have the funding, the analytical tools, the technical expertise—including in cryptocurrencies, which need a much closer look—and they need the technology and the time to do their jobs—particularly as we have increased the use of sanctions all around the world.

Today's hearing will also give Members a chance to survey other international policy issues within our jurisdiction, and pose any questions to the Deputy Secretary that they may want him to address.

I thank Deputy Secretary Adeyemo for your work on these issues, and look forward to your testimony.

PREPARED STATEMENT OF SENATOR PATRICK J. TOOMEY

Thank you, Mr. Chairman Deputy Secretary Adeyemo, welcome. Under President Biden, Treasury has advanced a number of troubling international policies, some of which are clearly intended to circumvent the will of Congress.

Take sanctions. The Administration has offered sanctions relief to our adversaries in the unrealistic hope that they will make concessions inimical to their own interests and nature.

Consider Iran. To entice Iran to reenter the flawed JCPOA, the Administration appears willing to lift sanctions on Iran. Then, the Administration hopes Iran will commit to cease supporting terrorism and curb its ballistic missile program.

Let's be clear: Once sanctions are lifted, Iran will never limit its malign behavior. The Administration clearly intends to repeat the mistakes of the Obama administration and reenter a treaty with Iran despite bipartisan opposition and without Senate approval.

In addition, the Administration has repeatedly failed to comply with mandatory sanctions laws. Since President Biden was elected, according to the International Energy Agency, Iran has doubled the amount of crude oil it's selling to China to 600,000 barrels each day this year. Even though these sales are illegal under sanctions laws, the Administration has refused to impose congressionally required sanctions on them.

The Administration has also chosen to ignore a law requiring sanctions for Russia's Nord Stream II pipeline. The pipeline's project manager has been using sanctioned Russian entities to construct and finance Nord Stream II—meaning the manager's integral role in the pipeline is predicated on a massive sanctions evasion campaign.

Congress passed the Countering America's Adversaries Through Sanctions Act, or CAATSA, to punish, among other things, this exact type of conduct: sanctions evasion. Congress did this because sanctions evasion harms U.S. national security interests, and in this instance, it is increasing Putin's malign influence over Europe. But the Administration continues to violate that law in order to give Putin a pass.

As if all that were not enough, the Administration is trying to enact an international tax treaty that will harm U.S. competitiveness, and to do it without obtaining the necessary two-thirds approval of the Senate. This tax increase consists of two pillars.

Pillar One is an unprecedented change that would allow foreign countries to tax American companies based on their sales overseas. It's a tax revenue transfer from us to them. Unsurprisingly, this is the priority for other countries, who have long sought this tax transfer.

Pillar Two is a 15 percent global minimum tax on multinationals' foreign income. This is the Administration's attempt to justify burdensome tax increases on U.S. companies. Unsurprisingly, this is the Administration's priority since it's integral to their efforts to dismantle the successful 2017 tax reforms.

By imploring other countries to implement a global minimum tax that will harm their own workers and businesses, the Administration has implicitly acknowledged that their proposed multinational tax increases will make U.S. workers and businesses less competitive, if other countries either don't implement a global minimum tax of their own, or implement a significantly lower rate than what the Administration is proposing.

But there is a real possibility that other countries will not implement a global minimum tax. They have only reluctantly agreed to Pillar Two in return for Pillar One, which is the transfer of U.S. tax revenue to them. But implementing Pillar One in the U.S. requires the approval of two-thirds of the Senate through the treaty process. And that's not going to happen.

Therefore, the Administration is either going to impose its global minimum tax increase on American companies without the countries we compete with enacting a corresponding tax increase, or violate the Constitution by modifying our existing tax treaties without obtaining the two-thirds consent of the Senate.

The latest troubling international policy proposal from the Administration will soon come in a report from FSOC. That report is likely to claim that global warming poses a systemic risk to the financial system.

I acknowledge that global warming is real. However, it does not follow from this that there is a new systemic risk to the financial system. We have had severe weather events since the dawn of time.

As the economist John Cochrane has explained to this Committee, major weather events "have never come close to causing systemic financial crises" and there's no scientifically validated possibility to change this in the future. Democrats should acknowledge this reality and offer their proposals on climate change through the legis-

lative process, which they are doing—including calling for a “carbon” tax in their reckless tax-and-spend measure that will make energy prices higher.

But that’s not enough for them. They also want to use unaccountable financial regulators to abuse their power and essentially cut off the supply of capital to fossil fuel companies.

All across America, we are already seeing what happens when the regulatory environment discourages the development of necessary energy sources: Energy prices spike. This dynamic will only get much worse if financial regulators are pressured to starve the energy sector of the capital it needs to provide Americans the energy they need.

Deputy Secretary Adeyemo, I look forward to discussing these issues with you today.

PREPARED STATEMENT OF WALLY ADEYEMO

DEPUTY SECRETARY, DEPARTMENT OF THE TREASURY

OCTOBER 19, 2021

Chairman Brown, Ranking Member Toomey, and Members of the Committee, thank you for giving me the opportunity to speak to you today about the National Advisory Council on International Monetary and Financial Policies (NAC) report to Congress, the Treasury Department’s priorities, and our outlook for the global financial system.

The NAC report focuses on U.S. involvement with international financial institutions (IFIs) that represent part of our Nation’s legacy of leadership in international economic affairs. The Bretton Woods Institutions—the International Monetary Fund (IMF) and World Bank—were founded in the aftermath of World War II to help rebuild and stabilize the global economy. Working through these institutions, the United States helped establish an international economic system that supported historic growth during the second half of the 20th century. From 1950 to 2000, for example, the volume of world trade increased to more than 21 times its size in 1950, delivering prosperity to millions of people around the world.

Today, the IFIs advance American interests by fighting poverty, supporting robust and inclusive global growth, combating climate change, and promoting stable and transparent markets around the world. They also play a critical role in marshalling global economic resources in times of crisis. This past year, as COVID–19 ravaged economies around the world, numerous international financial institutions took up the mantle of fighting the pandemic. In 2020, the IMF approved more than \$100 billion in emergency lending, concessional financing, debt service relief, and precautionary support to fund pandemic response and economic recovery efforts, while the World Bank Group offered more than \$42 billion in financing to fight the virus. In addition, this year the IMF approved a historic \$650 billion allocation of Special Drawing Rights to support global liquidity and spur recovery from the pandemic. We know that COVID–19 does not respect borders or boundaries. We must continue to fight this virus globally, with all of our policy tools and the resources of the international financial institutions.

The IMF and World Bank form the core of an international financial architecture that is consistent with our economic interest. It is no accident that the U.S. economy is the largest in the world, that our financial markets are the deepest and the most liquid, and that the dollar is the world’s reserve currency. Our economic success is the result of the policy choices we made coming out of World War II, alongside the hard work and determination of the American people.

The IFIs have played a key role in reinforcing these choices and strengthening the global economy by supporting market development, promoting strong institutions and good governance, and encouraging efforts to protect vulnerable populations around the world, including minority groups like the LGBTQI+ community. Maintaining our leading economic position will require us to make a number of critical policy choices to adapt this architecture to the needs of the 21st century economy.

Our work to reform the international tax system represents an important step in that process. Today, the global minimum tax rate on multinational corporations is zero. Too often, countries compete over who can offer the lowest tax rate rather than who has the most innovative ideas, the strongest workforce, or the best infrastructure. This dynamic has led companies to move production and jobs offshore to take advantage of tax loopholes, increasing their profits at the expense of American workers. We are on the precipice of changing that. In response to Secretary Yellen’s leadership, more than 135 countries have signed onto a reform framework that

would set a global minimum tax of at least 15 percent and put in place rules to minimize tax avoidance and ensure corporations pay their fair share.

America's interest in a strong, stable, and rules-based global economy is also deeply entwined with our foreign policy and national security interests. Our economic objectives cannot succeed if the international financial system facilitates the illicit flow of funds to oppressive regimes, terrorist groups, cybercriminals, and other malign actors. Bearing this in mind, Secretary Yellen requested a review of Treasury's use of sanctions since the terrorist attacks of September 11, 2001. An important finding of this review is that, in light of the growing interconnectedness of global finance, trade, and supply chains, it is critical that Treasury use a rigorous framework to guide its recommendations on imposition of economic and financial sanctions. The review also recommended a number of strategic, operational, and procedural actions to help preserve and enhance this tool.

First, whenever possible, we as an Administration must use sanctions in coordination and collaboration with our allies, taking advantage of the greater impact that comes from acting together. While we can inflict significant economic costs unilaterally, multilateral action brings advantages that cannot be achieved without cooperation: broad condemnation and a clear signal that other economies will not offer targets the opportunity to evade our sanctions.

Second, Treasury must modernize its sanctions infrastructure, technology, and workforce to adapt to evolving threats from cybercriminals, ransomware, and others. Third, we must take further steps to minimize the collateral costs of sanctions. This includes costs on domestic groups, like small businesses and community banks, as well as international ones, such as populations in sanctioned jurisdictions struggling to access legitimate humanitarian aid. Intelligence and facts on the ground must be placed at the center of our decision making, informing our pursuit of these objectives.

This commitment to multilateralism and the restoration of U.S. international leadership lies at the foundation of President Biden's foreign policy. International challenges like combating climate change, defeating COVID-19, securing critical supply chains, and countering China's unfair practices must be addressed cooperatively, working closely with the Department of State and alongside our international partners and allies, including through the international financial institutions and international organizations such as the U.N., where possible.

Our efforts to reform international taxation, enhance Treasury sanctions policy, and support the IFIs reflect President Biden's fundamental goal to build a foreign policy for the middle class. Collectively, they embody our belief that the international economy must be governed by fair rules of the road that protect American workers and businesses and promote market competition that rewards hard work and innovation. Where corrupt and malign actors seek to undermine these rules and our values, we will continue to use sanctions and other tools at our disposal to safeguard the security and integrity of the international financial system. And we will continue to work through the IFIs to facilitate global coordination, enable information sharing, and promote a commitment to democratic values and a rules-based international economic system.

Thank you for your time. I look forward to working with you to continue to advance U.S. international economic leadership abroad and create opportunities for Americans at home. I am happy to take your questions.

**RESPONSES TO WRITTEN QUESTIONS OF CHAIRMAN BROWN
FROM WALLY ADEYEMO**

Q.1. *Bolstering the Sanctions Workforce Across the Government*—During the hearing, I noted that strengthening the sanctions workforce across Government is one of the Treasury Department’s key recommendations. What new resources or authorities, if any, do you expect to need to address these U.S. Government “sanctions infrastructure” issues identified in the review? Do you expect there will need to be any structural changes to the sanctions workforce, either within Treasury’s Office of Terrorism and Financial Intelligence, or more broadly, to ensure consistency and effectiveness of sanctions policies and procedures? Will the expanded hiring authority provided to Treasury in AMLA help in this regard?

A.1. We are conducting an ongoing evaluation of how to best implement the recommendations from the Sanctions Review, including ensuring the Department has the right expertise, technology, and staff to support a robust and effective sanctions policymaking, implementation, and enforcement process. This includes assessing TFI’s sanctions workforce and operational capabilities, with an emphasis on current staffing for key TFI components, including OFAC. We are also continuing to evaluate our internal and external information technology systems that support our sanctions workforce. As we conclude this evaluation, we look forward to briefing you and other Members of the Committee on any structural changes we are contemplating in order to ensure the consistency and effectiveness of sanctions policies and procedures.

We appreciate and continue to use the direct hire authority provided by the AMLA to enhance our TFI workforce, as we seek to hire additional staff with technical expertise in data analysis and digital assets, as well as individuals with relevant financial services industry experience.

Q.2. *Measuring Sanctions Effectiveness*—It’s often difficult to define the precise impact of sanctions, and to measure their effectiveness in meeting their policy purpose—whether it is to change the behavior of a targeted Nation, like Russia, and its election interference, or to cut off funds going to non-State terrorist actors like Hezbollah, ISIS or al Qaeda. What new analytical tools or methods do you recommend using to measure the overall effectiveness of our sanctions policies? How will those tools be used in your work with this Committee, and other appropriate committees of Congress like Senate Foreign Relations and House Foreign Affairs?

A.2. Let me acknowledge there are several ways to measure the effectiveness of sanctions. The Sanctions Review recommends institutionalizing an assessment of sanctions programs using a structured policy framework built around the key policy considerations outlined in the report published on October 18. This will help ensure sanctions continue to support evolving policy priorities. Congress is a critical partner on sanctions, and we look forward to working with Members and staff on key aspects of sanctions.

Q.3. *Consistency Across Sanctions Programs*—The Taliban’s designation as a Specially Designated Global Terrorist group combined with its takeover of Afghanistan has created serious challenges for NGOs on the ground working to support and protect the people of

Afghanistan focusing on increasing human rights during a particularly turbulent and challenging time. The general licenses issued for Afghanistan are limited to humanitarian activities, while recent sanctions imposed on Ethiopia were issued alongside a broader set of general licenses that appropriately included exceptions for conflict mitigation and development work in addition to humanitarian activities. Did Treasury's review focus on the need to ensure consistency across sanctions programs, including with respect to licensing? Is Treasury planning to issue additional general licenses for Afghanistan to protect legitimate peacebuilding, human rights, and development work in Afghanistan?

A.3. The Treasury review did focus on the need for consistency across sanctions programs with respect to licensing. As the situation in Afghanistan continues to evolve, Treasury is prepared to provide additional guidance in support of humanitarian assistance. As you know, Treasury has also provided guidance directly to NGOs and the private sector about a wide range of matters, including evacuation efforts, the provision of humanitarian assistance, and the export of agricultural goods and medicine. Furthermore, on September 24, 2021, consistent with the U.S. Government's long-standing practice across Administrations of authorizing humanitarian-related transactions and activities that support basic human needs in territories affected by sanctions, OFAC issued two General Licenses (GLs), which explicitly authorize: (1) the U.S. Government, NGOs, and certain IOs and other entities (including the U.N. and World Bank) to provide humanitarian assistance to Afghanistan or other activities that support basic human needs in Afghanistan; and (2) the exportation or reexportation of agricultural commodities, medicine, medical devices, replacement parts, components for medical devices, or software updates for medical devices to Afghanistan. For transactions not otherwise authorized by OFAC GLs, OFAC considers specific license requests on a case-by-case basis and prioritizes license applications, compliance questions, and other requests related to humanitarian support.

Q.4. *Assessment of Compliance Supervision Within the Sanctions Review*—Banks are the front line for U.S. sanctions implementation and sometimes raise concerns about a seeming lack of coordination between Treasury and the banking agencies that examine them for compliance. Did the Treasury sanctions review include this issue? If so, did you develop any recommendations on how best to ensure improved coordination and consistency on sanctions-related policies?

A.4. During the Sanctions Review, we engaged with a number of financial institutions on issues of sanctions compliance and some of the challenges they have faced. The Review recognized the important role that engagement and information-sharing with the private sector play in facilitating the assessment of customer risk and application of the risk-based approach to sanctions compliance. Going forward, Treasury seeks to build upon and expand existing OFAC outreach to key sectors and regulators affected by or involved in implementing complex sanctions actions and assessing sanctions compliance.

Q.5. *Sanctions Technical Assistance to Congress*—Congress works most effectively with the Executive branch when it cooperates on a bipartisan basis to develop effective, durable sanctions programs. That requires technical assistance to be provided by sanctions experts at Treasury and State consistently, starting early on in the legislative process. Have you considered creating a “strike team” of Treasury sanctions experts whose job it would be to consult with sanctions oversight committees and respond to technical assistance requests quickly, drawing on Treasury-wide expertise to ensure greater coordination on these issues?

A.5. The Sanctions Review did consider a number of options for strengthening our ability to provide Congress with technical assistance, including by expanding the number of staff members tasked with working directly with Congress. We are happy to discuss with you in more detail the creation of a “strike team” and other ways we can improve our coordination.

Q.6. *Easing the Delivery of Humanitarian Aid in Sanctioned Jurisdictions*—The Sanctions Review notes that “Treasury must address more systematically the challenges associated with conducting humanitarian activities through legitimate channels in heavily sanctioned jurisdictions. Where possible and appropriate, Treasury should expand sanctions exceptions to support the flow of legitimate humanitarian goods and assistance.” As you implement the review recommendations, what form or forms does Treasury envision these expanded sanctions exceptions or exemptions will take? Would they be in the form of general licenses, a temporary global general license, humanitarian exemptions written into Executive orders, or some other form? Is Treasury considering broadening its licensing activities to include other areas in which international non-Governmental organizations work—including, for example, long-term development projects related to infrastructure, schools and education-related services, and other projects that are often equally inhibited by sanctions?

A.6. Though the review was not designed to offer a detailed roadmap for specific changes in law and policy on humanitarian exceptions to sanctions, it makes clear that facilitating flows of legitimate humanitarian aid through transparent channels while continuing to deny support to malign actors is a priority for Treasury. This is an area into which Treasury plans to look more closely, alongside U.S. Government partners such as the State Department and USAID, including examining the most effective ways to operationalize this recommendation. The review also underscored the need to enhance existing engagement with civil society and humanitarian groups, as well as to continue to provide clear guidance on the impact of sanctions on the flow of humanitarian assistance early in the sanctions process.

Q.7. *Bank Access for NGOs in World Hotspots*—Questions of bank derisking in the delivery of aid were partially addressed at the hearing. What specific strategies has Treasury found to have worked best over the years to improve bank access for international NGOs working in humanitarian crises, and how specifically is the Department continuing to work to improve such access in hotspots like Afghanistan, Yemen, Ethiopia, and elsewhere?

A.7. We have found that direct engagement with financial institutions and NGOs is critical to addressing these issues. It is the U.S. Government’s long-standing practice across Administrations to authorize humanitarian-related transactions and activities that support basic human needs in territories affected by sanctions. OFAC’s Sanctions Compliance and Evaluation Division maintains a hotline and feedback email through which financial institutions, NGOs, and others can request guidance on specific sanctions compliance questions. OFAC prioritizes humanitarian-related compliance questions in hotspots like Afghanistan, Yemen, Ethiopia, and elsewhere. Over the years, Treasury has found that this prioritization has been effective in addressing the derisking issues that you raise. As noted above, Treasury also works closely with our interagency partners, including the State Department and USAID, to ensure that our licenses align with the U.S. Government’s policy objectives. In addition, Treasury regularly engages with U.S. and international NGOs working in areas affected by humanitarian crises to receive recommendations and feedback to address the derisking issues that you raise.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR TOOMEY
FROM WALLY ADEYEMO**

Q.1. *Climate*—I remain concerned that the Financial Stability Oversight Council (FSOC) is seeking to pressure financial regulators to enact backdoor environmental policy, not based on actual risks but as part of a political effort. Last week, the FSOC issued a report arguing that climate-related financial risks are an “emerging threat to the financial stability of the United States.”¹ The FSOC reached this conclusion despite acknowledging “significant challenges to assessments of risks to financial stability from climate change,” including data and methodological challenges.

Do you believe that climate change poses a threat to U.S. financial stability and, if so, on what basis do you reach that conclusion given the data and modeling challenges associated with measuring potential climate-related financial risks?

A.1. In its Report on Climate-Related Financial Risk, the Council identified climate-related financial risks as an emerging threat to the financial stability of the United States. One of the purposes of the Council under the Dodd–Frank Act is to respond to emerging threats to the stability of the U.S. financial system, and its assessment of climate-related financial risks is consistent with that mandate. Over the past decade, there has been growing attention from financial regulators, business leaders, investors, and policymakers around the world to the threat climate change poses to financial systems and economies at global, national, and local scales.

The Council’s assessment of climate-related financial risks, which is described in detail in its report, is also informed by ongoing economic research, the analysis of its members, and the extensive work of international counterparts, including the Financial Stability Board and the Basel Committee on Banking Supervision.

¹ <https://home.treasury.gov/system/files/261/FSOC-Climate-Report.pdf>

Though the report acknowledges data and modeling challenges, Council members recognize that the need for better data and tools cannot justify inaction, as climate-related financial risks will become more acute if not addressed promptly. The report makes several recommendations for how its members can improve data and tools to help the Council expand its understanding of climate-related impacts on individual institutions and markets and related spillover effects.

Concerns about the threat posed by climate change are also shared by the private sector. Notably, S&P Global, an independent credit-rating agency, estimated that, “Almost 60 percent of companies in the [S&P 500] (market capitalization of \$18.0 trillion) and more than 40 percent of companies in the S&P Global 1200 (market capitalization \$27.3 trillion) hold assets at high risk of physical climate change impacts. Wildfires, water stress, heatwaves, and hurricane (or typhoons) linked to increasing global average temperatures represent the greatest drivers of physical risk.”

Q.2. Do you believe there are risks from disfavoring traditional energy sources before alternative sources are capable of meeting customer demand?

A.2. As the Council’s report outlined, there are both climate-related physical risks, such as risks from increased severe weather events and forest fires, and climate-related transition risks, including a disorderly or delayed transition to a low-carbon economy. The transition to a net-zero emission economy will require significant investments in clean energy generation and technologies, and I support the President’s proposals to begin making those investments.

Q.3. *Digital Currencies*—Does the Treasury believe that privately issued stablecoins should be allowed to coexist with any Government-backed digital currency?

A.3. If well-designed and appropriately regulated, stablecoins could support faster, more efficient, and more inclusive payments options. But, in the absence of appropriate regulatory safeguards, stablecoins could also pose risks to investors, consumers, and the financial system, and raise concerns about illicit finance issues.

The central recommendation in the PWG report is for Congress to enact legislation to ensure that stablecoins used for payment purposes are subject to a Federal prudential framework on a consistent and comprehensive basis. The relationship between stablecoins and a central bank digital currency would depend largely on the design features of any potential central bank digital currency, which is the subject of ongoing analysis by the Federal Reserve Board.

Q.4. When recently appearing before this Committee, SEC Chairman Gensler appeared to be unwilling to say that some stablecoins are not securities. Does Treasury view all stablecoins as securities?

A.4. Depending on the facts and circumstances, a stablecoin may constitute a security, commodity, and/or derivative, implicating the jurisdiction of the SEC, and be subject to U.S. Federal securities laws, or implicating the jurisdiction of the CFTC, and be subject to the Commodity Exchange Act. Treasury supports efforts by the

SEC and the CFTC to ensure compliance with the laws they are charged with enforcing.

Q.5. As you know, Treasury and the President’s Working Group on Financial Markets (PWG) intends to release a report on stablecoins in the near future. Many U.S. companies have developed stablecoins and related services, so domestic regulations that stifle the industry could have international implications to our competitiveness and leadership in emerging technologies.

Does Treasury intend to highlight the benefits stablecoins could have in this report?

A.5. The PWG recently released a report on stablecoins, which outlines potential benefits and risks associated with stablecoins. If well-designed and appropriately regulated, stablecoins could support fast, efficient, and inclusive payments options. But if not appropriately regulated, there are risks of stablecoin runs, payment system disruptions, and concentration of economic power. The PWG recommended that Congress address these risks by promptly enacting legislation to ensure that stablecoins are subject to appropriate Federal prudential oversight on a consistent and comprehensive basis.

While today stablecoins are primarily used in the United States to facilitate trading, lending, or borrowing of other digital assets, stablecoins could become widely used in the future by households and businesses as a means of payment. If well-designed and appropriately regulated, stablecoins could support fast, efficient, and inclusive payments options. Regulatory clarity will support beneficial innovation, while also protecting stablecoin users and the broader financial system against potential risks.

Q.6. Has Treasury considered discussing the international market changes that could result with additional domestic regulation of stablecoins?

A.6. The PWG report considers and builds on the work of international forums, including work that has led to recommendations, standards, principles, and guidance that may apply to stablecoin arrangements. The Financial Stability Board in October 2020 set out ten high-level recommendations that seek to promote coordinated and effective regulation, supervision, and oversight of global stablecoin arrangements.

Treasury and the U.S. financial regulators are committed to continuing engagement at the FSB and international standard-setting bodies to help ensure comprehensive oversight of stablecoin arrangements, further common regulatory outcomes across jurisdictions, and reduce opportunities for regulatory arbitrage.

Q.7. The entities known as money service businesses (MSB) that FinCEN regulates in the context of cryptocurrencies are the equivalent of what the Financial Action Task Force (FATF) refers to as a virtual asset service provider (VASP). In June 2019, FinCEN issued guidance for what constitutes a MSB involved in the use of convertible virtual currencies (i.e., cryptocurrencies). On October 28, 2021, the FATF is expected to issue guidance for VASPs that aligns with FinCEN’s June 2019 guidance. Do you agree that no new guidance will be needed from FinCEN in the wake of FATF’s

recent publication on virtual asset service providers as it relates to the regulation of MSBs?

A.7. The United States has been a global leader in setting anti-money laundering and countering the financing of terrorism (AML/CFT) standards. In 2013, FinCEN issued guidance that set out the regulatory obligations for virtual currency users, administrators, and exchangers. FinCEN issued additional regulatory guidance in May 2019 that covered a wide spectrum of activity involving convertible virtual currency.

We will continue to regularly engage with industry, law enforcement, and other regulators to monitor the virtual asset industry and determine if additional guidance is needed in the future.

Q.8. The FATF guidance mentioned above also advocates for broader adoption by VASPs of know your customer (KYC) and anti-money laundering (AML) policies that the U.S. has adopted. What other efforts is Treasury making to encourage more countries to adopt these policies?

A.8. In June 2019 the Financial Action Task Force (FATF) amended its standards, recommending all countries regulate and supervise virtual asset service providers (VASPs), including exchanges, and work to mitigate illicit financing risks when engaging in virtual asset transactions. Among other things, countries are expected to impose customer due diligence (CDD) requirements and suspicious transaction reporting obligations across VASPs, which can help inhibit cybercriminals' exploitation of virtual assets while supporting investigations into these illicit finance activities.

Treasury supported this update and has contributed to several resources, including the Updated Guidance for a Risk-Based Approach to Virtual Assets and VASPs. This guidance was published to help jurisdictions implement the existing FATF standards for VASPs. Guidance does not alter the existing FATF standards. The United States is committed to continued work at the FATF and with other countries and multilateral forums to implement the FATF standards, and we welcome the FATF's ongoing work on this issue. We are also engaging bilaterally with countries to encourage implementation of the FATF standards.

Q.9. Treasury and its Office of Foreign Assets Control recently took actions to warn cryptocurrency exchanges, including over-the-counter (OTC) trading providers, of their responsibility to take measures to avoid facilitating ransomware payments. Treasury also took steps to separate clear criminal behavior from the underlying technology and the positive aspects of cryptocurrency networks. What potential benefits does Treasury see regarding cryptocurrency and domestic investments in related technologies?

A.9. Cryptocurrency service providers represent a diverse set of business models, and each cryptocurrency's specific design determines its features and potential benefits.

At a broad level, digital assets, including cryptocurrencies, are a form of financial innovation with the potential to be transformative. America's ability to promote and harness innovation has been a key ingredient in our ability to seed new industries, generate new jobs and opportunities, and maintain our global economic leadership and competitiveness. We don't know how digital assets

technologies will evolve, but we know that like other innovations, they offer the potential to unlock new opportunities. Experience has also shown that digital assets create certain risks, including issues of consumer and investor protection; issues of financial stability; and national security concerns related to money laundering, terrorist financing, proliferation financing, and ransomware.

The President's Working Group (PWG), joined by the FDIC and the OCC, recently issued a report pertaining to a specific subset of digital assets, stablecoins.

The PWG report outlines potential benefits and risks associated with stablecoins. If well-designed and appropriately regulated, stablecoins could support faster, more efficient, and more inclusive payments options. But if not appropriately regulated, there are risks of stablecoin runs, payment system disruptions, and concentration of economic power. The PWG recommended that Congress address these risks by promptly enacting legislation to ensure that stablecoins are subject to appropriate Federal prudential oversight on a consistent and comprehensive basis.

Q.10. *Special Drawing Rights (SDR)*—I opposed the 2021 International Monetary Fund (IMF) general allocation of SDRs, as it was both untargeted and an inappropriate use of this tool. Among other things, I was concerned that these funds would be used contrary to American interests, such as repaying China's predatory belt-and-road loans. As we have seen over the past month, these worries appear to have been well founded. Several countries have announced how they plan to use their new SDRs. These plans include repaying Chinese loans² and bailing out a State-owned oil company.³

What has Treasury done, and what does it plan to do, to prevent abuses of SDRs?

A.10. The Treasury Department is closely monitoring the use and economic benefits of the SDR allocation and is working with the Department of State to jointly engage to promote SDR best practices, including transparency and accountability, by Governments who wish to use their SDRs. Treasury has also been working with the State Department to encourage allies and partners to refrain from exchanging SDRs with countries with whom we have significant policy concerns.

At Treasury's urging, the IMF published a detailed guidance note as part of the SDR allocation to help authorities implement best practices with regard to SDR usage and transparency. In addition to its regular monthly topline reporting, the IMF also agreed to release enhanced quarterly reports showing country-level changes in SDR transactions and to publish an annual report on SDR trading operations.

Q.11. Will Treasury provide dollars via the IMF SDR program to fund repayments of China's belt-and-road initiative?

²<https://www.businessdailyafrica.com/bd/economy/kenya-seeks-imf-aid-repay-chinese-loans-3557198>

³<https://www.bloomberg.com/news/articles/2021-09-06/mexico-is-refinancing-pemex-debt-after-receiving-imf-reserves>

A.11. Treasury has the ability to decline any request from the IMF to exchange SDRs for dollars. Treasury closely scrutinizes each of the requests we receive.

Moreover, Treasury, the IMF, and the rest of the international community are exploring ways for major economies to lend some of their SDRs through the IMF to countries in need. These loans will be used to help enable strong economic recoveries and build climate and health resilience, not to fund repayments to China. Channeling SDRs through the IMF in this way will greatly magnify the benefits of the SDR allocation by providing additional, targeted support to help countries continue to respond to and recover from the pandemic. As this SDR lending will occur through the IMF, it will be subject to IMF lending safeguards, including strong governance and transparency requirements on borrowers, and it will be overseen and approved by the IMF's Executive Board.

Q.12. *Sanctions*—According to leading ship tracking websites and the International Energy Agency (IEA), China has boosted purchases of Iranian oil to 600,000 barrels a day, five times more than in the first 9 months of 2020.⁴ Purchases of Iranian oil by Chinese companies are keeping Iran's economy afloat despite U.S. sanctions,⁵ such as the Iran Freedom and Counter-Proliferation Act (IFCA), that are designed to choke off such sales. According to Reuters, U.S. officials have acknowledged that they are watching these breaches of U.S. law and Deputy Secretary of State Wendy Sherman raised the issue with her Chinese counterpart in July 2021.⁶ Nonetheless, the Biden administration has not sanctioned a single Chinese transgressor.

Do you believe that China's ongoing violation of the U.S. sanctions regime is a problem? Please answer "yes" or "no." If your answer is "no," please explain.

A.12. Treasury has sanctioned Chinese entities for the purchase of Iranian oil, and we continue to rigorously enforce our sanctions authorities. In addition to sanctions, diplomacy plays a critical role in reducing sanctions evasion. We can offer you more information in a classified setting.

Q.13. Why have Chinese violators of Iran oil sanctions not been sanctioned?

A.13. OFAC continues to enforce our sanctions, and U.S. sanctions on Iranian oil and petrochemicals remain fully in place. We can offer you more information in a classified setting.

Q.14. What specific steps are you taking to uphold the law and properly enforce U.S. sanctions on Chinese importers of Iranian oil?

A.14. OFAC continues to enforce our sanctions, and U.S. sanctions on Iranian oil and petrochemicals remain fully in place. We can offer you more information in a classified setting.

⁴ <https://www.wsj.com/articles/iran-boosts-oil-exports-amid-nuclear-deal-talks-11618497634>

⁵ See the Iran Freedom and Counter-Proliferation Act of 2012 (P.L. 112-239) and Section 1245 of the Fiscal Year 2012 National Defense Authorization Act (P.L. 112-81).

⁶ <https://www.reuters.com/business/exclusive-us-has-reached-out-china-about-cutting-oil-imports-iran-officials-say-2021-09-28/>

Q.15. Do you agree that if U.S. adversaries perceive the United States to be unwilling or unable to enforce U.S. sanctions, then they will be more likely to violate sanctions?

A.15. We will continue to enforce our sanctions until and unless Iran chooses a path of diplomacy and a path to a mutual return to compliance with the JCPOA.

Q.16. Do you agree that the blatant nonenforcement of sanctions on Chinese purchasers of illicit Iranian oil undermines the effectiveness and legitimacy of the U.S. sanctions regime?

A.16. OFAC continues to enforce our sanctions, and U.S. sanctions on Iranian oil and petrochemicals remain fully in place. We can offer you more information in a classified setting.

Q.17. China has taken an increasingly authoritarian and belligerent tone towards its neighbors, including Taiwan. One of the most potent national security weapons we have in our arsenal is sanctions.

Has Treasury considered what steps it would have to take in the wake of a scenario in which China took severe aggressive action, such as an invasion, against Taiwan?

A.17. The Administration opposes any unilateral change in the status quo with respect to Taiwan. We work closely with our inter-agency partners to prepare for a variety of national security contingencies.

Q.18. Do you commit to working with Congress to consider legislation that will impose significant costs on China if it continues to engage in—or escalate—its aggressive activity towards Taiwan?

A.18. We are always available to provide Congress with input regarding legislation on this issue and others.

Q.19. Enacted in July 2020 with unanimous support, the Hong Kong Autonomy Act (HKAA) (P.L. 116-49) is an essential tool in holding individuals and foreign banks accountable when they assist Beijing in violating China's obligations to Hong Kong under the Joint Declaration and Basic Law. HKAA requires sanctions on entities that materially contribute to the erosion of Hong Kong's autonomy, and foreign banks conducting significant transactions with those entities. On March 16, 2021, the Biden administration identified 24 previously sanctioned officials undermining Hong Kong's freedoms pursuant to Section 5(a) of the HKAA, yet it failed to identify any foreign financial institutions (FFIs) doing business with persons identified under Section 5(a).

Why has Treasury not yet identified any foreign financial institution (FFI) that knowingly conducts a significant transaction with a foreign person sanctioned under Section 5(a) of the HKAA?

A.19. The Treasury Department continues to administer and enforce all our sanctions authorities, including under the HKAA. While Treasury cannot comment on possible or pending sanctions investigations, Treasury has not found any information on significant transactions with the identified foreign persons but continues to actively monitor for information as to whether any FFI may have knowingly conducted a significant transaction with any of the foreign persons identified in either of the State Department's re-

ports submitted in the Section 5(a) Report or the Update following the dates of the reports' submissions (October 14, 2020, and March 16, 2021). Treasury has also conducted outreach to foreign Governments to help ensure they understand the reporting requirements and sanctions risks under the HKAA. Treasury will also continue to engage foreign Governments and FFIs to help ensure they understand the requirements and sanctions risks under the HKAA and other authorities, as well as any relevant public guidance OFAC has issued.

Q.20. On June 24, Senator Chris Van Hollen (D-MD) and I sent a letter to President Biden urging his Administration to use the HKAA to identify and sanction entities materially contributing to the Chinese Communist Party's assault on *Apple Daily*, the last prodemocracy newspaper in Hong Kong, and its founder Jimmy Lai.⁷ In June, Reuters reported that Hong Kong Security Secretary John Lee ordered HSBC and Citibank's respective Hong Kong branches to freeze Jimmy Lai's accounts. It appears both banks complied.⁸ After 500 policemen raided *Apple Daily*'s offices in June,⁹ Hong Kong's Security Bureau ordered banks to freeze the newspaper's assets, leading to its closure.¹⁰ Section 5 of the HKAA requires the Administration to identify foreign entities that are "materially contributing" to the "inability of the people of Hong Kong to enjoy the freedom of assembly, speech, press, or independent rule of law." It seems very likely that the breathtaking crackdown on Jimmy Lai and *Apple Daily* involved numerous foreign persons to whom Section 5 of the HKAA applies.

Has Treasury investigated any entities involved in the suppression of *Apple Daily* and Jimmy Lai to whom Section 5 of the HKAA may apply, including the Hong Kong branches of HSBC and Citibank?

A.20. Treasury shares your deep concern about the crackdown on *Apple Daily* and Jimmy Lai. While we cannot comment on possible or pending sanctions investigations, we will continue to use available tools, including sanctions.

Q.21. What steps has Treasury taken to hold those responsible for the suppression of *Apple Daily* accountable?

A.21. While we cannot comment on possible or pending sanctions investigations, we will continue to use available tools, including sanctions. Additionally, Treasury worked with the Department of State, Department of Commerce, and the Department of Homeland Security to issue the first Hong Kong Business Advisory to warn U.S. persons of risks arising from the actions that the Chinese and Hong Kong authorities are taking to undermine the legal and regulatory environment in Hong Kong.

Q.22. Enacted in 2019, the Otto Warmbier Banking Restrictions Involving North Korea (BRINK) Act fills key gaps in the U.S. sanctions regime by imposing mandatory sanctions on the foreign banks

⁷ <https://www.banking.senate.gov/imo/media/doc/toomey-van-hollen-letter-to-pres.biden.pdf>

⁸ <https://cn.reuters.com/article/exclusive-hk-0527-thur-idCNKCS2D80P8>

⁹ www.reuters.com/world/asia-pacific/hong-kongs-apple-daily-newspaper-says-police-arrest-five-directors-2021-06-16/

¹⁰ <https://hongkongfp.com/2021/06/21/breaking-hong-kongs-apple-daily-may-halt-publication-this-sat-pending-fri-board-meeting/>

and companies that facilitate illicit financial transactions for the Democratic People's Republic of Korea (DPRK). Treasury has not directly sanctioned any entities pursuant to the BRINK Act, despite reports by the United Nations¹¹ and NGOs identifying¹² relevant unpunished businesses.

Has Treasury investigated the financial institutions identified in the aforementioned reports?

A.22. While we cannot comment on possible or pending sanctions investigations, the Treasury Department continues to administer and enforce sanctions authorities with respect to the DPRK. We are committed to the implementation of sanctions mandated by Congress to maintain sanctions pressure on the DPRK.

Q.23. What obstacles are facing Treasury that prevent the sanctioning of financial institutions under the BRINK Act?

A.23. The Treasury Department continues to pursue a range of options to address the threat the DPRK poses to U.S. national security, including diplomacy and targeted pressure measures, and will not hesitate to use Treasury authorities where appropriate or mandated by law. The DPRK continues to develop ways to hide their transactions and disguise them from tracking efforts. The Department of the Treasury continues to coordinate closely with its inter-agency partners to address these challenges and appreciates our close cooperation with Congress on DPRK-related sanctions authorities, including the Otto Warmbier North Korea Nuclear Sanctions Act and North Korea Sanctions and Policy Enhancement Act, as amended by the BRINK Act.

Q.24. The Danish Energy Agency issued a press release on October 4, 2021, announcing that “Nord Stream 2 AG has fulfilled relevant conditions including conditions concerning certification.”¹³ Nord Stream 2 AG’s construction permit requires a “Certificate of Compliance” issued by a “verifying third party,” and it was reported earlier this month that Gazprom PJSC received the Danish approval for one of the lines to start,¹⁴ but that it needs approval from German and EU regulators before the gas can flow to Europe.

What is the name of the third party that was responsible for verifying Nord Stream 2 AG’s compliance in order to obtain this Danish approval?

A.24. We would refer you to the State Department on this matter, as PEESA delegates the relevant authorities to the Department of State.

Q.25. Doesn’t that third party meet the criteria for sanctions designation under Protecting Europe’s Energy Security Act (PEESA) (P.L. 116-92) or Countering America’s Adversaries Through Sanctions Act (CAATSA) (P.L. 115-44)?

A.25. We would refer you to the Department of State for questions regarding activities that may be sanctionable under PEESA or

¹¹ <https://www.undocs.org/S/2019/171>

¹² <https://rusi.org/explore-our-research/publications/special-resources/project-sandstone-report-7-billion-dollar-border-town-north-koreas-trade-networks-dandong-part-1>

¹³ <https://ens.dk/en/press/nord-stream-2-pipeline-b-can-be-put-operation>

¹⁴ <https://www.bloomberg.com/news/articles/2021-10-06/why-nord-stream-2-may-not-be-ready-in-time-for-europe-s-winter>

CAATSA Section 232, as these authorities have been delegated to the Department of State.

Q.26. The Biden administration has said it would remove sanctions that are “inconsistent” with the JCPOA, which grants relief for so-called nuclear-related restrictions, but does not include “terrorism” and human rights sanctions.¹⁵

Can you please clarify specifically what “inconsistent” with the JCPOA means?

A.26. As the President has made clear, the United States is prepared to lift sanctions that are inconsistent with the JCPOA if Iran returns to full implementation of its commitments under the deal.

Q.27. Specifically, what sanctions designations and authorities have you defined as “inconsistent?” Please provide a list of all such sanctions you have identified.

A.27. Together with our State Department colleagues, we would be able to discuss our sanctions posture related to ongoing negotiations with you in a classified setting.

Q.28. On October 19, 2021, before this Committee, in responding to a question from Senator Daines (R-MT) on whether you foresee a situation in which the Taliban could be granted access to over \$9 billion of funds that belong to Afghanistan’s central bank (Da Afghanistan Bank, DAB), you replied: “I see under no situation in which we would allow the Taliban to have access to the reserves that belong to the Afghan people.”¹⁶

Can you confirm that under no circumstance will DAB funds blocked by the United States be provided to an Afghan Government controlled, directly or indirectly, by the Taliban?

A.28. Treasury sanctions continue to deny assets to the Taliban and other sanctioned persons in Afghanistan, such as the Haqqani Network, in order to deter and prevent actions that threaten U.S. national security, while also facilitating the flow of humanitarian assistance to the Afghan people via legitimate and transparent channels. Treasury’s OFAC continues to maintain and enforce sanctions against the Taliban and the Haqqani network. Accordingly, all property or interests in property of the Taliban that are in the United States, that hereafter come within the United States, or that are or hereafter come within the possession or control of any United States person are blocked and may not be transferred, paid, exported, withdrawn, or otherwise dealt in.

Furthermore, E.O. 13224 authorizes Treasury to impose sanctions against persons who materially assist, sponsor, or provide financial, material, or technological support for, or goods or services to or in support of, the Taliban, as well as foreign financial institutions that knowingly conduct or facilitate significant transactions on behalf of the Taliban.

Q.29. The Taliban, a Specially Designated Global Terrorist group intertwined with Al Qaida, poses new money laundering threats to both Afghanistan and the region. Section 311 of the USA PATRIOT Act (P.L. 107-56) gives the Secretary of the Treasury the authority

¹⁵<https://www.reuters.com/article/us-iran-nuclear-usa-sanctions/u-s-prepared-to-lift-sanctions-inconsistent-with-iran-nuclear-deal-idUSKBN2BU39F>

¹⁶<https://twitter.com/BankingGOP/status/1450907532302733320?s=20>

to identify a foreign jurisdiction to be “a primary money laundering concern.” Once identified, Treasury can require U.S. financial institutions to take appropriate countermeasures.

Is Treasury currently assessing if the now-Taliban ruled Afghanistan has become a foreign jurisdiction of primary money laundering concern per Section 311? If not, why?

A.29. We are unable to discuss specific entities or jurisdictions that may be the subject of investigation. The Department of the Treasury continues to pursue its critical mission to safeguard the United States’ financial system and enhance national security by identifying money laundering and terrorist financing typologies and actors, using all tools at its disposal—including information collection and regulatory actions—to deter and disrupt money laundering and terrorist financing activities.

Q.30. Treasury added 59 company names to a new Non-SDN Chinese Military-Industrial Complex Companies List (NS-CMIC List) supplanting the now deleted Non-SDN Communist Chinese Military Companies List (NS-CCMC List). These designations impose a ban prohibiting U.S. persons from investing in publicly traded securities of the listed companies.

Is Treasury currently investigating other companies that may warrant designation under the NS-CMIC List?

A.30. Treasury cannot comment on possible or pending sanctions investigations. Treasury will continue to enforce its sanctions-related authorities, including with respect to entities that warrant identification on the NS-CMIC List.

Q.31. When can this Committee expect a new tranche of designations?

A.31. Treasury cannot preview any forthcoming sanctions actions.

Q.32. In January 2021, the Defense Department identified China National Aviation Holding (CNAH), the State-owned parent company of Air China, as a “Communist Chinese military company” operating directly or indirectly in the United States.¹⁷

Why is CNAH not included in Treasury’s Chinese Military-Industrial Complex Companies List (NS-CMIC List)?

A.32. We appreciated the opportunity to brief Senate Banking staff in a classified setting in July 2021. OFAC continues to investigate a range of targets to be added to the NS-CMIC List but does not comment on possible or pending sanctions investigations.

Q.33. Is Treasury investigating if CNAH merits being added to the NS-CMIC List? If not, why?

A.33. Treasury cannot comment on possible or pending sanctions investigations. Treasury will continue to enforce its sanctions-related authorities, and Treasury continues to investigate potential targets to determine if they are entities that warrant identification on the NS-CMIC List.

Q.34. On September 3, 2021, Treasury designated four Iranian intelligence operatives who plotted to kidnap a U.S. journalist and

¹⁷ <https://www.defense.gov/News/Releases/Release/Article/2472464/dod-releases-list-of-additional-companies-in-accordance-with-section-1237-of-fy/>

human rights activist critical of the Iranian regime, a failed plot that led to the indictment of members of the network in late July.¹⁸ Masih Alinejad has very publicly revealed that she was the target of this plot. Why has the Treasury omitted her name in the press release about this plot?

A.34. Treasury can provide information regarding this matter in the appropriate setting.

**RESPONSES TO WRITTEN QUESTIONS OF
SENATOR CORTEZ MASTO FROM WALLY ADEYEMO**

Q.1. Given the uncertainty surrounding the negotiations on a return to the JCPOA in Vienna, it is incumbent upon Congress and the Administration to think through what happens if the talks are not successful. Clearly in that instance, increased pressure will be needed on Iran. China, with its purchases of Iranian oil and other trade with Tehran, clearly has the most economic leverage with Iran. In spite of the fact that Chinese imports of Iranian oil and other petroleum products continue, few Chinese entities have been sanctioned by the United States.

What options do we have to press China to reduce and ultimately cutoff the economic lifeline it provides to the Iranian regime?

A.1. The Administration is committed to using diplomatic efforts as well as our sanctions authorities to respond to Iranian sanctions evasion, including to address those doing business with China, and we will continue to do so if necessary. U.S. sanctions on Iranian oil and petrochemicals remain fully in place. We will continue to enforce them until and unless Iran chooses a path of diplomacy and a path to a mutual return to compliance with the JCPOA.

Q.2. What changes does Treasury see in deciding how to implement sanctions that could be reversed if a country or person stops the criminal or terrorist action?

A.2. The power and integrity of U.S. sanctions derive not only from their imposition, but also from their removal in response to changes in behavior. The primary goal of sanctions is not to punish, but to bring about a positive change in behavior. In the case of reconsidering targeted sanctions on entities or individuals, such as those involved in criminal or terrorist acts, each removal is based on a review by OFAC of relevant information, in consultation with our interagency partners, including close coordination with the State Department. Maintaining the integrity of U.S. sanctions is a high priority for OFAC and is the driving principle behind its rigorous review process for individually evaluating every request for removal on its merits and applying consistent standards to all of them.

Q.3. The Office of Foreign Asset Controls just took sanctions actions against a cryptocurrency exchange where as much as 40 percent of transactions were criminal.

What role can legitimate exchanges play in ensuring sanctions are not violated, and law enforcement can appropriately intercept malicious activities?

¹⁸<https://home.treasury.gov/news/press-releases/jy0343>

A.3. Virtual currencies are beginning to play an increasingly prominent role in the global economy. The growing prevalence of virtual currency as a payment method likewise brings greater exposure to sanctions risks—like the risk that a sanctioned person or a person in a jurisdiction subject to sanctions might be involved in a virtual currency transaction. Accordingly, the virtual currency industry—including technology companies, exchangers, mixers, administrators, miners, and wallet providers—plays an increasingly critical role in preventing sanctioned persons from exploiting virtual currencies to evade sanctions and undermine U.S. foreign policy and national security interests.

As a general matter, U.S. persons, including members of the virtual currency industry, are responsible for ensuring they do not engage in unauthorized transactions or dealings with sanctioned persons or jurisdictions. OFAC strongly encourages a risk-based approach to sanctions compliance because there is no single compliance program or solution suitable to every circumstance or business. An adequate compliance solution for members of the virtual currency industry will depend on a variety of factors, including the type of business involved, its size and sophistication, the products and services offered, its customers and counterparties, and the geographic locations served.

Q.4. Is there a potential for using blockchain technology to trace sanctions-evading actions and map out illicit finance systems and networks more effectively?

A.4. Treasury uses a variety of tools in furtherance of investigations, compliance, enforcement, and regulatory actions. Blockchain technology is one of the tools used to support these efforts.

Q.5. How would economic turmoil, specifically rising inflation which could result in a rapid increase in food prices, affect Afghanistan's women in Kabul as well as the poorest, most rural parts of the country?

What strategy or combination of the strategies would work best to mitigate hardship and decrease the ability of the Taliban to access aid and development funds?

A.5. The United States remains deeply concerned by the deteriorating humanitarian situation in Afghanistan. After years of war, Afghanistan's economy was impaired by enormous structural challenges, leaving the Afghan people to depend on international aid and remittances. International aid funded nearly 75 percent of Afghan public expenditures and represented about 40 percent of its GDP in the past few years.

The United States is proud to be a longstanding supporter to the Afghan people, including as the largest single provider of humanitarian assistance, and we are looking at additional ways to support the needs of the Afghan people.

Following the events of August 15, 2021, OFAC provided rapid guidance related to the provision of humanitarian assistance and the export of agricultural goods and medicine. This included providing verbal guidance regarding a nonenforcement posture with respect to activities and transactions that support evacuation efforts, humanitarian activities, and activities supporting critical infrastructure in Afghanistan, as well as personal remittances. OFAC

also issued a specific license on August 25, 2021, to authorize the U.S. Government to facilitate humanitarian-related activity, the provision of humanitarian assistance, and other critical civilian assistance within Afghanistan. Subsequently, on September 24, 2021, consistent with the U.S. Government's long-standing practice across Administrations of authorizing humanitarian-related transactions and activities that support basic human needs in territories affected by sanctions, OFAC issued two General Licenses (GLs), which explicitly authorize: (1) the United States Government, NGOs, and certain IOs and other entities (including the U.N. and World Bank) to provide humanitarian assistance to Afghanistan or other activities that support basic human needs in Afghanistan; and (2) the exportation or reexportation of agricultural commodities, medicine, medical devices, replacement parts, components for medical devices, or software updates for medical devices to Afghanistan.

In addition, on December 10, 2021, OFAC issued a GL authorizing U.S. persons to engage in transactions that are ordinarily incident and necessary to the transfer of noncommercial, personal remittances to Afghanistan, including through Afghan depository institutions, that may involve the Taliban or the Haqqani Network, or any entity in which the Taliban or the Haqqani Network owns, directly or indirectly, individually or in the aggregate, a 50 percent or greater interest. Prior to the issuance of this GL, OFAC provided guidance to financial institutions to make sure that remittances could continue to flow to Afghanistan.

For transactions not otherwise authorized by OFAC GLs, OFAC considers specific license requests on a case-by-case basis and prioritizes license applications, compliance questions, and other requests related to humanitarian support.

Q.6. How will the Treasury Department ensure that U.S. taxpayer dollars will not fall into the hands of the Taliban or other actors while providing aid to the Afghan civilian population?

A.6. OFAC continues to maintain and enforce expansive sanctions against the Taliban, and the State Department and USAID have risk mitigation strategies in place. Treasury is also taking action to deny assets to the Taliban and other sanctioned persons in Afghanistan, such as the Haqqani Network. Notably, the Taliban and Haqqani Network continue to be sanctioned as a Specially Designated Global Terrorists (SDGTs) pursuant to Executive Order 13224, as amended (E.O. 13224). Accordingly, all property or interests in property of the Taliban that are in the United States, that hereafter come within the United States, or that are or hereafter come within the possession or control of any United States person are blocked and may not be transferred, paid, exported, withdrawn, or otherwise dealt in. U.S. persons who violate these prohibitions may face civil or criminal liability.

Furthermore, E.O. 13224 authorizes Treasury to impose sanctions against persons who materially assist, sponsor, or provide financial, material, or technological support for, or goods or services to or in support of, the Taliban, as well as foreign financial institutions that knowingly conduct or facilitate significant transactions on behalf of the Taliban. In addition, the general licenses (GLs)

provided on September 24, 2021, for humanitarian assistance and provision of basic human needs to Afghanistan include conditions designed to ensure that funds are not transferred directed to the Taliban or the Haqqani network as describe in the GLs.

Q.7. During the previous Administration, the U.S. developed a strained relationship with our closest allies and partners.

How has this erosion of trust impacted our ability to conduct multilateral sanctions?

A.7. President Biden has made clear that our alliances and partnerships are among our strongest assets. This is why we have worked hard to rebuild these relationships over the course of this year. The United States is committed to multilateral diplomacy and strengthening coordination with allies and partners on sanctions. As outlined in the Sanctions Review, sanctions actions should be coordinated with our allies and partners abroad where possible. Our concerted effort to engage allies and partners in matters of sanctions coordination has been very well received, as evidenced by the increasing regularity with which they join our sanctions actions. Additionally, the Administration continues to engage closely with allies and partners to minimize any unintended effects of our sanctions actions on their economic interests.

Q.8. What remain some of our largest obstacles in conducting effective multilateral sanctions?

A.8. The Treasury and State Departments are working to expand existing multilateral coordination mechanisms to strengthen sanctions policy and implementation coherence, including with respect to information sharing and harmonizing sanctions authorities where possible, because these are two of the biggest obstacles to conducting effective multilateral sanctions. Australia's recent adoption of a Magnitsky-like sanctions program is an example of such harmonization. Both Treasury and State engaged significantly with Australian officials to help establish this program.

Q.9. In 2018, interpretive guidance was issued on cybersecurity disclosures. In June, the SEC took an enforcement action finding that 6 months was too long for a company to disclose a cyberattack.

Do you feel that Treasury is well equipped to ensure that financial institutions and other market actors are not at risk of retaliatory ransomware attacks by sanctioned actors in places like Russia and Iran?

A.9. The Treasury Department works closely with regulatory agencies, financial institutions, and other market participants through bodies such as the Financial Banking and Information Infrastructure Committee and the Financial Services Sector Coordinating Council. We need better incident reporting in order to better protect the financial system and the entire economy, and we look forward to working with you and others in Congress on how we can enhance information sharing.

On November 18, 2021, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation issued a final rule that requires any financial institution subject to their respective jurisdictions to notify its primary Federal regulator of any "computer

security incident” that rises to the level of a “notification incident,” as those terms are defined in the Final Rule, as soon as possible and no later than 36 hours after the institution determines that a notification incident has occurred.

As the Sector Risk Management Agency for the financial services sector, Treasury seeks to improve baseline protections throughout the sector, facilitate information sharing, support incident management, and identify, assess, and prioritize risks, among other activities. Treasury supports incident reporting legislation that would require financial-sector entities to report ransomware attacks and other cybersecurity incidents to the Department of Homeland Security and Treasury within 24 hours, as well as processes to streamline and harmonize reporting for entities that face multiple reporting requirements. Such reporting would enable Treasury to increase the sector’s situational awareness of retaliatory and other cyberattacks and would help inform other U.S. Government agencies’ actions to deter and disrupt such attacks.

Q.10. What can we do to ensure the Treasury Department is appropriately equipped to ensure proper protections for our economy from malicious cyberactors?

A.10. The Treasury Department supports modernization of its technology and innovations for its cyberworkforce to protect its operations and tools and to improve the financial sector’s resilience. Treasury faces growing workforce challenges, primarily in the area of compensation, given resource and pay limitation constraints.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR SINEMA FROM WALLY ADEYEMO

Q.1. Money laundering and terrorist financing remains a threat to Arizona’s safety and security. Sanctions are sometimes used to deter foreign Governments from funding organizations that carry out criminal or terrorist activities that threaten our national security. How do you assess the effectiveness of the current sanctions process in preventing financing of illicit organizations? What proposed changes to the current sanctions process will make its use more effective in deterring illicit financing?

A.1. We have had some notable success disrupting the financial networks supporting a range of illicit and malign actors. For example, in coordination with U.S. and foreign law enforcement action, Treasury froze and seized billions of dollars in assets from front companies used by the Cali Cartel (at one point the world’s largest drug trafficking organization), culminating in the 2014 dismantling of the cartel and the arrest and imprisonment of its leaders. U.S. sanctions so significantly impaired Hizballah funding streams that in 2019 the organization had to reduce salaries for its military arm and media efforts and publicly solicit donations.

To enhance our sanctions and ensure they remain a critical tool of U.S. foreign policy, the Sanctions Review identified the following key recommendations:

- Adopt a structured policy framework;
- Renew our commitment to multilateralism;
- Calibrate sanctions to mitigate unintended impact;

- Ensure sanctions are easily understood, enforceable, and adaptable; and
- Invest in modernizing our sanctions technology, workforce, and infrastructure.

Q.2. While sanctions issued by Treasury are meant to change the behavior of a foreign Nation or of an organization, these sanctions can also have unintended consequences for Arizona-based and other U.S.-based businesses. In reviewing the sanctions process, did Treasury examine the effects of sanctions on small businesses that depend on imports from sanctioned Nations or on exports to these Nations? What changes can be made to the sanctions process to minimize unintended consequences for Arizona businesses?

A.2. During the review, Treasury heard from some private sector stakeholders about the compliance costs that can be imposed on small businesses, which may lack the resources to bear these costs while competing with large companies at home and abroad. A first step is to make compliance simpler for businesses and people who can't afford armies of lawyers and accountants. That means communicating and providing guidance in simple, plain language. It also means updating our website and technology to ensure these communications are accessible to businesses of all sizes.

Treasury can also expand engagement with small- and medium-sized businesses, particularly exporters. Additionally, applying a strategic and targeted approach to sanctions, including a thorough analysis of market impacts and sufficient time to develop mitigation measures, will help avoid unnecessarily cutting off U.S. businesses from key export markets or suppliers.

Q.3. The SWIFT system is the most widely used interbank messaging network globally. The SWIFT system offers certain financial crime compliance services to assist financial institutions in complying with national and international regulations, including sanctions. In 2015, China's Government launched the Cross-Border Interbank Payment System (CIPS) as an alternative to SWIFT to settle international claims in yuan. How does the development of alternatives to SWIFT impact the implementation of Treasury sanctions?

A.3. As noted in the Sanctions Review report, technological and structural changes in the global financial system could have a profound impact on the efficacy of American sanctions. This includes the development of new financial and payments systems that may have the effect of, among other things, evading sanctions and diminishing the dollar's global role. Over the long term, these could reduce the economic leverage and benefits afforded by the prominent role of the U.S. dollar and U.S. financial institutions in global funds transfers and a wide range of economic and financial activity.

This is one of several reasons to take a thoughtful and judicious approach to the use of sanctions, including by applying a consistent policy framework, analyzing potential unintended consequences, multilateralizing sanctions actions where possible, modernizing our operational capabilities, and making commensurate investments in our workforce to drive the effective and tailored use of sanctions now and in the future.

Q.4. Over the last decade, we have witnessed the rise of innovative decentralized finance (DeFi) products such as cryptocurrencies and nonfungible tokens, the majority of which utilize blockchain technology to complete and record transactions. How does the growing popularity of DeFi products, including by illicit organizations and other bad actors, affect the implementation and effectiveness of sanctions? Do the transaction records provided by blockchain technology aid in tracking and deterring activity affected by Treasury sanctions?

A.4. Depending on how it is implemented, blockchain technology can increase the overall transparency of transactions in some cases, including by creating a permanent virtual paper trail, and can improve regulatory reporting, record keeping, and monitoring. This is also true for decentralized finance (DeFi) products that use public blockchains, as opposed to those that use private blockchains where certain elements of transactions may be hidden.

In the context of illicit finance, blockchain technology can be viewed as an obstacle for criminals who want to remain anonymous and disguise the original source of funds. We have already seen numerous instances where law enforcement and regulators successfully conducted blockchain analytics to “follow the money” and either stop or impose costs on illicit actors, as well as recover significant amounts of illicit proceeds. For instance, the IRS recently announced that it recovered billions of dollars in cryptocurrency this past year. OFAC has also listed digital currency wallets as identifiers associated with designated persons on the specially designated nationals list to help financial institutions and block transactions associated with designated persons; transactions associated with these wallets can often be traced using blockchain analytics platforms, leading to more regulatory reporting and law enforcement action. Like any other asset, digital assets can be used for illicit purposes, including sanctions evasion, but the unique characteristics of blockchains may allow for better after-the-fact investigations into illicit activity, including sanctions evasion.

However, the use of public blockchains alone will not prevent fraud, money laundering, or the financing of terrorism, especially given the pseudonymity and sometimes anonymity-enhanced features programmed into many existing blockchains. Both FinCEN and OFAC have issued guidance to help financial institutions, and in particular virtual asset service providers (VASPs), which may include persons and entities involved in DeFi arrangements, navigate, and comply with their AML/CFT obligations, including those related to OFAC sanctions. Blockchain technology has upsides and downsides, and Treasury seeks to maximize blockchain technology’s benefits and mitigate its risks.

Q.5. This review of the sanctions process resulted in several recommendations for reforms. How will Treasury implement these recommendations to further the goal of integrated deterrence? Will Treasury move to collaborate further with other departments and agencies, as well as international Governments and organizations, to strengthen the effectiveness of the sanctions process?

A.5. As noted in the report, some of these recommendations can be implemented in the near-term by internal policy or procedural

changes, while others will require further deliberation and analysis. We look forward to coordinating closely with key interagency partners, such as the National Security Council, the Office of Management and Budget, the Department of State, U.S. Agency for International Development, Department of Justice, and others, as well as Congress, in making needed changes and investments in future sanctions capabilities.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR ROUNDS
FROM WALLY ADEYEMO**

Q.1. Mr. Adeyemo, it has been claimed the cost burden of the Administration's proposed IRS tax reporting requirement would fall squarely on financial institutions, not taxpayers. I cannot see how that is possibly the case. This proposed reporting requirement would significantly expand Form 1099 reporting to include millions of accounts not currently subject to reporting. Each Form 1099 contains highly personal information, including the account holder's name, address, and taxpayer identification number. Given that this new information will be used specifically for audit detection, combined with the fact that the low-income taxpayers are among the groups most likely to get audited, it is highly likely that new tax preparation procedures will be needed, resulting in additional costs to both average taxpayers, as well as small business owners who often conduct both personal and business transactions within the same account.

As such, with the above in mind, how can the Administration claim that there will be no additional burden for taxpayers? Further, are you confident in the ability of the IRS to securely handle this massive additional influx of confidential data?

A.1. The bank reporting proposal was designed to minimize any costs for financial institutions associated with providing this information to the IRS. Our ambition is that financial institutions will be our partners in ensuring America's tax system is equitable, efficient, and effective—one in which everyone follows the law and pays their fair share—and that their customers are not disadvantaged by others who skirt tax laws.

Under the proposal, compliant taxpayers would report their taxes as usual, and they would face lower audit probabilities if the IRS had access to information that allowed them to better target audits toward those evading tax.

Indeed, rather than be burdened by a new reporting regime, compliant taxpayers would benefit from it: When the IRS determines who to audit today, it is essentially shooting in the dark, since it has no lens into opaque income streams that allow it to ascertain which taxpayers may be skirting their tax liabilities and which taxpayers are likely fully compliant. Honest small business owners—who are the vast majority—would benefit from the IRS's ability to better target enforcement actions against those who are evading their tax obligations.

Q.2. Mr. Adeyemo, the Treasury Greenbook explicitly states that it would look to obtain certain transaction-level data through an information return. Yet, the Secretary, as recent as last week, stated emphatically they are not looking for transaction-level information.

Can you confirm for us if the Administration is no longer supporting the financial account reporting proposal as described in the Green Book?

A.2. We support the proposals that Congress has considered in this space, and all financial reporting proposals considered by Congress do not mandate that individual transactions of any amount be reported to the IRS. Instead, the proposals direct banks to report basic, high-level information on aggregate account inflows and outflows.

Q.3. The United States holds 16.5 percent of the vote at the IMF, and will need significant support from other countries to keep billions in loans out of the Taliban's hands. Does the Administration support keeping international funding from the Taliban, and if so, how can the United States work diplomatically to build the global support it would need to keep international funding away from the Taliban?

A.3. The IMF has paused its interactions with Afghan authorities due to the lack of clarity among IMF members regarding the governance of Afghanistan. As a consequence, Afghanistan's access to IMF resources, including its SDRs, is on hold. In situations such as this, the IMF staff consults with IMF membership to determine whether a majority of the voting interest of the members recognize or deal with a regime. The United States will continue to engage closely with the IMF management and staff throughout this process to help safeguard Afghanistan's resources for its people.

Q.4. Some people believe that the Taliban is moderating its behavior, and that it is doing so to be recognized as the legitimate Government of Afghanistan. What I see is an organization that has changed little since the late 1990s. It has already shown its commitment to oppress and marginalize women and ethnic minorities, and to work closely with al Qaeda. That isn't speculation. A recent report commissioned by the U.N. Security Council found that al Qaeda was currently active in nearly half of Afghanistan's provinces. Another U.N. report found that the Taliban regularly consulted with al Qaeda during negotiations leading to the Doha Agreement with the Trump administration. At that time, the Taliban guaranteed to al Qaeda that they would honor their historical ties.

Do you believe that if the United States offers the Taliban recognition as the legitimate Government of Afghanistan, and offers economic sanctions relief, that the Taliban will cut its ties with al Qaeda and moderate its positions on women and ethnic minorities?

A.4. For questions on any engagement or dealings with the Taliban, we refer you to the Department of State.

Q.5. Do you believe that sanctions relief for the Taliban makes the Afghan and American people safer, or less safe?

A.5. Treasury shares your concerns about the activities of the Taliban in Afghanistan. As noted above, the Taliban continue to be sanctioned as an SDGT pursuant to E.O. 13224. For questions on any changes to the status of the Taliban under E.O. 13224, we refer you to the Department of State. Treasury continues to maintain and enforce expansive sanctions against the Taliban.

These expansive sanctions include the prohibition on U.S. persons with regard to all property or interests in property of the Taliban that are in the United States, that hereafter come within the United States, or that are or hereafter come within the possession or control of any United States person, which are blocked and may not be transferred, paid, exported, withdrawn, or otherwise dealt in. U.S. persons who violate these prohibitions may face civil or criminal liability.

These expansive sanctions also include secondary sanctions against persons who materially assist, sponsor, or provide financial, material, or technological support for, or goods or services to or in support of, the Taliban, as well as foreign financial institutions that knowingly conduct or facilitate significant transactions on behalf of the Taliban.

Additionally, OFAC has designated 19 Afghanistan-related drug traffickers and entities linked to the Taliban under our counter narcotics trafficking sanctions.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR TILLIS
FROM WALLY ADEYEMO**

Q.1. The Treasury 2021 Sanctions Review report notes:

In addition, technological innovations such as digital currencies, alternative payment platforms, and new ways of hiding cross-border transactions all potentially reduce the efficacy of American sanctions. These technologies offer malign actors opportunities to hold and transfer funds outside the traditional dollar-based financial system. They also empower our adversaries seeking to build new financial and payments systems intended to diminish the dollar's global role. We are mindful of the risk that, if left unchecked, these digital assets and payments systems could harm the efficacy of our sanctions.

Your report appropriately characterizes the risk that our adversaries are deploying technologies to “work around” U.S. sanctions. Can you elaborate on the specific concerns as pertains to digital assets and payments systems?

A.1. Virtual assets can be used for illicit activity through peer-to-peer exchangers, anonymity enhancement technologies, and non-compliant exchanges. Some evaders may seek to transact in virtual assets to avoid the sanctions enforcement that comes with the international banking system, especially the use of the U.S. dollar. This includes the facilitation of sanctions evasion, ransomware schemes, and other cybercrimes.

Sanctions work best when compliance works. Those in the virtual asset industry play a critical role in implementing appropriate AML/CFT and sanctions controls to prevent sanctioned persons and other illicit actors from exploiting virtual currencies to undermine U.S. foreign policy and national security interests. Additionally, under the U.S. Presidency, the Financial Action Task Force (FATF) in June 2019 amended its standards to recommend that all countries regulate and supervise virtual asset service providers (VASPs)

and mitigate against such risks when engaging in virtual asset transactions.

The United States is committed to continued work at the FATF and with other countries to implement the FATF standards, and we welcome the FATF's ongoing work on this issue.

Q.2. One of the important international initiatives advanced by Treasury in the previous Administration was promoting data connectivity in financial services. As you know, data flows are critical to secure and efficient operations in this sector, and support innovation and choice in financial services for small businesses and workers. Will you commit to maintaining Treasury's global push for data connectivity in financial services, including through bilateral dialogues and in any new agreements negotiated by USTR?

A.2. Treasury continues to support policies that further the growth of the global digital economy, including promoting cross-border data connectivity in financial services. My team and I engage regularly with a wide range of jurisdictions in regulatory and trade dialogues on the importance of cross-border data flows in financial services to economic growth, financial innovation, fraud prevention, financial stability, AML/CFT compliance, and operational resilience.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR HAGERTY FROM WALLY ADEYEMO

Q.1. The recent reports about the Chinese Communist Party's (CCP's) hypersonic military capabilities, if true, are very concerning. Will the Biden administration consider restricting financial access to entities that are funding to the CCP's development of weapons that pose existential threats to the United States?

A.1. We cannot comment on possible or pending sanctions actions.

Q.2. North Korea continues to produce nuclear weapons and conduct provocative missile tests. It is critical for the United States to build on the maximum pressure campaign that began under the Trump administration. Should the Treasury Department continue to apply pressure by designating entities and individuals that violate U.S. law?

A.2. The Department of the Treasury shares your concern regarding North Korea's recent missile tests. With interagency partners, the Treasury Department continues to pursue a range of options to address the threat DPRK poses to U.S. national security, including diplomacy and targeted pressure measures. We will continue to administer and enforce all our sanctions authorities with respect to North Korea.

Q.3. Will the Biden administration continue to put financial pressure on China, including pursuing enforcement against it if it is found to be violating sanctions imposed on Iran?

A.3. Treasury has used our sanctions authorities to respond to Iranian sanctions evasion, including those doing business with China, and will continue to do so wherever appropriate. U.S. sanctions on Iranian oil and petrochemicals remain fully in place. We will continue to enforce them together with our allies and partners around

the world until and unless Iran chooses a path of diplomacy and a path to a mutual return to compliance with the JCPOA.

Q.4. I continue to be very concerned about the Biden administration's actions toward Russia and in particular not sanctioning entities involved in Nord Stream 2. What risks do you assess the pipeline poses to the energy security of Ukraine and Eastern Europe?

A.4. Treasury remains committed to implementing sanctions imposed under PEESA, including most recently in November 2021. However, sanctions are just one element to counter Russia's attempts in this space. It is essential to work with our allies and partners to reduce vulnerabilities that Russia has long exploited for energy coercion, as well as reforms that would improve the viability and efficiency of Ukraine's energy sector and reduce Russia's ability to manipulate energy infrastructure for political gain. Such efforts are underway by the Treasury and State Departments.

Q.5. The Biden administration's Treasury has been advocating for a global minimum corporate tax rate and tax increases here at home. Realistically, when do you think the OECD will fully implement their Pillar II minimum corporate tax rate? Why should the United States unilaterally disarm by raising taxes on American job creators—thereby reducing job creation, opportunity, and wages for American workers—before other countries we compete with firmly do? Aren't we standing way out on a wobbly limb hoping the branch doesn't break, while everyone else sits in the middle of the tree?

A.5. We expect other Nations to move quickly to implement the model rules of Pillar Two, which are in their final draft. The agreement commits countries to do this in 2022, with the rules coming into force in 2023, just like the House draft legislation brings the GILTI changes into effect in 2023.

Q.6. During her testimony on September 28, 2021, Secretary Yellen and I discussed how my constituents are very concerned about the ability of the IRS to keep their tax information confidential. As you know, the Biden administration is proposing to expand reporting of private citizens' bank transactions to the IRS—which places an increased burden on our community lenders and will cause a lot of Americans to remove their money from them. Can you update the Committee on the additional steps you have taken to safeguard Americans' private tax information from politicized and criminal leaks? Can you assure the Committee that Treasury is doing everything it can to find the criminal perpetrators of the leaked information to ProPublica? Can you update the Committee on the additional steps you have taken to safeguard Americans' private tax information from politicized leaks by the IRS?

A.6. Both Secretary Yellen and I are deeply troubled by any unauthorized disclosure of taxpayer information, which is a crime. The Secretary has referred the matter to the appropriate authorities. We still do not know what occurred, but work is being done to get to the bottom of this criminal activity. As we learn more, we will update Congress as appropriate.

Q.7. The Office of the Comptroller of the Currency (OCC) is an independent bureau within the Treasury Department. It regulates

and supervises over 1,100 banks and savings associations that hold more than two-thirds of all U.S. commercial banking assets. President Biden recently nominated Dr. Saule Omarova to lead the OCC. Forget about a \$600 or a \$10,000 threshold for reporting bank accounts and transactions to the IRS. Dr. Omarova has argued that an effect option to expand the Federal Reserve's role in the economy would be to transition each and every single private bank deposit to the Federal Reserve. Do you agree with her position to effectively end private banking?

A.7. Dr. Omarova testified before the Senate Committee on Banking, Housing, and Urban Affairs on November 18, 2021, and stated that she does not want to end "banking as we know it," in response to a question posed by Chairman Brown. Furthermore, on December 7, 2021, President Biden accepted Dr. Omarova's request to withdraw her name from nomination to be Comptroller of the Currency.

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

U.S. DEPARTMENT OF THE TREASURY SANCTIONS REVIEW RELEASE**U.S. Department of the Treasury*****EMBARGOED UNTIL 3:30 PM EDT: October 18, 2021*****U.S. Department of the Treasury Releases Sanctions Review***Report Emphasizes Need for Continued Multilateral Approach, Structured Policy Framework, and Enhanced Cost Mitigation*

WASHINGTON – The U.S. Department of the Treasury today released the results of a broad review of the economic and financial sanctions that it administers and enforces, and issued recommendations to preserve and enhance their effectiveness in supporting national security and U.S. interests now and in the future.

“Sanctions are a fundamentally important tool to advance our national security interests,” said Deputy Secretary Adeyemo. “Treasury’s sanctions review has shown that this powerful instrument continues to deliver results but also faces new challenges. We’re committed to working with partners and allies to modernize and strengthen this critical tool.”

During Secretary of the Treasury Janet L. Yellen’s confirmation hearing, she committed to a comprehensive review of sanctions, which Deputy Secretary of the Treasury Wally Adeyemo led. Treasury’s review engaged hundreds of sanctions stakeholders, including former Treasury officials from both parties; key interagency partners including the Department of State, Department of Justice, and USAID; Members of Congress and their staffs; small and large commercial businesses and financial institutions; academics; non-governmental organizations; and the governments of our allies and partners abroad.

Treasury’s review found that while sanctions remain an essential and effective policy tool, they also face new challenges including rising risks from new payments systems, the growing use of digital assets, and cybercriminals, as well as situations where careful calibration can help limit the impact of sanctions on the flow of legitimate humanitarian aid to those in need. Key recommendations to mitigate those challenges and bolster the effectiveness of Treasury’s role in sanctions moving forward include:

1. **Adoption of a structured policy framework that links sanctions to a clear policy objective.** This framework asks whether a sanctions action: supports a clear policy objective within a broader strategy; has been assessed to be the right tool for the circumstances; incorporates economic and political implications for sanctions targets and others and has been calibrated to mitigate unintended impacts; includes a multilateral coordination and engagement strategy; and will be easily understood, enforceable, and, where possible, reversible. This policy framework is intended to cover key policy considerations in the sanctions implementation process and offer a standardized set of factors to be consistently used by sanctions professionals for both evaluating potential new actions and assessing the ongoing alignment of sanctions with evolving policy priorities. This framework also incorporates several of the recommendations which emerged from the sanctions review.
2. **Multilateral coordination wherever possible.** Sanctions are most effective when coordinated as an Administration and where possible with allies and partners who can magnify the economic and political impact. This coordination also enhances the credibility of U.S. international leadership and shared policy goals of the United States and its allies.
3. **Calibration of sanctions to mitigate unintended economic, political, and humanitarian impact.** Treasury should continue to seek ways to tailor sanctions to mitigate unintended economic, humanitarian, and political impacts on U.S. workers and businesses, allies, and non-targeted populations abroad. This will protect key constituencies and help preserve support for U.S. sanctions policy.
4. **Ensuring sanctions are easily understood, enforceable, and, where possible, reversible.** Treasury can build on existing outreach and engagement capabilities through enhanced communication with industry, financial institutions, allies, civil society, and the media, as well as new constituencies.
5. **Investment in modernizing Treasury's sanctions technology, workforce, and infrastructure.** Treasury should invest in building its technological capabilities and deepening its institutional knowledge, especially in the evolving digital assets and services space, to support the full sanctions lifecycle of activities. Further investments in Treasury's sanctions workforce and operational capabilities will sustain Treasury's ability to execute a core tool of U.S. national security and foreign policy and protect the integrity of the U.S. financial system.

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THE TREASURY 2021 SANCTIONS REVIEW

October 2021

THE TREASURY 2021 SANCTIONS REVIEW¹

After the September 11, 2001 attacks, economic and financial sanctions (“sanctions”) became a tool of first resort to address a range of threats to the national security, foreign policy, and economy of the United States. This tool rests on the formidable strength of, and trust in, the U.S. financial system and currency. At their core, sanctions allow U.S. policymakers to impose a material cost on adversaries to deter or disrupt behavior that undermines U.S. national security and signal a clear policy stance. Treasury’s work on sanctions is conducted in close partnership with other parts of the Executive Branch, in particular the Department of State and the National Security Council, which lead the formulation of the foreign policy and strategic goals that sanctions serve, as well as the Department of Justice. The Department of State also implements certain sanctions authorities in consultation with the Treasury.

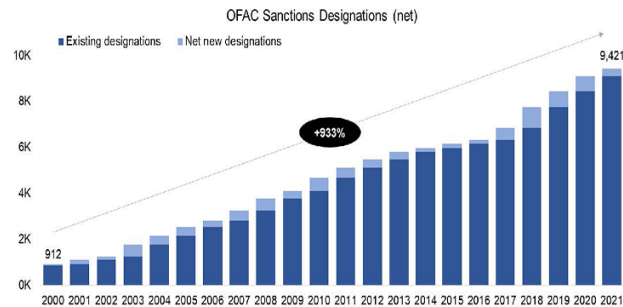
Over the last 20 years, the Department of the Treasury (Treasury), in close coordination with the Department of State, has successfully employed sanctions to address various national security challenges, including:

- Preventing Iran from using the international financial system and commercial markets to generate revenue through oil sales and other activities that support its nuclear and ballistic missile proliferation and support for terrorist activities. These sanctions pushed Iran to the negotiating table on its nuclear program in 2015.
- In coordination with U.S. and foreign law enforcement action, freezing² and seizing billions of dollars in assets from front companies used by the [Cali Cartel](#) (at one point the world’s largest drug trafficking organization), culminating in the 2014 dismantling of the cartel and the arrest and imprisonment of its leaders.
- Protecting [tens of billions of dollars](#) in Libyan assets from misappropriation by former government officials following civil unrest and the fall of the Qadhafi regime in 2011.
- Designating over 1,600 terrorist entities and individuals since 9/11, targeting, exposing, and undermining terrorist groups and their operations. For example, U.S. sanctions so significantly impaired Hizballah funding streams that in 2019 the organization had to [reduce salaries](#) for its military arm and media efforts and [publicly solicit](#) donations.

¹ This document is explanatory only and does not have the force of law. It does not modify statutory authorities, Executive orders, regulations, or regulatory guidance. It is not intended to be, nor should it be interpreted as, comprehensive, or as imposing requirements under U.S. law, or otherwise addressing any requirements under applicable law. It is not intended to, and does not, create any right or benefit, substantive or procedural, enforceable at law or in equity by any party against the United States, its departments, agencies, or entities, its officers, employees, or agents, or any other person.

² The primary impact of adding individuals and entities to Treasury’s Office of Foreign Assets Control (OFAC)’s List of Specially Designated Nationals and Blocked Persons (“the SDN List”) is that their property and interests in property are blocked. When property is blocked (or “frozen”), title to the blocked property remains with the owner of the property and any funds constituting or arising from blocked property must be placed into a blocked, interest-bearing account at a U.S. financial institution. Blocking immediately imposes an across-the-board prohibition against transfers or dealings of any kind with regard to the property. The exercise of powers and privileges normally associated with ownership of blocked property is prohibited without authorization from OFAC.

Sanctions use has increased over the last 20 years



When used effectively, sanctions have the capacity to disrupt, deter, and prevent actions that undermine U.S. national security. However, the United States now faces new, emerging challenges to the efficacy of sanctions as a national security tool: cybercriminals; strategic economic competitors; and a workforce and technical infrastructure under pressure from growing financial complexity and competing demands from policymakers, market participants, and others. To ensure sanctions continue to support U.S. national security objectives, the U.S. government must adapt and modernize the underlying operational architecture by which sanctions are deployed.

These changes are also needed to keep pace with the evolution of the global financial architecture, which has a profound impact on the efficacy of U.S. financial sanctions. American adversaries—and some allies—are already reducing their use of the U.S. dollar and their exposure to the U.S. financial system more broadly in cross-border transactions. While such changes have multiple causes beyond U.S. financial sanctions, we must be mindful of the risk that these trends could erode the effectiveness of our sanctions.

In addition, technological innovations such as digital currencies, alternative payment platforms, and new ways of hiding cross-border transactions all potentially reduce the efficacy of American sanctions. These technologies offer malign actors opportunities to hold and transfer funds outside the traditional dollar-based financial system. They also empower our adversaries seeking to build new financial and payments systems intended to diminish the dollar's global role. We are mindful of the risk that, if left unchecked, these digital assets and payments systems could harm the efficacy of our sanctions.

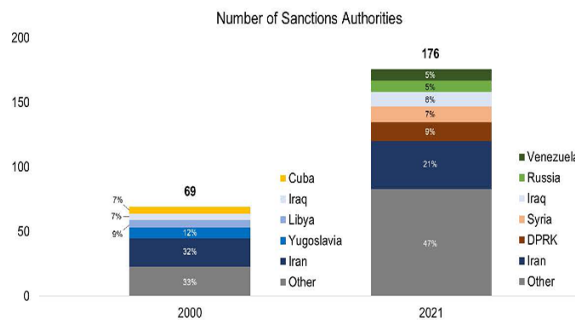
"I do seriously think we have a responsibility to use sanctions for important national security issues. But we need to think about the long-term impact on the global currency."

- Former Secretary of the Treasury Steven Mnuchin

As part of a 2021 review of its economic and financial sanctions, Treasury met with individuals representing hundreds of sanctions stakeholders, including Members of Congress and their staffs, interagency partners, the private sector, foreign governments, nongovernmental organizations, academics, and Treasury's sanctions workforce. The review focused on two primary issues: (1) the framework guiding imposition of economic and financial sanctions and (2) potential operational, structural, and procedural changes to improve Treasury's ability to use sanctions now and in the future.

This review was neither an assessment of each of the 37 existing sanctions programs³ administered and enforced by the Office of Foreign Assets Controls (OFAC), and the over 12,000 OFAC designations and nearly 3,000 OFAC delistings, nor a full examination of all economic statecraft tools. In addition, the review did not include separate sanctions authorities implemented by the Department of State or other restrictive measures implemented by other Departments and Agencies, such as visa restrictions or export controls.

Composition of U.S. Sanctions Programs Has Shifted



The objective of this review was to ensure that economic and financial sanctions remain an effective tool of U.S. national security and foreign policy now and in the future. This report incorporates highlights from stakeholder perspectives as well as data and recommendations for improving Treasury's implementation of sanctions. It offers several steps to modernize sanctions to address current policy priorities and keep the tool sufficiently nimble to address future threats. These steps include:

³ There are multiple statutory or executive authorities (allowing for the imposition of sanctions based on certain criteria) in each sanctions program. Sanctions are most commonly issued pursuant to Presidential authorities that the President has delegated to Treasury in certain scenarios. Treasury implements those sanctions pursuant to criteria provided in both the underlying statute and the relevant Presidential delegations.

Steps to Modernize Sanctions

1. Adopting a structured policy framework that links sanctions to a clear policy objective

Economic and financial sanctions should be tied to clear, discrete objectives that are consistent with relevant Presidential guidance—such as countering forces that fuel regional conflict, ending support to a specific violent organization or other malign and/or illicit activities, stopping the persecution of a minority group, curtailing nuclear proliferation activities, enhancing multilateral pressure, or ceasing specific instances of atrocities. To accomplish this, Treasury will adopt the use of a structured policy framework in order to inform its recommendations on the use of sanctions. This framework should reflect key policy considerations and ask whether a sanctions action:

- a) **Supports a clear policy objective within a broader U.S. government strategy:** Sanctions should be deployed alongside other measures as part of a larger strategy in support of specific policy objectives.
- b) **Has been assessed to be the right tool for the circumstances:** Sanctions should incorporate rigorous economic analysis, technical expertise, and intelligence to ensure that they are the right tool in our national security arsenal to pursue the identified objective.
- c) **Incorporates anticipated economic and political implications for the sanctions target(s), U.S. economy, allies, and third parties and has been calibrated to mitigate unintended impacts:** Sanctions should be designed to tailor their impact so that costs fall on intended targets and that potential negative impact on others is minimized.
- d) **Includes a multilateral coordination and engagement strategy:** Where possible, sanctions should be coordinated with allies, incorporating shared intelligence and resources, and accompanied by engagement with relevant stakeholders including industry, financial institutions, allies, civil society, and the media.
- e) **Will be easily understood, enforceable, and, where possible, reversible:** Sanctions should be clearly communicated so that targets, allies, and others understand their specific objectives and the circumstances under which they may be escalated or reversed in response to the target's behavior.

The consistent application of this sanctions policy framework will establish clear criteria for the use of sanctions. Treasury should also seek to develop and implement an analytical construct to assess its sanctions programs and actions systematically, incorporating this policy framework and building on existing evaluation efforts. The product of these assessments could be recommendations to augment, adapt, or wind down individual authorities or to list or delist particular individuals or entities.

“We must guard against the impulse to reach for sanctions too lightly or in situations where they have negligible impact.”

– Former Secretary of the Treasury Jack Lew

2. Incorporating multilateral coordination, where possible

Sanctions are most effective when coordinated as an Administration with allies and partners who can magnify economic and political impact. This coordination also enhances the credibility of U.S. international leadership and shared policy or security goals of the United States and its allies. Coordinated actions also help mitigate the economic impact on American workers and firms. Allies and partners can be encouraged to coordinate sanctions policy through: (1) collaboration and sharing of policy frameworks and information; (2) ongoing efforts to harmonize sanctions regimes; and (3) efforts to build sanctions coordination into existing multilateral fora. These multilateral efforts include advocating for UN sanctions when possible and appropriate to ensure global applicability of restrictive measures and amplify messaging, as well as working through other multilateral organizations. The State Department, in particular, as the U.S. Government interagency lead for the formulation of foreign policy, is an essential partner and leader in this work.

3. Calibrating sanctions to mitigate unintended economic, political, and humanitarian impact

Treasury should seek to tailor sanctions in order to mitigate unintended economic and political impacts on domestic workers and businesses, allies, and non-targeted populations abroad. This will protect key constituencies and help preserve support for U.S. sanctions policy. For example, U.S. small businesses may lack the resources to bear the costs of sanctions compliance while competing with large companies at home and abroad; uncalibrated sanctions could unnecessarily lead them to turn down business opportunities in order to avoid these costs. Better tailored sanctions can help avoid these costs and maintain the competitiveness of U.S. businesses.

In addition, Treasury must address more systematically the challenges associated with conducting humanitarian activities through legitimate channels in heavily sanctioned jurisdictions. Where possible and appropriate, Treasury should expand sanctions exceptions to support the flow of legitimate humanitarian goods and assistance and provide clear guidance at the outset when sanctions authorities are created and implemented, particularly related to vulnerable populations. Going forward, Treasury will continue to review its existing authorities to consider the unintended consequences of current sanctions regimes on humanitarian activity necessary to support basic human needs, as well as potential changes to address them while continuing to deny support to malicious actors. We believe this effort is worthy of significant time and effort to ensure the world understands that the provision of legitimate humanitarian assistance reflects American values.

4. Ensuring sanctions are easily understood, enforceable, and adaptable

Sanctions are only as effective as their implementation, especially with regard to communication and engagement. In order to better calibrate the use of this tool, Treasury needs to communicate and coordinate more effectively with stakeholders affected by the use of financial sanctions. Treasury can build on existing outreach and engagement capabilities through enhanced communication with industry, financial institutions, allies, civil society, and the media, as well as new constituencies, particularly in the digital assets space.

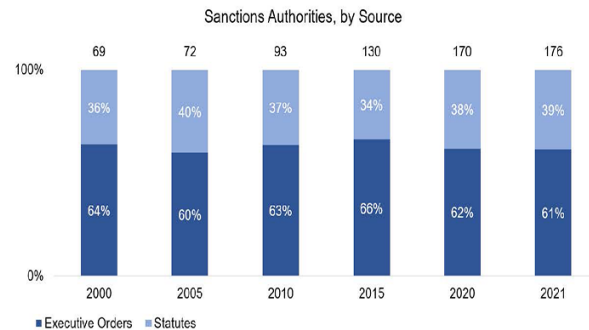
Treasury should enhance its public messaging and engagement with key audiences domestically and internationally around its sanctions, ensuring that the messaging augments and closely aligns with key stakeholder groups. It should also coordinate closely with the Department of State on messaging for foreign engagement. Enhancing the public information on the Treasury website and communicating in plain language would also improve public understanding of the intent and effect of sanctions.

5. Investing in modernizing Treasury's sanctions technology, workforce, and infrastructure

Modernization requires investing in Treasury's sanctions workforce and operational capabilities. The Department must have the right expertise, technology, and staff to support a robust and effective sanctions policymaking and implementation process. These investments will sustain Treasury's ability to execute a core tool of U.S. foreign policy and national security, protect the integrity of the U.S. financial system, and build on constructive relationships with a wide array of sanctions stakeholders. In particular, Treasury should invest in deepening its institutional knowledge and capabilities in the evolving digital assets and services space to support the full sanctions lifecycle of activities.

To better facilitate compliance, Treasury should expand its use of technology to provide critical information to domestic and foreign audiences affected by sanctions actions. This includes making certain tactical and operational improvements. For example, stakeholders reported that Treasury's public website is viewed as cumbersome to navigate, and could be improved to offer clearer guidance to better support humanitarian groups and regulated entities, as well as sanctions targets themselves.

Sources of Sanctions Authority Have Been Relatively Constant



All of these steps must be taken in close coordination with the National Security Council, Department of State, U.S. Agency for International Development, Department of Justice, and other interagency partners. Sources of sanctions authorities continue to come from both Congress and executive orders, and those sources set out authorities, vested often in the President and delegated mainly to the Treasury and the Department of State, as well as other federal agencies in some cases. Notably,

the Department of State administers and helps implement numerous sanctions authorities and holds a leading role among federal agencies in setting the foreign policy agenda pursued through U.S. sanctions. As Treasury pursues these recommendations, especially reinforcing a commitment to multilateral coordination, it is essential that the Departments of the Treasury, State, and other agencies continue and enhance their strong partnership and close coordination to advance U.S. government policy objectives and national security.

* * *

The United States faces a changing world where financial innovation, shifts in global economic activity, and new geopolitical challenges are redefining how economic power can be used to support national security objectives. These shifts are accompanied by new and rising threats for which sanctions may be a critical tool of U.S. policy. To effectively confront these changes, Treasury must modernize and adapt its sanctions policy and operational framework. A refined policy rubric and options for modernizing Treasury's sanctions infrastructure will provide Treasury with the right tools to stay ahead of these changes and the adversaries seeking to take advantage of them. Though it will require Treasury, and others in the U.S. government, to make difficult decisions about where and when to recommend the use of sanctions, doing so will ultimately strengthen Treasury's use of sanctions in the long-term. These changes will lay the groundwork for future Treasury leadership to address tomorrow's challenges.

