118TH CONGRESS
2d Session

HOUSE OF REPRESENTATIVES

REPORT
118–485

FINANCIAL TECHNOLOGY PROTECTION ACT OF 2023

MAY 6, 2024.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. MCHENRY, from the Committee on Financial Services, submitted the following

R E P O R T

[To accompany H.R. 2969]

[Including cost estimate of the Congressional Budget Office]

The Committee on Financial Services, to whom was referred the bill (H.R. 2969) to establish an Independent Financial Technology Working Group to Combat Terrorism and Illicit Financing, and for other purposes, having considered the same, reports favorably thereon with an amendment and recommends that the bill as amended do pass.

CONTENTS

The amendment is as follows:

Strike all after the enacting clause and insert the following:

SECTION 1. SHORT TITLE.

This Act may be cited as the "Financial Technology Protection Act of 2023".

49–006

SEC. 2. INDEPENDENT FINANCIAL TECHNOLOGY WORKING GROUP TO COMBAT TERRORISM AND ILLICIT FINANCING.

(a) ESTABLISHMENT.—There is established the Independent Financial Technology Working Group to Combat Terrorism and Illicit Financing (in this section referred to as the "Working Group"), which shall consist of the following:

(1) The Secretary of the Treasury, acting through the Under Secretary for Terrorism and Financial Intelligence, who shall serve as the chair of the Working Group.

(2) A senior-level representative from each of the following:

(A) Each of the following components of the Department of the Treasury:

(i) The Financial Crimes Enforcement Network.

(ii) The Internal Revenue Service.

(iii) The Office of Foreign Assets Control.

(B) The Department of Justice and each of the following components of the Department:

(i) The Federal Bureau of Investigation.

(ii) The Drug Enforcement Administration.

(C) The Department of Homeland Security and the United States Secret Service.

(D) The Department of State.

(E) The Central Intelligence Agency.

(3) Five individuals appointed by the Under Secretary for Terrorism and Financial Intelligence to represent the following:

(A) Financial technology companies.

(B) Blockchain intelligence companies.

(C) Financial institutions.

(D) Institutions or organizations engaged in research.

(b) DUTIES.—The Working Group shall—

(1) conduct research on terrorist and illicit use of new financial technologies, including digital assets; and

(2) develop legislative and regulatory proposals to improve anti-money laundering, counter-terrorist, and other counter-illicit financing efforts in the United States.

(c) REPORTS.—

(1) IN GENERAL.—Not later than one year after the date of the enactment of this Act, and annually for the 3 years thereafter, the Working Group shall submit to the Secretary of the Treasury, the heads of each agency represented in the Working Group pursuant to subsection (a)(2), and the appropriate congressional committees a report containing the findings and determinations made by the Working Group in the previous year and any legislative and regulatory proposals developed by the Working Group.

(2) FINAL REPORT.—Before the date on which the Working Group terminates under subsection (e)(1), the Working Group shall submit to the appropriate congressional committees a final report detailing the findings, recommendations, and activities of the Working Group.

(d) TRAVEL EXPENSES.—Members of the Working Group shall serve without pay, but shall receive travel expenses in accordance with sections 5702 and 5703 of title 5, United States Code.

(e) SUNSET.—

(1) IN GENERAL.—The Working Group shall, subject to paragraph (3), terminate on the date that is 4 years after the date of the enactment of this Act.

(2) EXPIRATION AND RETURN OF APPROPRIATED FUNDS.—On the date on which the Working Group terminates under paragraph (1)—

(A) all authorities granted to the Working Group under this section shall expire, subject to paragraph (3); and

(B) any funds appropriated for the Working Group that are available for obligation as of that date shall be returned to the Treasury.

(3) AUTHORITY TO WIND UP ACTIVITIES.—The termination of the Working Group under paragraph (1) and the expiration of authorities under paragraph (2) shall not affect any investigations, research, or other activities of the Working Group ongoing as of the date on which the Working Group terminates under paragraph (1). Such investigations, research, and activities may continue until their completion.

SEC. 3. PREVENTING ROGUE AND FOREIGN ACTORS FROM EVADING SANCTIONS.

(a) REPORT AND STRATEGY WITH RESPECT TO DIGITAL ASSETS AND OTHER RELATED EMERGING TECHNOLOGIES.—

(1) IN GENERAL.—Not later than 180 days after the date of the enactment of this Act, the President, acting through the Secretary of the Treasury and in consultation with the head of each agency represented on the Independent Finan-

cial Technology Working Group to Combat Terrorism and Illicit Financing pursuant to section 2(a)(2), shall submit to the appropriate congressional committees a report that describes—

(A) the potential uses of digital assets and other related emerging technologies by States, non-State actors, foreign terrorist organizations, and other terrorist groups to evade sanctions, finance terrorism, or launder monetary instruments, and threaten the national security of the United States; and

(B) a strategy how the United States will mitigate and prevent the illicit use of digital assets and other related emerging technologies.

(2) FORM OF REPORT; PUBLIC AVAILABILITY.—

(A) IN GENERAL.—The report required by paragraph (1) shall be submitted in unclassified form, but may include a classified annex.

(B) PUBLIC AVAILABILITY.—The unclassified portion of each report required by paragraph (1) shall be made available to the public and posted on a publicly accessible website of the Department of Treasury—

(i) in precompressed, easily downloadable versions, in all appropriate formats; and

(ii) in machine-readable format, if applicable.

(3) SOURCES OF INFORMATION.—In preparing the reports required by paragraph (1), the President may utilize any credible publication, database, or web-based resource, and any credible information compiled by any government agency, nongovernmental organization, or other entity that is made available to the President.

(b) BRIEFING.—Not later than 2 years after the date of the enactment of this Act, the Secretary of the Treasury shall brief the appropriate congressional committees on the implementation of the strategy required by subsection (a)(2).

SEC. 4. DEFINITIONS.

In this Act:

(1) APPROPRIATE CONGRESSIONAL COMMITTEES.—The term "appropriate congressional committees" means—

(A) the Committee on Banking, Housing, and Urban Affairs, the Committee on Finance, the Committee on Foreign Relations, the Committee on Homeland Security and Governmental Affairs, the Committee on the Judiciary, and the Select Committee on Intelligence of the Senate; and

(B) the Committee on Financial Services, the Committee on Foreign Affairs, the Committee on Homeland Security, the Committee on the Judiciary, the Committee on Way and Means, and the Permanent Select Committee on Intelligence of the House of Representatives.

(2) BLOCKCHAIN INTELLIGENCE COMPANY.—The term "blockchain intelligence company" means any business providing software, research, or other services (such as blockchain tracing tools, geofencing, transaction screening, the collection of business data, and sanctions screening) that—

(A) support private and public sector investigations and risk management activities; and

(B) involve cryptographically secured distributed ledgers or any similar technology or implementation.

(3) DIGITAL ASSET.—The term "digital asset" means any digital representation of value that is recorded on a cryptographically secured digital ledger or any similar technology.

(4) FOREIGN TERRORIST ORGANIZATION.—The term "foreign terrorist organization" means an organization that is designated as a foreign terrorist organization under section 219 of the Immigration and Nationality Act (8 U.S.C. 1189).

(5) ILLICIT USE.—The term "illicit use" includes fraud, darknet marketplace transactions, money laundering, the purchase and sale of illicit goods, sanctions evasion, theft of funds, funding of illegal activities, transactions related to child sexual abuse material, and any other financial transaction involving the proceeds of specified unlawful activity (as defined in section 1956(c) of title 18, United States Code).

(6) TERRORIST.—The term "terrorist" includes a person carrying out domestic terrorism or international terrorism (as such terms are defined, respectively, under section 2331 of title 18, United States Code).

PURPOSE AND SUMMARY

Introduced on April 27, 2023, by Representative Zach Nunn, H.R. 2969, the *Financial Technology Protection Act*, establishes the Independent Financial Technology Working Group to Combat Terrorism and Illicit Financing (the "Working Group") under the Department of the Treasury. The bill directs the Working Group to research terrorists' use of new financial technologies, including digital assets, and issue a report on its findings. The Working Group is also required to develop legislative and regulatory proposals to improve anti-money laundering (AML) efforts in the United States.

BACKGROUND AND NEED FOR LEGISLATION

Advances in technology and the widespread use of the Internet and mobile communication devices have helped fuel the growth in financial technology products and services. Digital assets in particular can make for speedier, more secure, more cost-efficient, disintermediated, cross-border settlements of transactions. The increase in the use of digital assets has prompted significant discussions about the nexus between the use of digital assets and financial crime.

As emphasized in the 2022 National Money Laundering Risk Assessment, the use of digital assets for money laundering remains far below that of fiat currency and more traditional methods. Nevertheless, bad actors may seek to use digital wallets, mixers, and digital asset trading platforms to transact and obfuscate the movements of digital assets. Given the primary concern is with digital asset platforms that have "substantially deficient" anti-money laundering programs that operate outside of the U.S., it's imperative to work towards regulatory proposals that would ensure that digital asset service providers operate within U.S. borders.

Although rates of illicit activity remain low in the digital asset ecosystem, the ease by which digital asset transactions can be carried out and settled has been proven to be used by bad actors. Digital assets are a nascent and evolving technology. As a result, law enforcement bodies around the world have struggled to keep pace with emerging trends and types of crime in the ecosystem. Yet, the immutability and transparency of blockchain networks can provide law enforcement with a unique insight into the movement of illicit funds. Indeed, several high-profile cases have been solved because law enforcement was able to leverage the unique features of a blockchain network to trace bad actors and reclaim ill-gotten gains.

There has been considerable focus by the Administration and Congress to curb this illegal activity. On September 16, 2022, the Treasury Department published its Action Plan to Address Illicit Financing Risks of Digital Assets, which highlighted "engaging with the private sector" as one of its priority action items. H.R. 2969 would provide a forum for engagement between federal law enforcement and intelligence professionals, and private sector technologists and researchers to report to Congress on how to counter the illicit use of digital assets.

RELATED HEARINGS

118TH CONGRESS

Pursuant to clause 3(c)(6) of rule XIII, the following hearings were used to develop H.R. 2969:

The Subcommittee on National Security, Illicit Finance, and International Financial Institutions of the Committee on Financial Services held a hearing on April 27, 2023, "Oversight of the Financial Crimes Enforcement Network (FinCEN) and the Office of Terrorism and Financial Intelligence (TFI)."

The Subcommittee on Digital Assets, Financial Technology and Inclusion of the Committee on Financial Services held a hearing on March 9, 2023, "Coincidence or Coordinated? The Administration's Attack on the Digital Asset Ecosystem."

117TH CONGRESS

Pursuant to clause 3(c)(6) of rule XIII, the following hearing was used to develop H.R. 2969:

The Subcommittee on National Security, International Development, and Monetary Policy of the Committee on Financial Services held a hearing on September 20, 2022, "Under the Radar: Alternative Payment Systems and the National Security Impacts of Their Growth."

The Committee on Financial Services held a hearing on February 8, 2022, "Digital Assets and the Future of Finance: The President's Working Group on Financial Markets' Report on Stablecoins."

The Committee on Financial Services held a hearing on December 8, 2021, "Digital Assets and the Future of Finance: Understanding the Challenges and Benefits of Financial Innovation in the United States."

The Subcommittee on National Security, International Development, and Monetary Policy of the Committee on Financial Services held a hearing on June 16, 2021, "Schemes and Subversion: How Bad Actors and Foreign Governments Undermine and Evade Sanctions Regimes."

115TH CONGRESS

Pursuant to clause 3(c)(6) of rule XIII, the following hearing was used to develop H.R. 2969:

The Subcommittee on Terrorism and Illicit Finance of the Committee on Financial Services held a hearing on June 20, 2018, "Illicit Use of Virtual Currency and the Law Enforcement Response."

The Subcommittee on Terrorism and Illicit Finance of the Committee on Financial Services held a hearing on June 8, 2017, "Virtual Currency: Financial Innovation and National Security Implications."

COMMITTEE CONSIDERATION

The Committee on Financial Services met in open session on July 26, 2023, and ordered H.R. 2969 to be reported favorably to the House as amended by a recorded vote of 50 ayes to 0 nays (Record vote no. FC–78), a quorum being present. Before the question was called to order the bill favorably reported, the Committee adopted an amendment in the nature of a substitute offered by Mr. Nunn by voice vote.

COMMITTEE VOTES

Clause 3(b) of rule XIII of the Rules of the House of Representatives requires the Committee to list the record votes on the order to report legislation and amendments thereto. H.R. 2969 was ordered reported favorably to the House as amended by a recorded vote of 50 ayes to 0 nays (Record vote no. FC–78), a quorum being present.

Record vote no. FC- 78

Representative	Yea	Nay	Present	Representative	Yea	Nay	Present
Mr. McHenry	X			Ms. Waters	X		
Mr. Hill	X			Mrs. Velázquez			
Mr. Lucas	X			Mr. Sherman	X		
Mr. Sessions	X			Mr. Meeks	X		
Mr. Posey	X			Mr. Scott	X		
Mr. Luetkemeyer	X			Mr. Lynch	X		
Mr. Huizenga	X			Mr. Green	X		
Mrs. Wagner	X			Mr. Cleaver			
Mr. Barr	X			Mr. Himes	X		
Mr. Williams (TX)	X			Mr. Foster	X		
Mr. Emmer	X			Mrs. Beatty	X		
Mr. Loudermilk	X			Mr. Vargas	X		
Mr. Mooney	X			Mr. Gottheimer	X		
Mr. Davidson	X			Mr. Gonzalez	X		
Mr. Rose	X			Mr. Casten	X		
Mr. Steil	X			Ms. Pressley	X		
Mr. Timmons	X			Mr. Horsford	X		
Mr. Norman	X			Ms. Tlaib	X		
Mr. Meuser	X			Mr. Torres	X		
Mr. Fitzgerald	X			Ms. Garcia	X		
Mr. Garbarino	X			Ms. Williams (GA)	X		
Mrs. Kim	X			Mr. Nickel	X		
Mr. Donalds	X			Ms. Pettersen	X		
Mr. Flood	X						
Mr. Lawler	X						
Mr. Nunn	X						
Ms. De La Cruz	X						
Mrs. Houchin	X						
Mr. Ogles	X						

COMMITTEE OVERSIGHT FINDINGS

Pursuant to clause 3(c) of rule XIII of the Rules of the House of Representatives, the findings and recommendations of the Committee based on oversight activities under clause 2(b)(1) of rule X of the Rules of the House of Representatives, are incorporated in the descriptive portions of this report.

PERFORMANCE GOALS AND OBJECTIVES

Pursuant to clause 3(c)(4) of rule XIII of the Rules of the House of Representatives, the goal of H.R. 2969 is to establish the Independent Financial Technology Working Group to Combat Terrorism and Illicit Financing under the Department of Treasury.

CONGRESSIONAL BUDGET OFFICE ESTIMATES

Pursuant to clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, the following is the cost estimate provided by the Congressional Budget Office pursuant to section 402 of the Congressional Budget Act of 1974:

H.R. 2969, Financial Technology Protection Act of 2023
As ordered reported by the House Committee on Financial Services on July 26, 2023

By Fiscal Year, Millions of Dollars	2023	2023-2028	2023-2033
Direct Spending (Outlays)	0	0	0
Revenues	0	0	0
Increase or Decrease (-) in the Deficit	0	0	0
Spending Subject to Appropriation (Outlays)	0	1	1

Increases *net direct spending* in any of the four consecutive 10-year periods beginning in 2034?	No	Statutory pay-as-you-go procedures apply?	No
		Mandate Effects	
Increases *on-budget deficits* in any of the four consecutive 10-year periods beginning in 2034?	No	Contains intergovernmental mandate?	No
		Contains private-sector mandate?	No

NEW BUDGET AUTHORITY, ENTITLEMENT AUTHORITY, AND TAX EXPENDITURES

Pursuant to clause 3(c)(2) of rule XIII of the Rules of the House of Representatives, the Committee adopts as its own the estimate of new budget authority, entitlement authority, or tax expenditures or revenues contained in the cost estimate prepared by the Director of the Congressional Budget Office pursuant to section 402 of the Congressional Budget Act of 1973.

FEDERAL MANDATES STATEMENT

Pursuant to section 423 of the Unfunded Mandates Reform Act, the Committee adopts as its own the estimate of the Federal mandates prepared by the Director of the Congressional Budget Office.

ADVISORY COMMITTEE STATEMENT

No advisory committees within the meaning of section 5(b) of the Federal Advisory Committee Act were created by this legislation.

APPLICABILITY TO LEGISLATIVE BRANCH

The Committee finds that the legislation does not relate to the terms and conditions of employment or access to public services or accommodations within the meaning of section 102(b)(3) of the Congressional Accountability Act.

EARMARK IDENTIFICATION

With respect to clause 9 of rule XXI of the Rules of the House of Representatives, the Committee has carefully reviewed the provisions of the bill and states that the provisions of the bill do not contain any congressional earmarks, limited tax benefits, or limited tariff benefits within the meaning of the rule.

DUPLICATION OF FEDERAL PROGRAMS

Pursuant to clause 3(c)(5) of rule XIII of the Rules of the House of Representatives, the Committee states that no provision of the bill establishes or reauthorizes a program of the Federal Government known to be duplicative of another Federal program, including any program that was included in a report to Congress pursuant to section 21 of the Public Law 111–139 or the most recent Catalog of Federal Domestic Assistance.

SECTION-BY-SECTION ANALYSIS OF THE LEGISLATION

Section 1. Short title

This section cites H.R. 2969 as the *Financial Technology Protection Act.*

Section 2. Independent financial technology working group to combat terrorism and illicit financing

This section establishes the Working Group under the Department of Treasury. The Working Group will be comprised of the Secretary of the Treasury, as represented by the Under Secretary for Terrorism and Financial Intelligence, and representatives from the Financial Crimes Enforcement Network, the Internal Revenue Service, the Office of Foreign Assets Control, the Department of Justice, the Federal Bureau of Investigation, the Drug Enforcement Administration, the Department of Homeland Security, the United States Secret Service, the Department of State, the Central Intelligence Agency, and five individuals from the private sector appointed by the Under Secretary for Terrorism and Financial Intelligence. The Working Group is required to conduct research on terrorist and illicit use of new financial technologies, including digital assets, issue annual reports on its findings, and develop legislative and regulatory proposals. The Working Group will sunset four years after enactment of the Act.

Section 3. Preventing rogue and foreign actors from evading sanctions

This section requires the President, acting through the Secretary of Treasury and in consultation with the heads of each agency represented in the Working Group, to submit to the appropriate congressional committees no later than 180 days after enactment a report that identifies and describes the potential illicit uses of digital assets and a strategy for how to mitigate and prevent the illicit use of digital assets and other related emerging technologies. The Secretary of the Treasury must brief the appropriate congressional committees on the implementation of the strategy no later than 2 years after enactment.

Section 4. Definitions

This section defines the terms appropriate congressional committees, blockchain intelligence company, digital asset, foreign terrorist organization, illicit use, and terrorist.

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