



# *FedFin Client Report*

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Tuesday, October 19, 2021

## **Banking Dems, GOP Demand More, Tougher Sanctions**

**Client Report: SANCTION15**

### **Executive Summary**

Today's Senate Banking hearing with Treasury Deputy Secretary Wally Adeyemo showed bipartisan concern that the Administration is failing to implement sanctions required by law, especially when it comes to China, North Korea, and Russia. Senators also stated that they will not tolerate what they call continued defiance of Congressional mandates without making clear what they intend to do to enforce their will should Treasury fail to act. However, Chairman Brown (D-OH) said that today's hearing is only the first of several examining sanctions policy because more needs to be done to ensure sanctions effectiveness and to improve humanitarian-aid delivery. While sanctions policy was today's main focus, senators also asked Mr. Adeyemo about other high-profile international policy matters such as cryptocurrencies, CBDC, and other pending issues. This report thus assesses these issues as well as U.S. sanctions policy.

### **Analysis**

#### ***Opening Statements***

Chairman Brown highlighted bipartisan Banking Committee work to hold Russia and North Korea accountable and to protect Afghan civilians without delivering aid to the Taliban. Sen. Brown also urged greater Treasury funding, highlighting the need for additional resources to deal with cryptocurrencies.

Ranking Member Toomey (R-PA) said the Biden Administration has advanced several troubling policies that go against congressional intent such as making concessions to Iran when sanctions should be increased, arguing also for increased sanctions on China for recent purchases of Iranian oil. Sen. Toomey also took a preemptive strike at FSOC's anticipated climate-risk report, arguing that major weather events do not cause systemic crises.

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Federal Financial Analytics, Inc.  
2101 L Street, NW – Suite 300, Washington, D.C. 20037  
Phone (202) 589-0880  
E-mail: [info@fedfin.com](mailto:info@fedfin.com) [www.fedfin.com](http://www.fedfin.com)

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## Testimony

Deputy Secretary Adeyemo laid out the findings of Treasury's [report on sanctions policy](#), detailing plans to improve it. Treasury will adopt a structured policy framework to inform future sanctions recommendations; improve access to humanitarian assistance via expanded exceptions; conduct regular assessments of sanctions programs; improve coordination and communications with a formal feedback mechanism; and modernize Treasury's operational capabilities.

## Q&A

- **Sanctions Effectiveness:** Foreign Relations Chairman Menendez (D-NJ) urged better coordination between Treasury and State; Mr. Adeyemo indicated Treasury is engaging with State on a joint, holistic review of sanctions policy. Sen. Van Hollen (D-MD) argued that sanctions are only effective if they come with considerable cost, urging that more be done with regard to China's recent actions on Hong Kong. Sen. Ossoff (D-GA) asked for examples of sanctions failures; Mr. Adeyemo did not cite specifics.
- **Sanctions Enforcement:** Sens. Toomey and Moran (R-KS) said the Administration is failing to implement statutorily-mandated sanctions on Iran, Russia, and China; Mr. Adeyemo said Treasury is monitoring events and will use its tools when warranted. Sen. Toomey disputed this, arguing that publicly available evidence already meets thresholds established in law for implementing sanctions. Sen. Menendez agreed that more must be done to hold China accountable, pushing also for sanctions against Turkey and Ethiopia. Sen. Daines (R-MT) asked if Treasury intends to release Afghanistan's reserves to the Taliban; Treasury will not. Sen. Van Hollen said Treasury is not implementing mandatory sanctions on North Korea.
- **Sanctions Evasion:** Sen. Toomey said Nord Stream 2 was setup specifically to evade sanctions on Gazprom and demanded Treasury sanction it. Sen. Moran worried that CBDC will be used to avoid sanctions, asking if Treasury is seeing this in China and elsewhere; Mr. Adeyemo said other countries are mostly using CBDC for internal reasons but that there will also be international impact, urging multilateral cooperation to head this off.
- **Sanctions Exceptions:** Sen. Brown asked how to better deliver humanitarian aid where sanctions apply; Mr. Adeyemo highlighted Treasury's engagement with humanitarian groups to assess impacts prior to sanctions.

- **Crypto:** Sen. Tester (D-MT) asked how often cryptocurrencies are used to avoid sanctions and if crypto should be regulated in a way similar to the conventional monetary system; Mr. Adeyemo said at least several hundred million dollars-worth of crypto transactions have been used for sanctions evasion, suggesting tools such as BSA/AML and consumer protection regulations are warranted but also that allowing innovation is vital. Sens. Brown and Cortez Masto (D-NV) urged additional sanctions when cryptocurrencies are used to facilitate ransomware payments.
- **U.S. Dollar:** Sen. Brown asked if unilateral sanctions threaten the Dollar's global reserve currency status; Mr. Adeyemo said no, although multilateral efforts better assure sanctions cannot be circumvented in ways that threaten reserve currency status. Sen. Daines asked how to ensure the digital yuan does not risk the centrality of the U.S. Dollar or payments networks; Mr. Adeyemo again pushed for multilateral engagement.
- **Currency Manipulation:** Sen. Tester said China is manipulating its currency, asking how to combat this; Mr. Adeyemo pledged that Treasury will not allow currency manipulation.