

Distinguished Members of Congress, thank you for your service to our country and for giving me the opportunity to participate in this very meaningful hearing.

Today, the world's attention has turned to Iran's defiance of the international community in pursuing its nuclear program and its sponsorship of terrorist organizations. What is less well-known are those methods that the Government of Iran is using to facilitate its proliferation and terrorism activities through the world's financial system, namely, using its state-owned banks and an array of front companies and other deceptive techniques, specifically designed to evade the controls of responsible financial institutions.

Today, per the topic of our hearing, I would like to outline the implementation of sanctions against the Iranian regime, specifically focusing on the banking sector.

There are currently 30 Iranian-owned banks (see Appendix A). In addition, there is an international and domestic sanctions regime in place against a great number of these banks.

## **UNITED NATIONS SANCTIONS**

The United Nations Security Council has passed four resolutions targeting Iran's nuclear activities: UNSCR 1737 in December 2006, UNSCR 1747 in March 2007, UNSCR 1803 in March 2008 and now the most recent UNSCR 1929 passed in June 2010. All have expressed "serious concern" over International Atomic Energy Agency (IAEA) reports regarding the regime's nuclear program.

Three of the four resolutions have also made reference to Iranian financial institutions. UNSCR 1747 enacted sanctions against Bank Sepah and Bank Sepah International. UNSCR, 1803, called on all countries to "exercise vigilance" over any institutions dealing with Iranian banks and their foreign subsidiaries, in particular Bank Melli and Bank Saderat. Although the UN did not officially sanction Melli and Saderat, both banks have been implicated in illicit international activity. The most recent resolution, UNSCR 1929, designated the First East Export Bank, located in Malaysia and a subsidiary of Bank Mellat.

## **CURRENT STATUS OF U.S. SANCTIONS**

The United States first targeted the Iranian financial sector in earnest on June 29, 2005, when President Bush signed Executive Order (EO) 13382. President Obama has used this order to target additional Iranian banks. With this measure, Washington has sought to curb the spread of weapons of mass destruction by freezing the assets of proliferators and their supporters, and by barring them from the U.S. financial and commercial systems.

In addition, the Treasury Department has warned foreign banks and companies doing business with Iran that they, too, could lose access to U.S. markets if they deal with entities connected to terrorism or the nuclear industry.

U.S. sanctions have had an impact on the Iranian banking system—specifically, by prohibiting American institutions from dealing with suspect Iranian banks, and by convincing international institutions to sever ties as well.

To date, over 80 financial institutions around the globe have either completely cut off or significantly reduced their relationship with Iran.

Unfortunately, many institutions continue to do business with the Islamic Republic, essentially undermining the overall sanctions effort.

To date, the Treasury Department has designated 17 Iranian banks per EO 13382, charging them with the use of deceptive financial practices to support terrorist groups and the nuclear program (See Appendix B).

These banks are still able to procure much needed hard currency in order to fund its illicit behavior.

## **OPEN SOURCE INTELLIGENCE**

Open source intelligence sheds light on which banks around the world are providing correspondent banking services to designated and non-designated Iranian banks.

A few words about correspondent banking: When a bank does not have a branch in a foreign country, it often allows a local bank to supervise its financial affairs there and essentially act as its agent. The correspondent bank is then empowered to provide credit, deposit, collection, clearing, and payment services to customers in the main bank's name. Simply stated, this allows a bank to conduct business in a given country without needing a physical presence there. Correspondent banks also provide access to foreign currencies and local markets.

The Iranian regime has developed relationships of this sort all over the world, giving it access to a variety of currencies (See Appendix C)

According to open source research, there are 44 banks around the world that are providing correspondent services to the 17 US-designated banks. (See Appendix D)

- Of these 44 banks, 24 have a physical presence in the US and all but three maintain US correspondent banking relationships.
- In addition, 18 US banks are providing the 44 with correspondent banking services (See Appendix E)

In other words, we in the United States potentially wield a tremendous amount of sway over almost every bank that is doing business with designated Iranian banks.

## **IRANIAN BANKS AROUND THE WORLD**

There are also a great number of Iranian banks operating around the world. Many of the designated Iranian banks, including those named by the UN, have physical branch operations throughout Asia, Europe, and the Middle East, in cities such as Baghdad, Beirut, Doha, Dubai, Frankfurt, Hong Kong, Hamburg, Istanbul, London, Moscow, Seoul, and Paris. In other words, some of America's closest allies have publicly claimed that they support sanctions against Iran while at the same time allowing the regime free access to the international financial sector and hard currency. If we are really serious about a meaningful sanctions regime, we are going to have to reach out to our allies and encourage them to close down the international branches of designated Iranian banks. Otherwise, Iran will continue to have a free access to the international financial markets.

## **COMPREHENSIVE IRAN SANCTIONS, ACCOUNTABILITY AND DIVESTMENT ACT (CISADA)**

The Comprehensive Iran Sanctions, Accountability, and Divestment Act, is a major accomplishment. CISADA, as it is now commonly referred to as, has a small but important section on financial transactions. While the regulations have yet to be written, Congress has essentially passed what I like to call a "clean hands" bill. US banks will now have an obligation to know not only who their customer is, but who their customer's customer is. US Banks will have to certify to the government that they and their customers have no direct or indirect business ties to designated Iranian banks. CISADA now forces international banks to choose between the US market and doing business with designated Iranian banks.

While everything, of course, depends on the implementation of CISADA, it appears unlikely that when put to the test, banks currently doing business with designated Iranian banks will choose to continue doing so if they will lose access to the U.S. market. This is an impactful victory for Washington.

If and when these banks do in fact pull out of the designated Iranian banking market, it will represent a tremendous financial loss and not a small amount of heartache for Iran.

With the passing of CISADA, we have all the tools necessary to peruse and punish companies doing business with Iran. If we are truly going to stop Iran from pursuing nuclear weapons, it might be prudent to use some if not all the arrows in our quiver.

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### **Appendix A – Comprehensive List of Iranian Banks**

1. Arian Bank (Afghanistan)
2. Banco Internacional de Desarrollo CA (Venezuela)
3. Bank of Industry and Mine (Iran)
4. Bank Mellat (Iran)
5. Bank Melli (Iran)
6. Bank Melli Iran ZAO (Russia)
7. Bank Saderat (Iran)

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| 8. Bank Sepah (Iran)                              | 20. Mellat Bank SB CJSC (Armenia)                  |
| 9. Central Bank (Iran)                            | 21. Parsian (Iran)                                 |
| 10. Export Development Bank of Iran (Iran)        | 22. Pasargad (Iran)                                |
| 11. EN Bank PJSC (Iran)                           | 23. Persia International Bank PLC (United Kingdom) |
| 12. Europäisch-Iranische Handelsbank AG (Germany) | 24. Post Bank (Iran)                               |
| 13. First East Export Bank (Malaysia)             | 25. Refah (Iran)                                   |
| 14. Futurebank BSC (Bahrain)                      | 26. Saman (Iran)                                   |
| 15. Karafarin (Iran)                              | 27. Sarmaye (Iran)                                 |
| 16. Kargoshaee Bank (Iran)                        | 28. Saderat Bank PLC (United Kingdom)              |
| 17. Keshavarzi (Iran)                             | 29. Sepah Bank PLC (United Kingdom)                |
| 18. Maskan (Iran)                                 | 30. Tejarat (Iran)                                 |
| 19. Melli Bank PLC (United Kingdom)               |  |

#### **Appendix B – Iranian Banks Designated for WMD Proliferation**

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|---|--|
| 1. Arian Bank (Afghanistan)                         | 10. Futurebank BSC (Bahrain)                       |
| 2. Banco Internacional de Desarrollo CA (Venezuela) | 11. Kargoshaee Bank (Iran)                         |
| 3. Bank Mellat (Iran)                               | 12. Melli Bank PLC (United Kingdom)                |
| 4. Bank Melli (Iran)                                | 13. Mellat Bank SB CJSC (Armenia)                  |
| 5. Bank Melli Iran ZAO (Russia)                     | 14. Persia International Bank PLC (United Kingdom) |
| 6. Bank Saderat (Iran)                              | 15. Post Bank                                      |
| 7. Bank Sepah (Iran)                                | 16. Sepah Bank PLC (United Kingdom)                |
| 8. Export Development Bank of Iran (Iran)           | 17. Saderat Bank PLC (United Kingdom)              |
| 9. First East Export Bank (Malaysia)                |  |

#### **Appendix C – List of Currencies Available to Iranian Banks**

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|--|---------------------------------------|
| 1. U.S. dollar (USD)                                       | 11. Japanese yen (JPY)                |
| 2. Euro (EUR)  | 12. Norwegian krone (NOK)             |
| 3. Asian Monetary Units via the Asian Clearing Union (ACU) | 13. Omani riyal (OMR)                 |
| 4. Armenian dram (AMD)                                     | 14. Qatari riyal (QAR)                |
| 5. Australian dollar (AUD)                                 | 15. Russian ruble (RUB)               |
| 6. British pound sterling (GBP)                            | 16. Saudi riyal (SAR)                 |
| 7. Canadian dollar (CAD)                                   | 17. Swedish krona (SEK)               |
| 8. Danish krone (DKK)                                      | 18. Swiss franc (CHF)                 |
| 9. Hong Kong dollar (HKD)                                  | 19. Turkish lira (TRY)                |
| 10. Indian rupee (INR)                                     | 20. United Arab Emirates dirham (AED) |

#### **Appendix D – Banks Around the World Providing Correspondent Services to Iranian Banks Designated by the US**

1. Ameriabank CJSC (Armenia)
2. Raiffeisen Zentralbank Österreich AG (Austria)
3. UniCredit Bank Austria AG (Austria)
4. Alubaf Arab International Bank BSC (Bahrain)
5. Future Bank BSC (Bahrain)
6. Sonali Bank Limited (Bangladesh)
7. Fortis Bank SA/NV (Belgium)
8. Danske Bank A/S (Denmark)
9. Société Générale (France)
10. BHF-BANK Aktiengesellschaft (Germany)
11. Commerzbank AG (Germany)
12. Deutsche Bank AG (Germany)
13. Landesbank Baden-Württemberg (Germany)
14. UniCredit Bank AG (Germany)
15. ING NV (Holland)
16. Habib Bank Limited (India)
17. State Bank of India (India)
18. United Bank Ltd (India)
19. Bank of the Middle East Iraqi Investment (Iraq)
20. Trade Bank of Iraq (Iraq)
21. Intesa Sanpaolo SpA (Italy)
22. Mizuho Corporate Bank Ltd (Japan)
23. Sumitomo Mitsui Banking Corporation (Japan)
24. The Bank of Tokyo-Mitsubishi UFJ Ltd (Japan)
25. DnB NOR Bank ASA (Norway)
26. Nordea Bank Norge ASA (Norway)
27. BankMuscat SAOG (Oman)
28. Qatar National Bank SAQ (Qatar)
29. VTB Bank (Russia)
30. Riyadh Bank (Saudi Arabia)
31. Aresbank SA (Spain)
32. Banco Santander SA (Spain)
33. Banque Marocaine du Commerce Exterieur International SA (Spain)
34. Bank of Ceylon (Sri Lanka)
35. Nordea Bank AB (Sweden)
36. Skandinaviska Enskilda Banken AB (Sweden)
37. Svenska Handelsbanken AB (Sweden)
38. Banque de Commerce et de Placements SA (Switzerland)
39. United Bank AG (Switzerland)
40. Zürcher Kantonalbank (Switzerland)
41. Türkiye Halk Bankasi AS (Turkey)
42. TÜRKİYE İS BANKASI AS (Turkey)
43. Dubai Islamic Bank PJSC
44. Emirates NBD Bank PJSC

#### **Appendix E - U.S. Banks Conducting Business with International Banks that Service Designated Iranian Banks**

1. Bank of America NA
2. The Bank of New York Mellon
3. The Bank of Tokyo-Mitsubishi UFJ Ltd
4. Citibank
5. Commerzbank AG
6. Credit Suisse AG
7. Deutsche Bank Trust Company Americas
8. Habib American Bank
9. HSBC Bank USA NA
10. Intesa Sanpaolo SpA
11. JPMorgan Chase Bank NA
12. MashreqBank PSC
13. Mizuho Corporate Bank USA
14. Société Générale
15. Standard Chartered Bank
16. State Bank of India
17. Sumitomo Mitsui Banking Corporation
18. Wells Fargo Bank NA