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Hearing on Iran Payment, "Fueling Terror: The Dangers of Ransom Payments to Iran"
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Chairman Duffy, Ranking Member Green, thank you for inviting me to testify today. I am pleased to be here alongside my colleagues from the State Department and the Justice Department. My name is Paul Ahern and I am the Assistant General Counsel for Enforcement and Intelligence at the Treasury Department.

I am here today to discuss with you Treasury's role in effectuating the payments related to the January 2016 settlement of the long outstanding claim at the Iran-United States Claims Tribunal in The Hague.

The settlement involved two payments by the United States regarding an account established decades ago with Iranian funds, as well as its claim for interest on that account.

The Administration publicly announced the \$1.7 billion settlement on January 17, 2016, and that announcement is publicly available at the State Department's website.

The Settlement Payments

For the first settlement payment, Treasury assisted the Defense Finance and Accounting Service in crafting a wire instruction to transfer \$400 million on January 14, 2016.

The \$400 million came out of what is typically referred to as the Foreign Military Sales Trust Fund. It had amounted to about \$600 million until 1990, when the Bush Administration entered into a settlement returning \$200 million to Iran, and since that time the fund has amounted to about \$400 million.

Treasury worked with DFAS and the Federal Reserve Bank of New York so that the funds transferred from DFAS to a European Bank. The funds were then converted to a foreign currency and physically transported to Geneva.

On January 17, Treasury disbursed the payment to an official from the Central Bank of Iran, for transfer to Tehran. The funds were under U.S. government control until their disbursement pursuant to the settlement.

The second settlement payment, involving settlement of the dispute over accrued interest, was disbursed out of the Judgment Fund.

The Judgment Fund is the source of funding Congress has provided for use generally in paying judgments and settlements of claims against the United States when there is no other source of funding.

Awards and settlements of Tribunal claims have been paid from the Judgment Fund in the past, including a \$278 million settlement reached in 1991.

Though the payment to settle the dispute over accrued interest was one payment, the Judgment Fund system has a technical limitation that prevents it from processing individual claims in amounts over ten digits in length.

Therefore the single claim of \$1.3 billion was broken into 13 claims of \$99,999,999.99, and the remainder of \$10,390,236.28. As in similar prior instances, the system's technical limitation required a claim to be divided into smaller amounts.

These amounts are displayed on Treasury's Judgment Fund website, as is additional information about claims processed through the Judgment Fund.

Treasury disbursed the payment after receiving the appropriate approvals from the Department of Justice. The payment from the Judgment Fund was initiated through a transfer to a European Bank.

In this circumstance, it was held available for disbursement to Iran. Pursuant to an arrangement between Iran, the home country of the European Bank, and the United States, the European Bank converted the \$1.3 billion into a foreign currency and then disbursed the funds as banknotes to an official from the Central Bank of Iran.

This process occurred in two installments, one on January 22 and the other on February 5.

The Payments were Consistent with Existing Sanctions

The sanctions regime we built with our international partners had effectively cut off Iran from the international financial system. Iran was very aware of the difficulties it would face in accessing and using these funds if they were in any form other than cash, even after the lifting of sanctions under the Joint Comprehensive Plan of Action.

Therefore, effectuating the payment of the funds in the FMS account and the subsequent interest payments in cash was the most reliable way to ensure that they received the funds in a timely manner, and it was the method preferred by the relevant central banks.

For both the payments to settle the disputes over principal and the interest, no direct transfer was made from any U.S. account to Iran. In addition, these transactions complied with U.S. sanctions law and did not require a unique license, waiver, or other form of authorization.

Treasury's Iranian Transactions and Sanctions Regulations, at 31 C.F.R. 560.510, explicitly authorize "[a]ll transactions necessary to payments pursuant to settlement agreements entered into by the United States Government" in a legal proceeding in which the United States is a party, such as settlements of claims before the Tribunal.

Thank you again for the opportunity to testify about these issues. I look forward to answering your questions.