

Under Secretary Sigal Mandelker Speech before the Foundation for the Defense of Democracies



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Introduction

Thank you for inviting me to speak today, Mark. It's a pleasure to be here at the Foundation for the Defense of Democracies (FDD). We greatly appreciate your insight and ideas.

When President Trump announced his decision last month to cease the United States' participation in the Joint Comprehensive Plan of Action (JCPOA), at Treasury, we took immediate action to implement the President's decision. This includes reimposing U.S. nuclear-related sanctions on the regime subject to certain 90 day and 180 day wind-down periods. These sanctions will further cut the Iranian regime off from abusing the global financial system.

But I am not going to use my remarks today to talk about the technicalities of snapback. Instead, I am going to focus in on the surreptitious means Iran uses to finance itself and its long list of malign activities.

As the Under Secretary for Terrorism and Financial Intelligence, I spend my days and nights tracking and targeting terrorist financing, proliferation financing and a myriad of other illicit activities, including the methods our adversaries use to attempt to conceal their behavior. We regularly warn governments and companies all over the world about the need to harden their networks from illicit actors, whether it is through the strong actions that we take, in bilateral government engagements, through the Financial Action Task Force (FATF), or with the private sector.

What is the paradigmatic example of a regime that uses deception and subterfuge to fund illicit activity? It is a regime that uses shell and front companies to conceal its tracks. It uses forged documents to hide its participants and deceive legitimate private and public actors. It misleads companies, financial institutions, and countries using seemingly legitimate businesses. It finds what it perceives to be weak links and exploits those links in the hopes that its activities will go undetected. It uses officials with influence and credentials to facilitate its illicit transactions. And all of this is in support of nefarious activity, whether it is funding terrorists, supporting WMD proliferation, or exploiting its own people through corruption and human rights abuses.

What country fits this prototype? Iran.

The Iranian government has demonstrated time and time again, including throughout the JCPOA, that it is a regime bent on supporting terrorism and promoting ruthless actors, destabilizing the region, and abusing the human rights of its own people. And to fund these illicit activities, Iran exploits the global financial system, as well as country after country around the world. In Syria, for example, Iran and its Islamic Revolutionary Guards Corps (IRGC) have funded Assad's murderous campaign against his own people. Iran provides upwards of \$700 million a year to Hizballah, which continues to threaten our close ally Israel -- including using rockets supplied by Iran to target Israeli neighborhoods. Iran has also used deception to obtain hard currency for the IRGC-Qods Force (Qods Force) and front companies to conceal its procurement of parts for airlines ferrying Iranian terrorists to the battlefield in Syria. These efforts, often directed by senior level Iranian officials, constitute a deliberate pattern to deceive and exploit legitimate businesses, financial institutions, and governments.

When I worked as a prosecutor at the Department of Justice, I learned the importance of methodically looking at all the evidence in a case and drawing conclusions based on those facts. Today I am going to piece those facts together for you. The picture it presents is not a pretty one.

But it is important to be clear eyed about the true nature of the Iranian regime in order to be extraordinarily vigilant to its deceptive practices. I am going to walk you through the details of

Iran's systematic efforts to deceive our partners, allies, companies, and others around the world in pursuit of its illicit aims.

Iran's Systematic Efforts to Undermine the International Financial System

Let's start by talking about Iran's abuse of the international financial system. We continue to see Iran use deceptive tactics including front and shell companies to exploit markets in numerous countries to fund its nefarious activities. Iran's deceitful tactics include forging documents, obfuscating data, and hiding illicit activities under official cover of government entities, among many others. The objective is to ensure that no legitimate company or government knows that they are being used to achieve Iran's illicit aims. What is all the more remarkable about this activity is that we are seeing Central Bank of Iran complicity in Qods Force financing.

In any legitimate country, if a central bank or its governor was complicit in financing a terrorist group, that central bank governor would be fired from his or her job and prosecuted for providing material support for terrorism. Indeed, any country that wants to legitimately join the global community of commerce would insist on it -- and those seeking to do business with that country would demand it.

Currency Exchange Network

We have seen the Central Bank of Iran's complicity in supporting the financing of terrorism in two important recent large-scale schemes.

First, using six front companies and with the help of the Central Bank of Iran, an extensive currency exchange network in Iran and the UAE exploited the UAE's currency exchange market to procure and transfer millions in U.S.-dollar denominated bulk cash. It did this for the Qods Force, which has been designated by the United States and the EU, to fund the Qods Force's malign activities and regional proxy groups by concealing the purpose for which the U.S. dollars were acquired. In order to conceal Iran's involvement and these illicit activities from UAE

authorities, the network forged documents and purposively disguised its conduct behind seemingly legitimate businesses, hiding its illicit activities through front and shell companies.

At least one of these companies, the Rashed (Rah-Shid) Exchange, advertised its currency exchange and international money transfer business all over the world on its website and social media in an effort to portray its activities as legitimate, while in reality its management was using this cover to facilitate this illicit transfer.

Iran's Central Bank played a critical role in enabling this network's massive cash transfer—all while Iran was in the midst of a currency crisis.

And so while the Iranian Rial continued to freefall, the Qods Force was desperate to acquire foreign currency to fund its regional proxies and the Central Bank of Iran helped make that happen.

What did we do when we detected this deceptive activity? We took action with our partners in the UAE to designate this network and shut it down. We conveyed our continued determination to disrupt all terror-related networks. The UAE also sent a very strong message that these exchanges and the Qods Force are not welcome there, designating individuals and entities involved in this network and cutting their access to the UAE's financial system.

To other governments and banks around the world we say: You must be alert to these deceptive practices so that you are not taken advantage of. Don't be fooled when you're dealing with the Central Bank of Iran.

Central Bank of Iran

But the UAE is not the only country that Iran and its Central Bank have exploited. We have also seen Iran's Central Bank Governor, other Central Bank of Iran officials, and the Qods Force team up to take advantage of Iraq's banking sector in order to surreptitiously move funds on behalf of the Qods Force and Hizballah.

As part of this scheme, Valiollah Seif, Iran's Central Bank Governor, along with the assistant director of the Central Bank's International Department, conspired with the Qods Force to conceal the movement of millions of dollars in multiple currencies through the international financial system, including through Iraqi banks.

Seif used his influence and credentials as the head of Iran's Central Bank to conceal the true nature of transactions that were destined for the Qods Force and its proxy, Hizballah. The Chairman and Chief Executive of Al-Bilad Islamic Bank, an Iraqi bank, acted as an intermediary to enable and conceal the Qods Force's exploitation of Iraq's banking sector to send funds to Hizballah.

This is the same chairman and chief executive who ran for a parliamentary seat in Iraq's elections last month with a promise to be the "voice of every Iraqi citizen," and used "patriotism, justice, human rights and law enforcement for Iraq," as part of his campaign. Yet at the same time, he enabled Iran to further its malign activities in the region at the expense of the integrity of Iraq's financial system.

What does this tell us? The Central Bank of Iran's senior officials are directly implicated in efforts to use other countries to send illicit funds to the Qods Force and Hizballah.

When we saw this, we took action again, designating Seif and his conspirators. We also took action against a Hizballah-linked official who acted as a critical conduit for financial disbursements from the Qods Force to Hizballah. Banks, companies and countries again are on notice.

Qods Force Counterfeiting

That senior officials in Iran are engaged in deceptive activity that strikes at the core of the international financial system should come as no surprise.

This past fall, we uncovered a Qods Force network that counterfeited currency and flouted the laws of our allies in Europe. That network used a series of companies to obfuscate end user

data, facilitate deceptive transactions, and circumvent European export restrictions.

They used German-based front companies to deceive European suppliers and surreptitiously procure advanced printing machinery, security printing machinery, and raw materials such as watermarked paper and specialty inks on behalf of the Qods Force. The Qods Force in turn used these items to print counterfeit Yemeni bank notes, potentially worth hundreds of millions of dollars, to support Iran's destabilizing activities. Yet another effort to gain access to currency. This time it was fake notes and Europe and Yemen were the victims.

When we consider risks to the international financial system, what action is more problematic than sending massive amounts of fake bank notes into the system? It should be beyond refute that counterfeiting strikes at the heart of the international financial system.

When we uncovered this deceptive activity, we again acted. We took disruptive action to designate the network and those involved.

Ballistic Missiles

We have also seen how Iranian officials have provided military support for proxies that attack our allies. For instance, Iran continues to supply the Huthis in Yemen with ballistic missiles that they launch at civilian population centers in Saudi Arabia.

Just a few months ago, the UN Panel of Experts concluded that missiles and other military equipment employed by the Huthis against Saudi Arabia were Iranian-origin. These Iranian officials have also disrupted humanitarian aid efforts in Yemen, and threatened freedom of navigation in key regional waterways.

When we saw this, we again acted to impede Iran from sending its personnel, weapons, and funds in support of its proxies in Yemen.

Indeed, we designated five Iranian officials associated with the Qods Force and Iran's ballistic missile program.

We have acted numerous times to disrupt Iran's continuing development of ballistic missiles, which could be used to deliver nuclear warheads.

This program should have been -- and must be -- part of any deal with Iran. Our partners should demand it. Iran must end its proliferation of ballistic missiles and halt further launching or development of nuclear-capable missile systems.

The Regime's Exploitation of the Iranian People

And as those considering doing continued business with Iran need to understand, this is not only a regime that foments regional violence through terrorism, its weapons programs, and other destabilizing activity, it is a regime that thinks nothing about exploiting its own people through brutal human rights abuses against women, political opponents, and others.

For example, Ansar-e Hizballah, a regime-supported organization, harasses and attacks the Iranian people and has been linked to acid attacks against women in the city of Isfahan. Multiple women who were not dressed in accordance with the regime's standards had acid thrown at them, severely injuring them and creating a climate of fear.

When people are imprisoned, Iran often subjects them to brutal tactics inflicted by prison authorities, including sexual and physical assaults, and electric shock.

Iran's Ministry of Intelligence and Security (MOIS) and the IRGC maintain permanent wards in Evin Prison where they hold political prisoners. While senior regime officials regularly downplay the torture and abuse that occurs in this and other prisons, the abuse of prisoners, including political prisoners, continues.

When we uncovered these disgusting human rights abuses, we again took action just last week, designating numerous human rights abusers and the Evin Prison itself.

These actions build on our earlier efforts to target Iran's human rights abuses. In recent months Iranian citizens have taken to the streets, loudly shouting that they have had enough of the regime's corruption and financial support for foreign proxies. Many have done so at grave risk to their own lives, as the regime has thrown protestors in jail, violently censored its people who seek to freely protest, and much worse.

To hold those responsible, in January, we designated the head of Iran's judiciary, who facilitated torture and cruel and inhumane treatment of prisoners, along with the Rajae Shahr Prison, where dissidents were imprisoned, mistreated, mutilated, and in certain cases, even murdered.

To further suppress the free speech of its people, the Iranian regime diverts resources that should belong to its people to fund a massive and expensive censorship apparatus. This apparatus allows Iran to monitor and track its citizens and curtail any peaceful gatherings and protests.

The Iranian regime has demonstrated time and again contempt for fundamental freedoms, such as expression, assembly, and association.

By restricting access to satellite services, blocking access to social media sites and apps, and imposing other Internet restrictions, the regime seeks to impede the Iranian people from freely communicating with the outside world and with each other.

Again, when we saw this blatant repression, we acted, designating the groups and individuals responsible. We also made clear to the private sector through our guidance that we are committed to fostering and supporting the free flow of information to the Iranian people, and that we will authorize certain transactions that support these efforts.

Iran's History of Exploitative Activity

Iran's malign behavior is no recent development.

Mabna Institute

Even as the ink on the JCPOA was drying, Iran was using cyber-enabled attacks against companies and countries across the world to support terrorism and enrich itself. For example, the U.S. government uncovered a scheme whereby the Mabna Institute and its hackers stole intellectual property, research, and data at the behest of the IRGC.

These hackers conducted online reconnaissance of university professors and, according to the Department of Justice, used this knowledge to target over 100,000 accounts of professors with spearphishing attacks designed to induce their targets to take actions that would compromise their academic account credentials. These stolen login credentials were used to directly access online university library systems and unlawfully extract data which was then used for the benefit of the IRGC and sold within Iran through at least two websites.

The scale of this cyber assault is stunning. The IRGC-directed Mabna Institute exploited not one, not two, but 22 countries, including our European partners such as Germany, Italy, and the United Kingdom, as well as our Asian partners such as Japan and South Korea, among many others.

The Mabna Institute conducted massive, coordinated cyber intrusions into the computer systems of over 300 universities worldwide, including 144 institutions based in the United States.

When we uncovered this scheme we again took action with our Department of Justice colleagues. We designated the Mabna Institute and its hackers and the Department of Justice indicted those involved.

This is yet another example of Iran's deceptive practices and its willingness to flout our laws and the laws of our allies and partners around the world.

Iran Illicit Efforts to Procure Airline Parts

Also during the period of the JCPOA, Iran used deceptive schemes to illicitly procure aircraft parts from across the world to fuel terrorism, atrocities, and regional instability. As FDD knows and has exposed very well, Iranian commercial airlines play a critical role in ferrying Qods Force operatives, weapons, equipment, and funds to international locations in furtherance of Iranian state-sponsored terror operations.

Since the onset of the Syrian civil war, Mahan Air and other designated Iranian commercial airlines such as Caspian Air, Meraj Air, and Pouya Air have routinely flown fighters and material to Syria to prop up the Assad regime.

Let's be clear. As our allies have asked for more evidence regarding what Mahan Air has been up to, we have asked what more evidence do you need than the fact that they are repeatedly flying fighters and material in and out of Syria.

People do not go on vacation to Syria.

The world must open its eyes to Iran's military support to Assad. This support has contributed to mass atrocities in the country and the displacement of millions across the region. We have all seen the horrifying pictures of women and children in Syria, lying on the ground suffering the devastating effects of chemical weapons. One of the proper responses to this kind of Iranian support is to stop allowing airlines who fly Iranian fighters into Syria to continue to fly into your country -- and to designate those airlines because they are being used to support what we all agree is a horrific crisis. I invite all of you here to go to Mahan's website and see the extensive list of destinations where they fly throughout the world.

In the airline industry, we again find this same pattern and practice, front companies being used to engage in surreptitious activity. We recently uncovered an illicit network, concealed this time by Turkish front companies, that surreptitiously procured U.S. jets and parts for Mahan's aircraft.

This network purchased airline aviation parts from foreign vendors and then forwarded those parts, including export-controlled U.S. goods, to Mahan Air. This is not the first time Treasury has detected deception involving Mahan Air's global procurement operations.

The deceptive practices these airlines employ to illegally obtain services and U.S. goods is yet another example of the duplicitous ways in which the Iranian regime operates. We once again took action to counter this deceitful conduct, designating the illicit network that facilitated these actions.

Again, those in the civil aviation industry around the world must be vigilant. They should implement appropriate controls to ensure compliance with their legal requirements.

Likewise, countries and companies around the world should take note of the risks associated with granting landing rights and providing aviation services to the airlines used by Iran to export terrorism throughout the region, including the risks of our secondary sanctions.

FATF

Time and time again, Iran has been given the opportunity to renounce its malign activities. For over a decade, the FATF has highlighted the terrorist financing risk emanating from Iran and the threat it poses to the international financial system. Yet Iran has failed to fulfill its international obligations to clean up its financial system, crack down on illicit activity, and cease all financing of terrorism.

In the days following the JCPOA, Iran had ample time to take the actions it would need to take to establish itself as a country worthy of investment.

The onus of responsibility was on Iran to take the actions necessary to legitimize itself. And yet once again, it has failed.

In February, the FATF concluded that Iran had failed to address the majority of its anti-money laundering/combating the financing of terrorism (AML/CFT) action plan requirements. For the

first time ever in a public statement, the FATF provided a comprehensive list of Iran's major deficiencies, while reiterating the terrorist financing risk and the threat this poses to the international financial system.

For those who believe that Iran is moving toward implementation of its FATF obligations, take note of what their own national security spokesman recently said. On March 26th of this year, the spokesman for the Majles National Security and Foreign Affairs Committee said that, if Iran fully implemented its FATF obligations, it "will be faced with a kind of self-imposed sanction."

How has Iran failed to fulfill its international obligations? Despite being put on a timeline for action -- and getting help from other countries -- it has failed to:

1. Adequately criminalize terrorist financing including by explicitly exempting favored groups they argue are "attempting to end foreign occupation," which, according to their own press reporting, is just another way for them to continue financing terrorist groups like Hizballah and Hamas;
2. Establish the authority to freeze terrorist assets in line with UN Security Council Resolutions, let alone do so;
3. Establish an adequate and enforceable customer due diligence regime;
4. Ensure that financial institutions verify that wire transfers contain complete information;
5. Make a good faith effort to ratify and implement the international terrorist financing convention;
6. Establish the full independence of their financial intelligence unit;
7. Demonstrate how authorities are identifying and sanctioning unlicensed money value transfer service providers;
8. Establish a broad range of penalties for violations of money laundering laws; and
9. Establish the legal authority and procedures to provide for confiscation of property of corresponding value for a money laundering or terrorist financing offense.

As the FATF said in its February statement, it is not just about passing legislation which they have thus far failed to do, it is about implementing that legislation. All of this is of course that much more problematic given the pattern and practice of deceptive conduct I have just

described for you. How can you continue to deal with Iran if it has utterly failed to institute and implement such critical reforms?

In our engagements both here in the United States and abroad, we have made clear that companies doing business in Iran face substantial risks, and those risks are even greater as we reimpose nuclear-related sanctions. We will hold those doing prohibited business in Iran to account.

These are just a few examples of Iran's pattern of deception. Iran is on a mission to deceive the international community in furtherance of its destructive goals. Enough is enough. Everyone must open their eyes to the true nature of the Iranian regime.

Message to Allies, Partners, and the Private Sector

To our allies and partners around the world, we ask that you add your voices to ours in condemning Iran's deceptive, exploitive, and destructive practices.

We must work together to pressure Iran to make tangible, demonstrated, and sustained shifts in its policies. I know we share the same goals in countering the regime's support for terrorism, missile proliferation, and brutality against its own people, in addition to keeping it from developing nuclear weapons. In fact, our Gulf partners recently joined us in countering Iran's support of Hizballah through a powerful designation of Hizballah's leadership and, as already mentioned, the UAE in particular helped us target Iran's use of exchange networks to fund the Qods Force.

Having described example after example of the deceptive ways Iran has exploited the international financial system and flouted the laws of countries around the world, I cannot emphasize enough the importance of maintaining a high level of alert to Iran's deceptive practices.

The Iranian regime will deceive your companies, undermine the integrity of your financial systems, and put your institutions at risk of our powerful sanctions, all to fund terrorism, human rights abuses, and terrorist groups like Hizballah, Hamas, and the Huthis. You must harden your financial networks, require your companies to do extra due diligence to keep them from being caught in Iran's deceptive web, and make clear the very significant risks of doing business with companies and persons in Iran. You must be proactive in these efforts as Iran continues to search for ways to take advantage of your companies and countries.

To those in the private sector, I urge you to also take additional steps to ensure Iran and its proxies are not exploiting your companies to support their nefarious activities. You may think your clients and counterparties are legitimate companies. But they may in fact be part of the Iranian regime's deceptive schemes to fund terrorism and human rights abuses. You must do more to make sure your compliance programs are airtight.

Our Efforts to Counter Iran's Malign Activities

As Iran uses every tool at its disposal to fund the Qods Force, support the Assad regime, assist Hizballah, Hamas, and others, develop its ballistic missile programs, provide weapons to the Huthis in Yemen, violently oppress protesters, and violate human rights, at Treasury we too are using all the tools at our disposal. We are countering the regime's destabilizing activities, blocking their financing of terror, impeding Iran's proliferation of missiles and other advanced weapons systems that threaten peace and stability, and ensuring Iran has no path to a nuclear weapon.

As part of the President's strategy, we will apply unprecedented financial pressure on the Iranian regime. Our powerful economic authorities will give the regime a clear choice: Change its unacceptable support for terrorism, destabilizing activities, and human rights abuses, or face economic calamity.

As Secretary of State Pompeo made clear two weeks ago, the leaders in Tehran will have no doubt about our seriousness. The impact of our sanctions will only grow more painful if the

regime does not change course.

As we bring our massive economic pressure to bear on the regime, we will continue to shine a light on Iran's destructive activities and target Iran's efforts to deceive the international community, undermine the international financial system, and violate the laws of our allies and partners.

Thank you.