

**Congress of the United States**  
**Washington, DC 20515**

June 23, 2106

The Honorable Gene L. Dodaro  
Comptroller General the United States  
United States Government Accountability Office  
441 G St., N.W.  
Washington, DC 20548

Dear Mr. Dodaro:

We are writing to the U.S. Government Accountability Office (GAO) to request a review of the Iran Foreign Military Sales (FMS) Trust Fund, including the composition and disposition of the fund and any associated liabilities.

The Department of State (State) announced on January 17, 2016, that the United States and Iran came to a \$1.7 billion settlement on a long outstanding claim at the Iran-U.S. Claims Tribunal in The Hague. According to the State notice, Iran will receive the balance of \$400 million remaining in the trust fund as well as a roughly \$1.3 billion compromise on the accrued interest.

A July 25, 1979, GAO report, *Financial and Legal Implications of Iran's Cancellation of Arms Purchase Agreements* (FGMSD-79-47) states that, at the time of the report, the Iranian government had cancelled and/or the Defense Department had reduced about \$10.6 billion of Iran's \$12.6 billion in undelivered FMS orders. According to the GAO report, the United States may have been liable to contractors for cancelled orders. The GAO report states that the U.S. was seeking secondary buyers to purchase some of the cancelled items, thus reducing the amount Iran owed and reducing the U.S. government's liability. The report also notes that, in 1979, the Navy transferred about \$491 million to the Iranian account as a result of the Navy's purchase of the Spruance class destroyers that Iran initially agreed to buy. The report further states that the total Iranian equity in the FMS program may not be determined for years; however, the Department of Defense (DOD) estimated at the time that \$80 million would remain in the Iran FMS Trust Fund after all appropriated expenditures, but that DOD was unsure that the trust fund balance would cover all costs. GAO provided additional details of the ongoing process of resolving trust fund issues in January 1980, but again noted that total equity in the fund would not be determinable for years. See the GAO report, *How Military Sales Trust Funds Operate: Saudi Arabian and Iranian Funds Compared* (GFMSD-80-26).

We request that GAO initiate a review to address the following specific questions:

1. How has the fund been managed and accounted for since 1979?
2. What was the source of the \$400 million amount remaining in the Iran FMS Trust Fund, and how was this amount determined? Specifically, was the trust fund composed of

Iranian financial deposits, U.S. financial deposits (grants or loans), or a combination of both? What were all the debits and credits to the account, and who made them?

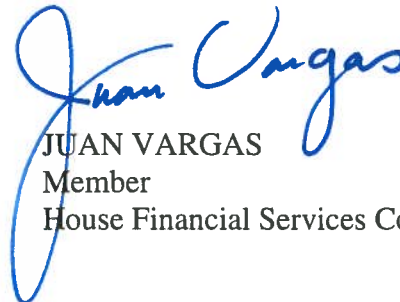
3. Is the Trust Fund zeroed out? In a letter made public, the State Department stated that the January 2016 settlement of \$1.7 billion was a “partial settlement” and that “there remain some large claims pending [...] they include Iran’s contract claims arising under the former FMS program.” How many Iranian FMS claims are pending against the U.S., and do any involve the Trust Fund?
4. To what extent did Iran’s cancellation of arms purchase agreements affect the Iran FMS Trust Fund, what happened to any cancelled orders for military articles, and how were any cancellation costs determined and accounted for, including whether any funds were disbursed from the Iran FMS Trust Fund? Specifically, was the U.S. government held liable or sued by any contractors as a result of the cancelled and/or reduced undelivered FMS orders, and if so, were those costs drawn down from the Trust Fund or were they paid out of another account?
5. What was the methodology used to calculate the interest owed Iran and the related compromise? How was the settlement paid out, was it in U.S. dollars and which U.S. bank was it transferred to and to which Iranian financial institution? The settlement was announced on January 17, 2016, one day after “Implementation Day” of the Joint Comprehensive Plan of Action and the same day certain restrictions were lifted on the Central Bank of Iran. Was it necessary for “Implementation Day” to be reached in order for the settlement to be finalized?
6. The administration announced that this \$1.7 billion payment - \$400 million from the Trust Fund, plus \$1.3 billion in accrued interest – was a settlement, rather than as a result of the Claims Tribunal issuing a final decision in the matter. The case had been ongoing for over 35 years in front of the Tribunal. What was the official U.S. government defense as it relates to the Iranian claim to the \$400 million prior to the settlement, and how was the determination made to settle rather than seek a ruling?

Thank you for your attention to this matter. Please coordinate with Golan Rodgers of Rep. Ileana Ros-Lehtinen’s Middle East and North Africa subcommittee staff, who can be reached at [Golan.Rodgers@mail.house.gov](mailto:Golan.Rodgers@mail.house.gov), or Aaron Allen with Rep. Juan Vargas’ office, at [Aaron.Allen@mail.house.gov](mailto:Aaron.Allen@mail.house.gov), as you plan your review.



Sincerely,

ILEANA ROS-LEHTINEN  
Chairman  
Subcommittee on the Middle East  
and North Africa



JUAN VARGAS  
Member  
House Financial Services Committee