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THE WALL STREET JOURNAL

WSJ.com

LAW | SEPTEMBER 3, 2010

Probe Circles Globe to Find Dirty Money

By CARRICK MOLLENKAMP

A black-market financial investigation spreading from Iran to Sudan, London and Cuba began in a cluttered fifth-floor cubicle in an old-school district attorney's office in Manhattan featuring dark corridors and frosted glass.

There, an intelligence analyst named Eitan Arusy began studying a slim lead. Suspicious money was flowing to and from an Iranian nonprofit operating in a Fifth Avenue office tower in Midtown Manhattan. Mr. Arusy's probe, later merged with a Justice Department inquiry, ultimately widened to some of Europe's vaunted banks, helping spark a global inquiry that found they actively evaded U.S. law in aiding sanctioned countries, banks or other enterprises move some \$2 billion undetected.

Nine banks have been caught up in the probe, and some are in discussions to settle, according to a person familiar with the case. Three have already. Last month, [Barclays PLC](#) in London agreed to pay \$298 million and admitted to allowing payments on behalf of clients in Cuba, Sudan and other countries. [Lloyds Banking Group](#) in London and [Credit Suisse Group](#) in Zurich—banks that operated extensive transfer systems for Iranian clients—have agreed to settlements totaling \$350 million and \$536 million, respectively.



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A Fateh-110 missile is test-fired on Aug. 25 by Iran, which is among the sanctioned nations.

These weren't rogue operations. The investigators discovered that the banks ran dedicated units to systematically aid the undetected transfer of money through the U.S. banking system. They did that by removing identifying coding on fund transfers so they could evade automated U.S. bank computer systems designed to spot money flowing from a sanctioned state.

The far-reaching inquiry started small. Mr. Arusy arrived at the district attorney's office in 2005 to help ferret out illegal financing tied to the Middle East. Though the office prosecutes everyday crime, it carved out a role infiltrating crimes tied to the city's financial markets and institutions. Its expertise dates to the 1990s, when it led the investigation of Bank of Credit & Commerce International, or BCCI, which collapsed in a fraud

and money-laundering scandal.

Adam Kaufmann, executive assistant district attorney for Manhattan, said his office was seeing questionable flows of money between South America and the Middle East. Mr. Arusy was hired to help track the Middle Eastern end.

An Israeli-American who speaks Arabic—he learned the language from his grandparents and teachers in Israel—Mr. Arusy for a time worked for the Israeli army, where his job included giving Arab media better access to Israeli forces.

In New York, Mr. Arusy hunkered down in the building used in Woody Allen's "The Curse of the Jade Scorpion" because of its 1940's era-look. Mr. Arusy scrutinized documents that detailed the money flows tied to a group called the Alavi Foundation. The group devotes itself to promoting Islamic culture, including the Persian language, according to its Web site. Alavi refers to the descendants of Ali, a relative and potential successor to Prophet Muhammad.



EITAN ARUSY

But in the past two years, federal prosecutors have alleged that the foundation is closely tied to the Iranian government. Prosecutors claim in federal court proceedings that Alavi served as a U.S. operations arm for the Iranian government, including managing a Fifth Avenue office tower, running a charity and moving money from the office tower to Bank Melli. Prosecutors allege the bank is controlled by the Iranian government.

Throughout 2006 and 2007, Mr. Arusy, and his boss, Mr. Kaufmann, worked to crack the foundation. Mr. Arusy went after the investigation "like a dog with a bone," Mr. Kaufmann said. "We found this whole system that let them [the Iranian banks] move their money."

An Alavi Foundation employee referred questions to an outside lawyer. The lawyer didn't respond to repeated requests for comment.

The district attorney's office subpoenaed financial institutions that were mentioned in the documents discussing suspicious money transfers tied to the Alavi Foundation.

That led the investigators to another set of documents the institutions had on file. Those listed email addresses and telephone numbers for individuals tied to the Alavi Foundation who were behind the money transfers.

A big break came when the district attorney's office obtained the individuals' email traffic. Those emails, which surprisingly hadn't been deleted, detailed money transfers from Bank Melli to U.S. banks.

"You had to scrub your eyes when you see these incriminating emails," said Mr. Arusy, who left the district attorney's office in 2007 and today works as deputy managing director of Arcanum, an intelligence firm that specializes in asset-tracing and financial crimes. He declines to give his age.

Mr. Arusy found that European banks that carried out the transfers avoided U.S. filters, software at U.S. banks that screen for illegal or improper transactions. They did so by removing or "stripping" wire-transfer information that identified that the transfer originated from a sanctioned source.

Credit Suisse, according to court records, removed Iranian names, addresses, telephone numbers and identification codes from payment messages sent to U.S. financial firms. In some cases, the bank then replaced the information by using names such as "Order of a Customer" or "Credit Suisse."

When the district attorney's office subpoenaed the European banks and obtained the wire transfer instructions, pieces of the puzzle began to fit together. References to Bank Melli had been scrubbed from the transfer. That signaled to the district attorney's office that the banks purposely had helped conceal the ties to Bank Melli.

By 2007, the district attorney's probe was overlapping in part with a Justice Department inquiry focused on Credit Suisse. A unit of the bank was using code names to conceal securities trading through a New York office and other brokerages on behalf of financial firms in Sudan and Libya.

By late 2008, Mr. Arusy's initial work on the Alavi Foundation was paying off. Information given by the district attorney's office to the U.S. Attorney in Manhattan helped provide evidence tying together the Alavi Foundation, Bank Melli and the Iranian government.

In December 2008, prosecutors sought the forfeiture of a 40% stake in the 36-story, 650 Fifth Ave. building, alleging that Bank Melli had disguised owning its stake in the building through a company called Assa Corp. Then in November 2009, federal prosecutors stepped up the probe, moving for the forfeiture of a 60% stake in the 650 Fifth Ave. building owned by the Alavi Foundation as well as properties in New York, California, Texas, Virginia and Maryland.

The wire-stripping case, meanwhile, was operating on a different track and also yielding information. In January 2009, Lloyds became the first of the three European banks to agree to a fine and forfeiture. Credit Suisse followed last December, and Barclays settled last month.

"If you want other banks to be caught, you need to have innovative ways to conduct investigations," Mr. Arusy says.

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