

بسم الله الرحمن الرحيم

Republic of Iraq
Board of Supreme Audit
BSA Head Office
Ref: 1/1 /15/ 1884

جمهورية العراق
ديوان الرقابة المالية
مكتب رئيس الديوان
الرقم: 1884/15/1/1

Date:

التاريخ: 2010/2/14
14.02.2010

To,
Ministry of Foreign Affairs,
Office of the Minister

Sub. Post – DFI mechanism

Dear Sir,

In light of considering the Central Bank of Iraq (CBI) proposal for post – DFI mechanism, which agrees in principle with the proposal of the Board of Supreme Audit (BSA), to keep the Iraqi accounts in the FRBNY. BSA proposal was submitted three weeks ago, to the ministerial committee headed by Deputy Prime Minister Dr. Rouj Noori Shawes and handed a copy to the acting Governor of CBI, who participated in the meeting at that time. We have the following points on the CBI proposal:

1. We consider the necessity of opining a sub account of the CBI's proposed account in order to transfer the compensation funds.
2. The CBI's proposal ignored the IAMB recommendations for the last two years and its press release issued on February 08, 2010, which included that COFE will be the successor of the IAMB, and it will select the international firm to audit the DFI accounts and in the same mechanism applied currently by IAMB.
3. The main problem in implementing any of each proposal is to what extent each can guarantee the immunity for the Iraqi funds, in the shadow of carry on working without settlement of the claims of others against Iraq. In the same time, the CBI did not present a confirmation, which state that just depositing the funds under its name is sufficient to guarantee the immunity and protection for the Iraqi funds.

We think, once again, that there must be continues meeting between the CBI and the Ministry of Finance to articulate a post – DFI detailed mechanism, that will be exposed in its final form to the specialized committees, for this situation must be settled, as we think, before early next month, because we expect that the governmental entities will be busy

with the elections, while the United Nations requests the opinion on successor arrangements by March 15, 2010, and the reports of the Government of Iraq and the UN Secretary General must be submitted before April 01, this year.

4. Based on what was mentioned above, the timeline stated in the CBI proposal needs to be revised. Further, there is a need for more communications with the FRBNY to ascertain the readiness to provide immunity to the funds and to document the other Central Banks agreements to provide protection when Iraqi funds in different currencies are deposited therewith.

We still think that it is more useful to change the name of the DFI to Iraq Fund (IF) to ensure departure from previous correspondences, and to establish more independent management as compared to the previous international arrangement.

As we mentioned before, the proposal needs more consideration and detail, and we still reiterate that the proposal needs a joint consideration, hoping that it will not take long time and causes embarrassment for the government of Iraq towards the timeline of the UNSCR 1905 (2009).

Please accept my regards. Find attached a copy of the BSA proposal submitted to the ministerial committee on Jan.21, 2010.

Note: Please direct to circulate this letter to the committee members... with respect.

Dr. Abdul Basit Turki Saeed
Head of BSA
14.02.2010

Cc:

- Ministry of Finance – Office of the Minister/ Please be informed ... with respect
- Central Bank of Iraq – Office of the Governor/ Please be informed ... with respect
- Committee of Financial Experts/ Please inform the Committee members and post it on COFE website

بسم الله الرحمن الرحيم

Republic of Iraq
Board of Supreme Audit
BSA Head Office
Ref: 1/1 /3/ 877

جمهورية العراق
ديوان الرقابة المالية
مكتب رئيس الديوان
الرقم: 877/3/1/1

Date:

التاريخ: 2010/1/21

21.01.2010

To,

**H.E. Deputy Prime Minister Dr. Rouj Noori Shawes,
Members of the ministerial committee in charged with
place a post – DFI mechanism**

Sub. Alternative proposal

Dear Sirs,

Find below our alternative proposal for DFI when it will end starting from 01.01.2011. We suggest exposing it for discussion to enrich its technical aspects, if you consider appropriate.

We would like to mention that this proposal is provisional and transitional action until the Iraqi circumstances and its relationship with the international community return to normal, where its funds will be deposited in the accounts of the Ministry of Finance in the Central Bank of Iraq.

The proposal

Starting from 01.01.2011, the following procedures will be adopted:

- I. Opening an account for the Central Bank of Iraq (CBI) with the Federal Reserve Bank in New York (FRBNY) under the name of Iraq Fund 1, where all oil export sales proceeds will be deposited exclusively.
- II. Opening an account for the CBI with the FRBNY under the name of Iraq Fund 2 (Escrow account) where 5% from "Iraq Fund 1" will be automatically transferred (or any further amended percentage under UNSCR), the accumulated balance will be transferred on monthly basis in accordance with the account opening provisions.
- III. As for the authorities of moving the balances in Iraq Fund 1, the current valid authorities will be adopted.
- IV. Any due amounts for Iraq other than oil export sales proceeds will be

- paid directly to the Ministry of Finance through its bank accounts.
- V. The cash flows of both above –mentioned accounts will be audited by internationally recognized audit firms in accordance with the procedures adopted by the IAMB and stated in COFE's terms of reference.
- VI. COFE will oversee both accounts and all IAMB oversight responsibilities on DFI will be transferred to COFE in respect of Iraq Fund 1. This oversight will be in accordance with COFE terms of reference approved by the Council of Ministers, including the assignment of the auditors, follow up their performance, consider the audit results, and follow up settlement of observations and qualifications that appear in the audit reports on both accounts.

A separate note

In case that the Government desires to request extension of immunity, all the above mentioned arrangements can be adopted in addition to the request of immunity extension for the funds deposited in Iraq Fund 1, instead of DFI, with the condition that all Iraqi revenues will be deposited in this account, in order to be covered by the immunity (frozen assets, UN oil for food program remaining balances, interests from deposits and investments).

Mr. President and members of the committee

It is obvious that for Iraq to return to normal it must settle two issues:

1. The sovereign debts.
2. The new claims

(Considering that the compensations approved by the UNCC will be paid as we suggested above).

Related to the sovereign debts, we think that it is appropriate, that the directorate of Public Debts, within the Ministry of Finance, submits an action plan with timeframe for settling those debts, bearing in mind that the plan and the timeframe will be subject to quarterly report to be presented to the UN Security Council, pursuant paragraph 5 of UNSCR 1905 (2009).

As for the new claims, the issue is related to the activeness and effectiveness of the political movement with the Security Council and the parties that have influence on its resolutions, but it is useful to give clear signs, that Iraq will seriously confront the compensations problem (although it is currently very critical from political point of view), and to profit from the Iraqi experience in identifying the debts in conformity of Paris Club. As well as settling the suspended contracts from the UN oil for Food program.

With due respect

Dr. Abdul Basit Turki Saeed
Head of BSA
21.01.2010