

UNITED AGAINST NUCLEAR IRAN

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President
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**Re: Lebanese Sovereign Backed Securities and Your Investment in
Lebanese Sovereign Bonds and Related Securities**

Dear Mr. Johnson and Mr. Strickland:

Thank you for your response to United Against Nuclear Iran's ("UANI") letter of June 8, 2012.

In the letter, as you recall, we called on Fidelity Investments and Fidelity Investments Canada Ltd. (collectively "Fidelity") to divest from all Lebanese sovereign bond and credit default swaps ("CDS"), showing that the value of these securities is based on a massive fraud, one that masks a money-laundering operation that not only permits Lebanon to portray a false image of economic stability but also supports terrorism by Hizballah and Iran. I further expressed UANI's belief that Banque du Liban ("BDL") and the Lebanese banking system ("LBS") meet the criteria for determination under Section 311 of the USA PATRIOT Act as a jurisdiction of primary money laundering concern that would result in their ban from the U.S. financial system.

In your response, you stated that the money you are investing is not Fidelity's own, and that you have both a duty to third party investors and a duty to comply with the law.

UANI believes that divesting from these securities is not only the ethical thing to do, but that continuing to hold these securities, given what you now know about them, would be a problematic position to take from a compliance and fiduciary perspective. Failure to divest from these securities could present an unjustifiable risk to Fidelity's reputation, its fiduciary duty to its fund investors, and possibly its efforts to comply with its regulatory obligations.

Ambassador Mark D. Wallace | Chief Executive Officer | MWallace@uani.com

Firstly, an investment in these securities is riskier than it would appear, which does a disservice to your investors. Second, your role in facilitating this investment perpetuates an unjustifiable veneer of respectability, masking BDL and LBS's true activities. Finally, because any investment in these securities facilitates money laundering operations and also shields the true financial health of the Lebanese economy from investors, a facilitating financial institution may subject itself to heightened legal and reputational risks and conflict with an investment adviser's anti money-laundering diligence responsibilities.

1. Failing to divest from these securities cannot be justified on an economic or fiduciary basis.

Maintaining an investment in these Lebanese securities is not in the financial interest of Fidelity's clients or fund investors. We have already demonstrated that, considering the state of Lebanon's economy, the risk inherent in this investment is much higher than its yield would indicate. Government debt secured by other high-risk economies pays a higher yield and does not present the additional risk that comes from investing in a government that supports terrorism. Therefore, putting ethical issues to one side, these securities are simply a bad investment.

A registered investment adviser has a fundamental duty to disclose such risks to its investors. Given what you now know about the risks inherent in these securities, have you disclosed this to your investors? From a compliance perspective, your investors have a right to full disclosure of the potential losses involved in an investment in highly risky and fraudulently supported securities.¹

Because there can be no economic justification for the investment given the facts that UANI has disclosed, divestment is the only rational choice for a fiduciary. Indeed, we are aware of at least one bank that has unilaterally divested from Lebanese securities as a result of UANI's analysis.

2. Investing in these securities presents a reputational risk to Fidelity.

By making this investment, you are staking your own prestige and reputation, without further diligence, on what we believe are fraudulent securities, which support an Iran/Hizballah-funded money laundering operation. Indeed, this fraud could not continue at its current level without the involvement of legitimate financial institutions like Fidelity. We have no doubt that Fidelity initially made this investment without awareness of the fraud. However, now you know.

While divesting is the right thing to do on an ethical level, it is also in Fidelity's self-interest to divest given the risks to its reputation from this type of investment. Beyond the reputational damage caused by unfavorable publicity, it would likely damage your relationship with investors, many of whom, we suspect, would be disappointed to learn about the implications of this investment.

¹ See, e.g., *Fiduciary Duty: Return to First Principles*, Speech by Lori A. Richards, Director, Office of Compliance Inspections and Examinations (SEC, Feb. 27, 2006), citing *S.E.C. v. Capital Gains Research Bureau*, 375 U.S. 180 (1963).

Thus, even if you were correct that this investment is consistent with your fiduciary duty to investors and United States law, it would nevertheless be a matter that should be disclosed to investors. Those investors who do not want to risk the possibility that their savings will be used to support terrorism may “vote with their feet” and redeem their investment from your fund.

3. Regulators would likely demand heightened scrutiny of this investment.

Finally, up to this point, UANI has assumed for the sake of argument that your investment is legal. And, indeed, your letter seems to argue that unless Congress specifically prohibits this investment, it is permissible. However, given demonstrable “red flags” with respect to securities fraud, money laundering and terrorism financing, we believe that regulators would require enhanced scrutiny of this investment. Indeed, in a broad array of situations, any financial institution, including a large investment adviser such as Fidelity, has a duty to identify transactions and investments that pose an enhanced legal or reputational risk to the institution. This may include transactions that lack economic substance, or that may be designed to permit the issuer to make materially misleading disclosures.² Furthermore, as you know, a mutual fund must develop a risk assessment of its business designed to prevent money laundering activities not only with respect to its investors, but also the transactions in which it engages.³

We feel certain that your enhanced due diligence would confirm our concerns and mandate divestment on your part.

I hope that this has been helpful to you as you examine this issue. Please let me know if you would like to discuss.

Please let us hear from you concerning your decision to divest from Lebanese sovereign backed securities.

Thank you for your immediate attention to this matter.

Very truly yours,



Ambassador Mark D. Wallace

² Interagency Statement on Sound Practices Concerning Elevated Risk Complex Structured Finance Activities (SEC, *et al.*, Jan. 2007).

³ 31 C.F.R. 103.130(c) (requiring the establishment and implementation of “policies, procedures, and internal controls reasonably designed to prevent [] mutual fund[s] from being used for money laundering or the financing of terrorist activities”). *See also* Anti-Money Laundering (AML) Source Tool for Mutual Funds (SEC, Jan. 14, 2010).

cc: The Honorable David Cohen
Under Secretary for Terrorism and Financial Intelligence
U.S. Department of the Treasury

The Honorable Preet Bharara
U.S. Attorney
Southern District of New York

The Honorable Mary Schapiro
Chairman
Securities and Exchange Commission

The Honorable Jeffrey Feltman
Assistant Secretary of State for Near Eastern Affairs
Bureau of Near Eastern Affairs, U.S. Department of State

Riad Salamé
Governor
Banque du Liban