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U.S. Warns of Illicit Finance Risks Emanating from Iran

The U.S. Treasury Department is attempting to persuade foreign firms to reject business with Iran based on terrorist financing and other risks in the wake of the President’s May 8, 2018 announcement that the United States was withdrawing from the Joint Comprehensive Plan of Action (JCPOA). As part of this effort, the Treasury has accelerated the targeting of Iranian-related parties and interests through various sanctions programs.

Since the President’s announcement, the Treasury Department has rolled out seven sets of Iran-related designations that align with the strategy that the U.S. Secretary of State outlined in a May 21, 2018 speech.¹ Some of these designations have been announced jointly with other countries in the Middle East, suggesting an attempt to galvanize economic diplomacy against Iran along with broader identification and application of targeted sanctions in the region. Together, the designations and the Secretary of State’s speech suggest a comprehensive and long U.S. campaign to isolate Iran from the international financial system, with particular focus on the Islamic Revolutionary Guard Corps (IRGC). Although the designations happened after the President’s announcement, none of the designations would have violated the letter of U.S. commitments under the JCPOA.

- ▶ Treasury is aggressively highlighting terrorist financing risks associated with Iran. On May 15, 2018, Treasury sanctioned the governor of the Central Bank of Iran (CBI) for “covertly funnel[ing] millions of dollars on behalf of the IRGC-QF.”² Treasury also designated a senior staff officer of the CBI for assisting the IRGC-QF. On May 16, 2018, the Treasury Department—in partnership with Saudi Arabia, Bahrain, Kuwait, Oman, Qatar, and the United Arab Emirates—imposed new sanctions on leaders of Hizballah, an Iranian proxy.³
- ▶ The designations illustrate that Iran-related sanctions risks extend outside of Iran’s borders. Treasury has explicitly warned that “extreme due diligence” is required in the Middle East because Iran exploits financial systems in the region to support the Huthis in Yemen.⁴ Since May 10, Treasury has designated front companies in the United Arab Emirates,⁵ an Iraqi bank and its chairman,⁶ companies in Belgium, Gambia, Lebanon,⁷ and Turkish individuals and entities.⁸ Treasury collaborated with authorities in the United Arab Emirates on the first set of actions.
- ▶ Treasury has also targeted Iranian human rights abuses and censorship,



including the use of technology that facilitates monitoring or tracking of Iranian citizens.⁹ In addition, countries and companies have been warned not to grant landing rights or provide aviation services to airlines and aircraft designated for their roles in supplying the Syrian government and Hizballah.¹⁰

These sanctions, coupled with “roadshows,”¹¹ echo the campaign that Treasury initiated in 2006¹² to highlight the reputational and legal risks of doing business in Iran. The earlier campaign mobilized the private sector to withdraw from Iran on the basis of risk, independent of decisions made by companies’ home governments about whether to support U.S. sanctions targeting Iran, and it was followed by enforcement actions, including against foreign firms.¹³

The enforcement actions targeted financial institutions as well as firms in other

U.S. Demands of Iran

On May 21, 2018, the U.S. Secretary of State made 12 demands of Iran.¹⁹ Future sanctions actions are likely to target people and entities supporting activities covered by the 12 demands.

- **Military dimensions of the nuclear program:** Declare to the IAEA a full account of the prior military dimensions of its nuclear program, and permanently and verifiably abandon such work in perpetuity.
- **Enrichment:** Stop enrichment and never pursue plutonium reprocessing. This includes closing Iran’s heavy water reactor.
- **Inspector access:** Provide the IAEA with unqualified access to all sites throughout Iran.
- **Ballistic missiles:** End proliferation of ballistic missiles and halt further launching or development of nuclear-capable missile systems.
- **Detained U.S. citizens:** Release all U.S. citizens, as well as citizens of U.S. partners and allies, each of them detained on spurious charges.
- **Support for terrorist groups:** End support to Middle East terrorist groups, including Lebanese Hizballah, Hamas, and the Palestinian Islamic Jihad.
- **Intervention in Iraq:** Respect the sovereignty of the Iraqi Government and permit the disarming, demobilization, and reintegration of Shia militias.
- **Intervention in Yemen:** End military support for the Houthi militia and work towards a peaceful political settlement in Yemen.
- **Intervention in Syria:** Withdraw all forces under Iranian command throughout the entirety of Syria.
- **Support for Taliban and al-Qaida:** End support for the Taliban and other terrorists in Afghanistan and the region, and cease harboring senior al-Qaida leaders.
- **Support for other terrorists:** End the IRGC Qods Force’s support for terrorists and militant partners around the world.
- **Threats to neighbors:** End threatening behavior against its neighbors.



industries and paid special attention to failures to self-report apparent violations, deficiencies in record keeping, and efforts to mislead investigators. It is likely that the United States will pursue enforcement actions vigorously and in various sectors when it detects similar conduct.

- ▶ **Financial institution:** In December 2009, Credit Suisse settled with Treasury's Office of Foreign Assets Control (OFAC) for \$536 million. From 2003 to 2006, Credit Suisse processed 4,775 electronic funds transfers in the aggregate amount of \$480 million through financial institutions located in the United States to the benefit of the Government of Iran and/or persons in Iran, including various Iranian financial institutions, violating the prohibition against the exportation from the United States of any services to Iran or the Government of Iran.¹⁴
- ▶ **Shipping company:** In August 2009, OFAC and the U.S. Department of Commerce's Bureau of Industry and Security reached a settlement with shipping company DHL. The company agreed to pay \$9.4 million after allegedly making more than 300 shipments to Iran and Sudan from 2002 to 2007 in violation of the Iranian Transactions Regulations and the Sudanese Sanctions Regulations.¹⁵
- ▶ **Aircraft exporter:** In February 2010, Balli Aviation agreed to pay \$15 million in fines to U.S. government agencies including OFAC. Through its subsidiaries, Balli Aviation purchased three U.S.-origin commercial aircraft with financing obtained from an Iranian airline and caused these aircraft to be exported to Iran without obtaining the required U.S. government licenses. Further, Balli Aviation entered into lease arrangements that permitted the Iranian airline to use the U.S.-origin aircraft for flights in and out of Iran.¹⁶

On June 5, 2018, the Under Secretary of the Treasury for Terrorism and Financial Intelligence urged the private sector to "do more to make sure your compliance programs are airtight."¹⁷ She noted that the Financial Action Task Force remains concerned about Iran's failure to address the majority of its anti-money laundering/combating the financing of terrorism (AML/CFT) action plan requirements. Iran, for its part, has halted efforts to accede to the International Convention for the Suppression of Financing of Terrorism in the face of growing opposition in Tehran.¹⁸

Thus, the real and regulatory risks related to Iran-related sanctions enforcement and illicit finance will increase in the coming months. It will be incumbent on regulated entities to ensure they are accounting rigorously for direct and indirect risks stemming from Iranian commercial and financial activity.



Endnotes

- 1 U.S. State Department, "After the Deal: A New Iran Strategy," May 21, 2018, <https://www.state.gov/secretary/remarks/2018/05/282301.htm>.
- 2 U.S. Treasury Department, "Treasury Targets Iran's Central Bank Governor and an Iraqi Bank Moving Millions of Dollars for IRGC-Qods Force," May 15, 2018, <https://home.treasury.gov/news/press-releases/sm0385>.
- 3 See, for example, U.S. Treasury Department, "Treasury and the Terrorist Financing Targeting Center Partner Together to Sanction Hizballah's Senior Leadership," May 16, 2018, <https://home.treasury.gov/news/press-releases/sm0387> and U.S. Treasury Department, "Treasury Targets Key Hizballah Financing Network and Iranian Conduit," May 17, 2018, <https://home.treasury.gov/news/press-releases/sm0388>.
- 4 U.S. Treasury Department, "Treasury Targets Iranian Individuals Providing Ballistic Missile Support to Yemen's Huthis," May 22, 2018, <https://home.treasury.gov/news/press-releases/sm0392>.
- 5 U.S. Treasury Department, "United States and United Arab Emirates Disrupt Large Scale Currency Exchange Network Transferring Millions of Dollars to the IRGC-QF," May 10, 2018, <https://home.treasury.gov/news/press-releases/sm0383>.
- 6 U.S. Treasury Department, "Treasury Targets Iran's Central Bank Governor and an Iraqi Bank Moving Millions of Dollars for IRGC-Qods Force," May 15, 2018, <https://home.treasury.gov/news/press-releases/sm0385>.
- 7 U.S. Treasury Department, "Treasury Targets Key Hizballah Financing Network and Iranian Conduit," May 17, 2018, <https://home.treasury.gov/news/press-releases/sm0388>.
- 8 U.S. Treasury Department, "Treasury Targets Procurement Networks and 31 Aircraft Associated with Mahan Air and Other Designated Iranian Airlines," May 24, 2018, <https://home.treasury.gov/news/press-releases/sm0395>.
- 9 U.S. Treasury Department, "Treasury Targets Human Rights Abuses, Censorship, and Enhanced Monitoring by the Iranian Government," May 30, 2018, <https://home.treasury.gov/news/press-releases/sm0397>.
- 10 U.S. Treasury Department, "Treasury Targets Procurement Networks and 31 Aircraft Associated with Mahan Air and Other Designated Iranian Airlines," May 24, 2018, <https://home.treasury.gov/news/press-releases/sm0395>.
- 11 John Irish, Arshad Mohammed, and Robin Emmott, "U.S. officials on roadshow to cut Iran investment, trade – sources," *Reuters*, June 6, 2018, <https://uk.reuters.com/article/uk-iran-nuclear-usa/u-s-officials-on-roadshow-to-cut-iran-investment-trade-sources-idUKKCN1J22BA>.
- 12 See Juan Zarate, *Treasury's War: The Unleashing of a New Era of Financial Warfare*, New York: PublicAffairs (2015) and New York Times, "Stuart Levey's War," Oct. 31, 2008, <https://www.nytimes.com/2008/11/02/magazine/02IRAN-t.html>.
- 13 New York Times, "Stuart Levey's War," Oct. 31, 2008, <https://www.nytimes.com/2008/11/02/magazine/02IRAN-t.html>.
- 14 U.S. Treasury Department, "Settlement Agreement," December 16, 2009, <https://www.treasury.gov/resource-center/sanctions/OFAC-Enforcement/Documents/12162009.pdf>.
- 15 U.S. Treasury Department, "U.S. Treasury and Commerce Departments Announce \$9.4 Million Settlement with DHL," August 6, 2009, <https://www.treasury.gov/press-center/press-releases/Pages/tg259.aspx>.
- 16 U.S. Department of Justice, "U.K. Firm Pleads Guilty to Illegally Exporting Boeing 747 Aircraft to Iran," February 5, 2010, <https://www.justice.gov/opa/pr/uk-firm-pleads-guilty-illegally-exporting-boeing-747-aircraft-iran>.
- 17 U.S. Department of Justice, "U.K. Firm Pleads Guilty to Illegally Exporting Boeing 747 Aircraft to Iran," February 5, 2010, <https://www.justice.gov/opa/pr/uk-firm-pleads-guilty-illegally-exporting-boeing-747-aircraft-iran>.
- 18 Dominic Dudley, "Iran Steps Back From Introducing Antiterrorism Finance Rules As Fresh U.S. Sanctions Loom," *Forbes*, June 13, 2018, <https://www.forbes.com/sites/dominicdudley/2018/06/12/iran-anti-terrorism-finance-rules/#67a03f25f93d>.
- 19 U.S. State Department, "After the Deal: A New Iran Strategy," May 21, 2018, <https://www.state.gov/secretary/remarks/2018/05/282301.htm>.