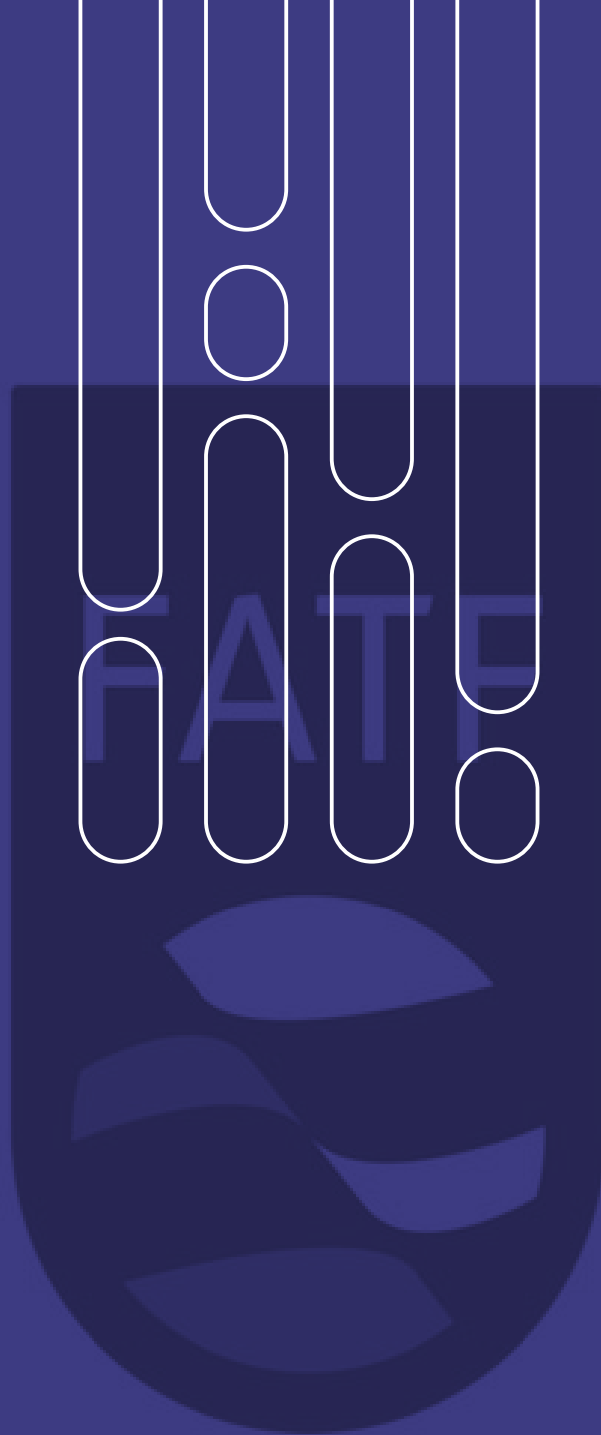


14 Apr. 2020

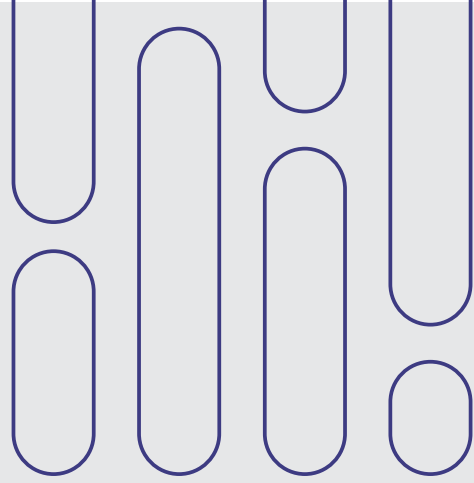


Report

CONSEQUENCES OF IRAN'S RETURN TO THE FATF BLACKLIST



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Contents

I- The Iranian Government's Position in Support of Approving the Regulations	7
II-Why Do the Hardliners Reject Iran's Accession to the FATF?	9
III. The Economic Consequences of Placing Iran on the FATF Blacklist	11
Conclusion.....	13

Ever since the signing of the landmark 2015 nuclear deal with the P 5+1 group, the Iranian government has made massive efforts to be removed from the Financial Action Task Force's (FATF) blacklist in order to take advantage of its financial privileges. The FATF is a technocratic anti-money laundering (AML) and counter-terrorist financing (CFT) organization. In light of the compromises and positive initiatives that Iran made in order to get a satisfactory nuclear deal, the FATF decided in 2016 to temporarily remove the country from its blacklist, in the hope that this would encourage Iran to accept its regulations related to combating financial crimes.

However, the Iranian government's desire to engage with the international community and abide by its laws faltered due to the hardline position of the ruling Guardian Council, which refused to approve the regulations despite them being approved by Parliament. The council insisted that the FATF laws are against the principles of Islamic Sharia and the Iranian Constitution. Due to this disagreement, the matter was referred to the Expediency Discernment Council, which is tasked with resolving differences between the Parliament and the Guardian Council amongst its other duties. Despite this, the differences have dragged on as the Expediency Discernment Council has failed to resolve them.

Whilst the Iranian Parliament's approval of the FATF regulations would not mean resolving all the banking and economic

problems faced by Iran, it would facilitate the country's financial transactions with other countries. It would also improve Iran's woeful record related to financing terrorism and money laundering, not to mention averting additional FATF sanctions considering the sanctions imposed on Iran by the United States.

As for the international community, Iran's implementation of international financial standards would mean that financial transactions and accounts, even inside Iran, would be subject to international oversight.

This would require the Iranian government to adopt a policy of transparency when conducting financial transactions, which is desired by the international community.

Iran's accession to treaties on combating money laundering and terrorist financing would place it under the scrutiny of the international monetary and financial system and would help the United States in exposing Iran's efforts to circumvent the sanctions imposed on it.

Due to the ongoing division among Iran's institutions concerning the laws on combating terrorist financing and money laundering, the FATF gave Iran's government several extensions to the period required to pass legislation in order to comply with the organization. Before the last grace period, which expired last February, the FATF expressly warned that it would reimpose countermeasures against Iran such as enhancing

relevant reporting mechanisms for financial transactions and increasing audit requirements for branches or subsidiaries of foreign financial institutions operating in Iran. Keeping Iran on the blacklist of countries financing terrorism harms Iranian assets in foreign banks, as these banks could suspend financial dealings with Iranian banks and financial institutions in case the regulations related to combating the financing of terrorism and money laundering are not approved by next October.

I. The Iranian Government's Position in Support of Approving the Regulations



As a result of the US sanctions imposed on it, the Iranian government sought to convince European countries that it is necessary to allow European firms to continue trade dealings with Tehran. The European countries, especially Germany and France, insisted, however, that acceding to the two FATF treaties is the primary condition for rendering the European financial channel with Iran effective.

Over the past year, Iranian President Hassan Rouhani has warned repeatedly of the consequences of not approving the two treaties, saying that Iran's ability to develop banking ties with other countries depends on the approval of the Expediency Discernment Council. He also refused to blame the government for the downward trajectory of the economic situation or for any future sanctions which could hit Iranian banks.

The Iranian Deputy Foreign Minister for Economic Affairs Gholam-Reza Ansari warned against not approving the FATF regulations on combating money laundering and countering terrorism, saying non-approval would be a 'mercy shot' to the banking sector, which has been severely impacted by the US sanctions.

Despite these warnings, radicals within the Iranian leadership continued to refuse to approve the regulations and the last grace period granted to Tehran expired without moving a single step forward in this direction.

As a result, during its regular meeting held on February 21, 2020 in the French capital Paris, the FATF decided to place Iran on its blacklist due to Tehran's failure to abide by its regulations on combating terrorist financing. In addition, the FATF decided to end the 2016 temporary suspension of all sanctions imposed on Iran and reinstated the sanctions.

It also called on all member states to effectively implement these sanctions.

By placing Iran on the FATF blacklist, Iran's hardliners have compounded the problems facing the government, aborting all the efforts made by the government in recent years to find a way out of the economic pressures placed on Iran.

II. Why Do the Hardliners Reject Iran's

Accession to the FATF?



Those opposed to Iran's accession to the FATF believe that the FATF regulations are contrary to the principles of Islamic Sharia and the Iranian Constitution. More pragmatically, they fear that approving such laws could open the door to holding Iran accountable at the international level due to its support for groups classified as terrorist organizations such as Hezbollah in Lebanon and the Houthis in Yemen.

Also, Iran's approval of the FATF regulations would lead to strict controls being placed on the suspected activities of the IRGC, which include cross-border organized crime such as money laundering and supporting terrorist groups.

Additionally, many influential figures in Iran benefit from the financial volatility and the lack of transparency currently prevailing in the country, with these conditions offering them a golden opportunity to increase their fortunes; signing up to the FATF regulations would definitely not be in their favor.

Some of the hardliners who reject the treaties have an ideological mindset and give precedence to ideological interests over national ones. Others, meanwhile, raised different arguments for not approving the FATF regulations, such as defending na-

tional sovereignty, resisting Western hegemony or withstanding possible restrictions imposed on Iran after approving the FATF regulations.

Extremists within the Iranian political system also believe that the FATF uses US standards in its laws and as criteria for its work, which, for them, means that approving the FATF regulations indicates an indirect implementation of US laws and the US Constitution.

Opponents of the treaties insist that Iran has made no gains from its 2015 nuclear deal with the P5+1 because the Western parties which signed it, especially the United States, did not abide by it. Therefore, they argue, Iran should not engage in any new commitment with Western powers.

There is also another justification given, namely that if Iran joins the FATF, it will be obliged to disclose all the bank accounts of all officials included in the US sanctions. Given that Iran is now subject to sanctions by the US administration and faces enormous difficulties in meeting the needs of its people, and that Iranian businessmen cannot use official banks to circumvent sanctions, prompting them to circumvent these via unofficial channels, approving this agreement would compel Iran to abide by US sanctions and disclose all the businessmen currently circumventing them.

III. The Economic Consequences of Placing

Iran on the FATF Blacklist



The Governor of the Central Bank of Iran Abdolnaser Hemmati has always called for the FATF regulations to be approved in order to avert the dangerous consequences that could hit Iranian banks and different financial institutions in case Iran returns to the FATF blacklist.

After the FATF decision in February, he reversed his position, however, and called on Iran not to worry about acceding to the FATF blacklist under the pretext that Iran had managed in recent years to forge a strong network of relations outside the general framework of the FATF.

The angry Iranian reactions after Iran was placed on the blacklist and the government 's continuous warnings against rejecting the FATF regulations prove, however, that Hemmati's remarks are nothing but a feeble attempt by the Iranian leadership to play down the importance of the FATF decision and avoid responsibility for the disastrous economic consequences, which may be starkly manifested in the upcoming period. There is no doubt that the FATF's blacklisting of Iran will add insult to the already serious injuries facing the Iranian economy. It will also lead to more global financial institutions ending

their dealings with Iranian banks, and national firms suspending their economic activities overseas as well as probably leading to overseas investments plummeting to zero.

The decision may also prompt countries which enjoy good ties with Iran, such as China, to abstain from conducting dealings with it, with Beijing already having warned the Iranian government previously that it would no longer be able to conduct any banking transactions with Iran in the case of its failure to approve the FATF regulations.

Furthermore, Tehran may be subject to new financial sanctions in addition to the current US sanctions, including restrictions imposed on the financial links of other companies with Iranian companies, further investigations into the financial transactions of Iranian companies, and the submission of reports on Iran's financial transactions to the FATF. This is in addition to preventing the establishment of new branches of Iranian banks overseas.

In light of this situation and the decline in the government's sources of income due to sanctions, the budget deficit, and declining foreign trade and oil sales, the Iranian government may be prompted to take series measures such as increasing the prices of government services, raising taxes and increasing fuel prices, all of which are likely to add to public anger.

Conclusion



In view of Iran's reinstatement on the FATF blacklist and the continuing months-long divisions among Iran's institutions over the FATF regulations, it remains unclear whether the country will be prompted in the end to approve the FATF regulations.

The indicators suggest, however, that in light of US sanctions, the suspension of cooperation between Iranian and international banks, the imposition of sanctions on vital sectors such as oil, petrochemicals and mines, and Iran's use of some mechanisms to circumvent sanctions, it is unlikely that Iran, even in the short run, will approve the FATF regulations on combating the financing of terrorism and money laundering.

The prospect of Iran's continued refusal to comply with the requirements of the FATF is based on the hardliners' argument that Iran's accession to the FATF treaties will not make any difference under the current US sanctions.



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