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**The implementation of FATF recommendations in Iran  
Trends and Challenges**

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## **Abstract**

Today, Money Laundering has become one of the controversial issues in criminal law and political affairs of most countries of the world, especially in developing countries. Indeed, it is an organized and transnational crime which represents somehow part of the unhealthy economic system of that country. On the other hand, Terrorism and its financing is one of the main threats to society and has been criminalized according to anti-terrorism laws in most countries around the world. In the modern era of globalization and improved technology, terrorism has expanded beyond national and regional boundaries, posing a threat to international peace and security. Generally speaking, Terrorist financing refers to the process of providing funds or financial support to individuals, groups, or organizations engaged in terrorism or terrorist activities. It involves the transfer of money, assets, or other resources with the intention of facilitating acts of terrorism, including planning, preparing, or carrying out attacks.

The Financial Action Task Force (FATF) has established in 1989 as one of the solutions to fight money laundering and terrorist financing as a response to growing concerns about these issues. It published 40 recommendations on money laundering and nine on terrorism financing (expanded after the 11 September terrorist attacks on the World Trade Center towers in New York in 2001).

In this article, we are going to illustrate the implementation of the FATF recommendations in Iran as one of the developing countries which was blacklisted in 2009 in line with the start of sanctions in relation to its unclear activities. our investigation consists of three main building blocks. in the first chapter we examine the role of the FATF recommendations in the global Anti-Money Laundering/Countering the Financing of Terrorism system. Then, we consider the AML/CFT System in Iran in the second chapter. At the end of this chapter, it will be illustrated a list of Iranian anti-money laundering laws and regulations in preventing and combating money laundering. And eventually, since the banks provide the best ground for money laundering the comparison between obligations of financial institutions according to the FATF recommendations and obligations according to the Iranian Anti Money Laundering law are considered. finally, in the third chapter, we proceed with Challenges in implementation of the FATF recommendations in Iran.

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## **Chapter one:**

# **The role of FATF Recommendations in the Global AML/CFT System**

## **Introduction:**

The history of Money laundering dates back to ancient times. Money laundering was first seen by concealing personal property and assets from state officials to refuse to pay taxes or confiscate property. In China, around 2000 B.C., merchants might hide their property from rulers who took their property from them and exiled them. In addition to concealing the property, they could have moved it to a remote state in China and invested in a business. Moreover, there are examples of concealment of assets or the movement of wealth among political and economic power-holders throughout history, each of which corresponds to today's definitions of money laundering.

According to the UN Vienna 1988 Convention Article 3.1 Money laundering is: “The conversion or transfer of property, knowing that such property is derived from any offense(s), for the purpose of concealing or disguising the illicit origin of the property or of assisting any person who is involved in such offense(s) to evade the legal consequences of his actions”. To put it more simply, the purpose of money laundering is to make the source and cause of the income unknown. To understand the cause of earning money is legitimate or not depends on the laws and regulations of a country. In other words, in a country, it may permissible to make money through alcoholic drinks, but the sale of heroin is illegal. On the other side of the world, both of these businesses may be illegitimate. In addition, the way to hide money can be very different. Depending on knowledge and experience, as well as the creativity of the money launderer, countless models can be considered for it. For example, In the 1930s, along with the ban on the sale of alcohol in the United States, Al Capone, a famous gangster, bought a large number of coin laundry and since their financial flows were not completely measurable and controllable, he brought dirty money from their illegal activities into the wheel of the official economy in the name of the proceeds of these public laundries. So, the term money laundering is derived from this process.

Through money laundering operations, criminals avoid drawing the attention of law enforcement and complicate the process by which investigators link money flows to the offenses that led to the creation of assets and financial resources. Money launderers conceal the illicit sources of monies through financial transfers, front businesses, and other business ventures. Because of this, criminals can spend the money they make from trafficking in drugs or other illicit activities without worrying as much about being arrested or having their assets seized.

By looking at the money laundering process, we find that there are three stages in money laundering process:

- Importing dirty and illegitimate money into the financial and banking systems known as Placement
- Hiding the origin of illegitimate sums with sophisticated techniques known as Layering, and
- Spending money on ordinary tasks is known as Integration

## A TYPICAL MONEY LAUNDERING SCHEME

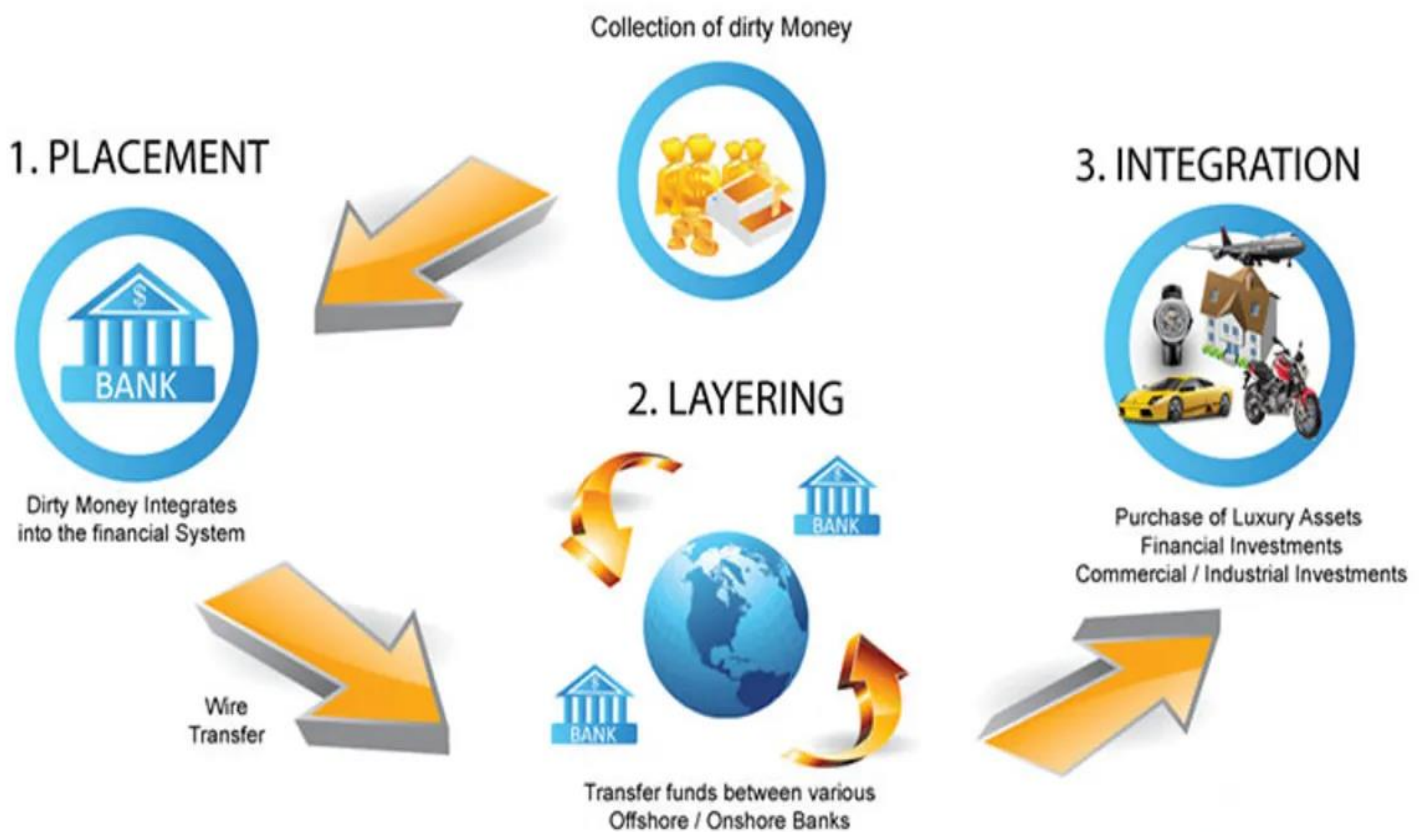


Image 1: taken from Internet



Money laundering has some features such as:

- Money laundering is a secondary crime, i.e. money laundering always happens after the original crime, which mainly earns a lot of cash, whether the primary crime is financial or non-financial.
- Money laundering is a transnational crime, meaning that not only in the country where the original crime was committed, but also the destructive and harmful consequences of money laundering affect the economies of other countries and the international community.
- In most cases, money laundering is an organized crime; in an organized crime, illegal activities are carried out by criminal groups who, having coherent organizations with special characteristics, commit crimes for financial gain or power by colluding with each other, and use any criminal means to achieve the goal.
- Money laundering is such a crime which criminals for their illegal operations usually use people who have high financial and professional credentials to avoid arousing any kind of suspicion and questioning.

## **1.1 Types of money laundering**

Money laundering is a phenomenon that is not always restricted to the proceeds of illicit actions that take place in that country. In fact, it is possible that money earned through illegal activity in one country is moved to the other country and used there. As a result, the portion of the proceeds of crimes committed in an assumed country that are removed from it and used to launder money in other countries should also be included in the concept of money laundering. Using this method, the following four distinct forms of money laundering can be identified:

- Internal money laundering: is the process of laundering illicit funds collected through illegal activity inside a country and then cleaned there as well.
- Exported money laundering: Money obtained through illicit activities inside a country and cleansed outside of it is referred to as exported money laundering.
- Incoming money laundering: includes dirty money obtained from criminal activities carried out in other parts of the world that are washed inside an assumed country.
- External money laundering is the term used to describe illicit funds earned through criminal activity conducted in other countries and then laundered overseas.

## 1.2 Money laundering methods

Money laundering techniques have evolved over the past few decades as a result of the growth of financial services and products, the intricacy of financial communications, technological advancements, and the acceleration of global money movements. However, generally speaking, the mode of ML can be divided into three categories: banking, non-banking financial institutions, and non-financial economic institutions or activities. In any method, money laundering can be done in different ways. Including:

### 1.2.1 Forms of money laundering through the banking system:

- Depositing significant amounts and transferring deposits
- Opening a bank account with fake names
- Opening shared accounts with family members and friends
- Use of traveler's checks
- Using telephone remittances, etc.
- Using collection accounts<sup>1</sup>
- Using the banks under the influence of the money-lauder
- Using the payable through accounts.<sup>2</sup>
- Use of correspondent bank & correspondent account<sup>3</sup>
- Using electronic accounts and internet banking;
- Using Loan back arrangements and obtaining a loan :In this method, illegal funds are sent to another country, and then they put it as collateral and bank guarantee for obtaining a loan and transfer the obtained loan to the country where the crime occurred. In this method, while illegal money is cleared, the possibility of tax exemptions is also provided, and
- Using financial and banking institutions

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1-Most immigrants to European and American countries transfer their money to their home country using the above accounts. Money launderers also use the above accounts to transfer funds between countries.

2-It is a checking account that foreign banks and companies open with an American bank and serve their foreign customers through the above accounts.

3-A correspondent bank is a bank abroad that acts as a representative on behalf of the main bank that does not have an office abroad. A correspondent account is an account that a bank or financial institution opens with a bank abroad and makes deposits in this account, as well as making payments through this account to its transaction parties abroad. The bank or financial institution opening the correspondent account can make financial transfers through this account in favor of another foreign financial organization

### **1.2.2 Forms of money laundering through non-banking financial institutions:**

- Buying and selling in the stock exchange
- Using exchange services, including sending currency funds and buying and exchanging currency
- The use of illegal underground banks, these institutions often provide illegal currency transfer services for Indian and East Asian immigrants
- Using insurance companies and funds and buying their products (buying bonds and shares of mutual insurance investment funds), and
- Using postal services, including: ordering money transfers or sending money packages by mail (money smuggling)

### **1.2.3 Forms of money laundering through non-financial institutions or economic activities:**

- Using the services of lawyers, accountants and financial consultants, official document offices, private detectives and trust offices
- Issuing false purchase and sale invoices, performing false transactions through fake cross-border companies, fake declaration of import and export of goods and services, commercial transactions through cross-border companies
- Using casinos, gambling houses and participating in the auction of antique and expensive goods
- Using real estate companies and buying and selling real estate
- buying and selling precious stones and jewels and expensive works of art
- use of metal stock exchange
- Using car companies and buying and selling expensive cars, and
- Using charities

### **1.3 Destructive effects of money laundering**

Money laundering is also known as an economic crime which has a significant negative impact on the economic growth and development of countries. Negative effects of money laundering include:

- **Economic instability:** This refers to the result of large sums of money obtained through illicit transactions (such as the purchase and sale of drugs, weapons, contraband, etc.) entering a market for purification, all at once and through various channels, as their entry can contribute to the prosperity of these markets; a single withdrawal of these funds from the aforementioned markets will also result in a drop in prices, a stalling of the markets, and an unstable economy.
- **Weakening of the private sector and privatization programs:** because large-scale fund owners from illicit operations use their money in a variety of transactions and economic activities with the sole purpose of clearing funds and not making a profit, therefore, in competition with economic private actors by setting low prices for their goods and services cause the weakening or bankruptcy of those private companies. Money laundering operations have disrupted the aforementioned programs in countries that have privatization programs. This is because of the substantial sums of money allocated for privatization, money launderers took advantage of this opportunity to purify their illicit funds and entered the programs as private buyers at one point. Later, they used the companies they had purchased as a means of implementing money laundering schemes, which made the programs more difficult to implement or less effective overall.
- **Reduction of governmental authority over economic matters, graft within the government apparatus, public mistrust, and tarnish of the reputation of political and financial establishments.**
- **Reduction in economic expansion:** Money laundering is one of the many activities that cause the financial sector's institutions, which are crucial for economic growth (particularly for developing nations), to deteriorate. This slows down economic growth by decreasing

productivity in the real sector due to inefficient resource allocation, promoting criminal activity, and encouraging administrative corruption.

- Destruction of the External Sector of the economy: Money laundering has the potential to drastically alter the composition of an economy's output, which in turn can have an impact on the economy's external sector (international commerce, capital flows, and exchange and interest rates), ultimately dominating economic development.
- Governments' shifting monetary and financial policies: The growth of money laundering in the majority of underground activities due to the lack of record in gross domestic product, will affect the economic policies because not having the correct statistics of the GDP will certainly change the monetary and financial policies of the governments.
- Reduction in government income: Reduced government revenue is another significant and detrimental result of money laundering, which indirectly affects those who honestly pay their taxes.
- Raising in government expenditures: Money laundering increases public sector costs. Costs related to creating a safe environment for the borders of the country, fighting drugs, rehabilitation of drug addicts, government costs related to courts and tribunals dealing with these crimes, criminal aspects and prisons, etc. are all considered as government costs in this field. Since money laundering causes market imbalances in terms of prices, inflation rates, bank interest rates and creating changes in the supply of money, etc., the government's compensatory decisions to pay the difference in bank interest rates, grant subsidies, increase costs, the expenses related to the increase of unemployment insurance, etc., are other expenses related to money laundering.
- Changing the direction of investments and capital outflow from the country: Research has shown that money launderers invest their funds in activities that are of no economic benefit to the host country. In addition, money laundering and financial crimes divert cash from healthy investments to low-quality investments (with the aim of concealing the origin of illicit proceeds). Money laundering causes a change in the direction of long-term and infrastructure investments towards short-term investments in service sectors, which has harmful effects on the macroeconomic and long-term plans of the

government. Because at the macro level, short-term investments cause irreparable damage to the economy due to its instability and speed of exit from the country.

- Weakening economic security: One of the components of economic security for investors (both domestic and foreign) is to protect the rights of individuals from any violation. In other words, recognizing the ownership of individuals and guaranteeing the execution of contracts is one of the basic principles of economic security. Also, reducing investment risk, which is another component of economic security, will not be possible except by creating transparency and the rule of law. Money laundering and criminal activities are one of the main obstacles to economic security, creating financial transparency and the rule of law, which expands the field of criminal activities and reduces constructive economic activities. Anti-money laundering laws try to create an unsafe environment for criminals so that they cannot launder their dirty funds in the country's official system and transfer them to other parts of the world.
- Decreasing levels of national security
- Causing issues with tax collection
- Demolition of financial markets
- Reduced demand for money and a certain decrease in the annual rate of GDP
- Unequal distribution of income

Along with these negative impacts, it is believed that between \$800 billion and \$2 trillion worth of money is laundered annually worldwide. This sum is more than 2% to 5% of the world Gross Domestic Product (GDP). It is challenging to implement sound and effective economic policies because of the unpredictability of money laundering and the waning of governmental influence over economic matters. The amount and scope of money laundering are closely correlated with economic indices, some of which are included below, according to research conducted by international organizations.

- The more illegal activities in the economy and the more isolated the institutions and their activities, more difficult to detect their money laundering. Additionally, money laundering detection becomes more challenging the lower the percentage of illicit financial flows in an institution's overall operations.

- The higher the share of the service sector compared to the production sector, the possibility of money laundering in the economy is getting stronger.
- The identification of money laundering gets harder the more cheques, credit cards, and other non-cash instruments are used in the nation's economy and the more opportunities people have to meddle in illicit activities.
- In any given economy, the larger the proportion of foreign revenue that is earned legally compared to illegally money from crime gets harder to distinguish from legitimate money.
- The more severe the contradiction between national money market legislation and side activity, the more difficult it is to track down money laundering.

As a result, the entire economy bears heavy costs from global money laundering, which undermines national economies' ability to function effectively and encourages unsound economic policies. Governments and law enforcement organizations have realized how critical it is to combat money laundering and the financing of terrorism, and they have made great efforts to lessen their prevalence.

#### **1.4 The responsibility of Governments and People in dealing with money laundering**

In order to fight money laundering, the first duty of the government and economic actors in the private sector is understanding the aforementioned phenomena, its various dimensions, and money laundering techniques. After then, in order to combat this situation, the government must give the relevant authorities legal tools. Among these tools, the following can be mentioned:

- Creating legislation to prevent money laundering and make it a crime
- The potential for legal action against the aforementioned actions
- The seizure of property acquired through illegal activity
- Establishing the required structure for information sharing between national institutions engaged in anti-money laundering operations and with comparable institutions abroad

- The determination of organizations and authorities engaged in anti-money laundering operations to establish a uniform framework for customer identification
- Financial transaction reporting
- Record-keeping, and information archiving;
- Adherence to anti-money laundering rules and regulations in financial transactions.

## **1.5 International measures against money laundering**

First and foremost, fighting money laundering will need international collaboration because it is an activity that is both transnational and international in character and has an impact on the world's financial markets. During the last decades, due to the rapid expansion of money laundering and becoming an international phenomenon, significant laws and agreements have been formed to combat this phenomenon, including the UN agreements. The European Community, the Organization for Economic Cooperation and Development, the Organization of American States and the actions of the World Bank and the International Monetary Fund and The Financial Action Task Force (FATF) pointed out.

The mid-1980s saw the beginning of international legislation and efforts to prevent money laundering and build global responses to this issue. There was a strong worldwide resolve to draft international treaties, conventions, and accords in this area by the end of this decade. The "Vienna Convention", which was ratified by the UN on December 19, 1988, is the first international agreement in this area. It contained useful suggestions for preventing criminals from obtaining the earnings of their illicit actions. Ball Declaration (December 1988), Council of Europe Convention (November 1990), Organization of American States Model (1990), European Community Guidelines (June 1991) and Regulations of the American Commission on Drug Addiction and Crime and Other Related Crimes (1999) among other international measures implemented in the field of legislation and fight against money laundering.



## **1.6 What FATF is and how it works**

The different ways that money is laundered and terrorist financing have changed dramatically in the last several years. Whichever nation engages in these acts, the globe suffers as a result. Therefore, numerous initiatives have been taken to lower the frequency of these acts. The Financial Action Task Force (FATF), as one of these initiatives, functions as a policy-making entity that convenes governments and specialists from many countries to devise and advance measures aimed at countering money laundering and financing of terrorism. Fighting money laundering, financing of terrorism, and other challenges to the integrity of the global financial system is the main objective of this intergovernmental organization. To combat these financial crimes, the group advocates for the implementation of legal, regulatory, and operational measures and sets international standards in this regard.

## **1.7 The history of FATF**

The Financial Action Task Force (FATF) was formed in 1989 on the initiative of the G7 member states to conduct a review of the state of anti-money laundering laws in various financial markets around the world, and to inform the member states at meetings held every four months so that they can assess the risk of investing in the target financial markets and also be careful about investors going to "dubious countries". At that time, the Financial Action Task Force had only 16 official members, and its mandate was to review the process of money laundering around the world, monitor the implementation of financial laws and activities at the national and international level, and develop standards for combating money laundering. In 2001, after the 9/11 terrorist attacks on the World Trade Centre towers in New York, another task was assigned to the organization's experts: to "examine target markets for investment in terms of the possibility of financing terrorism." Based on official reports from different countries, including financial transparency, tax laws, and the like, FATF experts announce their advisory opinions on the level of investment risk in those countries, which are cited by international investors.

Generally speaking, this international organization seeks to establish global standards and formulate national and international strategies to counter money laundering and the funding of terrorism. In this sense, the above group's working area is concentrated on three different kinds of activities:

- identifying techniques used to launder money
- creating standards to prevent money laundering
- and guaranteeing the efficacy of the aforementioned standards.

## **1.8 FATF's Members, Associate Members and Observers**

A country must meet certain requirements in order to be eligible to be a member of the Financial Action Task Force (FATF). These requirements include the degree of gross domestic product, the extent of the banking sector, the degree of financial sector openness, having a mutual relationship with the global financial markets, and having taken steps to combat money laundering. As of February 2024, there are 40 members and jurisdictions as the official members of the Financial Action Task Force (FATF). A number of associate members and observers are also part of the FATF.

It should be noted that the list of members and observers is subject to change. However, if you would like to view the most up-to-date list of FATF members and observers, and also FATF associate members, please visit Appendix 1 or the organization's official website at the address provided below:

[.www.fatf-gafi.org/en/countries/fatf](http://www.fatf-gafi.org/en/countries/fatf)

## **1.9 Black and Grey lists**

One of the FATF's initiatives is the release of a list of countries and jurisdictions that, because of weaknesses in their AML/CFT frameworks, represent a danger to the global financial system. For this purpose, FATF releases two public reports three times a year, it lists countries with inadequate countermeasures against money laundering and terrorism financing (AML/CFT). The method used by the FATF to list nations with lax AML/CFT laws has shown to be successful. By October 2023, the FATF had examined 129 countries and jurisdictions, 102 of them were identified in public. Of these, 76 have since been eliminated from the process after implementing the required changes to resolve their AML/CFT flaws. These countries are divided into two categories: High-Risk Jurisdictions subject to a Call for Action (i.e. "Black list") and Jurisdictions under Increased Monitoring (i.e. "Grey list").

### **1.9.1 Black list**

This category recognizes countries or jurisdictions that have significant strategic shortcomings in their efforts to combat money laundering, funding of terrorism, and financing of proliferation. The FATF requests that all members and jurisdictions apply enhanced due diligence to all countries that have been designated as high-risk. In the most extreme circumstances, countries are also asked to implement countermeasures to safeguard the international financial system against the ongoing risks of money laundering, terrorist financing, and proliferation financing that come from their borders. At this moment, Democratic People's Republic of Korea (DPRK), Iran and Myanmar are on the FATF black list. In the next chapter, we will fully discuss the situation of Iran.

### **1.9.2 Grey list**

The nations listed in this category are those that actively collaborate with the Financial Action Task Force (FATF) to solve strategic inadequacies in their money laundering, terrorism, and proliferation finance regimes. When a country is placed under Increased Monitoring by the FATF, it signifies that it has promised to promptly address any strategic flaws found within the designated timeframes and is under closer scrutiny. The countries such as United Arab Emirates, South Africa, South Sudan, Yemen, Turkey, Vietnam and etc. are on the Grey list. If you are interested in seeing the complete list of jurisdictions under Increased Monitoring, as well as High-Risk Jurisdictions please visit Appendix 2.

## **1.10 FATF's areas of work**

The FATF works in a variety of fields to fulfil its primary goal which is setting standards to fighting Money Laundering and Finance Terrorism. As an inter-governmental body, it is active in some areas of work. Methods and Trends, setting the standards (the FATF Recommendations), Assessing implementation (Mutual evaluations) and eventually identifying high-risk jurisdictions are all the core areas that FATF are engaging in to improve the measures to prevent the ML and FT and to evaluate how well each country is doing in this regard. Moreover, Terrorist financing, Proliferation financing, Beneficial Ownership, Corruption, Financial inclusion and NPO issues, Virtual Assets, Digitalisation, Environmental Crime and Asset recovery are some additional areas of work that the FATF is involved in them to accomplish its goals.

### **1.10.1 Methods and Trends**

The techniques used to finance illegal activities and launder the revenues of criminal activities are always changing. The implementation of FATF standards by the global financial system forces criminals to seek out alternate means for launder their dirty money. The FATF conducts studies into evolving methods and trends to help countries recognize, evaluate, and comprehend their risks related to money laundering and financing of terrorism. Following a thorough understanding of these dangers, countries will be able to put more potent risk-reduction strategies into place. For instance, some important work completed under the FATF Presidency in Singapore such as Crowdfunding for Terrorism Financing. This report examines the ways in which terrorists have taken use of social media crowdfunding initiatives and fundraising platforms to raise money for their terrorist causes from a worldwide audience. It draws attention to obstacles, best practices, and risk indicators that can assist public and private sector organizations in spotting any attempts to use crowdfunding to finance terrorism. Another report which is under the title of “Money Laundering and Terrorist Financing in the Art and Antiquities Market” reports that how the market for artwork and antiques has been exploited by terrorists, organized crime, and criminals to finance their operations and launder money. This report investigates the connection between the market for art and antiquities and money laundering and financing of terrorism. Additionally, it draws attention to risk indicators and best practices that may enhance international reactions to these risks.

### **1.10.2 FATF Recommendations**

The FATF Recommendations which are also often referred to as the FATF Standards, provides a comprehensive framework of policies to assist countries in addressing illicit financial flows. It has published forty recommendations on money laundering and nine on terrorism financing. We will discuss it in detail in the next sections.

### **1.10.3 Mutual evaluations**

The FATF regularly carries out peer reviews of all members to evaluate the extent to which the FATF Recommendations have been implemented. These assessments offer a comprehensive account and evaluation of each country's framework for avoiding financial system exploitation by

criminals. The FATF uses Mutual evaluations as a major tool in its efforts to evaluate and promote the effectiveness of counterterrorism financing (CTF) and anti-money laundering (AML) measures in its member countries.

Mutual evaluations consist of two primary parts: effectiveness and technical compliance.

**Effectiveness:** The effectiveness ratings of a country are the most crucial component of a mutual evaluation. This is the main objective of an expert team's on-site visit to the evaluated country. The assessment team will need evidence during this visit to show that the measures taken by the evaluated country are effective and producing the desired outcomes.

**Technical compliance:** It is the second essential component which the evaluated country is required to submit details about the laws, rules, and other legal measures it has put in place to prevent money laundering, the funding of terrorism, and the development of nuclear weapons.

A mutual review that is thorough can take up to 18 months. The following are the steps in this process:

**Assessor training:** The FATF regularly arranges training sessions for specialists in the FATF Assessment Methodology and Recommendations. FATF does not limit its scope to assessors from member countries of the FATF. Every country that is a member of the FATF Global Network is able to supply experts for evaluations.

**Country training:** Representatives of the evaluated country receive training from the FATF, so they are prepared for what has to be provided and demonstrated during the process.

**Selection of Assessors:** The assessment team members are chosen by FATF among the group of qualified assessors. The team's makeup is determined by the knowledge needed for the assessment, such as linguistic and legal background. Assessed nations are not involved in the selection process. The President appoints assessors.

**Technical compliance:** The assessors examine the information about laws and regulations which is provided by the country to see if all applicable laws and rules—as mandated by the FATF Recommendations—are in force. This assessment takes almost four months. Assessors create a draft report after the analysis is complete, which includes technical compliance ratings for each of the 40 recommendations.

**Scoping:** Assessors conduct a preliminary scoping exercise to identify the areas of focus of the on-site visit prior to the effectiveness assessment and the on-site visit. Many factors are taken into account.

**On-site visit:** The country is required to submit information regarding the effectiveness of its system. In order to confirm and evaluate the effectiveness of the existing systems, the assessors travel to the country for the on-site visit. The pre-visit information regarding the effectiveness of their system will facilitate the discussion.

**Report drafting:** The results of the effectiveness and technical compliance assessments are added to the mutual evaluation report by the assessors right after the on-site visit. The assessed nation is offered the chance to provide feedback on the draft report and meet with the assessors in person. Independent reviewers also examine the report.

**Plenary discussion:** During one of the three annual meetings of the FATF Plenary, the assessors present the draft report. The results and suggested ratings from the assessors will be discussed in plenary. All draft conclusions and ratings from the assessors must be approved by members, with the exception of the assessed nation, which is not allowed to vote.

**Final quality review:** Normally two months after Plenary approval, all participating countries in the FATF Global Network will assess the report for consistency and technical quality before it is posted online.

**Follow up:** Following adoption, the countries must resolve the issues raised by the report. Every nation is exposed to post-assessment oversight.

The Image 2, on the next page, shows these steps.

# The Mutual Evaluation Process

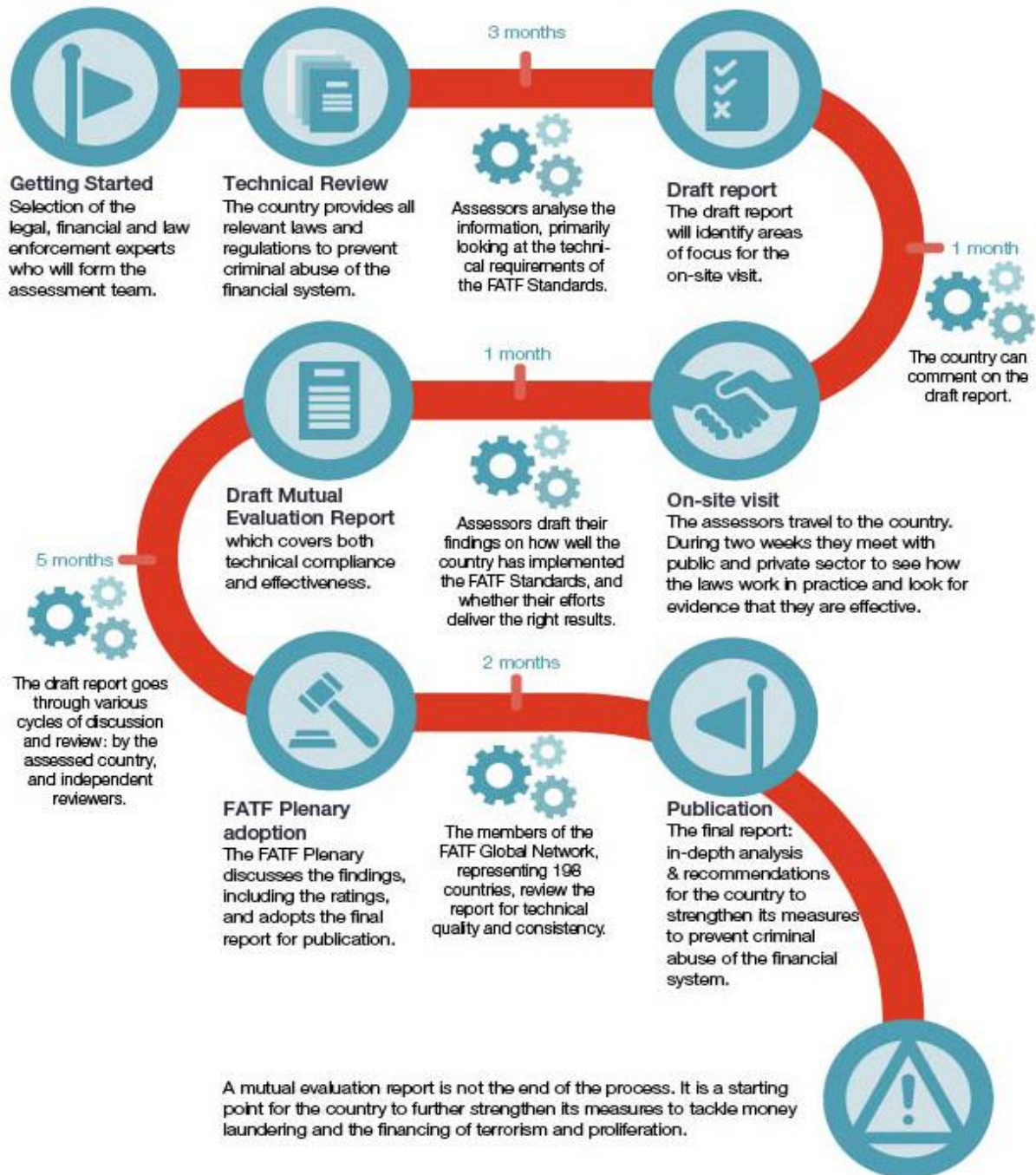


Image 2: Taken from [www.fatf-gafi.org/en/topics/mutual-evaluations](http://www.fatf-gafi.org/en/topics/mutual-evaluations)

#### **1.10.4 High-risk and other monitored jurisdictions**

Weak AML/CFT rules allow criminals to move assets via the banking system to finance terrorism or to successfully launder money. One of the FATF's main goals is to continuously find jurisdictions with serious gaps in their AML/CFT laws and collaborate with them to remedy such gaps. By issuing public warning to the dangers posed by the designated jurisdictions, the FATF's procedure contributes to the integrity of the global financial system. The identified countries are under pressure to rectify their shortcomings in order to preserve their standing in the international economy as a result of these public warnings. Countries are encouraged to quickly implement major improvements via public identification.

##### **1.10.4.1 Review Process**

The Financial Action Task Force (FATF) regularly assesses and finds jurisdictions that pose a danger to the global financial system due to strategic inadequacies in AML/CFT and keeps a close eye on their development. The International Co-operation Review Group (ICRG) of the FATF is in charge of the procedure. Generally, the threats, vulnerability, or specific risks associated with a jurisdiction are the basis for the FATF's jurisdiction reviews. The question rises here is when will a jurisdiction be examined?

A jurisdiction will be reviewed when:

- It does not permit the timely publication of mutual evaluation results or take part in a FATF-style regional body (FSRB)
- An FSRB or a member of the FATF makes the nomination. The nomination is predicated on particular dangers or threats that delegations have identified related to money laundering, terrorist financing, or proliferation finance.
- It received low marks for mutual appraisal.

When a jurisdiction joins the ICRG review process, it has a year to work with the FATF or its FATF-style regional body (FSRB) to rectify any shortcomings before the FATF may formally identify and examine them in public. The reviews are conducted by four regional Joint Groups of the ICRG, which cover the following regions: Europe/Eurasia, Asia/Pacific, the Americas, and Africa/Middle East. Prior to FATF plenary meetings, each jurisdiction that is being reviewed gets the chance to take part in a face-to-face meeting where the Joint Group's analysis will be discussed.



#### **1.10.4.2 Public Identification**

Following each plenary conference, the FATF releases two statements in the months of February, June, and October. These statements include a list of the strategic shortcomings that still need to be addressed as well as a brief synopsis of the most recent measures carried out in compliance with each jurisdiction's action plan.

#### **1.10.4.3 Removal from FATF Review**

A jurisdiction must address all or almost all of the actions listed in its action plan in order to be taken off the FATF monitoring. Following its determination that a jurisdiction has done so, the FATF will arrange an on-site visit to verify that the required reforms are being implemented. At the following FATF plenary, the FATF will decide whether to remove the jurisdiction from public identification if the on-site visit proves fruitful.

#### **1.10.5 Asset Recovery**

Removing offenders' unlawful assets is one of the FATF's main objectives. The FATF is collaborating with national authorities in conjunction with INTERPOL to guarantee that asset recovery is a fundamental component of a nation's strategy for combating money laundering and financing of terrorism. Establishing efficient mechanisms to track down, seize, and confiscate monies and assets that have been stolen and restore them to their place of origin is imperative for national authorities. The UN Office on Drugs and Crime believes that currently, governments intercept and recover less than one percent of the world's illegal cash flows. Enabling the safe transfer of confidential data among various anti-corruption and asset recovery organizations is a critical step in making improvements. Reliable investigations and a willingness to communicate evidence via official and informal channels, particularly in situations involving cross-border transactions are also necessary for successful Asset Recovery.

#### **1.10.6 Corruption**

Money laundering and corruption are frequently intrinsically related. The goal of most corruption offenses, including bribery and public money theft, is to get illegal money. The goal of money laundering is to hide the fact that the funds were obtained through illegal means. Moreover, the effects of corruption are extensive. In addition to harming good government and respect for the law, it can support terrorist organizations and organized crime networks while undermining political, social, and economic progress and stability and this is why the FATF Standards are crucial in the battle against corruption and when used well, they also support corrupt activity

investigations. As an illustration, by:

- enhancing the financial system's transparency
- assisting in the identification, examination, and prosecution of money laundering and corruption, as well as the recovery of assets that have been stolen
- preserving the public sector's integrity
- preventing misuse of specific private sector institutions

### **1.10.7 Environmental Crime**

One of the most lucrative criminal industries is environmental crime, which brings in between USD 110 and 281 billion annually. It encompasses a broad spectrum of illicit operations, including trash trafficking, illegal wildlife trade, and illegal logging. More environmental crimes are fueled by the unlawful funds that are laundered from these criminal operations. The economy, public health, safety, and natural environments may all be significantly impacted by this. This "low risk, high reward" crime is a safe and profitable source of cash for criminals because environmental crimes are rarely punished severely and there are seldom any attempts made to track down and seize the proceeds. Under this circumstance, the primary goal of the FATF's activities have been to increase awareness among environmental crime groups and the public and business sectors about how criminals launder the proceeds of their crimes.

Therefore, the FATF carried out a report in 2021 that details the strategies used by offenders to conceal the proceeds of environmental crimes, along with the measures that the public and commercial sectors can do to stop this kind of behavior. The FATF Recommendations offer useful tools for pursuing these illegal cash flows when appropriately put into practice.

Priorities for countries should be:

- Think about the dangers of criminals hiding the proceeds of environmental crimes by abusing their domestic financial and non-financial sectors. Since FATF research demonstrates that criminals conceal the proceeds of their crimes throughout regions, including trade and financial hubs, this also applies to nations without natural resources within their borders.
- To identify and pursue financial investigations into environmental crimes, countries must also improve interagency coordination between environmental crime agencies and

financial investigators. This entails cooperating with international partners to exchange data, speed up legal proceedings, and recover transferred or held assets overseas.

Although, the FATF expanded its Glossary to include multiple instances of environmental crimes, helping countries understand the kinds of offenses that are included in this category, combating environmental crime necessitates cooperation and coordinated action.

### **1.10.8 Financial inclusion and non-profit organizations (NPO)**

Ensuring regulated financial services are accessible to financially excluded or underserved groups contributes to the reinforcement of AML/CFT measures. The non-profit sector is likewise shielded against misuse for the purpose of financing terrorism under the FATF Standards. The Financial Action Task Force started a project in February 2021 to investigate and lessen the unintended consequences—such as de-risking, financial exclusion, and unfair targeting of non-profit organizations—that arise from incorrectly implementing the FATF Standards. The first stage of this effort was a stocktake, which gathered prior analyses of these phenomena by the FATF and other relevant parties, such as expert groups, to determine the magnitude and mode of these unintended repercussions. A High-Level Synopsis of this Stocktake summarizes the outcomes of this work. The high-level summary provides an overview of a longer stocktake report, which compiles current information from multiple sources to inform policy decisions. As such, it is not a comprehensive scholarly study of these occurrences, but rather concentrates on a limited number of issues that are of the utmost importance. Furthermore, it doesn't outline the official FATF stance or conclusion on any of them.

### **1.10.9 Terrorist financing**

Terrorists and terror groups pose a threat to global infrastructure, public safety, and community well-being. An estimated 21,000 individuals are killed by terrorists annually on a global scale. Nevertheless, terrorism has a tendency to be highly regionally oriented. In 2017, 95% of fatalities took place in the Middle East, Africa, or South Asia.

The provision, gathering, or transfer of assets or monies, whether directly or indirectly, with the knowledge or intent that they would be used to support terrorists, terrorist groups, or terrorist acts, is known as terrorist financing. Money or products may be used to finance terrorism, and they may originate from legal or illegal sources. Terrorism costs money. In other words, the

lifeblood of terrorism is money. These organizations could not function or continue to exist without funding. In addition, Significant finance is needed by terrorist organizations for both the actual commission of terrorist actions and additional problems. Specifically, to pay for the organization's essential technological needs, keep it operating, and cover expenses associated with promoting its beliefs. However, the main question is how terrorists/terrorist organizations raise funds?

There are several different sources of funding for terrorism. In order to provide some context for this occurrence, the various sources are categorized into four main groups as follow:

- **State Sponsorship**

State sponsorship is one of the main sources of funding for terrorist groups. In the eyes of terrorist groups, state sponsorship is beneficial due to the amount of money it can supply and the ease with which the terrorists can obtain it. From the standpoint of the terrorists, state sponsorship is also really easy because it yields great rewards with little to no work. This type of sources of financing has some disadvantages for terrorist organizations too. First, in terms of dependability and control. A state can compel a group to represent the interests of the state by using its financial backing to regulate the group's operations. The terrorist organization may be subject to state pressure to alter its strategies, step up its operations, or both. This could force the group to participate in things that it otherwise would not. The second drawback of state sponsorship is that States and their policies are subject to change. States can sometimes vanish. Otherwise, states might alter their laws and cease providing support to terrorist organizations.

- **Illegal Activities**

Since governmental support is not always dependable and can limit terrorist actions, terrorist organizations have been turning more and more to illicit means of raising money. These include theft, smuggling, minor criminality, kidnapping and ransom, extortion or revolutionary taxes (making the population contribute money to the organization) and the pirating and counterfeiting of items. There are various benefits for the terrorist organization to using illicit activity as a financial source. First, since illicit operations may be extended as needed and used frequently, they offer a dependable source of cash. Illegal actions are available and diverse, making them possible to occur anywhere. The ability to strengthen the terrorist organizations or at the very least, challenge the legitimacy of the state, is another advantage of engaging in illegal activity. At

the very least, terrorists have gained the population's passive support when they carry out acts of extortion and the populace fails to alert the police. Additionally, illegal activity is frequently quite simple. Depending on the nature of the activity, only rudimentary skills may be needed for its execution. The terrorist group's ability to retain more power as a result of its unlawful actions is a final benefit, particularly if these activities let them operate independently of state supporters.

Participating in illicit operations carries certain drawbacks for terrorist organizations as well. There are restrictions on how much certain activities (like extortion) can take from a population, which affects the overall amount available from this source. Many forms of criminal conduct have the potential to alienate members of terrorist groups that are concerned about their legitimacy. Kidnapping, extortion, and drug smuggling groups can cause rifts in the community and reduce a terrorist group's popular support. Many organizations avoid doing these kinds of things so as to prevent a Public-Relations catastrophe. Access to substantial sums of money from illegal operations can also lead to corruption among group members, who might be persuaded to keep a portion of the earnings for themselves. Even within the organization, illegal activity is frequently kept as a secret, and the money obtained from it is difficult to trace or account for. Illegal acts pose a harm to security. There is a great chance of being caught because the state and its police force are actively searching for and attempting to halt these operations. Finally, when terrorist organizations take part in illicit activities, they risk losing control. A group that engages in illegal behavior for financial gain may become less interested in challenging the government and more focused on making money.

- **Legal Activities**

Terrorist organizations frequently run perfectly legitimate companies for profit in addition to their illicit activities. For example, during its 1992–1996 presence in Sudan, Al Qaeda ran a number of legal enterprises there, such as peanut and honey farms, trading companies, furniture manufacturing businesses, bakeries, and investment firms. Legal fundraising is particularly beneficial to the terrorist organization in terms of security. There are not much the authorities can do to target the activity or people involved because it is completely legal. In order to accomplish this, the state would have to amend its legislation in a way that could be interpreted as unlawful or discriminatory.

However, there can be some drawbacks to the terrorist organization taking part in legitimate activity. Even lawful actions run the risk of attracting unwelcome attention from the

government in terms of security. This would be especially troublesome if the terrorist organization is still in the planning stages and is attempting to maintain secrecy or clandestine operations. Second, in order for terrorist groups to turn a profit from their legal operations, they need to possess strong commercial acumen. They will face competition from every other company in the market that is attempting to turn a profit. Terrorist organizations lacking in financial acumen would find illicit enterprises more appealing. Finally, compared to alternative funding sources, legal actions may offer smaller earnings in terms of quantity. Legal companies must contend with the market, which reduces their earnings. In contrast, illegal operations could result in larger earnings due in part to the risk premium associated with them.

- **Popular Support**

As a source of funding, many terrorist organizations depend on the backing of a sympathetic populace or constituency. For many Islamic groups in particular, a significant chunk of their income comes from charitable donations. For instance, Bloomberg in its latest report, January 24 2024, quoting from Israeli officials states that Hamas is getting \$8 million to \$12 million a month through online donations, much of it through organizations posing as charities to help civilians in Gaza. Terrorists may also rely on membership dues to fund their operations or seek support from sympathetic diaspora communities living<sup>1</sup> or lastly depend on membership fees to fund their operations. Funding terrorist organizations through popular support can be quite beneficial. It may, first of all, be an unambiguous indication of their authenticity. Widespread financial support is advantageous to the organization as well as detrimental to the state since it shows in a very real and tangible way that people are willing to support the cause. Additionally, some terror organizations further undermine the legitimacy of the state by using the donations they collect to carry out social welfare initiatives, winning over more adherents to their own cause. Popular support is comparatively simple to obtain. Terrorist organizations can just "sit back" and wait for the money to pour in rather than investing a lot of resources in raising money. This is comparable to the benefit of state sponsorship. Because charities in particular give terrorist groups greater geographic freedom, popular support can provide a terrorist organization with a steady stream of revenue.

While financial resources from donations and charity are typically beneficial, there are a number

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1-the distinction between this support and charitable donations is that the former is based more on racial or ethnic ties than the latter on religious ones

of drawbacks for the terrorist organization. A potential drawback is a loss of control. Similar to how state sponsorship influences terrorist action, popular support can also have an impact. If terrorists believe that the public would not support them, they may be more likely to temper their acts. Conversely, if their constituents are more "hawkish" than they are, popular backing may compel them to step up their actions. If they are in a financial situation where there is competition, it can also lead them to intensify their operations. Because popular support is reliant on the state of the economy as a whole, it may also be detrimental to the amount of money raised. People are less likely to provide money to a charitable cause if they are having difficulty meeting their personal needs.

It is frequently disregarded how terrorists transfer money and how this might be stopped. Rather, researchers and decision-makers concentrate on the financing sources for terrorism or the items that terrorists purchase with their money, such as weapons and the actual attacks. However, the transfer of money is an essential intermediate step. Terrorist organizations show how adaptable and flexible they are by using a variety of ways to transfer money. When one becomes riskier or more expensive, they switch to other ways. Stopping terrorist money flows is a difficult task because terrorists take advantage of legal and regulatory variations across states, looking for gaps where they can operate. Here, we consider six of the most widely used methods for moving money by terrorist groups:

- **Cash Couriers:**

For carrying actual cash, using couriers is the "simplest and oldest way of moving value." Criminals usually hide cash they transfer across international borders in automobiles, packages, bags, or any other item that can accommodate substantial amounts of cash.

- **Informal Transfer Systems:**

Informal financial networks, like the Hawala/Hundi in South Asia, can be in a variety of forms. They function in areas with little to no conventional banking industry or where sizable ethnic diasporas reside. These networks frequently have traditional roots and ethnic affiliations. Despite the fact that the majority of users utilize hawala for legal reasons, some terrorist organizations have transferred money using hawalas.

- **Money Service Businesses:**

The Bank Secrecy Act (BSA) defines money service businesses (MSBs) as “currency dealers or exchangers, check cashers, issuers [or redeemers] of traveler’s checks, money orders, or stored value cards, and money transmitters.” Regulatory audits and similar laws and regulations apply to money service businesses just as they do to banks. Nevertheless, MSBs do not adhere to the same stringent "know your customer" (KYC) protocols that banks do. Only customers who have accounts at that bank will be transacted with by the bank, and those customers must supply a substantial amount of personal data during account opening. Conversely, MSBs don't demand that clients have active accounts. All that customers need to do is show a legitimate ID. MSBs had been thought to be a useful way to transfer money related to terrorism. Their omnipresence is convenient, they enable relatively cheap and quick fund transfer, and despite their low cash reporting level, they theoretically allow for the movement of significant amounts of money at any given time. But in the last few years, the hazards have evolved. Previously, MSB’s 'went beneath the radar and faced a smaller danger of external audits or close monitoring by financial regulators.

- **Formal Banking:**

Banks can be a vehicle for illicit funding in a variety of ways. The most convenient arrangement for a terrorist would be a bank that asks no questions. As an alternative, the bank might employ a dishonest worker who makes money laundering and transfer easier. Additionally, if a bank is careless, it may be utilized for illicit purposes through payable-through accounts at other banks or correspondent accounts.

- **False Trade Invoicing:**

False trade invoicing is one of the hardest forms of money laundering to identify, which is why it is thought to be one of the most common ways that terrorist organizations and organized crime use to transfer money across borders. False trade invoicing masks the transfer of value between legal jurisdictions. This can be accomplished by billing too little or too much.

- **High-value commodities:**

Gold and diamonds are valuable commodities that provide yet another easy way to transfer value across national boundaries. For a terrorist, gold and diamonds obviously have a lot of



benefits. Diamonds are very simple to carry, conceal, and turn into cash. However, getting gold and diamonds directly from the source—African mines, for example—is neither easy nor convenient. They need to be transported by hand, and that always includes the risk of seizure or theft.

- **Other methods:**

Terrorists most frequently transfer money using the techniques mentioned above. But it is important to note there are other ways for transferring money such as digital currencies, which are increasingly being used by criminals, mainly drug dealers, but we have seen little evidence that terrorists are using them.

Precisely the same characteristics that make digital assets unique, the ability to move money quickly and relatively anonymously, make them vulnerable to use as money laundering and terrorist financing tools: "Cybercriminals have washed away more than \$33 billion of digital currency since 2017." According to Reuters, data from blockchain analytics firm Chainalysis has shown that the illegal use of cryptocurrencies has reached a record high of more than \$20 billion.

The way money laundering works in cryptocurrencies is very complex and naturally specialized. Criminals use a variety of techniques to direct funds through multiple addresses or businesses and hide their origin. Subsequently, these assets are transferred from an apparently legitimate source to the destination address or exchange to convert into cash.

Since 2001, preventing the funding of terrorism has been the FATF's top objective. However, with terrorist attacks occurring in numerous cities worldwide in 2015, as well as the threat posed by Al-Qaeda and its affiliated terrorist organizations, as well as the so-called Islamic State of Iraq and the Levant (ISIL/Da'esh), the scope and nature of terrorist threats worldwide significantly increased. Since then, the challenges posed by terrorism have changed, moving from huge terrorist organizations to right-wing extremists and returning terrorist warriors. Money moves across borders to support resources for organizations that have been declared as national security threats, and many countries still face assaults from lone actors and small cells that have become radicalized and take inspiration from a variety of deadly beliefs.

Through the FATF role in establishing international standards to combat terrorist financing, supporting countries in implementing the financial provisions of UN Security Council resolutions on terrorism, and assessing countries' capacities to prevent, detect, investigate, and prosecute the financing of terrorism, the FATF plays a pivotal role in international efforts to

combat terrorist financing. However, a lot of countries still have not successfully applied the FATF Standards. They lack both the knowledge of the types of hazards associated with terrorist financing and the tools necessary to effectively counter them. The main goals of FATF's efforts in this field are outlined in the Strategy on Combating Terrorist Financing. Under this approach, the FATF has finished work to assist nations all over the world in combating terrorist financing in close cooperation with the regional FATF-style regional entities and other partners like the UN.

#### **1.10.10 Beneficial Ownership**

The natural person or people who ultimately own or control a legal entity are referred to as the Beneficial Ownership. This comprises people who control or own a certain portion of a business, partnership, or other legal entity. In the context of efforts to combat the financing of terrorism (CFT) and prevent money laundering (AML), the concept of beneficial ownership is essential. To prevent criminals from concealing their unlawful operations and dirty money behind covert corporate structures, the FATF has decided to implement stricter worldwide beneficial ownership regulations. These will plug legal gaps and regulatory flaws that have, for far too long, permitted phony businesses to be used as a front for illegal conduct or to conceal money from tax authorities. They will make sure that detectives can identify the real "beneficial" owners of businesses with speed and ease. The adjustments will promote sustainable economic growth, reduce corruption and tax evasion, and help prevent and combat financial crime.

#### **1.10.11 Digitalization**

The way we live and work is changing due to technology. It provides significant cost and efficiency reductions in numerous industries. FATF is investigating the following technological opportunities which use to strengthen activities related to counterterrorism financing (CFT) and anti-money laundering (AML):

- Innovative abilities, strategies, and procedures that are applied to accomplish objectives connected to the successful execution of AML/CFT regulations or
- Innovative approaches to adhere to AML/CFT obligations using current technology-based procedures

#### **1.10.12 Proliferation financing**

Relevant United Nations Security Council Resolutions (UNSCRs) have recognized that the spread of weapon mass destruction poses a serious threat to global peace and security. According

to FATF recommendations, countries and the private sector must:

- determine and evaluate the risks of potential violations, non-application, or evasion of the targeted financial sanctions linked to financing of proliferation, and
- adopt suitable risk-reducing actions in proportion to the amounts of risks found.

This will guarantee that organizations in the private sector and those in charge of them are aware of the risks associated with their line of work and do not inadvertently assist or participate in networks or schemes that finance proliferation, in violation of the applicable laws. Additionally, this will guarantee that countries and businesses in the private sector allocate resources appropriately, in line with the degree of financing risks associated with proliferation.

### **1.10.13 Virtual Assets**

All digital representations of value that may be exchanged, transferred, or utilized as payment methods are referred to as Virtual Assets, or crypto assets. Digital representations of fiat currency are not included. Virtual assets contain a wide range of possible advantages and risks. They have the potential to simplify, expedite, and lower the cost of payments while offering substitute options to individuals without access to standard financial products. They are susceptible to fraud and cyberattacks, are mostly unregulated, and could eventually lose all of their value.

Virtual assets run the potential of turning into a sanctuary for terrorists and criminals conducting financial transactions in the absence of appropriate regulation. In order to stop the exploitation of virtual assets for money laundering and terrorist funding, the FATF has been closely observing developments in the crypto currency space and has released international rules that are legally enforceable. Some countries have begun to regulate the sector in recent years, while others have outright banned virtual assets. Most countries have not yet put in place strong laws, though. These vulnerabilities in the international regulatory framework have allowed for substantial opportunities that terrorists, criminals, and rogue governments can take advantage of.

As a top priority, countries must completely and successfully apply the FATF's Standards for virtual assets. Virtual asset providers must also take the same precautions against fraud as financial institutions, including maintaining records, reporting unusual transactions, and doing customer due diligence (CDD). By doing this, transactions involving virtual assets will be transparent and money connected to terrorism and criminality will remain outside the cryptocurrency space. The responsible growth and innovation of virtual asset technologies and enterprises can be guaranteed by the successful global adoption of FATF recommendations by all

countries. It will stop terrorists and criminals from searching for and taking advantage of areas with lax or nonexistent oversight.

In this case, the query is that how the FATF Recommendations execute to virtual assets?

**Countries need to:**

- Recognize the dangers the sector faces from money laundering and terrorist financing.
- Authorize or register vendors of virtual asset services
- In the same manner that it oversees other financial institutions, oversee the industry.

**Virtual Assets service providers need to:**

- Adopt the same precautionary steps as financial institutions, such as maintaining records, reporting questionable transactions, and conducting due diligence on customers.
- When transferring funds, obtain, hold, and securely send beneficiary and originator information.

## **1.11 What the FATF Recommendations are?**

The FATF Recommendations are the main tools used by the FATF. The FATF Recommendations provide a thorough and unified framework of actions that countries should take to fight money laundering, terrorist financing and the proliferation of weapons of mass destruction. Even though they are not legally enforceable, the FATF Recommendations' practical significance in the creation of AML policy was highlighted by their inclusion in the result paper of the United Nations General Assembly's Special Session 2016 on the global drug crisis, together with the pertinent UN conventions. Countries cannot respond to above risks in the same way since they have different financial systems, legal, administrative, and operational frameworks. Therefore, the FATF Recommendations establish an international norm that countries should apply through policies tailored to their unique situation. Member countries are encouraged to adopt and implement these recommendations to strengthen their domestic systems. The Recommendations themselves, their Interpretive Notes, and the relevant definitions found in the Glossary make up the FATF Standards.

The FATF Recommendations outline the critical actions that countries must take in order to:

- recognize risks, create policies, and coordinate domestic efforts
- combat money laundering, terrorist financing, and proliferation financing
- implement preventive measures for the financial sector and other sectors that are designated
- establish the authority and duties of the relevant authorities and other institutional measures promote international cooperation
- improve the openness and accessibility of beneficial ownership information of legal entities and arrangements.

The cornerstones of a strong framework to stop money laundering and the funding of terrorism are the FATF Recommendations. However, their effective implementation is crucial, not just their transposition as a checkbox exercise into a national legal, regulatory, or operational framework. The steps taken to mitigate the unique hazards that a country faces must be tailored to the national context of that nation. In this regard, eleven primary areas, or immediate results, are identified by the FATF Methodology as what a successful framework for preventing financial system abuse should accomplish. The efficacy of a nation's activities and its adherence to the technical specifications of the FATF Recommendations are evaluated using the FATF Methodology as well.

## **1.12 The Purposes and evolutions of FATF recommendations**

In 1990, the FATF drafted the first Forty Recommendations as part of an effort to stop drug traffickers from abusing financial systems to launder money. The first revision of the Recommendations took place in 1996, when they were expanded to include much more than just drug-related money laundering and took into account the changing patterns and techniques of money laundering. The FATF made the significant decision to create the Eight (later expanded to Nine) special Recommendations on Terrorist Financing in October 2001, as part of its expanded mandate to address the issue of the funding of terrorist acts and terrorist organizations. Over 180 nations have supported the FATF Recommendations, which were revised again in 2003, along with the Special Recommendations. These recommendations are widely acknowledged as the international standard for preventing money laundering and countering the financing of terrorism.

Monitoring and assessing national systems in relation to these international standards is

essential in the fight against money laundering and the financing of terrorism. An essential method for guaranteeing that all nations implement the FATF Recommendations effectively is the mutual evaluations carried out by the FATF in close collaboration with the FATF-Style Regional Bodies (FSRBs) and the observer organizations, such as the World Bank, the United Nations, and the International Monetary Fund.

**1.13 Distinct areas of Recommendations**

The forty recommendations which provide a comprehensive framework of measures for countries to combat money laundering, terrorist financing, and other threats to the integrity of the international financial system are broken down into seven main categories:

- AML/CFT Policies and coordination
- Money laundering and confiscation
- Terrorist financing and financing of proliferation
- Preventive measures
- Transparency and beneficial ownership of legal persons and arrangements
- Powers and responsibilities of competent authorities and other institutional measures
- International cooperation

**1.14 An Overview of the FATF Recommendations**

|        |                                                  |
|--------|--------------------------------------------------|
| Number | Distinct areas of Recommendations                |
|        | <b>1.AML/CFT POLICIES AND COORDINATION</b>       |
| 1      | Assessing risks & applying a risk-based approach |
| 2      | National cooperation and coordination            |
|        |                                                  |
|        | <b>2.MONEY LAUNDERING AND CONFISCATION</b>       |

|    |                                                                           |
|----|---------------------------------------------------------------------------|
| 3  | Money laundering offence                                                  |
| 4  | Confiscation and provisional measures                                     |
|    |                                                                           |
|    | <b>3. TERRORIST FINANCING AND FINANCING OF PROLIFERATION</b>              |
| 5  | Terrorist financing offence                                               |
| 6  | Targeted financial sanctions related to terrorism and terrorist financing |
| 7  | Targeted financial sanctions related to proliferation                     |
| 8  | Non-profit organizations                                                  |
|    |                                                                           |
|    | <b>4. PREVENTIVE MEASURES</b>                                             |
| 9  | Financial institution secrecy laws                                        |
|    | Customer due diligence and record keeping                                 |
| 10 | Customer due diligence                                                    |
| 11 | Record keeping                                                            |
|    | Additional measures for specific customers and activities                 |
| 12 | Politically exposed persons                                               |
| 13 | Correspondent banking                                                     |
| 14 | Money or value transfer services                                          |
| 15 | New technologies                                                          |
| 16 | Wire transfers                                                            |
|    | Reliance, Controls and Financial Groups                                   |
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### **1.15 What the FATF Risk-based Approach (RBA) is?**

The Financial Action Task Force (FATF) revised its recommendations in 2012 with the goal of bolstering international security and preserving the integrity of the financial system by giving countries more power to combat financial crime. The greater focus on the RBA to AML/CFT system, particularly in respect to preventive measures and oversight, was one of the most significant shifts. The 2012 Recommendations view the RBA as an "essential foundation" of a nation's AML/CFT system, in contrast to the 2003 Recommendations which allowed for the deployment of an RBA in certain circumstances. This is a general prerequisite that applies to all pertinent FATF recommendations.

Generally, the risk-based approach means that in order to effectively minimize ML/FT threats, governments, responsible authorities, and financial institutions must identify, assess, and

comprehend the risks they face. They must then implement appropriate AML/CFT measures. Countries, responsible authorities, and financial institutions should evaluate ML/TF risk by analyzing and trying to comprehend the ways in which the risks they find impact them; this risk assessment serves as the foundation for the risk-sensitive implementation of AML/CFT policies. Although an institution may have taken all reasonable steps to identify and mitigate AML/CFT threats, it may still be exploited for ML or FT purposes. This is why the RBA is not a "zero failure" method. Even in cases where ML/FT risks are deemed minimal, an RBA does not absolve nations, regulatory bodies, or financial institutions from reducing these risks.

"Allowing countries, within the framework of the FATF requirements, to adopt a more flexible set of measures in order to target their resources more effectively and apply preventive measures that are commensurate with the nature of risks, in order to focus their efforts in the most effective way" is how the Introduction to the 40 Recommendations describes the RBA. Thus, using an RBA is a need rather than an option for successfully putting the FATF Standards into practice.

## **Conclusion**

Anti-money laundering and combating the financing of terrorism (AML/CFT) policies were tightened in the wake of 9/11 in order to prevent the use of the global financial system by illicit actors. The guiding concepts of the current system's modifications were information sharing, financial transparency, and consumer due diligence. Governments saw and treated the banks as the guardians of the integrity of the financial system and started requiring financial institutions to apply strict compliance standards and programs.

A wide range of constituencies have experienced effects as a result of these strengthened AML/CFT legislation. The impact of these rules has been noted by law enforcement authorities battling organized crime as well as formal banking firms worried about compliance requirements. The various constituencies all clearly feel that rules are having an impact on them, but there is a dearth of research that thoroughly examines the whole spectrum of ramifications for these diverse groups.

One could define the unintended implications of AML/CFT legislation as "de-risking." De-risking is defined by the Financial Action Task Force (FATF), as an international organization that sets standards for AML/CFT procedures. It involves ending ties with clients or groups of clients "to avoid, rather than manage, risk in line with the FATF's risk-based approach." (FATF 2014). Therefore, banks have been encouraged to remove risk from specific businesses by the

increased AML/CFT framework, which has resulted in higher barriers to financial services and a decrease in financial inclusion outside of the regulatory purview. On the other hand, The FATF's official publications offer a practical understanding of the fundamentals of AML/CFT risk management as well as the unique difficulties that arise when dealing with these regulations. According to the FATF's "Recommendations," which place a strong emphasis on Know Your client (KYC) principles banks should implement risk-based client due diligence procedures in order to satisfy KYC obligations (FATF 2012). This implies that a bank's level of customer due diligence, which includes identity verification and transactional inspection, is contingent upon the client's AML/CFT risk category. The type of service being given and the geographic location could be used as indicators to assign AML/CFT risk.

The dual objectives of preventing illicit activities and maintaining financial integrity led to the creation of the AML/CFT regulatory framework, which possesses both offensive and defensive features. Transaction monitoring and Know Your Customer (KYC) principles form the foundation of defensive measures. The Bank Secrecy Act of 1970 required banks to conduct Customer Due Diligence (CDD) procedures and submit Suspicious Activity Reports (SARs) to the U.S. Treasury Department in order to comply with the Know Your Customer Principles. Strong adherence to these defensive standards in the financial system is necessary for the Treasury Department's offensive measures to be effective in battling illegal activity. The Office of Foreign Assets Control (OFAC) of the Treasury combats illicit financial activity by utilizing its strong designation and sanctioning powers. Once it has established a case strong enough to pass legal muster, OFAC assembles sanctions packages that specifically forbid doing business with entities that are sanctioned. Furthermore, a global financial, regulatory, and diplomatic ecosystem that disapproves of rogue financial behavior is necessary for these efforts to be effective.

In conclusion, The FATF recommendations provide a flexible framework that can be adapted to the specific circumstances and risks faced by individual countries. The FATF periodically reviews and updates the recommendations to address emerging risks and challenges in the global financial system. It's important for countries to align their legal and regulatory frameworks with these recommendations and undergo mutual evaluations to assess their effectiveness in combating financial crimes. Non-compliance with these standards can lead to reputational and economic consequences for countries in the international community.

In summary, the role of FATF recommendations in the global AML/CFT system is notable and multifaceted:

- **Standard-Setting:**

FATF creates and maintains a set of guidelines(standards) that act as global benchmarks for AML/CFT initiatives. These standards address many different topics, such as international collaboration, customer due diligence, reporting suspicious transactions, and institutional and regulatory frameworks.

- **Global Adoption**

The Financial Action Task Force (FATF) has been remarkably successful in bringing attention to the issues of money laundering and terrorist funding, as well as persuading governments all over the world to make the commitment to combat these grave dangers to global security. The recommendations of the FATF are widely accepted and implemented by countries worldwide. To improve their efficacy in combating financial crimes, numerous countries harmonize their AML/CFT legislation and regulations with FATF Recommendations.

- **Peer Review Process**

Through a peer assessment mechanism, FATF conducts mutual evaluations in which member countries are judged based on how well their AML/CFT systems adhere to FATF Recommendations. Through this process Countries are encouraged to enact and uphold policies that are in line with FATF Recommendations.

- **Capacity Building**

FATF offers standards and resources to help countries develop their ability to put in place efficient AML/CFT measures. Offerings of technical support and training programs are made to assist nations in strengthening and growing their operational capacities and regulatory frameworks.

- **Information sharing and Collaboration**

To improve the international response to money laundering and the funding of terrorism, FATF encourages cooperation and information exchange among its member states. The group promotes

cross-border collaboration between law enforcement agencies and financial intelligence units (FIUs).

- **Adaptation to Evolving Risks**

FATF makes sure that the worldwide standards are still applicable and useful by regularly reviewing and updating its recommendations in response to new concerns associated with money laundering and terrorism financing.

In conclusion, the FATF recommendations are essential to creating a global framework for AML/CFT initiatives. FATF supports a stronger and more coordinated international response to the challenges presented by money laundering and the funding of terrorism by encouraging global adherence to these standards.

## **Chapter two:**

### **The Anti-Money Laundering/Countering Financing of Terrorist system in Iran**

## **Introduction:**

Money laundering and fighting it is one of the issues that have become especially important in today's world. Money laundering as a crime, that can bring the benefits of other crimes into the global economy or funnel money from trade into black and terrorist activities, is one of the crimes that countries around the world attach special importance to. Although, Criminals always try to change their ways and stay one step ahead of the law, Governments, On the other hand, have also made a lot of efforts and regulated laws to fighting money laundering. About the importance of dealing with money laundering, every year, a number of government and legal authorities' actions are tracked in order to assess the extent of money laundering occurring domestically or internationally. This crime is defined by law in Iran as well, and its circumstances and consequences are taken into account.

Money laundering has been somewhat helped by the globalization of the economy, the liberalization of international capital flows, the growth of electronic banking, and the creation and application of new technological instruments for the international transfer of monies. Therefore, international resolve and cooperation from all nations are needed to combat money laundering. Naturally, understanding this occurrence and how to handle it is the first step towards dealing with money laundering.

Money laundering is defined in some countries as hiding the source of financial resources. In other nations, money laundering is defined as the transfer of funds obtained from an activity that, while legal in one region, is viewed as corrupt and illegal in another. In the meantime, the Central Bank of the Islamic Republic of Iran defines money laundering as follows: "The word money laundering is used to describe the process in which illegal or dirty money that is the result of criminal activities such as drug trafficking, arms and goods trafficking, human trafficking, bribery, extortion, fraud, etc., in a cycle of financial activities and transactions and passing through stages, it is laundered and presented as legal, justified and legitimate money".

However, without any doubt, one of the most significant issues facing the economy is money laundering, which is defines as an underground economy. In order to comprehend money laundering, it is first required to define the underground economy. The term "underground economy" refers to the collection of value-added activities that are not classified as part of the formal economy and are kept out of the country's national accounts and tax code. A significant portion of the underground economy is related to illicit activities such as drug trafficking, theft,

fraud, and smuggling.

It's interesting to note that, despite the fact that money laundering typically appears to be a victimless crime with no negative consequences, there are really many penalties for this violation, including increased risk of robbery, murder, and other criminal activities. Interestingly, in the light of the lack of public awareness, many people engage in money laundering activities. In this regard, one might criticize the media, broadcasting, colleges, and education systems for failing to provide correct and thorough information concerning money laundering.

## **2.1 Money Laundering in Iran**

In Iran, like in other countries, money laundering is a widespread practice used by some people and organizations. Indeed, money laundering is a major problem for the Iranian economy for a number of reasons, and it is not limited to recent years. Iran has unique geographic and economic circumstances. On one hand, Western sanctions have made it possible for a massive influx of illegal goods to enter the country, and on the other hand, the existence of covert subsidies in a number of sectors has made it easier for people to smuggle goods from Iran into other countries. The country's proximity to Afghanistan, one of the drug production hotspots, has made matters more challenging because Iran has been placed on the way to the transit route of drug trafficking. The country is also facing challenges due to the proliferation of online gambling and betting platforms which are controlled by foreigners that steal Iranian money.

Moreover, there are a number of factors that can be used to speculate about the extent of money laundering in the Iranian economy, including the country's large share of the underground economy, widespread tax evasion, a lack of taxation culture, the volume of all forms of illegal migration and human trafficking, the country's weak banking system, a lack of international banking standards, and the government's lack of sensitivity to this phenomenon.

## **2.2 Why is Iran's economy the best place to launder money?**

Regarding economic administration, Iran's economy stands out due to its numerous centers of decision-making. Iran is unable to enjoy a defined economic system with a development-oriented macroeconomic policy due to the number of decision-making and economic policy-making centers (roughly 32 centers and councils), policy-making centers and the supervision of commercial affairs (roughly 22 centers and councils), and industrial policy-making centers and the supervision of industrial affairs (roughly 6 to 12 centers and ministry institutions).

On the other hand, the role of tenure is combined with the sovereign role of the government



in many cases and economic sectors of Iran's economy, leading to atypical interactions that have resulted in an imbalance. In other words, in the "goods supply and demand" process, the government, which imports and produces both durable and non-durable consumer goods, has become a competitor in the market for domestic producers of those same goods, and they have neutralized their policies protecting domestic products.

Additionally, there are instruments in the Iranian economy that can help with smuggling, money laundering, and tax evasion. These include huge checks that can be used in place of cash, bearer currency bank checks and nameless participation bonds. Furthermore, the government's total sovereignty over the nation's financial markets and cash circulation has been curtailed by the steadily growing number of free-interest loan funds and credit institutions, whose establishment and activity licenses are granted by ministries and non-economic institutions and fall outside the purview of the Ministry of Economic Affairs and Finance and the central bank. In fact, these funds and financial and credit organizations that do not hold a license from the central bank unilaterally believe that they are immune from the central bank's foreign currency regulations and the Money and Credit Council's policymaking process, and they do not abide by it. Naturally, there have been a lot of gaps in the national economy's circulation as a result of this unstable economic situation, and these gaps have served as a platform for the misuse of criminals and economic criminals.

The expansion of the informal sector of the economy, about 50 percent of the Gross Domestic Product (GDP), the administrative corruption, the growth of organized smuggling of goods, currency and gold smuggling, capital flight, economic and commercial frauds, has led to the unfortunate consequences of government rule on the entire economic circulation of the country.

### **2.3 What economic activities can be used for money laundering?**

Basically, service activities that do not require much to buy and supply raw materials or purchase intermediate goods are considered suitable platforms for money laundering. Casinos, bars and nightclubs (which all are forbidden in Iran), barbershops, car washes, parking lots and other service activities are typically good options for money laundering. But along with these economic activities, money laundering is sometimes organized in the form of charity startups.

Holding art auctions or participating in sports activities can also be suitable areas for money laundering that has had examples in the world and Iran. Creating layered and nested companies with mutual and cross-stakeholder shareholders and finally setting up banks and financial institutions are also other conducive tools for money laundering. It is not without reason that

experts and economic experts saw a significant relationship between the number of free-interest loan funds and credit institutions in different provinces of Iran and the transit route of drug trafficking.

Last and not the least, with the establishment and commonality of the use of digital and crypto currencies, one of the serious concerns of experts is the use of these currencies to carry out money laundering operations by criminal gangs.

## **2.4 The volume of money Laundering in Iran**

The fact is that there is currently no reliable way to calculate the quantity of money laundering. Along with given how closely informal economic activities and money laundering are related, it makes sense that one should not anticipate the volume of money laundering. It is certain that none of the techniques offered in the experimental research have been able to reliably and acceptably assess the extent of money laundering. However, a study released in Iran in 2021 stated that the annual amount of money laundered ranges from \$35 billion to \$42 billion. It would not hurt to compare this figure to Iran's Gross Domestic Product in order to get a sense of its enormity. Given that Iran's GDP has reached \$400 billion in recent years, we can deduce that money laundering in the country amounts to almost 10% of its GDP yearly, which is deemed to be disastrous.

## **2.5 The penalty of Money Laundering in Iran**

The seizure of assets and money laundering proceeds is one of the penalties for the crime of money laundering. Depriving criminals of these revenues lessens their motivation to commit money laundering, since the criminal's ultimate purpose in money laundering is to make illicit and criminal incomes appear legal and allow them to be used freely. Because of this, seizing property is one of the best ways to penalize financial crimes like money laundering. It is also an action that is approved by the court, during which the criminal is deprived of his property definitively.

Article 9 of the Anti-Money Laundering Law states that: "The perpetrators of the crime of money laundering, in addition to the restitution of the income and proceeds of the crime, including the principal and benefits derived from it, are sentenced to a fine equal to the proceeds of the crime, which must be deposited with the Central Bank of the Islamic Republic of Iran". Of course, the issuance and execution of the seizure of property and the benefits derived from it is only if the accused has not been subject to this sentence in terms of the crime of origin (primary crime).

Although the law provides confiscation of property as a punishment for money laundering, it does not provide specific provisions regarding the manner of confiscation of property in cases where the crime has an international aspect, and it is only stated in note 1 of this article that if the proceeds converted or changed to another property, the same property will be confiscated.

It should be noted that the crime of money laundering by a legal entity is also possible, and as a legal entity is allowed to have a bank account or do business under its own name and credit, it can be considered criminally responsible and a punishment for it. Regarding the application of punishment, although it is not possible to imprison a commercial company, the possibility of liquidating the company or preventing its activity for a certain period of time can be used as a punishment for legal entities. Because the only purpose of punishing money laundering is not to reform the criminal, but also to prevent future crimes. The fact is that today many crimes are committed by natural persons (individuals) under the cover of legal entities or companies; Therefore, expediency requires that in addition to the punishment of these persons, there should be a punishment for legal persons as well.

## **2.6 The most common ML methods in Iran**

Unfortunately, various methods are being used by criminals, and every now and then Iranian authorities announce the discovery of new methods of fraud and money laundering. Below are some methods. It should be noted that the order of the methods mentioned below is random and is not based on the most used method.

### **2.6.1 Through drug trafficking**

Among the sources of illegal activities that generate dirty money in the country, we can mention drug trafficking. Most of the studies conducted in order to estimate the size of the economy in Iran indicate a significant expansion of the amount of such activities in recent years, which naturally leaves a significant impact on the financial and monetary flow of the country.

The geographical position of Iran is such that it is next to Afghanistan as the largest producer of opioids, the second largest producer of cannabis and recently also the producer of methamphetamine and according to the report of the United Nations Office on Drugs and Crime in November 2022, in spite of issuing a ban on cultivation by the Taliban group, the area of poppy cultivation in Afghanistan had increased by 32% in 2021 and 2022, and following the announcement of the ban on cultivation, the price of opium increased more than three times, which

itself motivated for the remainder of this cycle. Meanwhile, Afghanistan's neighboring countries, including the Islamic Republic of Iran, are used as transit countries. More profitability, reducing the risk of discovery of shipments and smaller volume of industrial drugs are among the motivations of traffickers in Afghanistan to produce heroin and methamphetamine.

The Secretary General of the Anti-Narcotics Headquarters states that in 2022, the Islamic Republic of Iran destroyed nearly 1,700 regional and international drug gangs while conducting about 4,300 operations and armed conflicts, and according to the laws and structure appropriate to money laundering in Iran, it dealt severe financial blows to smugglers. During the aforementioned operation, the counter-terrorism forces of the Islamic Republic of Iran discovered about 716 tons of narcotics and psychotropic substances, including 30 tons of heroin and morphine, 540 tons of opium, 76 tons of hashish, and about 30 tons of methamphetamine (glass) from the global cycle of illegal drug trade. According to the UNODC report, Iran alone accounts for 76% of the world's opium discoveries, 67% of the world's morphine discoveries, and 17% of the world's heroin discoveries.

Meanwhile, the Islamic Republic of Iran is fighting illegal drugs based on a balanced strategy. This strategy includes the fight against the supply of narcotics in the entry and exit points of the country, as well as the strict control of checkpoints in all parts of the country and the reduction of demand, prevention and treatment of addicts. Among Iran's actions in the field of combating drug cultivation, production and smuggling, the following can be mentioned: blocking and monitoring inaccessible points through aerial patrols, conducting regular patrols of border forces, deploying border guard units at zero points, implementing monitoring plans, Electronic and optical, border control and visual monitoring of some border areas, especially in the eastern provinces, equipping checkpoints with optical cables, using control cameras, drone monitoring and road patrols at the borders are among the measures taken. As a result of Iran's effective actions on the common borders with Afghanistan and Pakistan, smugglers have turned to transporting and transiting drugs in a smaller form and in lower weights. And it has also caused them to use backpacking methods, aerial equipment such as paragliders, swallows, etc., and it has also caused the intensity of drug trafficking to change from land routes to water borders in the Oman Sea and the Persian Gulf. These measures cost the country 50 billion Tomans per year.

In addition, in order to deal with maritime smuggling and maritime movements, the necessary infrastructure has been provided and installed, including the opening of about 800

coastal checkpoints and the establishment of floating marine checkpoints to inspect vessels passing between Iran and the Persian Gulf. strengthening and developing electronic and electro-optical equipment, creating marine and floating bases, installing ground and floating radars and installing specialized cameras.

### **2.6.2 Through investment in Real estates:**

Money laundering is a pervasive issue, and criminals are constantly discovering new ways to hide their illicit funds. Among the various techniques used, money laundering through real estate is one of the most common methods used. Criminals often exploit the high-value nature of real estate transactions as a means of legitimizing their illegal gains. The real estate sector has become an attractive avenue for money laundering due to its significant financial transactions, leading criminals to launder money in a variety of ways.

- **Use of third parties**

One such method is the use of third parties, where criminals often use people they know, usually family members with clean records, to purchase real estate. By making a transaction through a third-party account, the perpetrator's name is removed from the purchase documents, making it more difficult to trace the illicit funds.

- **Manipulation of property value**

Some people also launder money by manipulating the value of property. In this method, criminals manipulate property valuations by cooperating with real estate agents or official appraisers. This can include undervaluing or overvaluing the property. Undervaluation allows criminals to get loans, while overvaluation maximizes the amount that can be laundered by taking out larger loans based on inflated property values.

- **The multiple cash deposit**

In this method, criminals deposit cash in multiple banks to avoid creating a reporting threshold that requires the bank to report the transaction. These funds are then used to receive bank checks or other legal forms of payment for real estate purchases.

- **Use of rental income as legitimacy**

Criminals generate rental income from their properties and use illicit funds to cover rental

payments. Alternatively, they may purchase properties from third parties, rent them out themselves, and use illicit funds to meet rental obligations, thereby legitimizing the origin of the money.

- **Use of real estate transactions as a facilitator for ML**

Criminals buy properties, invest the black money in renovations and subsequently sell the properties at higher prices. This process allows them to legitimize their illicit funds and create the appearance of legitimate transactions while laundering money.

- **Use of Mortgage**

In this way, Credit and mortgage can be used as collateral for money laundering of criminal proceeds. Criminals may secure loans against property, and the resulting funds are mixed with legitimate funds, making it difficult to distinguish between legitimate and illegitimate funds.

For instance, some years ago in one of these money laundering cases in the real estate sector, several defendants got 65 billion Tomans<sup>1</sup> facilities from the bank and then, by cooperating with a pricing expert and by enlarging the bank's mortgaged properties, they were not only able to get more loans, but also became creditors of the bank in the amount of 120 billion Tomans. The point is that the offending expert priced a land worth 17 billion Tomans at 153 billion Tomans, and the defendants took 4 billion tomans in cash and 29 billion Tomans in check from the bank, and on the same day they received three high-quality lands from the bank.

### **2.6.3 Establishment of charities:**

Charities play an effective role in human societies along with private and government organizations. These roles have expanded to such an extent that nowadays their functions are no longer limited to work and livelihood issues and they have developed functions such as education, science production, employment, industry and today, in Iran, entering the field of mass housing and extensive buying and selling of currency is one of the activities of some of these institutions.

A charity organization, in Iran refers to a non-profit organization whose members are formed in pursuit of a common goal, which is to provide charitable or public benefit services to the needy people. In Iran, charity is rooted in the country's culture, history and religion, because

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1- Unofficial Iranian currency. Although the official currency of Iran is Rial which is 10 times bigger than Toman, because of its simplicity people use Toman in their daily transactions and Rial is only used in banking system.

Iranians have always established an emotional relationship with charity centers. However, in recent years, especially with the occurrence of floods and earthquakes in the north and south of the country, many people started collecting donations. In the meantime, unfortunately, based on the reports of the police force and the arrest of several offenders, it was found that some profiteers are committing fraud by abusing people's trust and feelings.

With all this, charities are also considered to be financially sensitive environments. These institutions are established with good and public benefit goals and are funded with public donations, but the lack of accurate registration of these donations on one hand, and the increasing expansion of these establishments without obtaining a license on the other hand, can provide the basis for financial deviations and abuses, including money laundering. Experts have found the lack of transparency in income generation and also the lack of strict monitoring of institutions to be effective in this field. In other words, the lack of accurate monitoring can fuel this lack of transparency and provide conditions in such a way that profit-seeking people think of financial abuse through the establishment of charities. Economic criminals use these factors to cover their illegal economic activities.

On the other hand, Charities are an attractive option for money laundering due to their tax exemption. According to the amended Article 139 of the Direct Taxes Law, if the non-profit status of a charity institution is specified in the statute of the said institution, and its cash and non-cash receipts in cases such as "Islamic propaganda, cultural, scientific and religious research, education and training, health and treatment , the construction and maintenance of mosques, schools of Islamic sciences and public schools and universities, repair of ancient monuments, assistance to the needy and victims of accidents caused by unforeseen events", if approved by the Tax Affairs Organization, that institution will be exempt from paying taxes. However, investigations show that the method of granting exemptions to charity institutions according to the above article is the basis for the fake declaration of economic offenders that they are active in the field of charities, Where, in addition to being exempted from paying all types of government debt, the financial circulation of these organizations is also not under the microscope. Failure to review the financial processes of charity institutions by the Tax Administration turns these institutions into a platform for all kinds of corruption, including tax evasion and money laundering.

In a research report compiled by the "Economic Cooperation and Development Organization", money laundering methods have been introduced in charities as below:

- one of these methods is the criminal use of the tax exemption of charities. In this case, the financial statements of a fraudulent charity organization are deliberately set up to be tax exempt.
- Another method of money laundering is providing fake financial receipts in support of charities. This is usually done by wealthy economic criminals. In this way, part of the criminal's property is included in the money laundering cycle. During the relationships they have in the fraudulent institution, they take back the donated amounts in the form of other properties.
- Paying employees in the form of salaries while employees are identified as volunteers who do volunteer work.
- Registering some payments as financial support (donation) is another method that has been examined in this report.
- Finally, the use of the name and brand of well-known charities for money laundering under the guise of humanitarian campaigns has also been seen in some fake charities.

In addition to these, investing in apparently benevolent activities for money laundering is another one of these methods. Even in some cases, the construction of schools and cultural centers, sports complexes and construction facilities in deprived areas can be contaminated with money laundering methods.

#### **2.6.4 Through Free-interest loan Funds**

The process of receiving a loan from banks is usually long and time-consuming, and perhaps in situations such as long loan delivery times, requests for many guarantors to provide loans, high interest payments and other such factors are among the disadvantages of bank loans. But today, people have made this way smoother for Iranians by creating the Free-interest loan Funds<sup>1</sup>. in Iran is called Qarz al-Hasna fund. These funds have their own characteristics and advantages, which made many people turn to them. Indeed, Free-interest loan funds are another type of banks, with the difference that financial institutions such as banks and other credit institutions offer loans to individuals and receive an amount as interest, but Free-interest loan fund does not receive any interest from the borrower in return for the loan. The resources of such funds

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1- in Iran is called Gharz al-Hasna fund.



are provided by the people themselves and for the use of the people, while the financial resources of the banks are provided by sources other than the people. According to Article 12 of the Value Added Tax Law, banking and credit services of banks, authorized institutions and Free-interest loan funds are exempt from paying taxes.

According to the head of Iran's financial information center, unlicensed funds are considered as one of the country's challenges in the field of tax evasion and money laundering. In the last dark decade of Iran's economy (his interpretation), unauthorized funds and financial institutions, in addition to creating social crises, caused the previous government to pay 36 thousand billion Tomans from the Treasury to compensate for the obligations and damages caused by these illegal financial institutions. A main example of the violation of some of these funds in the direction of tax evasion and money laundering has been that all bank transactions are carried out with the fund accounts by being a member of these funds. In other words, the offenders of tax evasion or money laundering do not involve their formal bank accounts in carrying out bank transactions. In this violation, what the Central Bank and the Tax Affairs Organization and regulatory institutions, including the Financial Intelligence and Anti-Money Laundering Center of the Ministry of Economy observe in their monitoring process, are the financial transactions of Free-interest loan funds with natural and legal persons without identifying the source of these deposits. In this way, the violators can continue to operate without paying taxes. Because their account with their formal banks will not have any special circulation and this is the account of the respective fund that performs their transactions. Therefore, the main person doing it is not identified in the first stage, and if necessary, the regulatory bodies will have to physically inspect the documents, which is a time-consuming matter. That is, if these documents are not destroyed in the fund. So, financial offenders can hide their criminal nature behind the accounts of the fund and stay away from the supervision of the tax department.

In one of the latest reports that was published on December 23, 2023, the director general of combating tax evasion of Tehran province by saying that some free-interest loan funds have become a vehicle for hiding the economic activities of tax evaders due to not being connected to the Central Bank, announced the results of the inspections carried out in the implementation of Article 181 of the direct taxes law of a free-interest loan fund in the north of the country. According to him, in this regard, more than 19,000 new taxpayers with no tax files were identified during the investigations of transactions related to four years. Also, regarding tax proceedings, a transaction

of more than 470 thousand billion Rials has been identified.

### **2.6.5 Through rental bank accounts**

One of the phenomena that has taken place in the banking system and the Central Bank of Iran has strongly warned about it is the phenomenon of "rental bank account ". which is one of the tricks of criminals who generally intend to launder money, tax evasion, fraud and other criminal activities.

In this case, the offender simply asks naive or needy people to open a bank account in a special bank in return for monthly rent (which is sometimes significant figures) and then to provide him a bank card with its password and all other account information. In addition, the delinquent person (tenant of the account) acknowledges from the owner of the account in the notary public office that the contents of the account belong to him and the owner of the account, even though the account is in his name, has no authority over its funds. In other words, the naïve account owner with this idea that an empty bank account has no risk for the account owner, without knowing the type of activity and financial flow of the tenant of the account, gives his bank card and all the account information in exchange for receiving rent.

In these circumstances, if the tenant through a rental account, commit money laundering or prohibited transactions (such as smuggling) and this action is tracked and identified through fraud detection systems and combating economic corruption, the owner of the account must be personally accountable to the judicial authorities and will be responsible for it. This is while the offending person will continue his criminal activities by renting a new account from another person. In the optimistic case that the tenant does not want to use the rental account in criminal transactions or money laundering activities and merely wants to use the rental account for the transaction of healthy economic and legitimate business, it is likely that this person has attempted to rent a bank account with the intention of tax evasion. It is clear that in this situation the tax obligations resulting from the transactions made, the main owner will be the account.

#### **Is it a crime to rent bank accounts to evade taxes?**

Yes, it's a crime. Holders of such accounts are considered guilty, and this is one of the obvious examples of paragraph 2 of Article 274 of the Direct Taxation Law (income denial by the economic activist, both real and legal) and taxes must be levied from the principal and abusers of these accounts.

### **Are rental accounts identifiable? What has the Tax Administration done in this regard?**

Anti-money laundering and tax evasion office in the tax affairs organization, based on the instructions for identifying bank transactions and relying on the information of the taxpayer database, investigated and followed up the included accounts, and with the cooperation of the central bank, after identifying and examining the tax file for each of these people. Based on this, both the rich and the financially disabled should be identified.

### **2.6.6 Through Gold trading**

The use of gold is widespread and documented. Since ancient times, gold has been used in different cultures as a means of exchange or payment. In many developing countries, like Iran, gold jewelry is considered not only as an ornament, but also as an effective means of saving. Even now, the country's gold reserves determine its validity. Gold is a symbol of permanence and storage of wealth and has many cultural values. Hence, gold is an excellent choice for money laundering.

The process of money laundering through gold has become increasingly problematic due to the fact that this precious metal requires virtually no permits and has inherent legitimacy. Illegal transfer of gold is an intractable problem for officials, businesses, financial institutions and governments due to its global reach. Criminals can easily over- or under-value the purity, weight or origin of traded gold on customs declaration forms, making it difficult to obtain and trace all of this data.

In one of the latest cases of money laundering through gold, the head of the inspection office, fight against tax evasion and money laundering of the country's tax affairs organization announced the detection of a large tax evasion in the field of gold, currency and coins worth 900 billion Tomans in one of Iran's provinces. He stated: With regard to the information received from the supervisory authorities regarding the tax evasion of one of the taxpayers active in the gold, currency and coin sector and with regard to the inspection operation in the implementation of Article (181) of the Direct Taxes Law, the circumstances leading to the identification The volume of activity included the sale of more than 7,200 billion Tomans of gold (22,940 kg of gold), the sale of 38 million and 200 thousand dollars, as well as the sale of 20,000 gold coins.

In another example, it was four years ago that the Chief Justice announced the biggest money laundering network in the country, referring to the arrest of 9 main accused. In this regard, he said that one thousand billion Tomans worth of real estate, 40 companies, 100 cars and 20

kilograms of gold bars have been identified and discovered from the fraudsters. Referring to the identification and destruction of the country's largest gang and money laundering network, he said: During the six years of operation of this Money laundering network, the financial transaction of this gang was about 30 thousand billion Tomans. Transactions of real estate, stock exchange and non-exchange stocks, gold bullions, currency, gold coins, withdrawal of money from the country and investment in neighboring countries have been among the actions of this gang.

### **2.6.7 Through Art activities**

Art can be the best platform for money laundering and tax evasion of criminals because in Iran, the field of art is one of the tax-exempt fields, which means that no audit is done for this type of activity, and in fact, it can be said that no tax documents are taken from the relevant field, because it is completely exempt. and is not under the control of the Tax Affairs Organization.

In the meantime, several types of activities are performed as artistic activities, some of which include illegal activities. In other words, part of the money of some economic violations entered art, and based on that, art works are bought and sold several times, or investments are made in the production of cinematographic works, so that the origin of the money is not known. Another part of these activities is not necessarily illegal or a crime, but these activities are subject to taxation in other areas, and if these activities were carried out normally, they would include paying taxes, for this reason, this part of legal activities is performed as an artistic activity, so that taxes are not paid for it.

Also, when such an atmosphere is created, those who want to perform artistic activities, for example, intensify such an atmosphere, in the sense that in the auctions that are held for works of art, the price of the works increases in a way that can cause the source of the money to be unclear. Let's remember that one of the features of the space where money laundering is done is that the amounts of transactions must be high enough so that the desired money can be lost.

Moreover, the cinema field is one of dozens of ideal fields for money launderers. In recent years, the issue of money laundering through the production of movies and series has been raised so much that it has become a familiar phenomenon. But maybe the issue of fake contracts of actors has not been addressed until now. In this type of money laundering method, payment of billions tomans to some actors may be made on paper but when paying, only a percentage of that amount is given to the actor and the rest remains in the investor's pocket. Indeed, Formal contracts in

cinema are a win-win game between the investor and the actor. A formal contract is concluded with the agreement of the parties. The actor is satisfied because his price for future contracts and his reputation will increase, the investor is also satisfied because he spends less money out of his pocket but launders more money.

Also, another type of money laundering in the field of cinema is loans and grants that are taken for the cinema sector but are used in another field.

#### **2.6.8 Through investment in unprofitable businesses**

Another method used by criminals is to invest in businesses that are going bankrupt. In this way, they invest in a legitimate but bankrupt business and then manipulate its documents and books to show that the company is profitable. Funds that need to be cleared flow in this way and are made to appear as if they are legitimate profits from the company's transactions and activities.

### **2.7 Iran's history with the FATF**

since 2007 due to its deficiency in comprehensive anti-money laundering (AML) and combating the financing of terrorism (CFT) regulations, the Financial Action Task Force (FATF) has designated Iran as a danger to the global financial system. In 2008, the FATF intensified its admonition, requesting that its members perform enhanced due diligence (EDD) in their dealings with Iran and encouraging financial institutions globally to follow suit. Robust monitoring of business contacts and transactions with Iranian companies is part of this enhanced due diligence.

The FATF increased pressure on Iran in February 2009 by enforcing countermeasures after the country failed to resolve its AML/CFT shortcomings. Enhanced reporting and monitoring of business relationships and transactions, prohibiting Iranian banks from opening subsidiary branches, restricting business relationships, and requiring banks to review and close correspondent accounts are some examples of countermeasures that build on the due diligence requirements already in place. Countries were particularly cautioned by the FATF to guard against Iran's use of correspondent banking accounts as a means of getting around or beyond these efforts. The FATF's heightened pressure coincided with growing international apprehension over Iran's nuclear program and its funding. Resolution 1929, passed by the U.N. Security Council in 2009, urged nations to take appropriate action to forbid the establishment of new branches, subsidiaries, or representative offices of Iranian banks in their territories if doing so would support Iran's

proliferation-sensitive nuclear program or the country's development of nuclear weapon delivery systems.

Despite this pressure, Iran remained on the FATF "blacklist" as a "high risk and non-cooperative jurisdiction" and did not address the shortcomings in its AML/CFT framework. Iran's isolation from the global financial system grew as a result of the listing and the extensive economic sanctions imposed on the nation, which specifically targeted its banking, shipping, and energy industries.

## **2.8 What were Iran's actions?**

The Joint Comprehensive Plan of Action (JCPOA), or the nuclear agreement which was reached in 2015, was a game-changer for Iran's relations with the FATF and the rest of the world. Iran's "high-level political commitment to an action plan to address its strategic AML/CFT deficiencies" was praised by the FATF in June 2016. Iran also committed to requesting technical support for carrying out the plan. Iran's changed stance was rewarded by FATF, which suspended the countermeasures that had been in place since 2009 for a period of twelve months. The countermeasures were also suspended at plenary meetings in November 2017 and February 2018. However, Iran is still considered a high-risk jurisdiction by the FATF, and stricter due diligence guidelines are still in effect.

Iran is said to have held multiple rounds of technical consultations with experts from all around the world, including the US, since 2016. The United Kingdom has given Iranian banks guidance on how to execute these requirements, and Iran's ambassador to the International Monetary Fund has requested technical support to adopt appropriate AML standards in Iran's banking industry. Iran joined the Eurasian Group, or EAG, in 2016 as an observer. The EAG is a FATF-style regional body that helps countries implement AML/CFT standards.

## **2.9 Anti-Money Laundering Law in Iran**

Prior to the Iranian Parliament's adoption of the anti-money laundering legislation, Iran lacked a distinct legislation that both explicitly mentioned and outlawed money laundering. Article 49 of the Islamic Republic of Iran's Constitution should be the starting point for the battle against illicit wealth. Consequently, this does not imply that the fight against money laundering is based on this idea, rather, it suggests that this principle may serve as its foundation. However, it might

be argued that money laundering is somewhat covered by Article 49 of the Constitution. According to this article, states that "the government shall seize and return any wealth that results from usury, usurpation, bribery, embezzlement, theft, gambling, misappropriation of endowments, circulating places of corruption, and other illegitimate cases to the rightful owner, or, in the event that the owner is unknown, to the Treasury." This sentence should be implemented by the government through investigation.

Finally, the anti-money laundering law in Iran, which consisting of twelve articles and seven notes, was approved in 2008 by the Parliament of Iran. Money laundering is prohibited by the aforementioned law's Article 2 and is considered as a crime.

### **2.9.1 A list AML law in Iran**

In accordance with Article 4 of the aforementioned law, the Minister of Economic Affairs and Finance is in charge of the Supreme Council against Money Laundering, which is also comprised of the Ministers of Commerce, Information, and Country as well as the Governor of the Central Bank. The Supreme Council's objectives include identifying suspicious transactions, providing Financial Intelligence Unit, and coordinating relevant institutions in the matter of gathering, processing, and analyzing news, documents, information, and reports received. Therefore, the Supreme Council against Money Laundering is the supreme authority for anti-money laundering measures in Iran.

In accordance with Article 9 of this law, those who commit money laundering crimes face not only restoration of their stolen proceeds but also a fine equivalent to a quarter of their total earnings. In December 2009, the executive regulations containing eight chapters and forty-nine articles were published.

Article 18 of the aforementioned rule states that, in accordance with their organizational scale, all individuals subject to the law must establish a unit as the responsible combating money laundering.

Article 25 of this regulation states that if any personnel working for individuals covered by the aforementioned law see any suspicious transactions, they must report them to the institution's anti-money laundering sections without first notifying the customer. Given the potential repercussions, authorities must fully support from staff in order for them to carry out their obligations and fully implement the law, irrespective of the client's social or political standing.

Among their other responsibilities of the employees who work for the aforementioned companies and institutions is to report any cash transactions above 15 million Toman (equal to 150 million Rial) as well as any questionable transactions.

In Article 27 of this regulation, it is emphasized that the reports prepared in this regard do not indicate any accusations against individuals, and announcing them to the Financial Intelligence Unit is not considered the disclosure of personal secrets, and no charges will be brought against the reporters implementing this regulation.

According to Article 28 of the aforementioned regulation, special regulations apply to the buying, selling, and transferring of currency. Any transfer that occurs outside of the banking system and authorized exchanges is forbidden, and those who engage in such transactions will face penalties under the law that prohibits the smuggling of goods and currency. Therefore, only through the banking system and exchange offices licensed by the Central Bank, and in line with the applicable rules and regulations, is it permissible to purchase and sell foreign currency by paying Riyal within and getting foreign currency abroad, or vice versa.

Article 29 of the aforementioned regulation states that at the end of each day, the central bank must create an information bank, register and record all relevant information about the buying, selling, and transferring of currency within the banking system, as well as authorized exchanges, and allow users to access and search the financial information records.

According to Article 33 of the Anti-Money Laundering Law's Executive Regulations, all financial and monetary institutions subject to this law are required to keep the documents related to the records of transactions and financial operations, both active and inactive, for at least five years after the end of the operations.

In accordance with Article 38 of the aforementioned regulation the following duties must be carried out by the Financial Information Unit, which is based in the Ministry of Economic Affairs and Finance:

- Collecting and obtaining information on suspicious transactions
- Evaluating, examining and analyzing the information of reports and suspicious transactions
- Inserting and classifying information in mechanized systems
- Announcing the identities of persons with a history of money laundering or terrorist financing to the responsible persons (for the purpose of greater care or termination of cooperation), upon request of the relevant authorities.



- Providing the analyzed information needed by the judicial authorities, officers and agencies responsible for fighting terrorism in the country, if requested by the relevant authorities
- Preparing the necessary statistics about the actions taken in the fight against money laundering
- providing the required software and information systems
- Ensuring the security of collected information
- Exchanging information with the organizations and international institutions according to regulations
- Collecting and obtaining international experiences
- Sending reports that are likely to be true or possibly important to the judicial system
- Follow-up of reports sent to judicial authorities
- Preparing the draft of the annual program of the financial information unit for approval by the council
- Responding to the inquiries of the concerned persons as soon as possible, and
- Declaration of opinion on the professional competence of the officials of anti-money laundering units proposed by the managers of the involved parties.

Article 48 of this regulation states that the central bank of Iran must implement the customer information system, which includes the following data, in order to make it easier to access customer information and to confirm the legitimacy of documents and information that are provided by individuals:

- Registration information and financial statements of customers (both legal persons and individuals)
- Account number information and facilities provided to them
- Returned check information
- Information related to customers' tax declaration
- information on convictions and promissory notes of real and legal persons whose names are registered in the system

According to the Central Bank's 2010 circular, which also informed all banks and financial and credit institutions of the anti-money laundering law enforcement regulation's provisions, the aforementioned units should adopt an arrangement that would expedite the following by-law items

in all branches and subordinate units while also informing the relevant units of the regulation's provisions. This was done in accordance with the country's banking system's implementation of the above regulation's provisions.

- Providing any banking services, including receiving and paying, money transfer, issuing and paying checks, providing facilities, issuing various types of payment cards, issuing guarantees, buying and selling foreign currency, in any way, such as signing promissory notes, and buying and selling shares, is subject to the identification of the client and the registration of its information in the information banks of credit institutions.
- It is forbidden to provide basic services electronically and without complete identification of the customer or to perform any untraceable or nameless financial transaction and to provide related facilities.
- Banks and credit institutions are required to take appropriate measures, and apply strict and special supervision when opening and blocking any account for foreign political persons.
- A form related to the provision of services to clients should be designed in such a way that it is possible to insert the person's ID (like national number) and his zip code on it.
- Banks and credit institutions are required to design their information banks in such a way that it is possible to insert a person's ID (national number) in it and search based on the said IDs. The data in the aforementioned information banks should be updated and accuracy checked periodically (every six months) by sending them to the relevant authorities.
- Credit institutions should create a unit, according to their organizational size, as the responsible for combating money laundering and send the detailed specifications of its employees to the anti-money laundering management of the Central Bank of the Islamic Republic of Iran.
- Credit institutions are required to make the necessary arrangements for the proper implementation of the Anti-Money Laundering Law, including the provision of the necessary software to facilitate quick access to information and identification of suspicious transactions, as well as the design of appropriate mechanisms for the purpose of monitoring and controlling the process of combating money laundering, and evaluating and auditing the amount of implementation of anti-money laundering process and then report the situation to the Central Bank for approval.

- Credit institutions are required to make arrangements to report any suspicious transactions and operations without the client's knowledge and in the shortest possible time.
- An arrangement should be adopted that all transactions exceeding the prescribed limit (150 million Rials) in the charter, which the client pays in cash, are recorded and reported along with the client's explanations.
- Buying and selling foreign currency in any way, including paying riyals inside and receiving foreign currency abroad and vice versa, is allowed only through the banking network and authorized exchanges, in compliance with the relevant laws and regulations. All authorized credit institutions and exchanges are obliged to send detailed information related to the purchase, sale and transfer of their currency at the end of each day to the information bank that will be created for this purpose in the Central Bank of the Islamic Republic of Iran.
- Credit institutions are required to strictly monitor their branches and offices abroad by taking the necessary measures in terms of compliance with anti-money laundering rules and regulations.
- Documents related to records of financial transactions and operations (both active and inactive accounts) as well as documents related to client identification records in credit institutions must be kept physically or by other legal methods for at least 5 years after the end of the operation.
- It is necessary for the credit institutions to provide the necessary arrangements for the establishment of pre-service and in-service training courses for their subordinate employees regarding the fight against money laundering.
- Credit institutions are required to act appropriately regarding justification, public education and informing clients about their public duties and the benefits of implementing the Anti-Money Laundering Law.
- Since the January, 2010 it is forbidden to pay more than 150 million riyals in cash to clients on a daily basis, So, credit institutions are obliged to inform the public as soon as possible to use alternative methods.

It should be mentioned that the Central Bank of Iran, in order to properly fulfill the responsibilities and tasks stipulated in the above-mentioned regulations and to ensure the good

execution of affairs, as well as to avoid any possible parallelism and inconsistency, at the beginning of 2010, started to establish a department under the name "Anti-Money Laundering Department" in this bank. All the duties and responsibilities of the Central Bank in the field of combating money laundering will be performed centrally under the management of the above unit. In addition, in line with international regulations, some changes have been made to amend the anti-money laundering law. In general, the most important legal laws for preventing money laundering in Iran can be mentioned as follows:

- Anti-Narcotics Law
- Anti-trafficking of goods and currency law
- Ratification of the Vienna Convention
- Approval of anti-money laundering law
- Approval of anti-money laundering regulation
- Guidelines for the implementation of anti-narcotics laws
- The law of punishment for the perpetrators of bribery and embezzlement
- Law prohibiting the purchase and sale of coupons for basic goods
- Approving the financial regulations of the anti-narcotics headquarters
- Approval of the Law on Combating the Financing of Terrorism
- Approval of Merida anti-corruption law
- The Executive Regulations of the Law on Combating the Financing of Terrorism
- The bill to amend the law on combating terrorism financing

Notification of all these laws to the custodian systems, banking and other financial institutions, insurance companies, leasing companies, brokerage companies, exchanges and other cases, after the final approval of the Anti-Money Laundering Law in 2008, the basic laws of combating money laundering in the country underwent changes, which of course affected the situation of combating money laundering in the banking system of Iran which we will discuss further.

## **2.10 Countering Financing Terrorism Law in Iran**

The CFT law in Iran, consisting of seventeen articles and five notes, was approved in third of March, 2016 by the Guardian Council.

### **2.10.1 A list of CFT law in Iran**

In accordance with Article 1 of this law, Preparation or collection of funds or property in any way whether of legal origin or not, or the use of all or part of the resulting financial resources, such as smuggling of foreign currency, attracting monetary and monetary aid, donations, transfers of money, buying and selling securities and credits, opening an account directly or indirectly or financing or carrying out any economic activity of persons by themselves or another to perform or to provide for the following actions or to represent terrorist persons or terrorist organizations are the financing of terrorism and are considered as a crime. In addition to terrorist groups and terrorist individuals, it is the responsibility of the Supreme National Security Council to determine whether acts listed in the following paragraphs are terrorist acts:

A-Committing or threatening to commit any violent act such as murder, assassination attempt, violent act resulting in severe physical injury, illegal detention and hostage taking of persons, or knowingly violent act against people or endangering their life or freedom with the intention of influencing the policy, decisions and the actions of the government of the Islamic Republic of Iran, other countries or international organizations.

B- Committing the following actions with the purposes mentioned in paragraph (A):

- Vandalism in public and private property and facilities
- Severe damage to the environment, such as poisoning water and burning forests
- Production, possession, acquisition, transfer, transport, maintenance, development or accumulation of illicit goods, theft, fraudulent acquisition and trafficking of poisons, nuclear, chemical, microbial and biological elements and materials.
- Production, procurement, sale and illicit use and trafficking of explosives, weapons and ammunition

C- Committing the following acts regardless of the motive of the perpetrator and the result:

- Dangerous actions against aircraft or aviation safety
- Seizure of aircraft in flight and unlawful control over it
- Committing violence against passengers or crew or dangerous acts against property on board a flight aircraft.
- Production, possession, acquisition, transfer, transportation, storage, development or accumulation, illegal enrichment and explosion, theft, fraudulent acquisition and smuggling of nuclear elements or materials in an unjustified amount for therapeutic, scientific and peaceful purposes.
- Production, possession, acquisition, transfer, theft, fraudulent acquisition, smuggling, transportation, storage, development or accumulation and use or threat to use nuclear, chemical, microbial and biological weapons.
- Piracy, illegal seizure of a ship or the exercise of illegal control over it, or endangering the safety of shipping by knowingly providing false information or destroying and causing serious damage to the ship, its cargo and crew or passengers.
- Illegally occupying or controlling platforms or facilities located in maritime areas, committing acts of violence against people present in them, and any action to destroy or damage these platforms or facilities with the intention of creating a risk to the safety of these areas
- Bombing of public places, government facilities, public transportation network or infrastructure facilities

D- Committing crimes that have been criminalized under domestic law or international conventions; if the Government of the Islamic Republic of Iran joins them

Article 2 of the aforementioned regulation states that Financing of terrorism, if it is considered as war or corruption in the land, the perpetrator will be sentenced to the punishment, and otherwise, in addition to the confiscation of funds and property, and if there is no equivalent property for the benefit of the government, to the punishment of two to five

years of imprisonment and a fine equal to two to five times the provided financial resources are sentenced.

According to article 11 of this law, in cases where, according to the international treaties valid for the Islamic Republic of Iran, the investigation of the crimes that are the subject of this law is within the jurisdiction of each of the member countries of the treaty and the accused is found in Iran, the courts of Iran have the jurisdiction according to this law.

In accordance with article 12 of this law whenever the crimes that are the subject of this law are committed abroad and against the Islamic Republic of Iran or international organizations based in the territory of the Islamic Republic of Iran, the criminal courts of Tehran have the jurisdiction to deal with them.

Article 13 of the aforementioned regulation states that all persons, entities and organizations subject to the Anti-Money Laundering Law are obliged to take the following measures in order to prevent the financing of terrorism:

- Identification of clients when providing all services and performing monetary and financial operations such as any receipt and payment, money order, issuing and paying checks, providing facilities, issuing cards and payments, issuing guarantees, buying and selling currencies and securities certificates of deposit, participation bonds, acceptance of guarantees and pledges of guarantors in any form such as signing promissory notes, brats and letters of credit, and buying and selling shares
- Keeping records of transactions and financial operations, both active and inactive, as well as records of clients' identification records, for at least five years after the end of the operation.

According to article 14 of this law, All persons subject to the Anti-Money Laundering Law are obliged to submit a report of suspected terrorist financing operations to the Supreme Council for Combating Money Laundering subject to Article 4 of the said Law. The Council is obliged to send reports of suspicious operations under this law to the relevant authorities for legal process.

And last and not the least, in accordance with article 15 of the aforementioned regulation If the financing of terrorism leads to money laundering, the perpetrator is subject to a harsher punishment.

## **2.11 ML/ FT in Iran's banking system**

The world's banking and monetary systems have undergone a tremendous transformation in the modern era. This is particularly true of banking networks, international communications, internal laws, and anti-money laundering measures that go beyond national borders, also by considering that money launderers in all countries are seeking better results from their crimes by using new and innovative techniques and methods, it is necessary for the countries in their anti-money laundering organizations to, on the one hand, equip their financial systems with new technology and techniques, and, on the other hand, complete and update their regulations, laws, financial and banking framework, and other internal regulations, in order to block any way of money launderers' infiltration.

Protecting the financial stability of the banking system and adhering to national and international payment standards and regulations are two of the responsibilities of the central bank of any country. Since the battle against money laundering and terrorist financing has emerged as one of the international financial network's top concerns, global standards compliance is seen as the banking network's only viable choice. In accordance with these standards, the banking network at the national level should track and report transactions suspected of money laundering or terrorist financing and refrain from carrying out suspicious transactions.

The link between economic crimes and the banking and monetary systems is a fundamental characteristic of all crimes, making financial institutions and banks the hub of illicit money laundering. Consequently, one of the primary options available to those who commit money laundering is using the banking systems. The nation's banking system may suffer greatly and irreversibly as a result of this procedure. Therefore, the lawmaker believed that issues with the country's monetary and currency systems were a major contributing factor to the disruption of the financial system, as stated in Article 1 of the Law on Punishment of Disruptors in the Economic System of the Country.

When unofficial statistics show that money laundering is the largest industry after the oil trade and foreign currency transactions, it is evident that the fight against money laundering is necessary. It has received notice in Iran in the past few years. Based on this, the Islamic Republic of Iran's Central Bank issued guidelines to the nation's banks through the enactment of the anti-money laundering statute, which gave the required context for the enforcement of fighting money



laundering offense. In the meantime, financial institutions, particularly banks, are subject to stringent obligations under both domestic and international laws and regulations regarding money laundering. As a result, the primary motivation for adhering to regulations and stopping money laundering is the fear of reputational risk and the desire to avoid the harm that could be caused to financial institutions by their collaboration with organized crime and criminals.

So far, we noticed that the banking system is considered a very suitable platform for money laundering and hiding the original source of dirty money due to dealing directly with cash, especially when the banking system is not under the supervision of a specific and specialized regulatory organization, because in this case, it will not be easy to track and identify the sources of laundered funds. Therefore, in this section we decide to examine the actions taken by the central Bank of the Islamic republic of Iran regarding the fighting money laundering in the country's banking system and then make a comparison between obligations of financial institutions according to the FATF Recommendations and obligations according to the Iranian AML Law.

### **2.11.1 A list of Anti-Money Laundering Law in Iranian Banks**

The Central Bank of the Islamic Republic of Iran has published the regulations for the prevention of money laundering in financial institutions in five chapters and 24 articles as follows:

#### **Chapter One: Definitions**

In the first article, it states that money laundering means conducting banking operations in financial institutions for the following purposes:

A-Collecting and keeping or using money that is obtained directly or indirectly as a result of committing a crime.

B- Assistant with another person or persons in order to:

- Conversion or transfer of money obtained directly or indirectly as a result of committing a crime with the intention of hiding or changing the shape of the illegal origin of that property or helping a person who was involved in committing a crime in order to prevent his criminal prosecution.
- Hiding or changing the real nature, origin, place of occurrence, transfer, movement of financial ownership that is obtained directly or indirectly as a result of the commission of the crime.

## **Chapter Two: Generals**

Article 2 of the aforementioned regulation states financial institutions are obliged to continuously monitor all operations and transactions of their customers with the aim of identifying suspicious operations.

Article 3: Financial institutions are obliged to fully verify the identity of all their customers.

Article 4: It is prohibited to perform any type of banking operations by financial institutions for real and legal persons who are unknown to the financial institution according to the criteria set in these regulations.

Article 5: If the applicant requests to perform banking operations on behalf of another person or persons, in this case, it is necessary to verify the identity of the main person in addition to the representative.

Article 6: In case there is any doubt about the position of the applicant in terms of being the main person or representative by relying on conventional reasons and evidence and the applicant refuses to provide the information and documents provided in these regulations, the financial institution can after the approval of the highest authority of the institution and or the person authorized to him or the committee provided in Article 8 refuses to provide services to him.

Article 7: Banks and non-banking credit institutions licensed by the Central Bank of the Islamic Republic of Iran are required to compile specific internal guidelines to identify applicants and combat money laundering, and after approval by the board of directors and the approval of the special expert committee listed in Article 9, to maintain the necessary standards let them to implement.

The above instructions should include the following:

- How to collect, classify, maintain and concentrate information related to the identity of the applicants, both the main person and the representative
- How to keep documents related to customer identification and their operations
- How to report suspicious cases and how to identify cases that should be reported to the Central Bank of the Islamic Republic of Iran
- Anticipating desirable training programs for employees in order to identify and prevent suspicious operations
- The system of internal controls and the appointment of the relevant official or officials in each branch or trade union

Article 8: Financial institutions are obliged to introduce one of the members of the board of directors or executive board or one of their senior executive managers to the Central Bank of the Islamic Republic of Iran with the approval of the board of directors. This authority can form a specialized committee for this purpose.

Article 9: The Central Bank of the Islamic Republic of Iran is obliged to make one of its organizational units responsible for the matters related to these regulations and to form a special specialized committee under the supervision of one of the members of the executive board for this purpose. The composition of the committee members is determined by the proposal of the relevant executive board member and the approval of the executive board.

Article 10: Opening an account and providing any banking services to unauthorized institutions and credit institutions is prohibited. Financial institutions subject to these regulations are obliged to block the accounts of such institutions and cut off any banking services within a period determined by the Central Bank of the Islamic Republic of Iran. The names and specifications of such institutions will be announced by the Central Bank of the Islamic Republic of Iran.

### **Chapter Three: Documents and criteria for verifying the identity and identification of the customer**

Article 11: The identity of customers must be verified by obtaining the original copies of the documents described below. In addition, all the original copies of these documents must be kept in the relevant file with the words "the image is the same as the original" and signed by the authorized signatory.

#### **A-Individuals:**

- Birth certificate (national card) or;
- valid driver's license or;
- Valid passport

#### **B- Legal entities (both Iranian and foreign, for-profit, non-profit, charity and similar):**

- The original documents related to the registration of the company, institution, organization, etc.
- Articles of association, company charter and similar valid documents, if necessary, at the discretion of the financial institution.

Article 12: Identification of the applicant when opening various types of accounts for a real person must be done by at least one of the following methods:

- Obtaining a valid letter of introduction signed by at least one known customer of the bank
- Obtaining information about the applicant's records from other banks with which the applicant had or has a continuous banking relationship
- Using the information contained in the license or employment certificate and similar cases;
- Other reliable methods are determined by the financial institution and approved by the committee under Article 9.

Article 13: In order to identify the applicant in cases where the account is opened by a legal entity, the following information must be obtained:

- the subject of the activity
- Financial Statements
- Names and addresses of the board of directors and CEO and shareholders of more than 20% in the case of companies and founders or the board of trustees and similar bodies in the case of non-commercial institutions
- Name and address of the auditor or auditors

#### **Chapter Four: Information storage**

Article 14: Financial institutions are required to keep documents and records related to account opening and bank operations and customer identification as described below for 5 years after its termination (documents can be kept in original, microfilm, electronic archive, etc.):

- Documents related to opening an account
- Documents related to verifying the identity of the customer
- Documents related to Bank's customer transactions, including customer's internal and external currency remittances;
- Reporting suspicious cases subject to article 21 of these regulations

Article 15: Financial institutions are required to review all information and documents related to customer accounts once every 5 years and include any changes in the said information in the customer's file.

Article 16: Customers of financial institutions are obliged to immediately inform the financial institution of any subsequent changes in the information provided to the financial institution based on the documentation, and this should be recorded in the contracts concluded between the financial institution and the client.

### **Chapter Five: Suspicious banking operations and how to report them**

Article 17: Financial institutions are required to make arrangements so that as soon as possible the relevant official in each branch or line unit can report suspicious cases immediately and without respecting the administrative hierarchy directly and in a completely confidential manner to the official designated in Article 8 of these regulations. If necessary, the above-mentioned authority should immediately reflect the situation to the Central Bank of the Islamic Republic of Iran.

Article 18: The Central Bank of the Islamic Republic of Iran refers the report of suspicious cases to the relevant authorities immediately after it is satisfied with the evidences.

Article 19: Members of the board of directors, managers or employees of financial institutions are not allowed in any way to provide the information of suspicious cases related to applicants and suspected customers to them or third parties.

Article 20: The Central Bank of the Islamic Republic of Iran is responsible for providing the necessary training to financial institutions.

Article 21: The report of suspicious banking operations should include the following information:

- Type of operation
- Date, time and amount of the transaction
- Details and address of the person who made the transaction
- Details of the beneficiary of the transaction
- Account numbers that are used for transactions or banking operations
- Clues and reasons for suspicion

Article 22: Banks are obliged to verify the buyer's identity and obtain his signature at the place designated for the buyer's signature on the check when selling all types of traveler's checks. When presenting these checks to financial institutions must also verify the identity of the bearer and get the signature of the check.

Article 23: These regulations are also applicable for banking units located in commercial-industrial free zones.

Article 24: Banking operations with partial amounts will be exempted from the scope of these regulations to the extent that the proposal of the Central Bank of the Islamic Republic of Iran is approved by the Money and Credit Council.

## **2.12 A list of the FATF recommendations regarding financial institutions**

Generally speaking, The Financial Action Task Force (FATF) provides recommendations to combat money laundering, terrorist financing, and other threats to the integrity of the international financial system. Several of these recommendations specifically address the role and responsibilities of financial institutions. Here are some of the FATF recommendations related to financial institutions:

Recommendation 10- Customer Due Diligence (CDD): Financial institutions are required to establish and maintain appropriate risk-based policies and procedures for customer due diligence. This includes identifying and verifying the identity of customers and the beneficial owner, understanding the nature and purpose of customer relationships, and conducting ongoing monitoring of customer transactions.

Recommendation 11- Record-keeping: Financial institutions should maintain records of customer identification and transactions for at least five years after the end of the business relationship or the completion of the transaction. Also, domestic competent authorities shall have access to the transaction records and CDD information upon appropriate authority.

Recommendation 12- Politically exposed persons (PEPs): PEPs are individuals who are or have been entrusted with prominent public functions, as well as their family members and close associates. These individuals may present a higher risk for potential involvement in bribery, corruption, and money laundering due to their positions of influence. This recommendation aims to mitigate the risks associated with PEPs by requiring countries to implement measures to prevent the abuse of their financial systems by these individuals. Specifically, it calls for enhanced due diligence measures for financial institutions when dealing with PEPs, their family members, and close associates. This includes obtaining additional information about the source of their wealth and monitoring their transactions more closely.

Recommendation 13- Correspondent banking: Financial institutions that engage in correspondent banking relationships should conduct enhanced due diligence on their correspondent banks to mitigate the risk of money laundering and terrorist financing. It ought to be against the law for financial institutions to establish or maintain correspondent banking relationships with shell companies. Financial institutions ought to be forced to certify for themselves that respondent institutions forbid shell banks from using their accounts.

Recommendation 14- Money or Value transfer Services (MVTs): This recommendation focuses on money or value transfer services (MVTs). These services, also known as remittance services, involve the transfer of funds or monetary value from one location to another, often across borders, without the physical movement of currency. It sets out guidelines for countries to regulate and supervise MVTs providers effectively to prevent money laundering and terrorist financing. The recommendation emphasizes the importance of ensuring that these providers are subject to licensing or registration requirements, as well as comprehensive anti-money laundering and counter-terrorist financing (AML/CFT) regulations.

Recommendation 15- New technologies: It addresses the challenges and opportunities presented by new and emerging technologies in the context of anti-money laundering and counter-terrorist financing (AML/CFT) efforts. This recommendation recognizes the rapid evolution of technology and its potential to both facilitate financial transactions and create new avenues for illicit activities and underscores the importance of adapting AML/CFT measures to keep pace with technological advancements.

Recommendation 16- wire transfers: Financial institutions that engage in wire transfers should implement measures to identify and verify the originator and beneficiary of the funds. They should also monitor and report suspicious or unusual wire transfer activity.

Recommendation 20- Reporting of suspicious transactions: Financial institutions are obligated to report suspicious transactions to the appropriate authorities. They should have mechanisms in place to detect and report transactions that may be linked to money laundering, terrorist financing, or other illicit activities.

Recommendation 21- tapping-off and confidentiality: According to this recommendation, if financial institutions, their directors, officers and employees report their suspicions to the

Financial Intelligence Units (FIU) in good faith, even if they were unaware of the specifics of the underlying criminal activity and regardless of whether illegal activity actually took place, they should be shielded from criminal and civil liability for violating any restrictions on disclosure of information imposed by contract or by legislative, regulatory, or administrative provision. Furthermore, it ought to be illegal for them to reveal—or "tip off"—that a suspicious transaction report (STR) or related data is being submitted to the FIU.

These recommendations, along with others issued by the FATF, aim to strengthen the anti-money laundering and counter-terrorist financing efforts of financial institutions and enhance the integrity of the international financial system.

Based on the Iran's AML/CFT and the FATF recommendations which discussed above, what is obvious is that Iran's AML legislation and regulations are partially complied with the recommendations of the FATF. Still, the primary barrier is not an insufficiency of laws, but rather an improper application of existing rules. As money launderers frequently transfer their funds to nations with weak financial systems or nations that do not take effective action against money launderers, the Government along set up an extensive and comprehensive anti-money laundering regime in order to succeed in the fight against money laundering must also be determined to implement these laws as best as possible. Such a regime, while informing the public sector and economic activists, also in the private sector about the phenomenon of money laundering and its destructive effects, provides the necessary legal and regulatory tools to deal with money laundering at the disposal of government officials.

The Government should consider this issue that money laundering is a very complex phenomenon and fighting it is not easy at all. Specifically, the fight against money laundering requires the cooperation and coordination of the financial and banking sector on the one hand, the tax affairs organization on the other hand, and the judicial and legal institutions of a country on the other hand. This phenomenon leaves many negative consequences on the economic structure of the society and if it is neglected, it can seriously disrupt macroeconomic policies and it will worsen the situation of Iran's economy. Therefore, it seems to be necessary to reviewing and developing audit guidelines, improving audit quality, improving the methods of determining tax and collecting them, creating culture of paying tax, implementing electronic monitoring, monitoring laws and regulations related to money laundering and monitoring privatization.

However, in the field of effective banking measures, some actions such as membership in



international monetary and financial treaties, foreign exchange control and supervision policy, reforming the country's tax structure, more supervision of free-interest loan funds and credit institutions, creating and establishing an organized and regulatory body, equipping banking systems with modern technology, naming anonymous bank accounts, having statistical reports, categorizing customers based on risk, creating systems for monitoring customer operations in order to identify suspicious cases, effective systems for identifying customers and training employees can be considered as solutions to combat money laundering. In addition, as per the most recent anti-money laundering regulations, the banking sector is required to execute and oversee the guidelines associated with the anti-money laundering laws in order to execute the aforementioned laws and standards and facilitate electronic transactions. When teaching and presenting a model for stopping and combating money laundering, this concept is especially crucial.

However, the legal and banking laws and regulations surrounding money laundering have provided effective principles and regulations that are implemented as a set of proactive and reactive measures to control money laundering before and after it occurs. The most important circulars and banking instructions are:

- Instructions on how to identify customers
- Executive instructions on how to report cash deposits exceeding the prescribed limit
- Instructions on how to determine the expected level of customer activity
- Guidelines for identifying suspicious transactions and reporting methods
- Executive instructions for combating money laundering in exchanges
- Guidelines for compliance with anti-money laundering regulations in the field of electronic banking and payment systems
- Regulations on the necessity of stopping all accounts without a national ID number

Therefore, in summary, the most important and effective banking measures of Iran in the fight against money laundering include the establishment of the Supreme Council for Combating and Preventing Money Laundering Crimes and Financing Terrorism, the establishment of an office under the same title in the Central Bank, and the subsequent requirement to establish this administration in all banks and financial institutions, approving the required circulars, regulations and instructions and communicating them to the banking system, preventive measures, external

controls of the central bank, use of monitoring and anti-money laundering systems, regional measures and agreements and international cooperation to combat money laundering, employee training, etc.

## **Chapter three**

### **Challenges in implementation of the FATF Recommendations in Iran**

## **Introduction:**

Regarding the implementation of the FATF recommendations in Iran, as we discussed in the previous section, in detail, the Islamic Republic of Iran has taken some steps to implement these recommendations. Indeed, by approving and implementing laws and regulations as well as relevant instructions in this field, Iran has been able to take great steps in line with international laws and regulations. So that the most important and effective methods of dealing with money laundering and financing of terrorism in cases such as customer identification, risk review and assessment, reporting system, employee training, etc. are provided in the internal banking and legal documents and regulations.

In addition, the criminalization of money laundering and terrorist financing and the details of the punishment for the perpetrators of these crimes are also among the most important legal measures of Iran, which are in accordance with international laws and documents, and it has been made possible by amending the executive regulations of the anti-money laundering law, as well as amending and promulgating the executive regulations of the anti-terrorist financing law. Nevertheless, it can be said that, despite the efforts made and the amendment of some laws, Iran's banking and legal system, which even according to the FATF reports, are good, effective and progressing steps to fight ML/FT in Iran, has not been still completely in line with the principles and regulations of international law and has still put Iran on the blacklist of the Financial Action Task Force.

The implementation of FATF Recommendations in Iran faces several challenges. In the following, we would like to discuss what challenges have caused Iran to show no desire to accept all provisions of the FATF recommendations and on the hand, what challenges has Iran faced by being on the black list of FATF?

### **3.1 challenges in the implementation of FATF Recommendations in Iran**

Some of these challenges are:

#### **3.1.1 The existence of a Political Distrust atmosphere and fear of information disclosure**

One of the issues that has made Iran reluctant to accept all FATF recommendations is the existence of a political distrust atmosphere between Iran and the USA and the fear of information disclosure. Indeed, the issue that makes Iran's situation complicated and special compared to other

FATF members is the numerous and unilateral US sanctions against Iran. So that it can be safely said that these days there is hardly any field that is not sanctioned by the USA. To better understand this issue, we should take a brief look at the reasons and structure of US sanctions (and part of US allies) in implementing these sanctions against Iran.

Before the 1979 revolution in Iran, the Iranian monarchy had close relations with the United States and was considered the main ally of the USA in the Middle East. According to the revolutionaries, the relationship between the monarchy and the United States was beyond the alliance, and in reality, the United States interfered in many internal affairs of Iran, including the coup on August 15, 1953 (according to CIA documents) and other cases in which the USA, with the support of the King of Iran, played a role in preventing the Iranian people's desire for democracy and suppressed the voices of the protesters. Therefore, one of the slogans of the 1979 Iranian revolution was the independence of the country and the non-interference of the foreign governments in the internal affairs, after this revolution the relations between Iran and the USA led to a mutual lack of trust and the foundation of an almost comprehensive confrontation between the two countries.

#### **The beginning of sanctions against Iran:**

Shortly after the revolution of 1979, the USA embassy was captured by the revolutionaries and the embassy employees were arrested by the new government for planning to overthrow the revolution and were imprisoned in Iran for a year. This incident dealt a major blow to the relations between the two countries and brought two countries that had close relations before the revolution face to face. To the point that, according to the officials of Iran at the time, a coup plan against the revolution was discovered, and the defendants admitted that the USA supported this coup, and the coup plan was defeated (Nojeh coup). After that, in 1981, the longest war of the 20th century between Iran and Iraq happened for eight years, in which nearly one million Iranians were killed and injured. In this war, the USA turned to support Iraq and sold conventional and non-conventional (chemical) weapons to Saddam Hussein (the ruler of Iraq) and Saddam also targeted a number of Iranian cities with these chemical weapons and killed a large number of people. This was not the whole story, and the next influential event in the midst of the war with Iraq was the support of the United States to a group in Iran called the Mujahideen, who resorted to armed actions and bombings in public areas in order to gain power in Iran and the fall of the Iranian revolutionary government, which nearly twelve thousand people were killed during numerous

terrorist operations of this group in Iran, and even in one of the bombings of this group in the presidential center of Iran, the prime minister and a large number of cabinet members and deputies were killed. Also, at the end of this war, the Iranian and American forces even had a direct fight, and the American navy targeted several Iranian military ships in their operations.

Finally, in 1989, the war ended, and shortly after the end of the Iran-Iraq war, a period of political and social reforms began in Iran. In this new era, the Iranian government has built on cooperation and peace with Western countries, especially the European Union, in the hope that this way will slowly reduce the atmosphere of cold and hostile relations with the United States and begin a new season and era of cooperation between them. Between the years 1990-2003, the intensity of hostilities decreased to the point where, according to Iranian statesmen, one of the most difficult political decisions was taken by Iran, and as a goodwill gesture to the USA to attack Afghanistan in 2001 and destroy Al-Qaeda<sup>1</sup> provided intelligence assistance.

After that, in the early years of the 21st century, Iran was accused by the United States of building a secret uranium enrichment facility with a low purity percentage, in the same ten-year period when the intensity of tensions had decreased. Once again, the tensions between the two sides rose over Iran's nuclear energy case, Iran declared enrichment to be peaceful and to provide fuel for the Bushehr nuclear power plant, but the other side considered enrichment as a way to obtain nuclear weapons. Anyway, a new period of tension started with the USA in 2003 and continues to this day and in many years, negotiations between the members of the United Nations Security Council, Germany, and Iran were held many times and in different countries.

At the same time, in this new period of tensions, at least 5 Iranian nuclear scientists were assassinated in different ways, and there were many security sabotages and bombings in Iran's nuclear power plants and factories, which Iran made the USA and Israel responsible for these sabotages and assassinations. This also caused the Iranian government to distrust the International Atomic Energy Agency, because according to them, the sensitive maps of the enrichment sites and the names of the scientists involved in these projects were leaked by the inspectors of the international agency and reached the security services of the USA and Israel, and these plans of sabotage and terror have been done by using these confidential information.

Due to the unsuccessful negotiations that have been going on since 2003 regarding Iran's nuclear engineering case, resolutions against Iran were approved in the Security Council between

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1- the terrorist group that was involved in the incident of September 11

2006-2010, which initially sanctioned legal entities and companies active in the field of enrichment activities, and in subsequent resolutions, the sanctions gradually intensified and led to shipping and insurance lines, sanctions on all Iranian banks and joint banks, all financial transactions and investments in Iran, and all military affairs<sup>1</sup>.

After almost 5 years of all-round sanctions, negotiations started again and the process of nuclear negotiations continued until 2015 and the parties (Iran and the USA) along with members of the Security Council reached a comprehensive agreement (Joint Comprehensive Plan of Action) that all the previous sanctions decisions of the Security Council should be canceled<sup>2</sup> and the unilateral sanctions of the United States should also be abandoned. According to this agreement, a new chapter was created for the trust between the parties (Barack Obama's administration).

After the international agreement of 2015, the normalization of relations was put on the agenda and a window of hope for peace and reduction of political tension was opened after nearly forty years between Iran and the West. Since Iran's financial and banking services were sanctioned in the time intervals of 2010-2015 according to the resolutions of the Security Council, now, in order to facilitate trade and banking relations, the Iranian government was encouraged to put aside the atmosphere of mistrust and engage more in the field of multilateral cooperation. In order to benefit from the advantages of ease in commercial and banking communications after the lifting of sanctions, Iran needed to get the positive opinion of the convention to be included in the FATF white list and for this purpose, it approved the desired laws in a short period of time and almost everything was going well till Donald Trump became the president of the United States.

After the election of Donald Trump, there was a discussion of the USA's withdrawal from the 2015 agreement in the media, and this issue overshadowed Iran's negotiations with the FATF convention, and the Iranian government wanted more time for the final approval of the FATF until the decision of the USA was clarified. Finally, in early May 2018, three years after the aforementioned international agreement, the United States suddenly announced the withdrawal of the July 2015 comprehensive agreement and unilaterally withdrew from this international and multilateral agreement, and then signed the order of return of all United States sanctions against Iran.

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1-Resolutions of the United Nations Security Council No. 1747-1737-1696-1929-1835-1803

2-Resolution No. 2231

After the official announcement of Donald Trump, Iran was once again subjected to unilateral sanctions by the United States in all economic fields, but this time these sanctions were applied more severely on Iran, and the scope of these sanctions ranged from the export of oil and petrochemical products, commercial and banking affairs, dealing with dollars, SWIFT and investment in Iran went further and reached the sanction of legal and individuals and small companies. In this way, any international bank or company (in almost all fields) that deals with Iran will be subject to the USA sanctions. Donald Trump's unilateral withdrawal from an international agreement in which all the members of the UN Security Council were present opened the window of mistrust of the US in the ruling government of Iran, and despite these sanctions, the Iranian government was forced to create an informal structure to circumvent the sanctions to meet the minimum needs of the country. Therefore, after the new sanctions, Iran's commercial exchanges and monetary transfers are being done cautiously despite banking sanctions for non-identification (individuals and companies) by the US Treasury. And Iran provides export and import needs in several ways in order to bypass the sanctions and preserving the life of the country.

#### **Iran's methods to circumvent the sanctions:**

- **Exchange goods for goods (commodity-to-commodity exchange)**

Iran exports to any country, supplies the goods it needs from the market of that country. For example, China is the biggest buyer of Iran's oil and petrochemical products, due to the USA sanctions and lack of access to the international banking system, a large part of this money is spent on buying Chinese products and these goods are imported to Iran.

- **Intermediate companies in international trade**

In order to meet its import needs, Iran has to meet these needs from the markets of the countries it exports to. In this way, the income from the export is given to intermediary companies, and these companies buy goods from the Chinese market, for example, and transfer them to a neighboring country of Iran, and from there they are re-exported to Iran. (Either these goods are made in China or made in other countries that are available in the Chinese market). For example, if a European product is needed by Iran, this product is imported to China through intermediary companies and then imported to Iran



- **Network of international exchanges**

A part of Iran's export money to the target countries is also transferred to Iran's neighboring countries outside the banking network and through exchange offices and arrives in Iran in cash.

- **Finance**

With the coordination between the government of Iran and China, a part of Iran's export money to China is used to finance contracting projects and technical engineering services in Iran by Chinese companies. For example, some railway projects and oil industries are now being built by Chinese contractors.

Therefore, Iranian officials are concerned that the implementation of FATF measures may lead to the disclosure of confidential information related to these methods using by Iran to circumvent the sanctions. This fear can cause restrictions in cooperation with international organizations and countries and intensify international discrimination for Iran.

Since Russia has been experiencing sanctions similar to Iran in the last two years, the governments and central banks of the two countries recently made two important decisions that may help bypass the sanctions of both countries. In fact, these two countries are looking to remove the dollar from their trade exchanges and replace them with rial to ruble exchanges. Also, increasing the level of banking cooperation between the two countries, that according to this plan, the banking networks of these two countries are supposed to be linked together to improve financial exchanges, and they are trying to define a monetary and banking system to replace SWIFT and the dollar, which are sanctioned. The new banking network is parallel to the current international banking network and encouraging other countries to join this banking network.

### **3.1.2 A huge difference in the definition of terrorism from the perspective of FATF and Iran**

In 2007, the Islamic Republic of Iran was put on the list of countries that threaten the international financial system, accused of supporting terrorism and providing financial aid to resistance groups. With the same argument, FATF warned other countries about the high risk of trading and establishing business relations or investment in Iran. In addition, FATF explained that Iran and North Korea are the two countries that have the highest financial and investment risk in

the world. The question arises here is what the problem is?

The main problem is the huge difference in the definition of terrorism from the perspective of FATF and Iran. From FATF's point of view, Lebanon's Hezbollah, Quds Force, Hamas, Islamic Jihad, Ansarullah and all the resistance forces that are involved with arrogant powers and their puppet regimes to preserve and protect their ancestral lands are called terrorists. This is despite the fact that from Iran's point of view, as stated by the leader of Iran, terrorism, that is, an organization, group or government, wants to carry out its work by creating terror, murder and insecurity. A collection to achieve sinister goals, to destroy a number of people of any type and gender anywhere, without any specific enmity and without any crime or sin.

Based on this, FATF introduces the normalization of Iran's commercial and economic relations with other countries only if it is possible to accept that Iran stops supporting the groups they consider to be terrorists.

### **3.1.3 Political issues**

Some of the FATF measures are faced with political differences inside Iran, which can slow down their implementation. Decisions related to changing laws and financial and security policies can be influenced by political factors and cause delays or changes in the implementation of measures.

### **3.1.4 Providing financial resources**

The implementation of FATF measures requires providing financial resources to create the necessary infrastructure and fulfill financial obligations which is time-consuming and expensive, and may face budget restrictions that prevent rapid progress in the implementation of measures. It is also required to provide resources to implement necessary programs and may be raised as an important challenge because it requires a large investment to improve the regulatory system and increase the financial capabilities of banks and government institutions. As a result, the inability to provide these resources may delay the implementation of measures and have negative effects on the country's economy.

### **3.1.5 Security measures**

Some FATF measures may conflict with domestic security measures. For example, some privacy practices may conflict with security measures. This can be criticized by some institutions and authorities for internal security reasons and lead to challenges in the implementation process.

### **3.1.6 Resistance of some institutions**

Some political and economic institutions and groups in Iran may show their opposition to the implementation of FATF measures, which can lead to the closure or delay of the implementation process and prolong the process of adapting to international standards.

### **3.1.7 Imposing sanctions**

Violation of FATF measures could result in more sanctions being imposed on Iran, which would directly affect the economy and society's welfare. These sanctions can include banking restrictions, blocking access to international markets and reducing foreign investment, which can affect economic growth and employment in the country.

### **3.1.8 Greater control over financial transactions**

The implementation of FATF measures requires more monitoring of financial transactions, which can lead to an increase in costs and time required to conduct financial transactions. This issue can affect the commercial and economic relations of countries and create additional pressures on the banking and financial system.

### **3.1.9 Structural changes in institutions**

In order to implement the FATF measures, structural changes are needed in the institutions related to Iran's financial and security system. These changes may face resistance and opposition in some institutions and slow down the implementation process, because it may require changing existing laws and regulations and even modifying parts of the institutional structure.

### **3.1.10 Political and legal changes**

To implement FATF measures, political and legal changes are needed in Iran. These changes may require amending existing laws, creating new laws, and changing financial and security policies. This process may be time-consuming and complex, and may be fraught with risks and political opposition that can slow down and delay the implementation process.

For instance, the two important conditions of the FATF were related to the amendment of the two domestic laws against money laundering and the fight against the financing of terrorism, which the previous government of Iran presented in the form of two bills, under the names, "Amendment of the Law on Combating Money Laundering" and "Amendment of the Law on Combating the Financing of Terrorism" to the parliament of Iran and due to the availability of its platform, it was approved by the parliament and approved by the Guardian Council. Although the bill to amend the anti-money laundering law took a longer time to be approved and was finally

approved by the Council of Expediency.

But the big and unsolved knot of this issue was dedicated to two other bills, and that was Iran's accession to two international conventions, which experienced a strange fate.

The government submitted the bill "Iran's accession to the International Convention against the Financing of Terrorism (CFT)" and the bill "Iran's accession to the United Nations Convention against Transnational Organized Crime (Palermo)" to the parliament, and after many ups and downs It was approved, but both approved bills were faced with objections of contradictions with the higher laws by the Supreme Supervisory Board of the Expediency Recognition Council. Two important bills that were caught in the back and forth between the parliament, the Guardian Council and the Expediency Council, and finally, about the last two bills, the then chairman of the Council of Expediency wrote several letters to the Secretary of the Guardian Council, and in a consultative opinion, the contradictions of these bills declared with upstream rules and in the end, they were never approved.

Eventually, despite all the efforts, Iran was added again to the FATF blacklist in February 2020. According to the statement issued at the end of the periodic meeting of this organization, all countries were requested to take countermeasures in financial exchanges with Iran and to make sure that the risk of money laundering and financing of terrorism due to Iran's banking system does not spread to other countries.

### **3.1.11 Facing external pressures**

Iran may face external pressure in implementing the FATF measures, especially through international sanctions and political pressure from countries and international organizations. These pressures may lead to a delay in the implementation of measures, new sanctions, and a reduction in international cooperation in the financial and economic fields, which weakens the country's economy and well-being.

### **3.1.12 Civil society resistance**

Iranian civil society may oppose FATF measures, especially if the measures are likely to lead to increased government surveillance of civil and economic activities. This resistance can create internal pressures to change policies and implement measures, which may lead to delays in their implementation.

### **3.1.13 Impact on international communication**

Lack of progress in the implementation of FATF measures can lead to the weakening of Iran's international relations with other countries and international organizations. This issue can lead to tensions in international relations and increasing Iran's isolation in the international community, which may lead to more sanctions and the loss of international cooperation in various fields.

### **3.1.14 Dynamics and changes in the financial and administrative system**

The implementation of FATF measures requires significant changes in the country's financial and administrative system. These changes may require amending laws, determining new duties for relevant institutions, and structural changes in banks and financial institutions. This process is complex and time-consuming and requires agreements and coordination between different types of public and private institutions, which may face various risks and lead to delays in the implementation of measures.

## **3.2 The effects of Iran's inclusion in the blacklist of the FATF**

As mentioned, since Iran's inclusion in the FATF blacklist coincided with the paralyzing and unilateral sanctions of the United States, it is not possible to examine the exact effects of Iran's inclusion in the blacklist without considering the comprehensive sanctions of the United States, and both of these cases have had devastating effects on Iran's economy as well as the Iranian people. We will examine these negative impacts below:

### **3.2.1 From an Economic point of view:**

- According to the relevant officials, in the absence of free and international monetary and banking exchanges, the cost of trading through intermediaries for the Iranian government and companies has increased by at least 30%.
- The volume of Iran's exports has been limited to countries that are willing to cooperate with Iran, and along with the decrease in the volume of exports, Iran's export markets have also been lost. For example, according to Iran's customs statistics, trade exchanges with a number of countries, including Italy and Greece, which during 2000-2010 were Iran's third and fourth trading partners, have greatly decreased, and today the name of these two

countries are not even among the top ten countries trading with Iran. On the other hand, these days China has become Iran's biggest trading partner.

- The risk of money transfer has greatly increased and there are many reports that Iranian businessmen have lost their money through unreliable exchanges.
- These financial restrictions have caused Iranian factories, industries and producers to face many problems in the field of raw material supply, high raw material prices, as well as the loss of their export markets, and a large number of them have gone bankrupt in the meantime. The first chart below demonstrates the producer price of Iran and the second one is related to the Iran's industrial production.

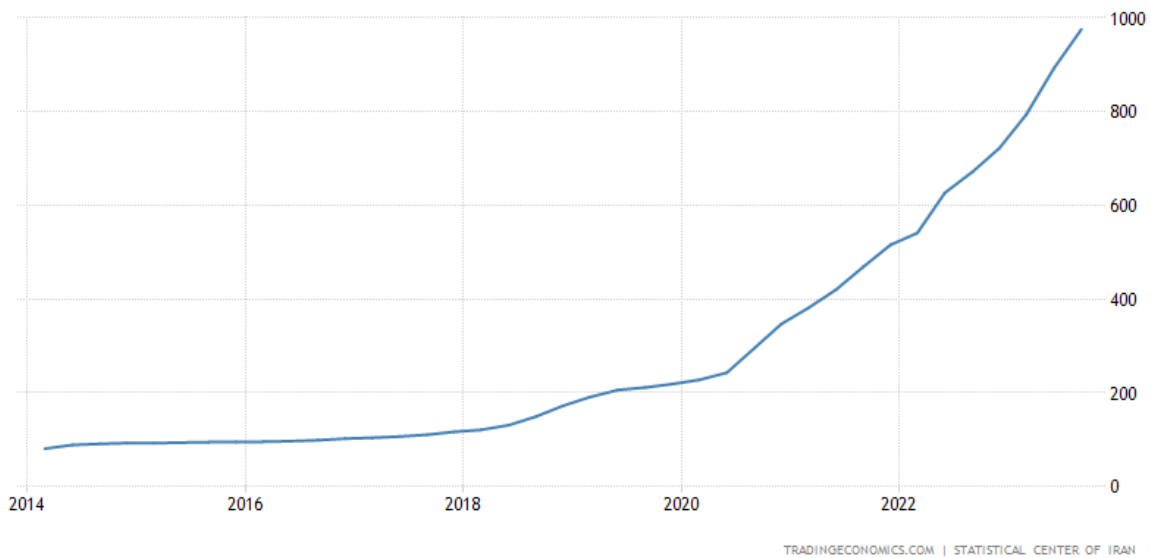


Image 1: producer Price in Iran, taken from [fa.tradingeconomics.com](http://fa.tradingeconomics.com)



Image 2: Iran's industrial production, taken from fa.tradingeconomics.com

- We mentioned earlier that Iran exports to any country, supplies the goods it needs from the market of that country, in this case, this exchange of goods for goods with other countries has led to a sharp decrease in the quality of imported items from the target countries.
- The import of goods from China, based on the exchange of goods for goods, has put additional pressure on Iranian suppliers and has caused bankruptcy and increased the unemployment rate in the society. For example, Iranian clothing manufacturers who could not compete in this field due to the low prices of Chinese products.
- A number of Iranian banks have gone bankrupt due to the lack of cooperation with large banks and the use of foreign capital and loans, and this has caused pressure on the Central Bank of Iran to be accountable and compensate the people for their losses.
- In many cases, the government has had problems in providing basic pharmaceutical products for the society. Therefore, on the one hand, the government is facing a problem in providing drugs for specific diseases and also hospital equipment, and on the other hand, people are fed up with the provision of these drugs, and many times they personally buy their drugs from the other countries at a free rate and several times the domestic price. Even in 2020, the preparation of the corona vaccine for general vaccination in Iran was delayed by several months, which caused a severe epidemic of the corona virus and placed Iran at the top of the red zone countries with a high number of deaths.

- Iran's export earnings have decreased greatly, so that according to the unofficial estimate of the Ministry of Economy of Iran, in the last ten years, it has had a financial loss of more than one trillion dollars in the oil and petrochemical sector alone. This is because according to the statistics, in 2005, before the sanctions, Iran produced about four million barrels of oil per day, and it was the second place in OPEC oil production. The chart below shows the crude oil production of Iran.



Image 3: Iran's crude oil production, taken from [fa.tradingeconomics.com](https://fa.tradingeconomics.com)

- Due to the lack of access to foreign investments and the cooperation of large industrial and oil companies, Iran's large industries (petroleum and petrochemical, steel, mines, etc.) lag behind modern technology and suffer from equipment depreciation and reduced productivity.
- The presence of banking and monetary sanctions (dollars) and Iran's lack of access to international banks have caused the loss of export markets and problems in the return of export earnings, as well as lack of investment and capital flight. All these cases have led to the shrinking of Iran's economy and very high inflation rates in the last few years and have affected all the pillars of Iran's economy, industry and society. The declared inflation rate last year in Iran was more than 50% and it was the same in the previous years as well. This,



in turn, has caused a very severe class gap in Iran, so that the rich are getting richer and the poor are getting poorer day by day. The chart below shows Iran's inflation rate:



Image 4: Iran's inflation rate, taken from [fa.tradingeconomics.com](http://fa.tradingeconomics.com)

Also, since 2018 (after Trump's withdrawal from the agreement), the value of Iran's national currency has fallen drastically and has been ranked among the most worthless currency in the world. In a four-year period, the Iranian currency (Rial) has lost 94% of its value compared to the Dollar. The Rial to Dollar parity rate in 2015, which was 35,000 Rials equivalent to one Dollar, has reached 600,000 Rials equivalent to one Dollar in February 2024.

- Inflation pressure and sanctions have caused an increase in price of goods, and on the other hand, it has led to a decrease in the value of the minimum wage. So that in 2017, the minimum wage is approximately equivalent to 265 Dollars and in 2022 it is equivalent to 97 Dollars. The chart below illustrates the consumer price index (CPI) of Iran.



Image 5: Iran's consumer price in dex (CPI), taken from fa.tradingeconomics.com

- With the increase of capital flight and the decrease of foreign investment and various risks, Iran's economy has moved towards becoming more governmental and the government's involvement in economic affairs has also increased. The following chart demonstrates the volume of direct foreign investments in Iran (in million USD).

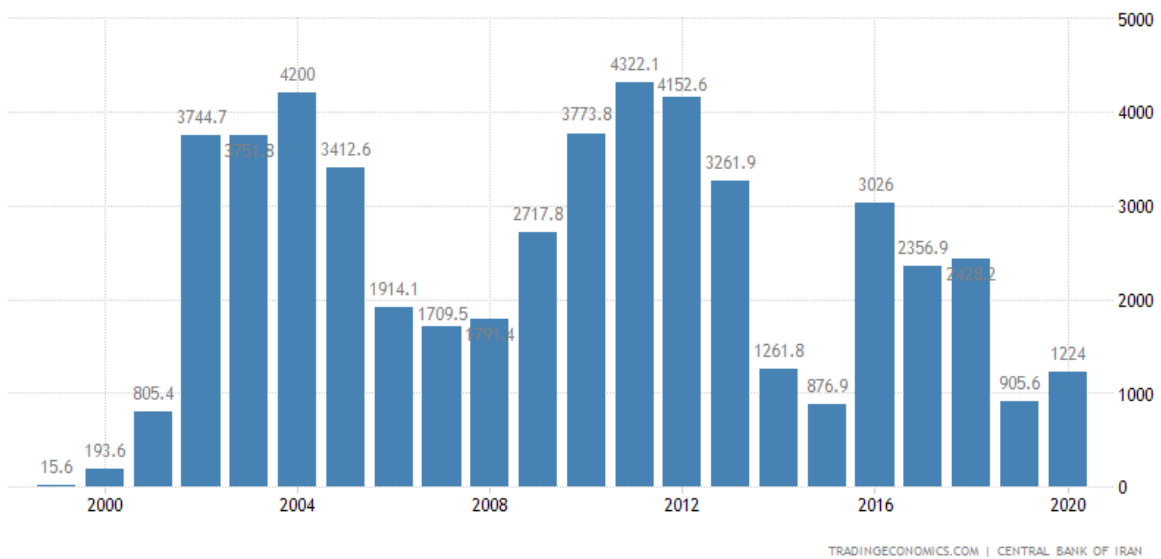


Image 6: Iran's direct foreign investment, taken from fa.tradingeconomics.com

- In the conditions of deteriorating economic freedom, transparency has decreased, and this has led to an increase in government rents, financial corruption and also an increase in various types of theft, embezzlement, and fraud. The following chart shows the rank of financial corruption in Iran.

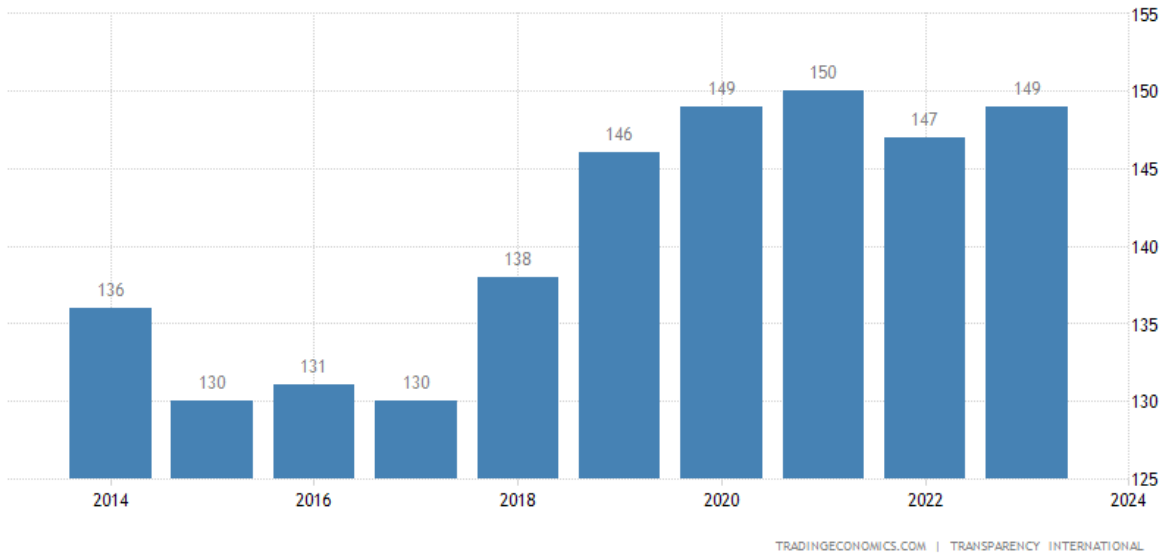


Image 7: Iran's rank of financial corruption, taken from [fa.tradingeconomics.com](http://fa.tradingeconomics.com)

- In order to preserve the value of money, people's capitals have gone toward real estate sector and the sharp increase in the share of real estate in Iran's economy is evident, and on the other hand, capital has left the production sector and mediation has increased.
- The blocking of Iran's export earnings in different countries is another case worth mentioning. For example, 7 billion dollars from Iran's oil sales to South Korea were blocked in Korean banks after the imposition of the USA sanctions against Iran in 2017. And in 2022, with the permission of the USA, this amount was released after several years. Since this amount was blocked in South Korean currency (won), after the release of this amount, Iran lost 1.1 billion dollars. The reason for that was the depreciation of won against the dollar in these few years. And by converting won to dollars in Switzerland, this amount was deposited to Qatar Bank. In the end, 7 billion dollars reached 5.6 billion dollars after deducting all the exchange rate conversion costs. And after at least 5 years, Iran got its own money with a loss of 1.4 billion dollars. Or other amounts of about 2 billion dollars that were blocked in Iraqi banks from Iran's electricity export to Iraq.

Or similar cases in India, where in the end Iran had to choose commodity-to-commodity export instead of its money and import rice and spices from India for the sale of oil and petrochemical products. According to Iranian and American officials, about 100 billion dollars of Iranian resources have been blocked in different countries (Since there is no transparency in these matters, our discussion is limited to the statistics of the media).

- The negative economic growth and government budget deficit in recent years and the lack of new investments in various sectors will result in the lack of development and a sharp decrease in productivity and the worsening of the dire economic situation in the coming years. The following chart illustrates Iran’s government budget as a percentage of GDP.

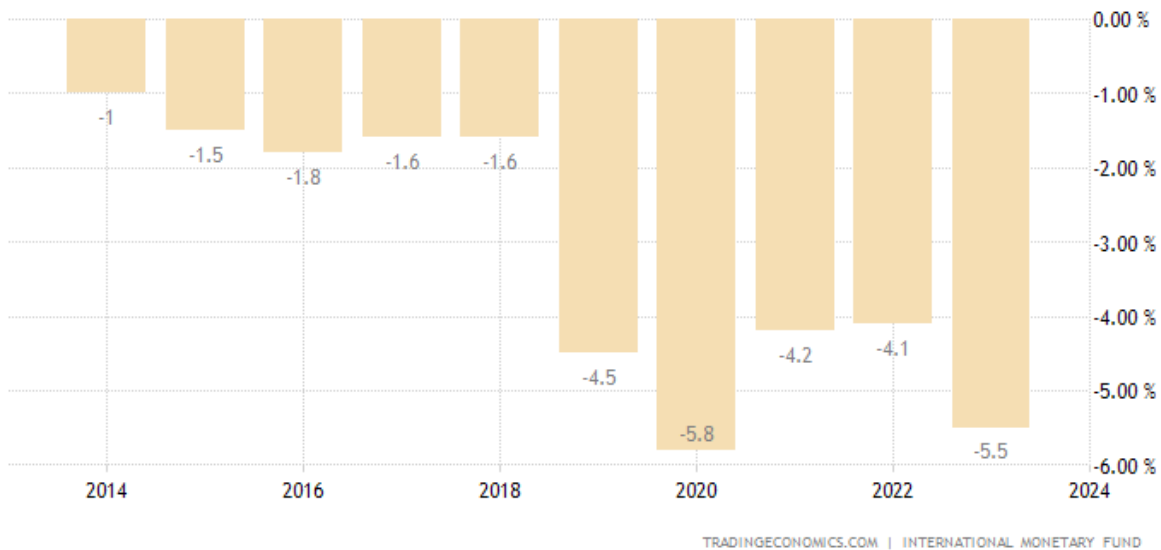


Image 8: the budget of Iran’s government, taken from fa.tradingeconomics.com

- Despite the banking sanctions, the income from the tourism industry has also decreased greatly, and Iran, which is considered one of the ten countries with natural and historical tourist attractions, has had a noticeable drop in attracting tourists.
- Iran's ports have also faced a decrease in ship berthing and transit revenues have decreased. Likewise, Iran's skies, which are geopolitically the closest access routes from Asia to Europe and can be an air highway, have faced a sharp decrease in air transit revenues due to the change in the route of international flights.

Generally speaking, to illustrate the situation of Iran's economy due to the effect of being in the black list of FATF on one hand, and the USA sanctions on the other hand, we have decided to examine the economy condition of Iran in the years before and after the Joint Comprehensive Plan of Action. We have already stated that in 2015, Iran and the members of the Security Council reached a comprehensive agreement which is called JCPOA. According to the chart below, the Statistics show that in the four years before the JCPOA, Iran's economy was facing stagnation and Iran's gross domestic product decreased from 626 billion dollars in 2011 to 408 billion dollars in 2015. In the two years after the nuclear agreement, Iran's economy witnessed a rapid growth, so that the gross domestic product reached 486 billion dollars in 2017. An unprecedented volume of negotiation meetings and trips and visits of foreign delegations to Iran was formed, which was a new image for investors. The growth of oil production and the experience of achieving significant economic growth along with controlling and curbing inflation were other strengths of the government due to the agreement. However, the openings created and hope for the post-JCPOA era did not last very long, the internal political rivals of the Iranian president at the time sent a different message to the world with their comments and actions, which made it difficult for the other sides of the JCPOA negotiations to have little confidence in their easy presence and investment in Iran's economic plans. The unveiling of the Quds Force's missile plans, the Iranian leader's distrust of the Westerners, and the excuses of the Western parties, especially the United States, made the work difficult from both sides. Finally, with the change of the American president and the coming to office of Donald Trump, who calls the JCPOA the worst agreement in history, the happy period of Iran's economy also ended. Adopting the strategy of maximum pressure against Iran, reducing oil exports to zero, intensifying sanctions against all economic sectors of Iran had an unprecedented effect on all economic developments.

The currency jump and the shock resulting from the increase in the price of other goods and services, the crisis caused by the sudden increase in the price of gasoline in 2019 and the unprecedented suppression of protesters throughout Iran, and the sharp drop in the rate of economic growth were other consequences of the withdrawal of the United States from the JCPOA. Therefore, only in the next three years after the unilateral withdrawal of the USA, economic growth decreased dramatically and Iran's gross domestic product reached 239 billion dollars in 2020. The chart below shows Iran's GDP during these years (in billion USD).

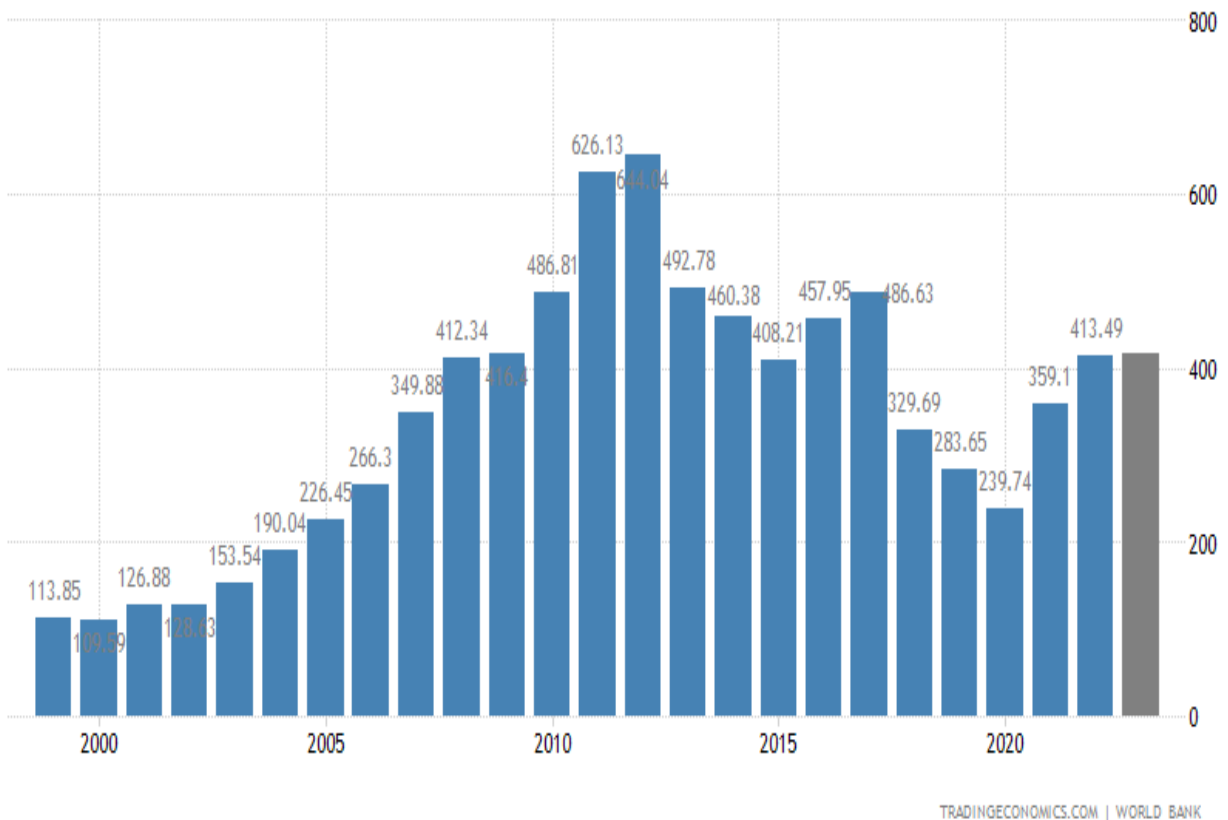


Image 9: Iran's GDP chart, taken from fa.tradingeconomics.com

### 3.2.2 From Social point of view:

- The bad economic conditions in Iran have led to a sharp increase in the demand for immigration, especially among elites and university-educated people and capitalists from Iran, which has caused the loss of strong human capital in the society in such a way that according to Iranian experts, in the near future, Iran will face a shortage of human resources in specialized fields. Also, the withdrawal of capital with entrepreneurs who are considered as the driving force of a country's development is another problem.
- Economic pressures, high inflation, increase in unemployment rate and decrease in the amount of the wages have caused an increase in the Gini coefficient and class gap and subsequently have also increased social crimes.
- In addition, it has increased stress, anxiety, decreased hope for the future, divorce, mental pressure and depression, and greatly reduced the birth and marriage rates.

Statistics show that in 1986 the growth rate of Iran's population was 3.9. The World Health Organization had considered several scenarios for the country's population. In the worst case, Iran's population rate was supposed to reach one in 2040, but this figure has reached 0.6 in 2023. Also, in 1986, every Iranian woman of reproductive age had a fertility rate of 6.3 children, but now the total fertility rate in Iran has reached 1.65. This reduction in population fertility, which occurs in countries such as England or America in 100 years, occurred in Iran in only 4 to 10 years.

## **Conclusion:**

As mentioned above, the atmosphere of political mistrust for several years and the tension prevailing in the relations between Iran and the United States, which reached its peak in recent years after Donald Trump withdrew from the 2015 agreement, closed the window of hope that had been opened and the new period of the USA presidency could not break this mistrust atmosphere. Unfortunately, this path is not in line with sustainable peace and mutual cooperation and international economic and social peace, and therefore a good prospect for expanding cooperation both within Iran and within the United States cannot be imagined.

On the other hand, these unilateral sanctions, which Washington officials refer to as crippling sanctions, have been the main factor in creating heavy costs for Iran, which have had many destructive effects on Iran's economic and social indicators. Therefore, the Iranian government has to cooperate with international intermediary companies and exchanges to avoid the sanctions, even away from the eyes of Washington! Because according to the sanctions, cooperation with Iran is equal to the sanctions and fines of those companies by the US Treasury and finally the closing of Iran's current airway.

Therefore, although joining FATF can have great advantages for conducting banking transactions and reducing risk and intermediary costs for Iran, and for this purpose, Iran has also taken positive steps and by updating anti-money laundering laws, fighting terrorism and Narcotics have amended these laws in accordance with the request of the convention and also their instructions are being implemented in Iran's domestic banking system, but this atmosphere of political mistrust between Iran and the USA for several years and the great challenge of unilateral sanctions by the USA cannot convince the Iranian government to accept all clauses of the FATF. Especially the clauses related to financial transparency, which, from the point of view of the

Iranian government, it makes possible to monitor and disclose information in the general meetings of the convention, lead to fully identify the ways Iran uses to circumvent the sanctions and the companies involved in this matter, and subsequently the United States Treasury by sanctioning these companies close Iran's ways of escaping from the intense pressure of sanctions (Similar to the leak of information by inspectors of the International Atomic Energy Agency).

Although evading the sanctions in the ways mentioned above is risky and involves a lot of costs, in the current situation of Iran, it means death or leaving a way to breathe for life. In fact, Iran prefers to choose the second option if it has to choose one of two options: joining FATF and closing the breathing path and not joining FATF and keeping the breathing path open.

According to the above-mentioned cases, it seems that the most important challenge for Iran to join FATF is the unilateral sanctions of the USA, and in such a situation, Iran considers the risk of joining FATF to be very high. By considering the special situation of Iran compared to other members, Iran wants a third option:

And that is nothing but joining the convention “under the special conditions” so that they can maintain the conditions of evading sanctions in addition to fulfilling the convention's demand.

For instance, regarding the joining the convention “under the special conditions”, The story of Iran and FATF entered a new direction by accepting Iran's renewed request to withdraw from the Seventh Recommendation of this group by the Financial Action Task Force. In response to Iran's request to remove its name from the seventh recommendation, FATF accepted this request and announced that amendments and changes in its standards related to United Nations Security Council Resolution 2231 has announced to all member countries and the global anti-money laundering network. Indeed, FATF has carried out two actions against Iran, one of which was placing the name of Iran in the blacklist, which is still ongoing and the second action was based on sanctions resolutions against Iran, which were carried out in the form of recommendations known as paragraph 7, and recommendations were given to the member states about Iran's properties and assets.

### **What is the seventh FATF recommendation?**

Recommendation 7 of the Financial Action Task Force (FATF), under the name “Targeted financial sanctions related to proliferation” is about targeted sanctions related to the proliferation of weapons of mass destruction, which requires countries to implement stated measures, such as confiscation of funds and assets of designated persons, without delay, in line with the resolutions



of the United Nations Security Council. This recommendation was added to the group's numerous recommendations since 2012, which are entirely focused on targeted financial sanctions and, by virtue of these sanctions, countries (particularly financial institutions and designated non-financial businesses and professions) are obliged to seize without delay the funds and other assets of the individuals and institutions designated by the United Nations Security Council and ensure that no funds or assets are directly or indirectly available to these individuals (or for their benefit).

Mentioning the name of Iran under the Seventh Recommendation, although apparently it only included a few Iranian individuals and legal persons, but in practice about 200 members of the global network of the FATF (which included different countries and jurisdictions) when were evaluated regarding the implementation of the recommendations of this group, had to mention the name of Iran under this recommendation. But what seems important is to remove the name of Iran from such a title. To the point that, Iran hopes that with this action, The risk of trade relations with Iran will be reduced and it will benefit from the international interactions.

Of course, this point should be taken into consideration that according to the graphs and economic indicators provided, Iran has been able to reduce the severity of the heavy tensions that were imposed on Iran's economy in the first three years of the paralyzing US sanctions by using the methods mentioned to circumvent the sanctions. The increase in the production and export of oil and petrochemical and mineral products has improved the economic growth rate and increased export earnings in the last two years compared to 2017-2020. This is considered an important achievement by the Iranian government, which, despite the severe sanctions of the United States and being on the FATF blacklist, has been able to make an important part of the economic indicators positive in the last three years. And this hope has arisen in the Iranian government that it can continue this positive trend with all the challenges and difficult conditions that Iran's economy has faced.

## **Appendix 1:**

### **FATF Member countries (February 2024):**

|                           |                      |
|---------------------------|----------------------|
| Argentina                 | Japan                |
| Australia                 | Korea                |
| Austria                   | Luxembourg           |
| Belgium                   | Malaysia             |
| Brazil                    | Mexico               |
| Canada                    | Netherlands          |
| China                     | New Zealand          |
| Denmark                   | Norway               |
| European Commission       | Portugal             |
| Finland                   | Russian Federation * |
| France                    | Saudi Arabia         |
| Germany                   | Singapore            |
| Greece                    | South Africa         |
| Gulf Co-operation Council | Spain                |
| Hong Kong China           | Sweden               |
| Iceland                   | Switzerland          |
| India                     | Türkiye              |
| Indonesia                 | United Kingdom       |
| Ireland                   | United States        |
| Israel                    |                      |
| Italy                     |                      |

\* FATF suspended membership of the Russian Federation on **24 February 2024**

## **FATF Observers**

African Development Bank

Anti-Money Laundering Liaison Committee of the Franc Zone (CLAB)

Asian Development Bank

Basel Committee on Banking Supervision (BCBS)

Camden Asset Recovery Inter- agencyNetwork (CARIN)

Council of Europe

Egmont Group of Financial Intelligence Units

European Bank for Reconstruction and Development (EBRD)

European Central Bank (ECB)

Eurojust

Europol

Group of International Finance Centre Supervisors (GIFCS)

Inter-American Development Bank (IDB)

International Association of Insurance Supervisors (IAIS)

International Monetary Fund (IMF)

International Organisation of Securities Commissions (IOSCO)

Interpol

Interpol/Money Laundering

Organization of American States / Inter-American Committee Against Terrorism (OAS/CICTE)

Organization of American States / Inter-American Drug Abuse Control Commission (OAS/CICAD)

Organisation for Economic Co-operation and Development (OECD)

Organization for Security and Co-operation in Europe (OSCE)

United Nations -

- United Nations Office on Drugs and Crime (UNODC)
- United Nations Counter-Terrorism Committee Executive Directorate (UNCTED)
- The Analytical Support and Sanctions Monitoring Team pursuant to resolutions 1526(2004) and 2253(2015) concerning ISIL (Da'esh), Al-Qaida and the Taliban and associated individuals and entities
- The Expert Group to the Security Council Committee established pursuant to resolution 1540 (2004)
- Panel of Experts to the Security Council Committee established pursuant to resolution 1718 (2006)
- Security Council Subsidiary Organs Branch

World Bank

World Customs Organization (WCO)

## **FATF Associate Members**

Asia/Pacific Group on Money Laundering (APG)

Caribbean Financial Action Task Force (CFATF)

Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL)

Eurasian Group (EAG)

Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG)

Financial Action Task Force of Latin America (GAFILAT)

Inter Governmental Action Group against Money Laundering in West Africa (GIABA)

Middle East and North Africa Financial Action Task Force (MENAFATF)

GABAC

## **Appendix 2:**

### **High-Risk Jurisdictions subject to a Call for Action - October 2023**

Democratic People's Republic of Korea

Iran

Myanmar

### **Jurisdictions under Increased Monitoring - 27 October 2023**

Barbados

Tanzania

Bulgaria

Türkiye

Burkina Faso

Uganda

Cameroon

United Arab Emirates

Croatia

Vietnam

Democratic Republic of Congo

Yemen

Gibraltar

Haiti

Jamaica

Mali

Mozambique

Nigeria

Philippines

Senegal

South Africa

South Sudan

Syria

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The official website of FATF: [www.fatf-gafi.org](http://www.fatf-gafi.org)