

# Why does Iran need to cooperate with FATF?



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*In the first part of this article, we will examine some of the 40 key recommendations of the Financial Action Task Force (FATF) and highlight two key points: first, what are the FATF's expectations from the anti-money laundering (AML) and combating the financing of terrorism (CFT) systems, and second, how international financial institutions react to and evaluate these recommendations. In the second part of the article, we will examine the extent to which Iran is in line with FATF recommendations and whether the remaining problems can be solved.*

Out of the 40 FATF recommendations, I will only refer to a few in this article and will provide a detailed examination of the problems and challenges of these recommendations in the next article.

**Recommendation 1: Risk-Based Approach.** All actions taken by countries should be based on the assessment of risks related to money laundering and terrorist financing. These risks vary depending on the specific characteristics and conditions of each country. For example, a country's geographical location can have a direct impact on the risk of money laundering and terrorist financing. As a result, each country needs a national risk assessment document. Iran's national risk assessment document was initiated in 2017 with international consultations but did not reach its final stage. It was re-launched in 2021 without international cooperation.

**Recommendations 3 and 5: Criminalization.** Countries should criminalize money laundering and terrorist financing. Given that each country may criminalize these activities differently, these recommendations specify that money laundering should be criminalized based on the Vienna and Palermo Conventions, and terrorist financing should be criminalized based on the International Convention for the Suppression of the Financing of Terrorism. To properly evaluate the implementation of these two recommendations, which are among the most important FATF recommendations, countries should join these conventions. In this regard, Iran joined the Vienna Convention in 1992 with reservations but has not yet joined the Palermo Convention and the International Convention for the Suppression of the Financing of Terrorism. This non-membership is one of the weaknesses pointed out by the FATF.

**Recommendations 6 and 7: Sanctions.** These two recommendations require countries to implement the United Nations Security Council sanctions related to combating terrorism and the proliferation of weapons of mass destruction, as well as the financing of these weapons. For example, Iran should refer to the list of individuals and entities designated by the Security Council and freeze the assets of these individuals in Iran. These individuals and entities include groups such as the Taliban, Al-Qaeda, ISIS, and Al-Shabaab. Unfortunately, there is no accessible documentation to accurately assess the extent to which Iran has fully implemented this recommendation.

**Recommendation 10: Customer Due Diligence.** Financial institutions should assess their customers based on risk and provide services and financial transactions based on the level of risk associated with each customer. Customers are divided into three risk categories: high, medium, and low. For example, customers with a high volume of transactions, or those who frequently transact with a particular party or engage in transactions without a clear economic purpose, are usually considered high-risk customers. Since Iran is considered a high-risk country, financial institutions' interactions with Iranian individuals or entities are subject to more rigorous examination, known as "enhanced due diligence". This process can create problems. For example, there are reports that Iranians living abroad face difficulties opening bank accounts or are denied services by financial institutions after a while. It is essential to note that enhanced due diligence does not necessarily mean cutting off cooperation. However, due to legal complexities, potential financial risks, and the



Iranian President Masoud Pezeshkian  
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impact of international sanctions on financial institutions, they often avoid continuing financial relationships with high-risk individuals or entities.

**Recommendation 14: Currency Exchange.** The FATF requires countries to regulate currency exchange offices in the same way they regulate financial institutions. All currency exchange offices should be licensed or registered, which varies depending on the country's system. Currency exchange offices are also expected to comply with all recommendations related to AML/CFT. Unfortunately, in Iran, not all currency exchange offices have official licenses, and there is insufficient oversight and regulation of their activities under AML/CFT laws and regulations. Failure to comply with this recommendation can lead to serious problems in the country's financial system, particularly given the international sanctions imposed on Iran.

**Recommendation 19: Countermeasures.** Countermeasures include a set of measures that are not limited to a few specific actions and can lead to limiting or even completely cutting off financial relations with a target country or individual. In the case of Iran, the FATF has recommended that financial institutions implement countermeasures against the country. As a result, many financial institutions are reluctant to maintain financial relations with Iran as there is a high risk of inadvertently interacting with sanctioned individuals or entities. This interaction can lead to mistakes that result in heavy fines for financial institutions. Therefore, international financial institutions often decide to cut off cooperation with Iran to avoid the high risk of facing sanctions and paying heavy fines.

**Recommendation 20: Suspicious Transaction Reporting.** If a financial institution suspects that a customer's funds may have originated from criminal activities or are related to terrorist financing, it is required to report the suspicious transaction to the Financial Intelligence Unit (FIU). Unlike many countries that publish annual reports on the number of suspicious transaction reports, Iran's FIU has not published any reports on the number of reports received from financial institutions and how they are categorized. Recommendations 36-40: International

Cooperation. Since crimes such as money laundering, terrorist financing do not occur in a specific country and criminals may be present in different countries, and the proceeds of these crimes may be located in multiple countries, international cooperation between countries is essential to combat these crimes. This cooperation may include extradition or mutual legal assistance. If a country refuses to cooperate, the result may be a failure to punish criminals, failure to confiscate or freeze their assets, and failure to prevent the flow of illicit funds.

from the World Bank and the International Monetary Fund are provided as advice and are crucial for improving and making AML/CFT measures more effective.

Regarding Iran's accession to the Palermo Convention and the International Convention for the Suppression of the Financing of Terrorism, Iran's Expediency Council recently put the issue on hold, apparently due to political reasons. President Masoud Pezeshkian, in his first press conference, mentioned that he would request the Expediency



Tehran police conduct a search operation to identify unauthorized currency exchange offices.  
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## Iran's accession path to FATF membership

The second part of the article starts by stating that to address the FATF issue, the first step is to dismiss untechnical narratives and analyses in this field as they can hinder international cooperation at any stage. Here, we intend to evaluate Iran's situation in relation to the FATF's recommendations. The national risk assessment document, which needed the final approval of the International Monetary Fund, was stopped without any reason. The World Bank and the International Monetary Fund, as two reputable international institutions, have provided specific tools that have been used in over 40 countries and can be used to revisit that document. These tools and other assistance

Council to revisit the issue of Iran's accession to these two conventions.

Concerns have been raised about the negative consequences of such a move on Iran's support for liberation movements. However, Iran can join these conventions with reservations and a statement, provided that the main objective of the conventions is not undermined. For example, Egypt has joined the convention but stated in a statement that resistance movements in all their forms that fight for autonomy and freedom from occupied territories are not considered terrorist groups (although other countries can object, and this objection can only prevent the implementation of the treaty or a specific article between the two countries). Iran can also declare reservations on Article 24 of the convention and state that in

case of disputes, it does not intend to refer the case to the International Court of Justice or arbitration, as Oman, Turkey, Qatar, and Saudi Arabia have done. It is essential to note that there is no single international agreement on the definition of terrorism among countries, and countries have different approaches to identifying which groups are terrorists and which are liberation movements. Many countries have joined these conventions with reservations. Finally, it should be noted that groups such as Hamas and Hezbollah have not been designated as terrorist organizations by the United Nations either.

However, Iran should freeze the assets of individuals and groups listed on the UN Security Council's terrorism sanctions list, which includes members of the Taliban, Al-Qaeda, ISIS, and others. While implementing this recommendation may not affect Iran's national interests, its implementation is largely obscure, and accurate reporting in this area does not pose a problem for Iran.

Another important issue is customer due diligence in financial institutions and assessing their risk level. This is related to banking and the level of service provided to customers. Accurate customer identification can help control money laundering, which Iran is also facing. News about large-scale embezzlement and money laundering shows that Iran's legal procedures for combating these problems are not being adequately addressed.

The role of currency exchange offices is also crucial. The Central Bank of Iran should regulate unauthorized currency exchange offices. These offices can become a means for transferring illicit funds and smuggling them out of the country. Currency exchange offices must have licenses and be subject to strict oversight and regulation of domestic AML/CFT laws and regulations to prevent such crimes.

The question may arise as to how the 40 FATF recommendations are evaluated. The evaluation system for these recommendations is based on four levels, and each recommendation is evaluated separately on one of these four levels: compliant, largely compliant, partially compliant, and non-compliant. This ranking is based on each country's report and then a visit by an evaluation team from experts from other countries. Usually, this team is formed from countries that have good relations with the host country. The evaluation includes examining the existence of laws and regulations and their practical and effective implementation. The evaluation team does not have unlimited access to the country's financial systems and conducts its evaluation through interviews with government officials, lawmakers, and financial institutions. There is no obligation to provide a specific report to the evaluation team unless domestic authorities want to provide detailed information about their AML/CFT efforts. For example, the team may examine the number of currency exchange licenses, the number of suspicious transaction reports, and how customers are identified and prosecuted for money laundering and terrorist financing crimes.

Finally, it should be noted that Iran has AML/CFT laws that can score well in technical evaluations, although there are challenges and criticisms about the practical implementation of these laws.

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