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FATF Position Should Have Positive Impact

Economy Business And Markets

An international group that monitors money laundering worldwide decided on Friday to suspend its restrictions on Iran for one year and welcomed Iran's promises to improve in the areas of AML and CFT. The Financial Action Task Force said it "Welcomes Iran's adoption of, and high-level political commitment to, an Action Plan to address its strategic (anti-money laundering and combating the financing of terrorism) deficiencies," the task force said in a statement.

"The FATF therefore has suspended counter-measures for 12 months in order to monitor Iran's progress in implementing the Action Plan."

The statement, however, said that if Iran fails to improve its record as promised, the FATF call for vigorous counter-measures will be reinstated. If there is improvement, the task force will consider further positive

steps.

There was good reason to expect FATF to revise its position. Iran has undertaken significant steps to comply with global banking standards, including passage of a CFT law and amendments to its existing AML law.

Moreover, Iran has joined the Eurasian Group—a FATF associate member—as an observer and has scheduled the IMF to undertake a determinative assessment of its AML/CFT regime for 2018. (The IMF insists that such assessment can move no faster than the 18 month-timeline.) These and other action items illustrate the seriousness with which Iran is taking its global regulatory obligations.

Nevertheless, FATF's statement is also a big test. Currently, major foreign banks remain hesitant to re-engage their Iranian counterparts despite the lifting of US nuclear-related sanctions. Part of the reason for this is that Iran remains on the FATF blacklist. The big question thus is whether FATF would revise its call to account for the steps that Iran is taking to remedy problems in its AML/CFT regime, thereby permitting the benefit of sanctions relief to flow to the Iranian people.

US Response

The US government has taken note of these developments. Recently, two high-level US Treasury officials credited Iran with the steps it is currently taking to reform its AML/CFT regime and stated that the US government has an express interest in ensuring that this progress continued.

Speaking at the Foundation for the Defense of Democracies annual conference in April, the acting under secretary for terrorism and financial intelligence, Adam Szubin stated:

If Iran wants to take full advantage of its economic potential, it is up to Iran to cure systemic problems in its markets.

To its credit, Iran has publicly recognized that its financial transparency measures lag behind international standards and has begun to improve them. But it's only just begun; problems remain.

Soon thereafter, Daniel Glaser, the treasury's assistant secretary for terrorist financing, noted that:

Iran has taken important steps—that I think we should acknowledge and that I think they should get credit for—in trying to come off [the FATF] list. They've recently enacted a terrorist financing law; they've engaged with FATF and are in discussions with FATF to come up with an action plan...I think those discussions have been productive.

According to lobelog.com, the positive tone of these remarks also follows a cabinet-level meeting between Secretary of Treasury Jack Lew and the Central Bank of Iran Chief Valiollah Seif in Washington, in April.

Future Implications

But the FATF call for member states and other jurisdictions to impose counter-measures targeting Iran's financial sector should be up for revision. If so, it will signal important relief for global banks interested in returning to Iran. As Michael Kemmer, head of the German banking association BDB, noted to Reuters recently, "It is really important for banks that the FATF re-evaluate the situation in Iran." Such a re-evaluation will instill much-needed confidence in global banking institutions that doing business with Iran is possible.

Moreover, Iran can no longer be regarded as a "non-cooperative" jurisdiction. Iran is clearly cooperating in good faith to reform its status before the FATF, and such cooperation should be acknowledged by returning Iran to the status it had back in 2008-09. That would mean keeping Iran on the list of jurisdictions with weak AML/CFT measures for now but also noting and encouraging the progress that Iranian authorities are currently making.

Provided such revisions are made, the US and Iran will have shown that good-faith cooperation can lead to positive results for both parties. The United States will be assured that Iran is making real progress on reforming its banking system to conform to global standards, while Iran will start to win back the confidence of global banking institutions.