

FATF's Approach to Iran Should Mix Engagement with Pressure

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Brief Analysis

Although it is time for the international standard-setter to act, returning Iran to the blacklist need not be seen as the end of FATF engagement with the country.

When the Financial Action Task Force gathers in Paris this week for its triannual plenary, its agenda will include reviewing Iran's progress in complying with global standards to combat illicit finance. Despite a stark warning at the standard-setting organization's previous plenary in October, Iran has failed to ratify international conventions that could forestall full reimposition of FATF "countermeasures."

If the organization does act, it will be right to do so. (FATF keeps such deliberations confidential but is expected to announce its decision publicly on February 21.) Iran has failed to make progress on key items in its mutually agreed action plan, which technically expired in 2018. Since the FATF suspended countermeasures on Iran in June 2016, it has called special attention to Tehran's need to remedy deficiencies related to terrorist financing. First and foremost, this means criminalizing activities set out in the UN Terrorist Financing Convention, ratification of which is part of the repeatedly delayed Iranian legislation.

REMAINING ENGAGED

Iran has been given multiple reprieves in recent years. Instead, FATF has called on member states to implement incremental constraints on Iranian banks' ability to operate transnationally. Due to heavy U.S. sanctions, however, Iran is now deeply isolated from the global financial system, so the full imposition of FATF countermeasures is unlikely to have a significant practical impact on its banking and financial sector. As State Department special envoy Brian Hook noted in December, Iran can access only 10 percent of its foreign reserves nowadays because banks

refuse to move such funds on its behalf. Similarly, Iranian Central Bank governor Abdolnaser Hemmati stated earlier this month that FATF's decision is unlikely to move currency markets, since most foreign banks are already unwilling to work with Iranian banks; in his view, anyone who says otherwise is just using the issue "as a pretext to gouge currency prices."

Even so, Iran and the international community would be wrong to close the book on further engagement if FATF countermeasures are imposed. Tehran may be able to look down its nose at unilateral U.S. sanctions, but being blacklisted by a respected multilateral organization is another matter. FATF's decisions are technocratic judgments rendered through the consensus of international experts, so they cannot be dismissed as political or biased. Moreover, when sanctions were partially suspended during implementation of the nuclear deal in 2016, FATF blacklisting was seen as a key obstacle to Iranian banks reestablishing ties to foreign banks.

If Tehran holds out hope of capitalizing on future sanctions relief, it will need to demonstrate that it can abide by international norms related to anti-money laundering and counter-terrorist financing (AML/CFT). This includes recognizing and implementing international sanctions as well as imposing the transparency needed to regain credibility with the international financial system.

These steps are in Europe and America's interests as well. In order for sanctions pressure to actually change Iran's behavior, Western governments have to pair it with a credible offer of relief—a challenge that continues to hamper the current maximum pressure campaign. Europe has long held out economic relations as the foundation for political dialogue with Tehran and has acknowledged that Iranian compliance with FATF standards is a prerequisite for such activity. Furthermore, such relief would not erode pressure created by U.S. sanctions, which would remain a barrier to economic activity even if Iran's status with FATF improved.

WORK YET TO BE DONE

Still, there are considerable obstacles to Iran moving forward with FATF compliance. The country's domestic debate on this issue implicates core revolutionary ideals and vested interests, so resolving it will be difficult.

In recent weeks, Iranian proponents of FATF adherence mounted a campaign with the hope of swaying Supreme Leader Ali Khamenei to weigh in on legislation pending with the Expediency Council, a hardline body that settles disputes between the parliament and the Guardian Council. The pending legislation ratifies the UN Convention against Transnational Organized Crime (aka the Palermo Convention, adopted in 2000) and the Terrorist Financing Convention, as required by FATF. Supporters argue that avoiding FATF reforms and returning to the blacklist would threaten Iran's remaining international banking ties and foreign investment opportunities.

The bills were referred to the Expediency Council after the Guardian Council—which ensures legislation is in line with the constitution—rejected them twice. An Expediency Council representative announced in late January that the one-year period allotted for review of the disagreement had expired, and that an extension "doesn't seem required."

One of the issues at play has been exempting "liberation organizations" from CFT provisions—which in practical terms means terrorist groups such as Hezbollah, Iraqi Shia militias, Hamas, the Taliban, and so forth. Although amendments to Iran's 2018 CFT law appeared to drop that exemption, they continued to note that terrorist designations will only be issued in line with Article 154 of the constitution, which supports "the struggles of the oppressed for their rights against oppressors anywhere in the world"—essentially another way of allowing the same exemption. Furthermore, the proposed bill ratifying the UN's CFT and Palermo conventions includes a "reservation" arguing that Iran's recognition of "the struggles of peoples against colonial domination and foreign occupation" does not allow it to recognize the conventions' "written framework of terrorism." Hardliners have dismissed even these qualifications, saying they are "worthless" and amount to calls for disarming the Islamic Revolutionary Guard Corps

and Hezbollah.

Perhaps what hardliners fear most, however, is how adhering to FATF guidelines might threaten commercial interests affiliated with the IRGC and quasi-governmental organizations. These special interests benefit from the type of lax or murky ownership requirements that FATF reforms would by necessity clear up.

CONCLUSION

Until Iran addresses these issues, FATF is right to blacklist it and call on member states to impose countermeasures. But these measures need not mean the end of FATF engagement with Iran. As it has done so far, the organization should use this week's public statement to make the path forward clear to both Iran and member states. These states should in turn remain engaged individually, doing their best to ensure that Iran realizes the benefits of compliance and the costs of continued legislative delays.

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