

# What to Do about Teheran's Money-Laundering

Jul 30, 2007



Articles & Testimony

**A**s the US presses for a stronger UN Security Council resolution on Iran, the Treasury Department continues its international outreach to highlight Iran's illicit financial activity. While the Treasury-led campaign has achieved considerable success, this initiative would be far more effective if the US was not the only voice decrying the risk that Iran's deceptive practices pose to the global financial system.

Over the past year and a half, senior Treasury officials have traveled the world, briefing their finance ministry counterparts and the private sector on the range of Iran's deceptive financial activity. This includes: Iran's use of front companies; frequent requests by Iranian state-owned banks to remove their names from financial transactions; and the involvement of these same banks in Iran's nuclear and missile programs and terrorist financing.

In light of this, the Treasury Department has argued that doing business with Iran is a risky endeavor, and could ultimately cause great reputational harm to those associated with the regime.

Major international financial institutions have been responsive to the Treasury pitch. According to Treasury, global institutions -- including Switzerland's UBS and Credit Suisse and the UK's HSBC -- have either terminated or dramatically reduced business with Iran. Both the potential reputational risk and the prospect of being shut out of the US market were likely factors in their decisions.

Unfortunately, Treasury has not achieved success across the board. Recent reports indicate that smaller banks are beginning to step in as the larger ones withdraw, and a number of financial institutions have only stopped engaging in dollar transactions with Iran. Additionally, many other types of companies are still eager to do business with Iran, despite the US warnings.

One reason why Treasury has not produced more wide-scale results is that the US has been alone in emphasizing this important message about the risks to the international financial system. Although the US warnings carry enormous weight, there are many companies and financial institutions which do not do business in the US, and are less concerned about invoking America's wrath.

To have a broader impact, the US must encourage a multilateral body or international organization to step into this void to reinforce the American message. One organization that would be well positioned to do so would be the Paris-based Financial Action Task Force, a relatively obscure, but potentially powerful international body, which seeks to set global standards on combating money laundering and terrorism financing. Launched by the G7 in 1989, FATF includes 31 member countries, including the US and the European Commission.

FATF should be pressed -- through the UK, its sitting president -- to blacklist Iran. This is a practice FATF has used regularly and effectively in the past. For example, until fairly recently, FATF maintained a list of Non-Cooperative Countries or Territories (NCCT).

The purpose of the NCCT list was to identify those countries that have not adopted adequate measures to combat money laundering and terrorist financing, in order to "reduce the vulnerability of the financial system."

Iran certainly qualifies for a spot on a FATF list. The Iranian banking system has no meaningful anti-money laundering controls. Iran's efforts to address terrorist financing are non-existent -- hardly surprising in a country that US government officials have described as the "central banker of terror," and where support for terrorist groups is official government policy.

In fact, Iranian state-owned financial institutions have played a role in furthering the government's illicit activity. For example, Bank Saderat has been involved in transferring funds to terrorist groups and Bank Sepah has provided financial services to support Iran's ballistic missile program.

Being placed on the FATF blacklist would be a serious blow to the regime. FATF blacklisting generally has two effects. First, it puts pressure on countries to improve their anti-money laundering and counterterrorism financing regimes. Second, it alerts the private sector of the business risks associated with that particular jurisdiction.

While Iran would be unlikely to make the necessary systemic changes, a listing could help put additional economic pressure on Teheran by making the private sector more reluctant to do business with Iran. Financial institutions -- which are extremely concerned about their reputations -- would be particularly leary of doing business as usual with Iran under these conditions. In fact, financial institutions are specifically instructed by FATF to give "special attention to business relations and transactions" with entities from listed jurisdictions.

Were Iran listed by FATF, past history suggests that many governments would follow suit, placing Iran on their own domestic blacklists. This could have a significant impact, particularly if Iran's main business partners in Europe or Asia were to act. While some companies and financial institutions may not heed US or FATF cautions, they would be far more reluctant to ignore the proclamations of their supervisory regulatory agencies.

Treasury has been beating the drum about Iran's illicit financial activity for some time now. While Treasury should continue to emphasize this message, it should also focus on getting others to publicly join this fight.

Iran's abuse of the financial system to further the regime's dangerous goals should be of great concern not only to the US, but to all of those with responsibility for protecting the security and integrity of the global financial system.

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Jerusalem Post

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