

Iran to fall foul of FATF requirements next week

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Since 2016 the Financial Action Task Force (FATF) has extended its suspension of counter measures on Iran, as it waited to see whether the Islamic Republic's legislative bodies would eventually ratify the required laws. Ahead of the year-end FATF plenary meeting next week, Iran's Expediency Council has demonstrated that the task force's wait-and-see strategy failed to bear fruit.

The Expediency Council has failed to give any judgment regarding the revised draft accession law to the Palermo Convention, thus missing the final October 10 deadline. This omission ultimately puts an end to the FATF's wait-and-see game and will have consequences for Iran's ties to the international financial system.

The Palermo Convention – aka the UN Convention against Transnational Organised Crime (UNTOC) – aims to promote cooperation to prevent and combat transnational organised crime, including terrorism. It was passed last year by the Iranian Parliament but rejected by the Guardian Council on grounds that its ratification would infringe upon the powers of the Supreme Leader.

Due next week (13-18 October 2019), the FATF Plenary Meeting will probably lead to the introduction of enhanced relevant reporting mechanisms, systematic reporting of financial transactions and increased external audit requirements for financial groups with respect to their branches and subsidiaries in Iran.

In June 2016 an Action Plan to bring Iran's financial laws up to date was announced on the back of the JCPOA's recent coming into force and promises of tighter relations with the international financial system. Mainly, the Action Plan called for Iran's legislative system to improve anti-money laundering and counter financing of terrorism laws (CFT), as well as ratifying UNTOC and the International Convention for the Suppression of the Financing of Terrorism. Most of these laws were passed by the Iranian Parliament but the Guardian Council found fault in the CFT law and the Palermo Convention, and referred matters to the Expediency Council in late 2018. According to Iranian law, the Expediency Council had a maximum of one year to issue a judgment on the Palermo Convention. It has now missed this deadline, giving the Guardian Council cause to reject the convention.

The Expediency Council still has a few months to deliberate on the CFT law but it is likely to delay its judgment so as to block the path of financial reforms in Iran and avoid the blame that goes with judging against a draft law. On the domestic side, this policy of delaying draft laws until their expiration date showcases a strong opposition to laws seen as "dictated" by outside forces and

impinging on areas deemed of strategic importance. This opposition was fortified by the US designation of the IRGC as a terrorist organisation in April 2019. On the international level, the potential FATF countermeasures flowing from Iran's failure to implement its Action Plan will add another obstacle to Iran's integration to the international financial system, should US sanctions be removed at a certain point.