



POLICY ALERT // MAY 10, 2018

How Financial Institutions Should Prepare For the Re-Imposition of Sanctions on Iran

On May 8, 2018, President Trump announced that the United States is withdrawing from the Joint Comprehensive Plan of Action (JCPOA) and re-imposing the nuclear sanctions that it suspended under the deal.¹ The United States will re-impose the sanctions in two stages, with the first stage in August 2018 and the second stage in November 2018, creating a period of transition to allow for wind-down.²

- ▶ On August 6, 2018, the United States will re-impose sanctions on non-U.S. persons involved in the purchase or acquisition of U.S. dollar banknotes by the Iranian government; Iran's trade in gold or precious metals; significant transactions related to the purchase or sale of Iranian rials outside of Iran; dealings in Iranian sovereign debt; and the Iranian automotive sector.³ Outside Iran, these sanctions largely affect the financial sector.
- ▶ On November 4, 2018, the United States will re-impose sanctions on non-U.S. persons involved in Iranian shipping; petroleum-related transactions with the National Iranian Oil Company and other Iranian energy firms; the provision of specialized financial messaging services to Iran, which implicates SWIFT; and the provision of insurance and reinsurance to Iran, among other activities.⁴
- ▶ The United States also will resume efforts to reduce Iran's oil sales with sanctions targeting countries that fail to reduce significantly their oil imports from Iran by November 4, 2018.⁵ The largest importers of Iranian oil are China, South Korea, Turkey, Japan, and Italy.⁶ Those that significantly reduce their oil imports from Iran will qualify for waivers.⁷

Non-U.S. financial institutions should watch for guidance from their home regulators regarding Iran. The sweep of the Trump Administration's conditions for a new deal suggest that the administration will not focus on Iran's nuclear program as the United States did in the JCPOA but will instead seek an arrangement that addresses the full spectrum of threatening Iranian conduct.⁸ Meanwhile, the other parties to the JCPOA have announced their intention to salvage the deal. This is likely to create a cleavage between the U.S. and European partners in whether and how sanctions are applied.

- ▶ The European Union has signaled that it will protect European firms doing business in Iran.⁹ Iran has asked the EU for assurances that Europe can



withstand U.S. pressure in exchange for Iran's continued implementation of the deal,¹⁰ and the EU is reportedly working on revamping its anti-blocking statute in response to the President's announcement.¹¹

- ▶ Iranian President Hassan Rouhani on May 8, 2018 said his government is still committed to the JCPOA.¹² He said he believes that the deal can survive U.S. withdrawal and directed his diplomats to engage with the JCPOA's other signatories.¹³
- ▶ French President Emmanuel Macron, German Chancellor Angela Merkel, and British Prime Minister Theresa May on May 8, 2018 issued a joint statement emphasizing "our continuing commitment to the JCPOA."¹⁴ They said they would "reach out to all parties to the JCPOA to seek a positive way forward."¹⁵

Nonetheless, financial institutions should start preparing for the re-imposition of U.S. sanctions. Even as they await further guidance from OFAC and their home regulators, non-U.S. financial institutions can begin positioning themselves for the re-imposition of sanctions.

- ▶ Financial institutions should inventory their direct and indirect exposure to Iran. Some customers may be resident in Iran, for instance, while others may have an Iranian subsidiary or a history of transacting with Iranian counterparties. Even before the May 8 announcement, this activity was extremely risky because of Iran's history of deceptive financial practices and the pervasive presence of the U.S.-sanctioned Islamic Revolutionary Guard Corps in Iran's economy.¹⁶
- ▶ Making use of previous designations and enforcement actions, institutions should refamiliarize themselves with Iranian evasion tactics. Documents related to the Reza Zarrab case,¹⁷ for example, illustrate how Zarrab and a senior banker at a Turkish institution "blew a billion-dollar hole in the Iran sanctions regime" by smuggling Iranian oil proceeds and supplying currency and gold to the Iranian Government and other Iranian entities.¹⁸
- ▶ Training within each institution should cover such evasion tactics as well as how the legal and risk landscapes are changing. Institutions should ensure that sanctions screening systems and anti-money laundering monitoring systems are configured appropriately in light of the changes.



Endnotes

- 1 White House, "Remarks by President Trump on the Joint Comprehensive Plan of Action," May 8, 2018.
- 2 Treasury Department, "Frequently Asked Questions Regarding the Re-Imposition of Sanctions Pursuant to the May 8, 2018 National Security Presidential Memorandum Relating to the Joint Comprehensive Plan of Action (JCPOA)," FAQ 1.1, May 8, 2018.
- 3 Treasury Department, "Frequently Asked Questions Regarding the Re-Imposition of Sanctions Pursuant to the May 8, 2018 National Security Presidential Memorandum Relating to the Joint Comprehensive Plan of Action (JCPOA)," FAQ 1.2, May 8, 2018.
- 4 Treasury Department, "Frequently Asked Questions Regarding the Re-Imposition of Sanctions Pursuant to the May 8, 2018 National Security Presidential Memorandum Relating to the Joint Comprehensive Plan of Action (JCPOA)," FAQ 1.3, May 8, 2018.
- 5 Treasury Department, "Frequently Asked Questions Regarding the Re-Imposition of Sanctions Pursuant to the May 8, 2018 National Security Presidential Memorandum Relating to the Joint Comprehensive Plan of Action (JCPOA)," FAQ 5.1, May 8, 2018.
- 6 Wall Street Journal, "Trump's Iran Sanctions to Shake Up Global Oil Supply Lines," May 9, 2018.
- 7 Treasury Department, "Frequently Asked Questions Regarding the Re-Imposition of Sanctions Pursuant to the May 8, 2018 National Security Presidential Memorandum Relating to the Joint Comprehensive Plan of Action (JCPOA)," FAQ 5.2, May 8, 2018.
- 8 White House, "President Donald J. Trump is Ending United States Participation in an Unacceptable Iran Deal," May 8, 2018.
- 9 Patrick Wintour, "EU moves to protect European firms from US sanctions on Iran," May 9, 2018, <https://www.theguardian.com/world/2018/may/09/eu-moves-to-protect-european-firms-from-us-sanctions-on-iran>.
- 10 Patrick Wintour, "EU moves to protect European firms from US sanctions on Iran," May 9, 2018, <https://www.theguardian.com/world/2018/may/09/eu-moves-to-protect-european-firms-from-us-sanctions-on-iran>.
- 11 Patrick Wintour, "EU moves to protect European firms from US sanctions on Iran," May 9, 2018, <https://www.theguardian.com/world/2018/may/09/eu-moves-to-protect-european-firms-from-us-sanctions-on-iran>.
- 12 The Washington Post, "Iran to negotiate with Europeans, Russia and China about remaining in nuclear deal," May 8, 2018.
- 13 The Washington Post, "Iran to negotiate with Europeans, Russia and China about remaining in nuclear deal," May 8, 2018.
- 14 Prime Minister's Office, "Joint statement from Prime Minister May, Chancellor Merkel and President Macron following President Trump's statement on Iran," May 8, 2018.
- 15 Prime Minister's Office, "Joint statement from Prime Minister May, Chancellor Merkel and President Macron following President Trump's statement on Iran," May 8, 2018.
- 16 Treasury Department, "Written Testimony by Under Secretary for Terrorism and Financial Intelligence Stuart Levey Before the House Committee on Foreign Affairs."
- 17 See attachment (Superseding Indictment) linked from U.S. Attorney's Office, Southern District of New York, "Former Turkish Minister Of The Economy, Former General Manager Of Turkish Government-Owned Bank, And Two Other Individuals Charged With Conspiring To Evade U.S. Sanctions Against Iran And Other Offenses," Sep. 6, 2017, <https://www.justice.gov/usao-sdny/pr/former-turkish-minister-economy-former-general-manager-turkish-government-owned-bank>.
- 18 U.S. Attorney's Office, Southern District of New York, "Turkish Banker Convicted Of Conspiring To Evade U.S. Sanctions Against Iran And Other Offenses," Jan. 3, 2018, <https://www.justice.gov/usao-sdny/pr/turkish-banker-convicted-conspiring-evade-us-sanctions-against-iran-and-other-offenses>.