

To the Senior Executive Officers of Authorised Firms and Authorised Market Institutions (AMIs) and the Anti-Money Laundering Officers of Ancillary Service Providers (ASPs)

6 January 2008

Dear SEO,
Dear AMLO,

Re: Financial Action Task Force (FATF) statement regarding deficiencies in Iran's AML/CTF regime, guidance regarding the implementation of activity-based financial prohibitions of United Nations Security Council Resolution (UNSCR) 1737, and guidance regarding the implementation of financial provisions of UNSCRs to counter the proliferation of weapons of mass destruction

In January and March 2007, respectively, the DFSA requested confirmation that all DFSA regulated entities at the time were in compliance with the UNSCRs 1737 (2006) and 1747 (2007) which impose sanctions on Iran for its non-compliance with the Treaty of Non-Proliferation of Nuclear Weapons by proceeding with its uranium enrichment activities.

On 11 October 2007, the FATF determined that Iran's lack of a comprehensive Anti-Money Laundering (AML) and Counter Terrorism Financing (CTF) regime represents a significant vulnerability within the international financial system. These deficiencies, among others, have caused Iran to be identified in a 'FATF statement on Iran' (**Appendix 1** - <http://www.fatf-gafi.org/dataoecd/1/2/39481684.pdf>). The statement points out that the "FATF members are advising their financial institutions to take the risk arising from deficiencies in Iran's AML/CFT regime into account for enhanced due diligence." Furthermore, the "FATF called upon Iran to address on an urgent basis its AML/CFT deficiencies, including those identified in the 2006 International Monetary Fund Article IV Consultation Report for Iran". (For the full report: **IMF Report** - <http://www.imf.org/external/pubs/ft/scr/2007/cr07100.pdf>)

In this context, in June and October 2007 the FATF has released two guidance papers on implementing the activity-based financial prohibitions called for under United Nations Security Council Resolution (UNSCR) 1737 (2006) and UNSCR 1747 (2007) with respect to Iran's ongoing nuclear program (**Appendix 2** - <http://www.fatf-gafi.org/dataoecd/23/16/39318680.pdf> and **Appendix 3** - <http://www.fatf-gafi.org/dataoecd/43/17/39494050.pdf>). The more recent UNSCR 1737 requires all member states "to prevent the provision to Iran of any technical assistance or training, financial assistance, investment, brokering or other services, and the transfer of financial resources or services, related to the supply, sale, transfer, manufacture or use of the prohibited items, materials, equipment, goods and technology" associated with Iran's proliferation sensitive nuclear activities. The FATF has advised jurisdictions to consider all customers and transactions associated with Iran as a primary risk determinant for the purposes of applying risk-based identification and enhanced scrutiny with respect to high-risk customers and transactions that may be related to activity prohibited by UNSCR 1737.



We would like to highlight the importance of the FATF statement and both guidance documents. As a consequence, firms may need to review and enhance their existing policies, procedures, systems and controls to guard against threats of illicit activity related to money laundering, terrorist financing and weapons of mass destruction proliferation financing. In particular, we would like to emphasise the need for Authorised Firms, AMIs and ASPs to apply a risk-based approach to identify high-risk customers and transactions and, where appropriate, also in relation to correspondent banking relationships. In addition, all firms are reminded that they are required to ensure ongoing compliance with applicable UNSRs which are also monitored by Supervision Department staff.

If you wish to discuss this matter or require any further information please do not hesitate to contact your Relationship Manager.

Yours sincerely,

Michael Zamorski
Managing Director, Supervision

Appendices

Appendix 1 - <http://www.fatf-gafi.org/dataoecd/1/2/39481684.pdf>

Appendix 2 - <http://www.fatf-gafi.org/dataoecd/23/16/39318680.pdf>

Appendix 3 - <http://www.fatf-gafi.org/dataoecd/43/17/39494050.pdf>

Full report: **IMF Report** - <http://www.imf.org/external/pubs/ft/scr/2007/cr07100.pdf>

