

# RISKS OF DOING BUSINESS WITH IRAN

## EXECUTIVE SUMMARY

MAY 2017

Conducting business in the Islamic Republic of Iran continues to entail profound risk. Nearly one year after the Financial Action Task Force (FATF) temporarily suspended mandatory countermeasures on Iran for its illicit conduct, Tehran has not fundamentally altered the behavior that led the standard-setting body to penalize it in the first place.

Over the past 12 months, Iran has not addressed the rampant money-laundering issues that pervade all sectors of its economy, a problem compounded by systemic financial corruption throughout Iran's government bodies. The regime harbors a notoriously unscrupulous legal system that contains significant carve-outs for governmental discretion (under the dubious pretext of "national security"), the business empires of Iran's Islamic Revolutionary Guard Corps (IRGC), and the Supreme Leader. Iran's poor rankings on a wide range of corruption and compliance indexes underscore this point.

An overall lack of Iranian transparency presents compliance risks to companies and financial institutions interested in doing business in Iran.

Companies transacting in Iran also risk contravening existing U.S. sanctions regimes designed to prevent Iran from funding terrorist organizations that threaten American interests and American citizens. Iran is designated pursuant to section 311 of the USA PATRIOT Act as a jurisdiction of money-laundering concern. Former U.S. Acting Under Secretary for Terrorism and Financial Intelligence Adam Szubin stated that if foreign firms run afoul of U.S. sanctions regulations, they would be "risking the most draconian sanctions in our toolkit, and that governs not just U.S. persons but actors all around the world."<sup>1</sup>

Meanwhile, Tehran's regional aggression and human rights violations show no signs of abating. Since President Hassan Rouhani's election in 2013, Iran's repression of its own people, including torture, sham trials, lack of free speech, and widespread executions, has intensified. Iran's support for terrorist proxies in Syria, Iraq, Lebanon, Yemen and elsewhere has also continued, generating widespread instability across the Middle East and beyond.

This document provides a compilation of international rankings, expert analysis, case studies and other key data points that illustrate the myriad risks associated with doing business with Iran.

Updating software and passing laws are by themselves insufficient criteria to allow Iran back into the global financial system. Unless and until Iran takes meaningful steps to moderate its behavior and comply with international financial standards, companies should exercise extreme caution before resuming transactions with the country. At the same time, international bodies such as FATF should not reduce pressure on Tehran's unreformed and unrepentant regime.

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1. Jenna Lifhits, "Top Treasury Official: Business with Iran's Revolutionary Guard Corps Risks 'Most Draconian Sanctions' Available," *The Weekly Standard*, October 21, 2016. (<http://www.weeklystandard.com/top-treasury-official-business-with-irans-revolutionary-guard-corps-risks-most-draconian-sanctions-available/article/2005025>)

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*Note: FDD’s Center on Sanctions and Illicit Finance provides in-depth research on a wide variety of issues associated with risk and financial integrity. Additional guidance should be sought from legal counsel and certified auditors.*

### IRAN AS A STATE SPONSOR OF TERRORISM

#### **Dan Coats, Director of National Intelligence**

Iran continues to be the foremost state sponsor of terrorism and, with its primary terrorism partner, Lebanese Hezbollah, will pose a continuing threat to US interests and partners worldwide. The Syrian, Iraqi, and Yemeni conflicts will continue to aggravate the rising Sunni-Shia sectarian conflict, threatening regional stability.<sup>2</sup>

#### **Gen. James Mattis, Secretary of Defense**

Everywhere you look if there is trouble in the region, you find Iran.<sup>3</sup>

At the time when I spoke about Iran I was a commander of US central command and that [Iran] was the primary exporter of terrorism, frankly, it was the primary state sponsor of terrorism and it continues that kind of behavior today.<sup>4</sup>

Iranian malign influence in the region is growing.<sup>5</sup>

#### **Rex Tillerson, Secretary of State**

I'd like to address Iran's alarming and ongoing provocations that export terror and violence, destabilizing more than one country at a time.

Iran is the world's leading state sponsor of terrorism and is responsible for intensifying multiple conflicts and undermining U.S. interests in countries such as Syria, Yemen, Iraq, and Lebanon, and continuing to support attacks against Israel.

An unchecked Iran has the potential to travel the same path as North Korea, and take the world along with it.

The United States is keen to avoid a second piece of evidence that strategic patience is a failed approach.

A comprehensive Iran policy requires that we address all of the threats posed by Iran, and it is clear there are many.

Iran continues to support the brutal Assad regime in Syria, prolonging a conflict that has killed approximately half a million Syrians and displaced millions more. Iran supports the Assad regime, even as it commits atrocities against its own people, including with chemical weapons. Iran provides arms, financing, and training, and funnels foreign fighters into Syria. It has also sent members of the Iran Revolutionary Guard to take part in direct combat operations.

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2. Dan Coats, "World Wide Threats," *Testimony before the Senate Select Committee on Intelligence*, May 11, 2017. (<https://www.bgov.com/core/news/#!/articles/OPT19D8JMDC0>)

3. "U.S. Defense Chief Mattis: Wherever There's Trouble in the Middle East, You Find Iran," *Haaretz*, April 19, 2017. (<http://www.haaretz.com/middle-east-news/iran/1.784394>)

4. Alistair Smout, "U.S. Defense Secretary Mattis says Iran Continues to Sponsor Terrorism," *Reuters*, March 31, 2017. (<http://www.reuters.com/article/us-usa-mattis-britain-iran-idUSKBN1721H7>)

5. Ed Adamczyk, "Defense Secretary Nominee James Mattis Warns of Iran's Influence," *UPI*, January 12, 2017. ([http://www.upi.com/Top\\_News/US/2017/01/12/Defense-secretary-nominee-James-Mattis-warns-of-Irans-influence/9941484237287/](http://www.upi.com/Top_News/US/2017/01/12/Defense-secretary-nominee-James-Mattis-warns-of-Irans-influence/9941484237287/))

In Iraq, Iran provides support to some Iraqi militant groups, primarily through the Qods Force, which has been undermining security in Iraq for years.

Iran maintains a longstanding hostility towards Israel, providing weapons, training, and funding to Hamas and other Palestinian terrorist organizations.

In deed and in propaganda, Iran foments discord...

In Yemen, Iran continues to support the Houthis' attempted overthrow of the government by providing military equipment, funding, and training, thus threatening Saudi Arabia's southern border. Interdictions by Emirati forces in Yemen and coalition forces in the Arabian Sea have revealed a complex Iranian network to arm and equip the Houthis.

Iranian naval vessels continue to undermine freedom of navigation in the Persian Gulf by harassing U.S. naval vessels that are operating lawfully.

Iran has conducted cyber-attacks against the United States and our Gulf partners.

Iran has been behind terrorist attacks throughout the rest of the world, including a plot to kill Adel al-Jubeir, who was then the Saudi ambassador to the United States.

Whether it be assassination attempts, support of weapons of mass destruction, deploying destabilizing militias, Iran spends its treasure and time disrupting peace.

The evidence is clear. Iran's provocative actions threaten the United States, the region, and the world. ...

The Trump administration is currently conducting a comprehensive review of our Iran policy. Once we have finalized our conclusions, we will meet the challenges Iran poses with clarity and conviction.”<sup>6</sup>

## IRAN'S ROLE IN SYRIA

### **Dan Coats, Director of National Intelligence**

The Islamic Republic of Iran remains an enduring threat to US national interests.

In Syria, we assess that the regime will maintain its momentum on the battlefield provided, as it's likely, that it maintains support from Iran and Russia. The continuation of the Syrian conflict will worsen already disastrous conditions for Syrians and regional states.

For example, Iran provides arms, financing and training and manages as many as 10,000 Iraqi, Afghan and Pakistani Shia fighters in Syria to support the Assad Regime. Iran has sent hundreds of its own forces to include members of the Islamic Revolutionary Guard Corps and the IRGC Quds force to Syria as advisors. In Yemen fighting -- we assess fighting will almost certainly persist in 2017 between Houthi aligned forces trained by Iran and the Yemeni government backed by a Saudi led coalition.

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6. U.S. Department of State, Public Statement, "Secretary of State Rex Tillerson Press Availability," April 19, 2017. (<https://www.state.gov/secretary/remarks/2017/04/270341.htm>)

Neither side has been able to achieve decisive results through military force to this point. Al-Qaida in the Arabia -- Arabian Peninsula and ISIS branch in Yemen have exploited the conflict and the collapse of government authority to gain new recruits and allies that expand their influence.<sup>7</sup>

**Nikki Haley, United States Ambassador to the United Nations**

“While Assad bears the largest responsibility for his own brutality, his allies in Russia and Iran also bear heavy burdens. Russia and Iran enable Assad’s abductions, torture, extrajudicial killings, airstrikes, barrel bombs, and chemical weapons attacks.”<sup>8</sup>

**Stuart Jones, Acting Assistant Secretary for Near Eastern Affairs**

“The United States is on record, has stated many times, that we are appalled by the atrocities that have been carried out by the Syrian regime. And these atrocities have been carried out seemingly with the unconditional support from Russia and Iran.”<sup>9</sup>

IRAN AND THE U.S.

**Dan Coats, Director of National Intelligence**

Iranian and Cuban intelligence and security services continue to view the United States as a primary threat.

The Islamic Republic of Iran remains an enduring threat to US national interests because of Iranian support to anti-US terrorist groups and militants, the Asad regime, Huthi rebels in Yemen, and because of Iran’s development of advanced military capabilities. Despite Supreme Leader Khamenei’s conditional support for the JCPOA nuclear deal implemented in January 2016, he is highly distrustful of US intentions. Iran’s leaders remain focused on thwarting US and Israeli influence and countering what they perceive as a Saudi-led effort to fuel Sunni extremism and terrorism against Iran and Shia communities throughout the region.<sup>10</sup>

**Stuart Jones, Acting Assistant Secretary for Near Eastern Affairs**

The Treasury Department is imposing new sanctions on Iranian defense officials, an Iranian entity, and a China-based network that supplied missile-applicable items to a key Iranian defense entity. The action reflects concern with Iran’s continued development of ballistic missiles, which is inconsistent with United Nations Security Council Resolution 2231. Iran continues to pursue missile-related technologies capable of delivering a nuclear weapon. The State Department will continue to partner with our colleagues at the Department of the Treasury to ensure our national security in the face of Iranian threats.<sup>11</sup>

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7. Dan Coats, “World Wide Threats,” *Testimony before the Senate Select Committee on Intelligence*, May 11, 2017. (<https://www.bgov.com/core/news/#!/articles/OPT19D8JMDC0>)

8. Office of U.S. Mission to the United Nations, Press Release, “Statement from Ambassador Nikki Haley on Atrocities Committed by the Assad Regime in Syria,” May 15, 2017. (<https://usun.state.gov/remarks/7797>)

9. U.S. Department of State Bureau for International Narcotics and Law Enforcement Affairs, Press Release, “On-the-Record-Briefing: Acting Assistant Secretary for Near Eastern Affairs Stuart Jones on Syria,” May 15, 2017. (<https://www.state.gov/r/pa/prs/ps/2017/05/270865.htm>)

10. Dan Coats, “World Wide Threats,” *Testimony before the Senate Select Committee on Intelligence*, May 11, 2017. (<https://www.bgov.com/core/news/#!/articles/OPT19D8JMDC0>)

11. U.S. Department of State, Press Release, “U.S. State Department Issues Report on Human Rights Sanctions on Iran,” May 17, 2017. (<https://www.state.gov/r/pa/prs/ps/2017/05/270925.htm>)

## Mike Pompeo, Director of Central Intelligence Agency

The Iranians are professionals at cheating, and so while I think we have a very sound inspection regime ... I worry about the fact of 'the thing that we do not know, we do not know.' And so you have my commitment that I will continue to improve and enhance our capacity to understand that and do everything I can to diminish the risk that, in fact, we are missing something.<sup>12</sup>

## Admiral Kurt W. Tidd, Commander U.S. Southern Command

China, Russia, and Iran seek to expand their influence and challenge the international order and democratic principles of transparency, good governance, and rule of law abroad—and much closer to home.

As a continuing state sponsor of terrorism, Iranian involvement in the Western Hemisphere is always a matter of concern. With the easing of economic sanctions, Iran may be seeking to rebuild its relationships in the region. Tehran uses cooperative technological, economic, and diplomatic interests as the centerpiece of its regional diplomacy. Although on the surface it portrays its actions as innocuous, Iran could exploit its cultural centers to build networks, which could be leveraged to extend its influence and advance its interests. Broadly speaking, some of this outreach is concerning, especially to those of us who care about advancing human rights and promoting regional peace and stability. Keep in mind there's no Chinese, Russian, or Iranian equivalent of a Leahy Law, no comparable conditions on security assistance, no independent domestic media that carefully scrutinizes their activities. Their arms sales aren't tied to international protocols or human rights vetting. Their loans don't come with requirements to follow strict environmental or anti-corruption standards, or even clear terms and conditions for repayment. Their unscrupulous business practices and disregard for rule of law facilitates corruption, reduces trust in governments, and poses challenges to the norms and values that have brought prosperity and security for millions of people across our hemisphere."<sup>13</sup>

## CORRUPTION AND LEGAL RISK

### SUMMARY

Iran consistently ranks as one of the most corrupt countries in the world. This problem is compounded by a notoriously opaque legal system that contains significant carve-outs for governmental discretion (under the pretext of "national security") and the business empires of the Islamic Revolutionary Guard Corps (IRGC) and the supreme leader. With severely inadequate property and intellectual property rights, and a legal system that fails to provide protection for foreign companies, many companies pay bribes to access markets or to avoid legal troubles.<sup>14</sup>

### Rankings

- Iran was ranked 131/176 on Transparency International Corruption Perceptions Index in 2016, published by Transparency International, an international non-governmental organization based in Germany. Corruption

12. Mike Pompeo, "Hearing on the Nomination of Rep. Mike Pompeo, R-Kan., to be CIA Director," *Testimony before Senate Select Committee on Intelligence*, January 12, 2017. (<https://www.bgov.com/core/news#!/articles/OJQ6NZ3PWT1C>)

13. Kurt Tidd, "Posture Statement of Admiral Kurt T. Tidd," *Testimony before Senate Armed Services Committee*, April 6, 2017. ([https://www.armed-services.senate.gov/imo/media/doc/Tidd\\_04-06-17.pdf](https://www.armed-services.senate.gov/imo/media/doc/Tidd_04-06-17.pdf))

14. [http://www.nytimes.com/2015/11/24/opinion/iran-sentences-an-american-journalist.html?\\_r=0](http://www.nytimes.com/2015/11/24/opinion/iran-sentences-an-american-journalist.html?_r=0)

Perceptions Index (CPI) is an annual ranking of countries “by their perceived levels of corruption, as determined by expert assessments and opinion surveys.”<sup>15</sup>

- Iran was ranked 101/128 on the International Property Rights Index 2016, produced annually by Americans for Tax Reform’s Property Rights Alliance. The Index scores and ranks countries worldwide based on three factors: the state of the country’s legal and political environment, physical property rights, and intellectual property rights.<sup>16</sup>
- Iran was ranked 155/180 on the 2017 Index of Economic Freedom from Heritage Foundation, which assesses global economic freedom by assessing each country’s rule of law, government size, regulatory efficiency, and open markets.<sup>17</sup>
- Iran was rated “Not Free”—its lowest ranking—by Freedom House. “Freedom in the World” analyzes the electoral process, political pluralism and participation, the functioning of the government, freedom of expression and of belief, associational and organizational rights, the rule of law, and personal autonomy and individual rights.<sup>18</sup>
- Iran was ranked 157/199 for Business Bribery Risk by the TRACE Matrix.<sup>19</sup> TRACE measures a country’s score across four dimensions: business interactions with the government, anti-bribery laws and enforcement, government and civil service transparency, and capacity for civil society oversight.

## Key Points

- “The IRGC interprets its operational freedom so broadly that it accepts no constitutional restrictions,” which is especially important because “the IRGC’s role in the Iranian economy is constitutionally mandated,” writes Iran analyst Ali Alfoneh.<sup>20</sup> Companies doing business with Iran have a high risk of doing business with the IRGC, which continues to be designated by the State Department under Executive Order 13382 for proliferation concerns, and may face additional US sanctions down the line.
- Business conglomerates under the control of Supreme Leader Ali Khamenei – including the Execution of the Order of Imam Khomeini (EIKO) and the Reza Holy Precinct, which oversees the Imam Reza Shrine in Mashhad – control significant holdings in the Iranian economy.<sup>21</sup> These holdings enrich Khamenei and his allies, who fund a variety of illicit activities including crackdown on the Iranian people and supporting terrorism.
- Iran set a precedent for not complying with international rulings after it failed to comply with the court ruling in the 1979 case *United States Diplomatic and Consular Staff in Tehran (United States of America v. Iran)*. In that

15. “Corruption Perceptions Index 2016,” *Transparency International*, January 25, 2017. (<https://www.transparency.org/country/#IRN>)

16. “Iran,” *The International Property Rights Index 2016*, Accessed May 23, 2017. (<http://internationalpropertyrightsindex.org/country?c=IRAN>)

17. “Iran,” 2017 Index of Economic Freedom, *Heritage Foundation*, Accessed May 23, 2017. (<http://www.heritage.org/index/country/iran>)

18. “Iran,” *Freedom House*, Accessed May 23, 2017. (<https://freedomhouse.org/country/iran>)

19. “The TRACE Matrix® - The Global Business Bribery Risk Index for Compliance Professionals,” *Trace: Anti-Bribery Compliance Solutions*, Accessed May 23, 2017. (<https://www.traceinternational.org/trace-matrix>)

20. Ali Alfoneh, “How Intertwined Are the Revolutionary Guards in Iran’s Economy?” *Middle Eastern Outlook, American Enterprise Institute*, October 2007. (<https://www.aei.org/publication/how-intertwined-are-the-revolutionary-guards-in-irans-economy/>)

21. Babak Dehghanpisheh & Steve Stecklow, “Special Report: Khamenei’s conglomerate thrived as sanctions squeezed Iran,” *Reuters*, November 12, 2013. (<http://www.reuters.com/article/us-iran-setad-companies-specialreport-idUSBRE9AB0NW20131112>); Khamenei’s conglomerates have signed several deals with South Korean, Italian, Danish and Chinese firms following the lifting of sanctions. See “Factbox: Post-sanctions deals with Iranian firms linked to Khamenei,” *Reuters*, January 19, 2017. (<http://www.reuters.com/article/us-iran-deals-khamenei-factbox-idUSKBN15328Z>)

case, the International Court of Justice ruled that Iran had to release the Americans held hostage in Tehran and pay reparations.<sup>22</sup>

- Watson Farley & Williams, an international law firm, in a January 2016 briefing on Foreign Investment Promotion in Iran, stated: Under the Freedom of Information and Protection of Privacy Act, “claims relating to public and state property and contracts with Iranian authorities must be considered in accordance with the Iranian constitution and the Iranian Civil Procedure Code requires the approval of the Parliament in order to be able to refer such claims to arbitration. This makes it virtually impossible to agree on arbitration in such matters.”<sup>23</sup>
- Companies that deal in Iran have a history of needing to pay bribes, such as French oil company Total S.A., which paid for access to Iran’s oil fields and then paid fines to the international community on top of that.<sup>24</sup> Halliburton and Statoil, a Norwegian oil company, bribed Iranian officials for drilling rights and preferential access to oil and gas contracts, which cost the companies financially and reputationally.<sup>25</sup>
- Reuters reported in January 2016: “Iran’s shadow economy has been a breeding ground for corruption and nepotism, and foreign companies will be wary of approaches by local ‘fixers’ who would pay bribes on their behalf. Under that scenario, the investor would be at fault under extra-territorial legislation such as the UK Bribery Act.”<sup>26</sup>
- Iran’s business climate offers preferential treatment given to politically connected individuals. Foreign businesses may have to compete against politically connected insiders who receive much more favorable treatment from banks and other institutions.<sup>27</sup>

## COMPLIANCE RISK

### SUMMARY

Companies transacting in Iran risk contravening existing sanctions regimes designed to prevent Iran from funding terrorism. An overall lack of Iranian transparency presents compliance risks to companies and financial institutions doing business in Iran. Iran has been labeled a jurisdiction of high risk by the Financial Action Task Force (FATF) due to its permissive money-laundering laws and lax protections against terror financing. In addition, Iran is designated pursuant to section 311 of the USA PATRIOT Act as a jurisdiction of primary money-laundering concern.

Iran openly funds terrorist organizations, such as Hezbollah, and Hamas. In a country where up to 35% of the economy is run by the still-sanctioned IRGC, through front and shell companies as well as through licit enterprises, foreign companies run a severe risk of inadvertently fueling terrorism through business deals that may at first appear legitimate.

22. “Anglo-Iranian Oil Case (Preliminary Objection),” Summary of Judgment, International Court of Justice, July 22, 1952. (<http://www.icj-cij.org/docket/files/16/1999.pdf>)

23. Watson Farley & Williams, “Foreign Investment Promotion in Iran,” January 2016. (<http://www.wfw.com/wp-content/uploads/2016/01/WFW-IranInvestments-Jan2016.pdf>)

24. Richard L. Cassin, “Total SA pays \$398 million to settle U.S. bribe charges,” *The FCPA Blog*, May 29, 2013. (<http://www.fcpablog.com/blog/2013/5/29/total-sa-pays-398-million-to-settle-us-bribe-charges.html>)

25. Jonathan Schanzer and Amir Toumaj, “Why Boeing shouldn’t do business with Iran,” *MarketWatch*, July 12, 2016. (<http://www.marketwatch.com/story/why-boeing-shouldnt-do-business-with-iran-2016-07-12>)

26. Sam Wilkin, “Red tape, political risks could stall investment in Iran,” *Reuters*, January 20, 2016. (<http://www.reuters.com/article/us-iran-nuclear-investment-idUSKCN0UY1S8>)

27. <https://iranwire.com/fa/features/18964> (Translated by Amir Toumaj, 10/31/2016)

## Key Points

- Despite temporarily suspending its call for countermeasures against Iran in June 2016, the Financial Action Task Force (FATF) retained Iran on its “black list” of high-risk and non-cooperative jurisdictions. At the same time, FATF reiterated its concern about the “terrorist financing risk emanating from Iran and the threat this poses to the international financial system,” and urged member states to encourage financial institutions to impose enhanced due diligence measures.<sup>28</sup> FATF reiterated these concerns in its February 2017 statement.<sup>29</sup>
- FATF is a technical body that assesses the effective implementation of anti-money laundering and counter-terrorist financing laws and regulations adopted by member countries. In the case of Iran, far from effectively implementing apparently new anti-terrorism laws, Iran still boasts of its support for terrorist organizations, including Hamas and Hezbollah.<sup>30</sup>
- While AML/CFT (Anti-Money Laundering/Combating Financing of Terrorism) units have been created in Iranian banks, Iran has not yet fully implemented the FATF action plan, created systems to understand ML/TF (Money Laundering/Terrorism Financing) risks, or created mechanisms to identify beneficial owners and politically exposed persons, according to the IMF.<sup>31</sup>
- Iran needs to enhance its AML/CFT systems to address financial crimes including tax evasion and corruption, according to the IMF.<sup>32</sup>
- **Basel Institute on Governance ranks Iran’s AML and CFT protections as the worst in the world.**<sup>33</sup>
- Sturgeon Capital, a London-based hedge fund, estimates that only 10 percent of companies on the Tehran Stock Exchange (TSE) are “sanctions-compliant,” meaning that they are not exposed to entities that were previously or remain sanctioned.<sup>34</sup>
- Ownership structures of legal entities in Iran are opaque.<sup>35</sup>
- Iran’s history of supporting terrorism and “allowing security services to involve themselves in the financial system” complicates due diligence processes, according to former U.S. officials.<sup>36</sup>

28. Financial Action Task Force, “Public Statement - 24 June 2016,” June 24, 2016. (<http://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/documents/public-statement-june-2016.html>)

29. Financial Action Task Force, “Public Statement - 24 February 2017,” February 24, 2017. (<http://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/documents/public-statement-february-2017.html>)

30. Toby Dershowitz and Saeed Ghasseminejad, “Will Iran wordsmith its way off our terrorism list? It certainly is trying,” *The Hill*, July 25, 2016. (<http://www.defenddemocracy.org/media-hit/toby-dershowitz-will-iran-wordsmith-its-way-off-our-terrorism-list-it-certainly-is-trying/>)

31. “IMF Country Report No. 17/62: Islamic Republic Of Iran,” *International Monetary Fund*, February 2017, page 15. (<http://www.imf.org/~media/Files/Publications/CR/2017/cr1762.ashx>)

32. “IMF Country Report No. 17/62: Islamic Republic Of Iran,” *International Monetary Fund*, February 2017, page 28. (<http://www.imf.org/~media/Files/Publications/CR/2017/cr1762.ashx>)

33. “Basel AML Index 2016,” *Basel Institute on Governance*, July 26, 2016. ([https://index.baselgovernance.org/sites/index/documents/Basel\\_AML\\_Index\\_Report\\_2016.pdf](https://index.baselgovernance.org/sites/index/documents/Basel_AML_Index_Report_2016.pdf))

34. Ladane Nasser , Samuel Potter , and Golnar Motevali, “What Investors Need to Know About Entering Iran’s Stock Market,” *Bloomberg*, January 17, 2016. (<http://www.bloomberg.com/news/articles/2016-01-17/what-investors-need-to-know-about-entering-iran-s-stock-market>)

35. “IMF Country Report No. 17/62: Islamic Republic Of Iran,” *International Monetary Fund*, February 2017, page 23. (<http://www.imf.org/~media/Files/Publications/CR/2017/cr1762.ashx>)

36. Elizabeth Rosenberg and Richard Nephew, “Iran’s broken financial system,” *Politico*, June 6, 2016. (<http://www.politico.com/agenda/story/2016/06/iran-broken-financial-system-000139>)

## Control and Influence by Sanctioned Entities

- Experts estimate that the Islamic Revolutionary Guard Corps (IRGC) controls between 20 and 40 percent of Iran's formal economy.<sup>37</sup> The IRGC remains subject to U.S. and EU sanctions. A 2016 estimate noted the IRGC's "assets could exceed \$100 billion in an economy with a gross domestic product as large as about \$400 billion."<sup>38</sup>
- IRGC maintains control of significant assets and companies in a range of sectors across the Iranian economy, including energy, construction and engineering, transportation, and financial services, among others.<sup>39</sup>
- While there are 17 private banks in Iran (as of 2014), many of these banks retain ties to the IRGC and the Iranian government through their ownership structures.<sup>40</sup>
- The costs to foreign companies of transacting with sanctioned companies can be significant. In addition to billion dollar fines,<sup>41</sup> companies experience stock price falls. For example, Standard Chartered stock declined by nearly four percent after it was revealed that the bank transacted with sanctioned persons.<sup>42</sup>

## Politically Exposed Persons

- State-linked religious conglomerates known as *bonyads* control an estimated 20 percent of the Iranian GDP.<sup>43</sup> These organizations acquired much of their assets through the confiscation of property and assets after the 1979 revolution.
- The *Bonyads*, nominally foundations and charities, are owned by clerics and government officials and often answer only to Iran's supreme leader, Ayatollah Ali Khamenei. These entities are not answerable to government supervision.<sup>44</sup>

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37. Greg Bruno, Jayshree Bajoria, and Jonathan Masters, "Iran's Revolutionary Guard," *Council on Foreign Relations*, June 14, 2013. (<http://www.cfr.org/iran/irans-revolutionary-guards/p14324>); Emanuele Ottolenghi and Saeed Ghasseminejad, "Who Really Controls Iran's Economy?" *The National Interest*, May 20, 2015. (<http://nationalinterest.org/feature/who-really-controls-irans-economy-12925>); Frederic Wehrey, Jerrold D. Green, Brian Nichiporuk, Alireza Nader, Lydia Hansell, Rasool Nafisi, and S. R. Bohandy, "The Rise of the Pasdaran: Assessing the Domestic Roles of Iran's Islamic Revolutionary Guards Corps," *The RAND Corporation*, 2009. ([http://www.rand.org/content/dam/rand/pubs/monographs/2008/RAND\\_MG821.pdf](http://www.rand.org/content/dam/rand/pubs/monographs/2008/RAND_MG821.pdf)); Mark Gregory, "Expanding Business Empire of Iran's Revolutionary Guards," *BBC News* (UK), July 26, 2010. (<http://www.bbc.com/news/world-middle-east-10743580>)

38. Najmeh Bozorgmehr, "Iranian banks give Guard the cold shoulder," *Financial Times* (UK), September 18, 2016. (<https://www.ft.com/content/1eb9e41a-7b16-11e6-ae24-f193b105145e>)

39. Emanuele Ottolenghi, Saeed Ghasseminejad, Annie Fixler, and Amir Toumaj, "How the Nuclear Deal Enriches Iran's Revolutionary Guard Corps," *Foundation for Defense of Democracies*, October 2016. ([http://www.defenddemocracy.org/content/uploads/documents/IRGC\\_Report.pdf](http://www.defenddemocracy.org/content/uploads/documents/IRGC_Report.pdf))

40. Bijan Khajepour, "Can Iran's private banks make a difference?" *Al Monitor*, January 3, 2014 (<http://www.al-monitor.com/pulse/originals/2014/01/iran-private-banks.html>)

41. Nate Raymond, "BNP Paribas sentenced in \$8.9 billion accord over sanctions violations," *Reuters*, May 1, 2015. (<http://www.reuters.com/article/us-bnp-paribas-settlement-sentencing-idUSKBN0NM41K20150501>)

42. Richard Partington, "Standard Chartered Falls on Report of Iranian Sanctions Breach," *Bloomberg*, September 21, 2015. (<http://www.bloomberg.com/news/articles/2015-09-21/standard-chartered-falls-on-report-of-iranian-sanctions-breach>)

43. Afshin Molavi, *The Soul of Iran: A Nation's Struggle for Freedom*, (Norton) p. 176

44. Andrew Higgins, "Inside Iran's Holy Money Machine," *The Wall Street Journal*, June 2, 2007. (<http://www.wsj.com/articles/SB118072271215621679>); Kenneth Katzman, "Iran's State-Linked Conglomerates," *Congressional Research Service*, October 17, 2016. (<http://www.fas.org/sgp/crs/mideast/IN10597.pdf>)

## CURRENT SANCTIONS ON IRAN

Despite the nuclear agreement and the suspension of certain sanctions, Iran remains subject to significant sanctions under U.S. law and under some EU laws and UN resolutions. In 2016, then-Acting Under Secretary for Terrorism and Financial Intelligence Adam Szubin, noted that if foreign firms run afoul of U.S. sanctions regulations, they would be “risking the most draconian sanctions in our toolkit, and that governs not just U.S. persons but actors all around the world.”<sup>45</sup>

Beyond remaining sanctions, companies considering investing in Iran must account for the risk of Iranian violation of the nuclear agreement, resulting in the dissolution of the accord and the re-imposition of suspended sanctions.

### Currently Enforced Executive Orders

Iranian entities remain on the Specially Designated National (SDN) list (blocking the property of and prohibiting transactions with designated persons) for a range of illicit activities. New designations may also be added under the following executive orders:

- Executive Order 13224 – blocking the property of those who commit or support terrorism.
- Executive Orders 13553, 13628, and 13606 – blocking the property of those who commit human rights abuses against the citizens of Iran, transfer technology to Iran that may be used to commit human rights abuses, or engage in censorship and monitoring of dissidents.
- Executive Order 13382 – blocking the property of those who engage in proliferation of weapons of mass destruction and their delivery vehicles (including ballistic missiles).
- Executive Orders 13572 and 13582 – blocking the property of those who commit human rights abuses in Syria or support the Assad regime.
- Executive Order 13611 – blocking the property of those who threaten the peace, stability, and security of Yemen.
- Executive Order 13438 – blocking the property of those who threaten the stability of Iraq.
- Executive Order 13441 – blocking the property of those who undermine democratic institutions in Lebanon.

### Currently Enforced Sanctions

- **Primary U.S. Sanctions:** According to the U.S. Treasury Department, “The U.S. domestic trade embargo on Iran remains in place. With limited exceptions, U.S. persons are broadly prohibited from engaging in any transactions or dealings with Iran or its government. Additionally, U.S. persons are prohibited from doing business with the government of Iran and Iranian financial institutions and their property and interests remain blocked under

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45. Jenna Lihits, “Top Treasury Official: Business with Iran’s Revolutionary Guard Corps Risks ‘Most Draconian Sanctions’ Available,” *The Weekly Standard*, October 21, 2016. (<http://www.weeklystandard.com/top-treasury-official-business-with-irans-revolutionary-guard-corps-risks-most-draconian-sanctions-available/article/2005025>)

Executive Order 13599 and section 560.211 of the [Iran Transactions and Sanctions Regulations].<sup>46</sup> U.S. primary sanctions apply to non-U.S. branches of U.S. financial institutions.<sup>47</sup>

- Non-U.S. persons must remain aware of these primary sanctions for a number of reasons:<sup>48</sup>
  - 1) U.S. jurisdiction is broad and U.S. regulators not only at Treasury but also at the Department of Justice, the Securities and Exchange Commission, state prosecutors, and various New York authorities may use this broad jurisdiction to target transactions that may not at a prima facie level appear to involve U.S. persons.
  - 2) It is prohibited for any foreign person to cause a U.S. person to violate sanctions regulations.
  - 3) It is prohibited for foreign subsidiaries of U.S. companies (even those that take advantage of General License H) to involve the U.S. parent company in any Iran-related business. There must be a firewall between the U.S. parent and the foreign subsidiary when it comes to any component of the transaction with Iran.
- **Dollar Transactions:** U-turn transactions remain prohibited, and therefore U.S.-dollar clearing remains off-limits for non-U.S. banks. Foreign financial institutions may process transactions denominated in dollars provided the transactions do not directly or indirectly involve the U.S. financial system or any U.S. person.<sup>49</sup>
- **Special Measures under USA PATRIOT Act, Section 311:** Iran was designated under Section 311 of the USA PATRIOT Act as a jurisdiction of money-laundering concern in 2011. U.S. financial institutions are prohibited from opening or maintaining a correspondent account on behalf of a foreign banking institution if the correspondent account involves Iran.<sup>50</sup>
- **Secondary Sanctions:** Iran also remains subject to secondary sanctions. The list below is illustrative (and non-exhaustive) of these measures. This is particularly relevant for foreign financial institutions.
  - **The Iran Freedom and Counterproliferation Act of 2012** (passed as part of the FY2013 National Defense Authorization Act) §1244(c)(1): Permits the imposition of secondary sanctions against persons who knowingly provide significant financial, material, or other support to Iranian persons on the SDN list (including Iranian financial institutions designated in connection with proliferation of WMDs or delivery systems; terrorism; or human rights abuses), among others.
  - **Comprehensive Iran Sanctions Accountability and Divestment Act of 2010 §104(c)(2)(E)(ii)(I):** Applies with respect to foreign financial institutions knowingly providing support to persons that facilitate a significant transaction for a individuals or entities blocked in connection with Iran's proliferation of WMD or their means of delivery.
  - **Comprehensive Iran Sanctions Accountability and Divestment Act of 2010 §104(c)(2)(E)(i):** Prohibits opening or maintaining U.S. correspondent or payable through accounts for foreign financial institutions found to have knowingly facilitated a transaction or transaction, or provided financial services to the Iran

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46. U.S. Department of the Treasury, "Frequently Asked Questions Relating to the Lifting of Certain U.S. Sanctions Under the Joint Comprehensive Plan of Action (JCPOA) on Implementation Day," December 15, 2016. ([https://www.treasury.gov/resource-center/sanctions/Programs/Documents/jcpoa\\_faqs.pdf](https://www.treasury.gov/resource-center/sanctions/Programs/Documents/jcpoa_faqs.pdf))

47. "IMF Country Report No. 17/62: Islamic Republic Of Iran," *International Monetary Fund*, February 2017, page 4. (<http://www.imf.org/~media/Files/Publications/CR/2017/cr1762.ashx>)

48. "FIN Policy Alert: Post-Implementation Day Risks of Doing Business in Iran," *Financial Integrity Network*, accessed May 25, 2017. ([http://www.financialintegritynetwork.net/uploads/8/7/8/0/87802750/fin\\_iran\\_post-implementation\\_day\\_policy\\_alert.pdf](http://www.financialintegritynetwork.net/uploads/8/7/8/0/87802750/fin_iran_post-implementation_day_policy_alert.pdf))

49. "IMF Country Report No. 17/63: Islamic Republic Of Iran," *International Monetary Fund*, February 2017, page 4. (<http://www.imf.org/~media/Files/Publications/CR/2017/cr1763.ashx>)

50. U.S. Department of the Treasury, Press Release, "Fact Sheet: New Sanctions on Iran," November 21, 2011. (<https://www.treasury.gov/press-center/press-releases/Pages/tg1367.aspx>)

Revolutionary Guard Corps, its agents or affiliates, or any other person designated in connection with proliferation of WMDs or delivery systems or support for terrorism.

So-called “shadow SDNs” pose significant risks. Under U.S. law, entities that are owned or controlled 50 percent or more by designated persons are considered themselves to be designated persons whether or not they have been specifically included on the SDN list by name. The opaque ownership structures of many Iranian entities and the use of shell and front companies hinders the due diligence processes necessary to ensure a foreign person is not transacting with a shadow SDN.<sup>51</sup> Moreover, Congress has asked Treasury to lower the threshold to 25%, thereby signaling even greater risk.

### **Remaining Sanctions on the IRGC**

- The United States has sanctioned the IRGC and its elite arm, the IRGC-Quds Force, under several authorities. Individual IRGC commanders have been designated under still other authorities. None of these sanctions were removed under the nuclear agreement.
- The United States designated the IRGC under Executive Order 13382 for supporting Iran’s ballistic missile and nuclear programs and under 13553 and 13606 for human rights abuses.<sup>52</sup>
- The United States designated the IRGC-Quds Force under Executive Order 13224 for providing material support to the Taliban, Hezbollah, Hamas, Palestinian Islamic Jihad, and the Popular Front for the Liberation of Palestine-General Command (PFLP-GC).<sup>53</sup> The U.S. also designated the Quds Force under Executive Order 13572 for serving as a conduit for Iranian support for the Assad regime and the Syrian General Intelligence Directorate.<sup>54</sup>
- The Comprehensive Iran Sanctions Accountability and Divestment Act of 2010 Section 104(c) authorizes sanctions on any foreign financial institution facilitating significant transactions or providing financial services to the IRGC or any of its affiliates.
- The Iran Threat Reduction and Syria Human Rights Act of 2012 authorizes sanctions on non-U.S. persons who provide goods, services, or technical support to the IRGC.

### **Iran Maintained on Financial Action Task Force (FATF) Blacklist**

- In February 2016, the Financial Action Task Force (FATF) – the international organization that sets standards and promotes effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system – stated the organization was “particularly and exceptionally concerned about Iran’s failure to address the risk of

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51. “FIN Policy Alert: Post-Implementation Day Risks of Doing Business in Iran,” *Financial Integrity Network*, accessed May 25, 2017. ([http://www.financialintegritynetwork.net/uploads/8/7/8/0/87802750/fin\\_iran\\_post-implementation\\_day\\_policy\\_alert.pdf](http://www.financialintegritynetwork.net/uploads/8/7/8/0/87802750/fin_iran_post-implementation_day_policy_alert.pdf))

52. U.S. Department of the Treasury, Press Release, “Fact Sheet: Designation of Iranian Entities and Individuals for Proliferation Activities and Support for Terrorism,” October 25, 2007. (<https://www.treasury.gov/press-center/press-releases/Pages/hp644.aspx>); U.S. Department of the Treasury, Press Release, “Treasury Sanctions Iranian Security Forces for Human Rights Abuses,” June 9, 2011. (<https://www.treasury.gov/press-center/press-releases/Pages/tg1204.aspx>); U.S. Department of the Treasury, Press Release, “Fact Sheet: New Executive Order Targeting Human Rights Abuses Via Information Technology,” April 23, 2012. (<https://www.treasury.gov/press-center/press-releases/Pages/tg1547.aspx>)

53. U.S. Department of the Treasury, Press Release, “Fact Sheet: Designation of Iranian Entities and Individuals for Proliferation Activities and Support for Terrorism,” October 25, 2007. (<https://www.treasury.gov/press-center/press-releases/Pages/hp644.aspx>)

54. U.S. Department of the Treasury, Press Release, “Treasury Designates Iranian Ministry of Intelligence and Security for Human Rights Abuses and Support for Terrorism,” February 16, 2012. (<https://www.treasury.gov/press-center/press-releases/Pages/tg1424.aspx>)

terrorist financing.” As a result, FATF maintained its 2009 decision to have member countries apply “effective counter-measures to protect their financial sectors from money laundering and financing of terrorism (ML/FT) risks emanating from Iran.”<sup>55</sup> Iran’s place on the blacklist was shared only with one other country: North Korea.<sup>56</sup>

- In June 2016, FATF maintained Iran’s place on the blacklist but temporarily suspended countermeasures due to its willingness to commit to a high-level, secret Action Plan with FATE. However, commitment to an Action Plan does not necessarily reflect improvements in AML/CFT systems. FATF stated: “Until Iran implements the measures required to address the deficiencies identified in the Action Plan, the FATF will remain concerned with the terrorist financing risk emanating from Iran and the threat this poses to the international financial system. The FATF, therefore, calls on its members and urges all jurisdictions to continue to advise their financial institutions to apply enhanced due diligence to business relationships and transactions with natural and legal persons from Iran, consistent with FATF Recommendation 19. The FATF urges Iran to fully address its AML/CFT deficiencies, in particular those related to terrorist financing. The FATF will continue to engage with Iran and closely monitor its progress.”<sup>57</sup>

## ECONOMIC, CREDIT AND BANKING, INVESTING, AND OPERATIONAL RISK

### SUMMARY

Economic risk includes macroeconomic conditions such as exchange rates, government regulation, or political instability. The Basel II Committee defines operational risk as “the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.”<sup>58</sup> Iran’s economy struggles under burdens ranging from an opaque monetary policy to extensive governmental intervention in the market. The stock market is often manipulated, and institutional practices are sub-optimal for foreign investment, due to noncompetitive markets and unsound banking practices.

### Rankings and Ratings

- There are currently no rating agencies such as Moody’s or Standard & Poor’s in Iran.<sup>59</sup>
- The last time that Iran received a rating from Moody’s and from Fitch, it was rated as “junk” with a score of B2 and B respectively.<sup>60</sup>

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55. The Financial Action Task Force, Public Statement, “Public Statement – 19 February 2016,” February 19, 2016. (<http://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/documents/public-statement-february-2016.html>)

56. The Financial Action Task Force, Public Statement, “Public Statement – 19 February 2016,” February 19, 2016. (<http://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/documents/public-statement-february-2016.html>)

57. The Financial Action Task Force, Public Statement, “Public Statement – 24 June 2016,” June 24, 2016. (<http://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/documents/public-statement-june-2016.html>)

58. “Operational Risk,” *Basel Committee on Banking Supervision*, May 31, 2001, page 2. (<https://www.bis.org/publ/bcbsca07.pdf>)

59. Navid Kalhor, “How Iran plans to cover its budget deficit,” *Al Monitor*, March 8, 2016. (<http://www.al-monitor.com/pulse/originals/2016/03/iran-debt-market-expansion-budget-deficit-islamic-tbills.html>)

60. Marc Jones, “Sanctions scars and oil slump point to low Iran credit rating,” *Reuters*, January 28, 2016. (<http://uk.reuters.com/article/uk-iran-ratings-idUKKCN0V61CF>)

- Iran was rated poorly on World Bank business climate indicators related to access to credit, protecting minority investors, governance, and resolving insolvency, among others.<sup>61</sup>
- Iran was ranked 165/190 for “Protecting Minority Investors” and 156/190 in “Resolving Insolvency” on World Bank’s 2017 “Ease of Doing Business” Index.<sup>62</sup> Iran received an overall ranking of 120 out of 190.
- Iran was ranked 134/138 for “Labor Market Efficiency” on the World Economic Forum’s Global Competitiveness Index for 2016-2017, with a specific rank of 124 for cooperation in labor-employer relations, 123 for flexibility of wage determination, and 78 for hiring and firing practices.<sup>63</sup>
- Iran was ranked 131/138 for “Financial Market Development” on the World Economic Forum’s Global Competitiveness Index for 2016-2017 with a specific rank of 122 for soundness of banks, 128 for regulation of securities exchanges, 124 for ease of access to loans, and 110 for venture capital availability.<sup>64</sup>
- Iran was ranked 112/138 for “Private Institutions” on the World Economic Forum’s Global Competitiveness Index for 2016-2017, with a specific rank of 85 for ethical behavior of firms, 116 for strength of auditing and reporting standards, 117 for protection of minority shareholders’ interests, and 117 for strength of investor protection.<sup>65</sup>
- Iran was ranked 178/180 on Monetary Freedom, 175/180 on Investment Freedom, and 173/180 on Financial Freedom in the 2017 Index of Economic Freedom from the Heritage Foundation.<sup>66</sup> On the overall Economic Freedom category, Iran is ranked 155/180. The index notes: “The private sector is largely marginalized by the restrictive regulatory environment and government inefficiency and mismanagement. Modest efforts to enhance the business climate have occasionally been undone to maintain the status quo. The repressive climate stifles innovation.”<sup>67</sup>
- Iran scored 163/180 on Property Rights, 145/180 on Government Integrity, and 111/180 on Judicial Effectiveness in the 2017 Index of Economic Freedom from the Heritage Foundation.<sup>68</sup> These three metrics relate to the rule of law and legal protection. The ratings indicate that property ownership is weakly protected and the court system is highly inefficient.<sup>69</sup>

61. “IMF Country Report No. 17/62: Islamic Republic Of Iran,” *International Monetary Fund*, February 2017, page 23. (<http://www.imf.org/~media/Files/Publications/CR/2017/cr1762.ashx>)

62. “Doing Business,” *The World Bank*, Ease of Doing Business in Iran, Islamic Rep, accessed May 24, 2017. (<http://www.doingbusiness.org/data/exploreeconomies/iran/>)

63. “Global Competitiveness Index 2016-2017 edition: Iran, Islamic Rep.,” *World Economic Forum*, September 28, 2016. (<http://reports.weforum.org/global-competitiveness-index/country-profiles/#economy=IRN>)

64. “Global Competitiveness Index 2016-2017 edition: Iran, Islamic Rep.,” *World Economic Forum*, September 28, 2016. (<http://reports.weforum.org/global-competitiveness-index/country-profiles/#economy=IRN>)

65. “Global Competitiveness Index 2016-2017 edition: Iran, Islamic Rep.,” *World Economic Forum*, September 28, 2016. (<http://reports.weforum.org/global-competitiveness-index/country-profiles/#economy=IRN>)

66. “2017 Index of Economic Freedom: Iran,” *The Heritage Foundation*, accessed May 24, 2017. (<http://www.heritage.org/index/country/iran>)

67. “2017 Index of Economic Freedom: Business Freedom,” *The Heritage Foundation*, accessed May 24, 2017. (<http://www.heritage.org/index/business-freedom>)

68. “2017 Index of Economic Freedom: Iran,” *The Heritage Foundation*, accessed May 24, 2017. (<http://www.heritage.org/index/country/iran>);

69. “2017 Index of Economic Freedom: Property Rights,” *The Heritage Foundation*, accessed May 24, 2017. (<http://www.heritage.org/index/property-rights>)

- Iran was rated 6 out of 6 on the 2017 OECD Country Risk,<sup>70</sup> composed of transfer and convertibility risk (i.e. the risk a government imposes capital or exchange controls that prevent an entity from converting local currency into foreign currency and/or transferring funds to creditors located outside the country) and cases of *force majeure* (e.g. war, expropriation, revolution, civil disturbance, floods, earthquakes).
- Iran was rated D4 (highest risk level) by Euler Hermes, a credit insurance company.<sup>71</sup>
- Iran was rated Tier 5 (the most risky) by Euromoney Country Risk, reflecting a high level of risk measured across economic and political indicators.<sup>72</sup>

## Key Metrics

### *Political Risk*

- Iran's Central Bank is not independent from the government. Rather, government bodies dominate the decision-making structures of the central bank.<sup>73</sup>
- Press reports indicate that foreign energy companies trying to do business in Iran have had difficulty finding local partners, determining technical details of the oil fields, and determining how long it will take to recoup initial investments. These risks are exacerbated by the disagreement within the Iranian political class over whether oil deals require parliamentary approval.<sup>74</sup>
- "Political and geopolitical risk would probably be one of the higher risks of Iran," according to a Moody's analyst.<sup>75</sup>

### *Banking System and Liquidity*

- Banking capital remains low while the stock of non-performing loans remains high, according to IMF studies.<sup>76</sup>
- To provide credit to the private sector, Iran needs to take steps addressing the "high levels of nonperforming loans, bolstering bank capital, restructuring weak institutions, dealing with unlicensed financial institutions, and strengthening risk management systems and bank supervision," according to the IMF's First Deputy Managing Director David Lipton.<sup>77</sup>

70. "Country Risk Classifications of the Participants to the Arrangement on Officially Supported Export Credits," *Organisation for Economic Co-operation and Development*, January 27, 2017. (<http://www.oecd.org/tad/xcred/cre-crc-current-english.pdf>)

71. "Iran: At a Tipping Point," *Euler Hermes*, accessed May 24, 2017. (<http://www.eulerhermes.com/economic-research/country-reports/Pages/Iran.aspx>) An explanation of the methodology is available at "Euler Hermes Country and Sector Risk Methodology Summary," *Euler Hermes*, accessed May 24, 2017. (<http://www.eulerhermes.com/economic-research/about-economic-research/Pages/methodologies.aspx>)

72. "World Risk Average," *Euromoney*, February 27, 2017. (<http://www.euromoneycountryrisk.com/#supertop>)

73. Navid Kalhor, "Why Iran's banking shake-up won't be enough," *Al Monitor*, October 14, 2016. (<http://www.al-monitor.com/pulse/originals/2016/10/iran-central-bank-reform-bill-shakeup.html>)

74. Rania El Gamal, Ron Bousso and Parisa Hafezi, "As Iran oil tenders near, investors still in the dark on terms," *Reuters*, October 20, 2016 (<http://www.reuters.com/article/us-iran-oil-contracts-idUSKCN12K1M1>)

75. Marc Jones, "Sanctions scars and oil slump point to low Iran credit rating," *Reuters*, January 28, 2016. (<http://uk.reuters.com/article/uk-iran-ratings-idUKKCN0V61CF>)

76. International Monetary Fund, "Iran: Concluding Statement of an IMF Staff Visit," October 3, 2016. (<http://www.imf.org/en/News/Articles/2016/10/03/MS100316-Iran-Concluding-Statement-of-an-IMF-Staff-Visit>)

77. David Lipton, "Iran — Achieving its Potential in the Global Economy," *Speech before the Central Bank of Iran*, May 17, 2017. (<http://www.imf.org/en/News/Articles/2015/09/28/04/53/sp051716>)

- *Economist Intelligence Unit* found that Iran's banking sector has a weak asset base and both non-performing loans and political intervention undermine regular operations.<sup>78</sup>
- Iranian banking experts recognize the challenges of Iran's current financial system. Morteza Bina, a senior risk manager at the Middle East Bank in Tehran, noted in January 2016 that Iran had not made the necessary reforms to keep up with international standards.<sup>79</sup>
- Iran suffers from "corruption and illiquidity of banks, and banks' inability to follow modern standards for financial disclosure, taxation, capital requirements and due diligence," according to former U.S. State Department and Treasury officials.<sup>80</sup>
- Central Bank of Iran has had difficulty reining in unlicensed credit and finance institutions; these institutions regularly attract deposits because they violate interest rate caps on financial deposits. An estimated 15-20% (as of February 2015) of Iran's money supply is deposited in these institutions, according to the central bank governor, exposing the Iranian economy to potential bubbles and financial instability.<sup>81</sup>
- Until last year, Iran did not use the International Financial Reporting Standards (IFRS). Reportedly, under these standards, Bank Saderat would report significant losses, and Bank Mellat's stocks dropped 38 percent. These are designated banks. According to experts, this is because for many years banks were paying dividends without real financial backing and using unpaid loans and debts as profit.<sup>82</sup>
- Estimates indicate that upwards of 30 percent of bank loans are non-performing, and recapitalizing these banks would require 15-20 percent of GDP.<sup>83</sup>
- Iranian banks do not meet the requirements of the Basel III accords regarding application of necessary accounting standards, risk-management practices, and capital and liquidity coverage.<sup>84</sup>
- IMF experts state that there is an "urgent need" for banking sector reforms including better supervision of distressed banks.<sup>85</sup>
- An IMF country report from February 2017 found that the Iranian banking system is "fragile."<sup>86</sup>

78. "Iran," *The Economist Intelligence Unit*, May 12, 2017. (<http://country.eiu.com/article.aspx?articleid=1585452942&Country=Iran&topic=Risk&subtopic=Credit+risk&subsubtopic=Overview>)

79. Najmeh Bozorgmehr, "Iran's 'outdated' banks hamper efforts to rejoin global economy," *Financial Times* (UK), January 19, 2016. (<http://www.ft.com/intl/cms/s/0/39ebfc92-b4a0-11e5-b147-e5e5bba42e51.html#axzz4BYx6d358>)

80. Elizabeth Rosenberg and Richard Nephew, "Iran's broken financial system," *Politico*, June 6, 2016. (<http://www.politico.com/agenda/story/2016/06/iran-broken-financial-system-000139>)

81. Alireza Ramezani, "Why Iran's central bank can't control money markets," *Al Monitor*, October 10, 2016. (<http://www.al-monitor.com/pulse/en/originals/2016/10/iran-credit-finance-institutes-high-interest-rates-unlicense.html>)

82. Patrick Clawson, "Iran's Economy Post-Nuclear Deal: A Misleading IMF Scorecard," *The Washington Institute for Near East Policy*, March 10, 2017. ([http://info.washingtoninstitute.org/acton/ct/19961/s-026b-1703/Bct/l-0083/l-0083:196e/ct0\\_0/1?sid=TV2%3Aa1UqO7R0b](http://info.washingtoninstitute.org/acton/ct/19961/s-026b-1703/Bct/l-0083/l-0083:196e/ct0_0/1?sid=TV2%3Aa1UqO7R0b))

83. Patrick Clawson, "Iran's Economy Post-Nuclear Deal: A Misleading IMF Scorecard," *The Washington Institute for Near East Policy*, March 10, 2017. ([http://info.washingtoninstitute.org/acton/ct/19961/s-026b-1703/Bct/l-0083/l-0083:196e/ct0\\_0/1?sid=TV2%3Aa1UqO7R0b](http://info.washingtoninstitute.org/acton/ct/19961/s-026b-1703/Bct/l-0083/l-0083:196e/ct0_0/1?sid=TV2%3Aa1UqO7R0b))

84. Patrick Clawson, "Iran's Economy Post-Nuclear Deal: A Misleading IMF Scorecard," *The Washington Institute for Near East Policy*, March 10, 2017. ([http://info.washingtoninstitute.org/acton/ct/19961/s-026b-1703/Bct/l-0083/l-0083:196e/ct0\\_0/1?sid=TV2%3Aa1UqO7R0b](http://info.washingtoninstitute.org/acton/ct/19961/s-026b-1703/Bct/l-0083/l-0083:196e/ct0_0/1?sid=TV2%3Aa1UqO7R0b))

85. International Monetary Fund, Press Release, "IMF Executive Board Concludes 2016 Article IV Consultation with the Islamic Republic of Iran," February 27, 2017. (<http://www.imf.org/en/News/Articles/2017/02/27/PR1765-IMF-Executive-Board-Concludes-2016-Article-IV-Consultation-with-the-Islamic-Republic-of-Iran>)

86. "IMF Country Report No. 17/62: Islamic Republic Of Iran," *International Monetary Fund*, February 2017, page 12. (<http://www.imf.org/~media/Files/Publications/CR/2017/cr1762.ashx>)

### *Exchange Rate*

- Iran has a “dual exchange rate” policy, with an “official rate” and an open market rate. The gap has narrowed since the nuclear deal, but the dual rates remain, fueling corruption.<sup>87</sup>
- The Central Bank of Iran determines the exchange rate for the rial. Exchange rates are typically set by treasuries rather than central banks, because this exposes the central bank to political pressure.<sup>88</sup>
- Non-bank financial institutions are not under the authority of the central bank but rather controlled by revolutionary and clerical institutions. The central bank therefore has little information about the size of these institutions and their interest rates, and therefore about the overall money supply.<sup>89</sup>

### *Stock Market*

- The Tehran Stock Exchange (TSE) regulations prohibit ownership of less than 10 percent in any listed company, and stocks are prevented from moving +/-5 percent in a trading session.<sup>90</sup>
- The stock exchange lacks an online English-language trading platform. It also classifies firms into 30 sectors (as compared to the 10 sectors listed on the NASDAQ – an exchange three-times the size of the TSE).<sup>91</sup>
- There are additional risks in the TSE, based on “currency fluctuations, weak corporate governance and potential links of large listed firms with powerful political entities.”<sup>92</sup>
- Activity on the TSE is reportedly distorted by government intervention and high levels of corruption. There are also allegations of widespread insider trading.<sup>93</sup>
- Companies listed on the Tehran Stock Exchange often refrain from publishing complete and transparent data.<sup>94</sup>

87. Dominic Dudley, “Iran Postpones Unification Of Official And Open Market Exchange Rates,” *Forbes*, February 20, 2017. (<https://www.forbes.com/sites/dominicdudley/2017/02/20/iran-parallel-exchange-rates/#16724d182082>)

88. Navid Kalhor, “Why Iran’s banking shake-up won’t be enough,” *Al Monitor*, October 14, 2016. (<http://www.al-monitor.com/pulse/originals/2016/10/iran-central-bank-reform-bill-shakeup.html>)

89. Patrick Clawson, “Iran’s Economy Post-Nuclear Deal: A Misleading IMF Scorecard,” *The Washington Institute for Near East Policy*, March 10, 2017. ([http://info.washingtoninstitute.org/acton/ct/19961/s-026b-1703/Bct/l-0083/l-0083:196e/ct0\\_0/1?sid=TV2%3Aa1UqO7R0b](http://info.washingtoninstitute.org/acton/ct/19961/s-026b-1703/Bct/l-0083/l-0083:196e/ct0_0/1?sid=TV2%3Aa1UqO7R0b))

90. Navid Kalhor, “What is keeping foreign money out of Iran’s stock exchanges?” *Al Monitor*, June 6, 2016. (<http://www.al-monitor.com/pulse/originals/2016/06/iran-foreign-investment-capital-markets-challenges.html>)

91. Navid Kalhor, “What is keeping foreign money out of Iran’s stock exchanges?” *Al Monitor*, June 6, 2016. (<http://www.al-monitor.com/pulse/originals/2016/06/iran-foreign-investment-capital-markets-challenges.html>)

92. Navid Kalhor, “What is keeping foreign money out of Iran’s stock exchanges?” *Al Monitor*, June 6, 2016. (<http://www.al-monitor.com/pulse/originals/2016/06/iran-foreign-investment-capital-markets-challenges.html>)

93. Behrouz Mina, “Traders Stung as Tehran Stock Exchange Slumps,” *IranWire*, January 28, 2015. (<https://iranwire.com/en/features/853>)

94. Navid Kalhor, “What is keeping foreign money out of Iran’s stock exchanges?” *Al Monitor*, June 6, 2016. (<http://www.al-monitor.com/pulse/originals/2016/06/iran-foreign-investment-capital-markets-challenges.html>)

### SUMMARY

In the wake of the Iranian Revolution in 1979, 52 American diplomats were held hostage in Tehran for 444 days. Ever since, Iran has repeatedly posed a threat to American interests, values, and lives around the globe. For example, the 1983 Beirut embassy bombing, funded by Iran, killed more than 60 people, including nearly 20 Americans. The same year, Iran ordered an attack on the Marine barracks in Lebanon, which killed 241 Americans working as peacekeepers, and a simultaneous attack that killed 58 French peacekeeping personnel.

Since then, the Islamic Republic has added to its portfolio of terrorism and regional destabilization activities by acquiring partners and proxies throughout the Middle East and selectively deploying them to fight for the Islamic Republic. Evidenced by the regime's ongoing military involvement in Syria and Yemen to its consistent saber-rattling towards the United States itself, Iran poses a grave threat to American and partnered interests and lives to this day.

Iran was designated as a State Sponsor of Terrorism by the U.S. State Department in 1984, and remains listed today.<sup>95</sup>

### Key Points

- Iran-backed fighters were heavily involved in the fight for Aleppo, indicating the extent of the Iranian government's involvement in supporting the Assad regime.<sup>96</sup>
- Iran has trained, armed, and equipped both Arab and non-Arab militiamen to fight in Syria to defend the Assad regime.<sup>97</sup>
- Iran's role in Syria's chemical weapons program have been reported since at least 2005.<sup>98</sup> This year, weeks after Syrian President Assad was accused of using chemical weapons on his own people, the US government provided evidence of this collusion. The US Treasury designated a senior Iranian defense official in May 2017 for organizing "the sale and delivery of explosives and other materiel for Syria's Scientific Studies and Research Center (SSRC) on behalf of DIO."<sup>99</sup> DIO (Defense Industries Organization) is an affiliate of Iran's Ministry

95. U.S. Department of State, Bureau of Counterterrorism and Countering Violent Extremism, "Chapter 3: State Sponsors of Terrorism Overview" 2014. (<http://www.state.gov/j/ct/rls/crt/2014/239410.htm>)

96. "Thousands of Iran-backed fighters converge on Aleppo amid deadly Syria airstrikes," *Fox News*, September 26, 2016. (<http://www.foxnews.com/world/2016/09/26/thousands-iran-backed-fighters-converge-on-aleppo-amid-deadly-syria-airstrikes.html>)

97. Ramin Mostaghim and Nabih Bulos, "Members of this Afghan minority flee to Iran to escape persecution — and get sent to fight in Syria," *Los Angeles Times*, August 18, 2016. (<http://www.latimes.com/world/middleeast/la-fg-syria-hazara-20160810-snap-htmstory.html>); Babak Dehghanpisheh, "Iran recruits Pakistani Shi'ites for combat in Syria," *Reuters*, December 10, 2015. (<http://www.reuters.com/article/us-mideast-crisis-syria-pakistan-iran-idUSKBN0TT22S20151210>); Phillip Smyth, "Iran-backed Iraqi militias are pouring into Syria," *The Washington Institute for Near East Policy*, October 2, 2015. (<http://www.businessinsider.com/iran-backed-iraqi-militias-are-pouring-into-syria-2015-10>)

98. Robin Hughes, "Iran aids Syria's CW programme," *Janes*, October 24, 2005. ([https://web.archive.org/web/20081013133511/http://www.janes.com/defence/news/jdw/jdw051024\\_3\\_n.shtml](https://web.archive.org/web/20081013133511/http://www.janes.com/defence/news/jdw/jdw051024_3_n.shtml))

99. U.S. Department of the Treasury, Press Release, "Treasury Sanctions Iranian Defense Officials and a China-Based Network for Supporting Iran's Ballistic Missile Program," May 17, 2017. (<https://www.treasury.gov/press-center/press-releases/Pages/sm0088.aspx>)

of Defense. The SSRC was already sanctioned by the Treasury Department in 2005,<sup>100</sup> and in April, Treasury designated over 200 of its employees who “worked in support of SSRC’s chemical weapons program.”<sup>101</sup>

- In 2012, former Iranian President Ali-Akbar Hashemi Rafsanjani said, “We must possess Syria. If the chain from Lebanon to here is cut, bad things will happen.”<sup>102</sup> Iran’s involvement in Syria’s larger fight against ISIS in Iraq can best be understood not through the lens of fighting a vicious terrorist organization, but rather as a means to advance the aims of its Islamic Revolution.<sup>103</sup>
- Iran and Russia have collaborated to sustain the Assad regime in Syria. In so doing, the Islamic Republic has permitted Russian warplanes to be stationed in Iran.<sup>104</sup> Alireza Zakani, a former Iranian parliamentarian, hinted at increasing Iranian and Russian security cooperation and coordination.<sup>105</sup> Other Iranian officials have been more explicit in their cooperation with Russia in the Syrian theater. Both Iranian President Hassan Rouhani and Defense Minister General Hossein Dehqan have spoken with Russian officials in the aftermath of an April 2017 U.S. cruise missile strike on a Syrian airbase.<sup>106</sup> There have also been high-level visits between the two countries.<sup>107</sup>
- According to open-source estimates, there have been at least four intercepted arms shipments by Tehran to the Houthi rebels in Yemen. These arms shipments violate multiple UNSCR resolutions.<sup>108</sup> Iran has also reportedly amended its arms smuggling methods, using overland routes via Oman and other jurisdictions to keep the conflict in Yemen raging.<sup>109</sup>
- CENTCOM Commander Joseph Votel believes that Iran was involved in the missile launches at U.S. warships by Houthi rebels in Yemen in October 2016.<sup>110</sup>

100. “Scientific Studies and Research Center,” *NTI*, March 1, 2011. (<http://www.nti.org/learn/facilities/478/>)

101. Quoted in: Annie Fixler and Behnam Ben Taleblu, “New Iran Sanctions Expose Illicit Networks,” *Foundation for Defense of Democracies*, May 19, 2017. (<http://www.defenddemocracy.org/media-hit/annie-fixler-new-iran-sanctions-expose-illicit-networks/>)

102. Hashemi Rafsanjani, quoted in: Ali Alfoneh, “Iran’s Strategy in Syria,” *Foundation for Defense of Democracies*, September 19, 2013. (<http://www.defenddemocracy.org/media-hit/irans-strategy-in-syria/>)

103. Behnam Ben Taleblu, “Enemy of Convenience: Iran’s Fight Against Daesh,” *FRIDE*, December 2015. ([http://fride.org/download/PB213\\_Iran\\_fight\\_against\\_Daesh.pdf](http://fride.org/download/PB213_Iran_fight_against_Daesh.pdf))

104. Behnam Ben Taleblu and Amir Toumaj, “Russian warplanes to reportedly use Iranian air base for refueling,” *The Long War Journal*, August 18, 2016. (<http://www.longwarjournal.org/archives/2016/08/russian-warplane-to-reportedly-use-iranian-air-base-for-refueling.php>); “Shifting sands in air base drama between Tehran and Moscow,” *The Long War Journal*, August 26, 2016. (<http://www.longwarjournal.org/archives/2016/08/shifting-sands-in-air-base-drama-between-tehran-and-moscow.php>)

105. “ناگفته‌هایی از حضور اخیر جنگنده‌های روسیه در ایران (Unspoken [Truths] About The Presence of Russian Warplanes in Iran),” *Mashregh News* (Iran), October 31, 2016. (<http://www.mashreghnews.ir/news/650077/ناگفته-هایی-از-حضور-اخیر-جنگنده-های-روسیه-در-ایران>)

106. “Iran defense chief discusses US raid with Russia, Syria counterparts,” *Press TV* (Iran), April 11, 2017. (<http://www.presstv.ir/Detail/2017/04/11/517673/Iran-Russia-Syria-Hossein-Dehqan-Sergei-Shoigu-Fahd-Jassem-alFreij-terrorism>); “Putin and Rouhani, in phone call, condemn U.S. aggression in Syria: Kremlin,” *Reuters*, April 9, 2017. (<http://www.reuters.com/article/us-mideast-crisis-syria-iran-russia-idUSKBN17B0KV>)

107. See: “Iran Quds chief visited Russia despite U.N. travel ban: Iran official,” *Reuters*, August 7, 2015. (<http://www.reuters.com/article/us-russia-iran-soleimani-idUSKCN0QC1KM20150807>); Gabrielle Tétrault-Farber, “Russia, Iran ink economic deals as Rouhani visits Moscow,” *AFP*, March 28, 2017. (<https://www.yahoo.com/news/putin-meet-irans-rouhani-moscow-073427164.html>)

108. See: Jerrica Goodson, Simon Chin, and Valerie Lincy, “Iranian Arms Shipments to Yemen Violate U.N. Resolutions,” *Iran Watch*, November 3, 2016. (<http://www.iranwatch.org/our-publications/policy-briefs/iranian-arms-shipments-yemen-violate-un-resolutions>)

109. Yara Bayoumy and Phil Stewart, “Exclusive: Iran steps up weapons supply to Yemen’s Houthis via Oman – officials,” *Reuters*, October 20, 2016. (<http://www.reuters.com/article/us-yemen-security-iran-idUSKCN12K0CX>); Behnam Ben Taleblu and Patrick Megahan, “Iran’s Maritime Mirage,” *The Cipher Brief*, January 3, 2017. (<https://www.thecipherbrief.com/article/exclusive/middle-east/irans-maritime-mirage-power-projection-through-conventional-means>)

110. Kristina Wong, “US general suspects Iran in Yemen missile launches,” *The Hill*, October 19, 2016. (<http://thehill.com/policy/defense/301801-us-general-suspects-iran-playing-a-role-in-missile-launches-against-us-ships#.WAeuiBaBJ7c.twitter>)

- In August 2016, then-Secretary of State John Kerry cited Iran’s destabilizing role in the region. “The threat potentially posed by the shipment of missiles and other sophisticated weapons into Yemen from Iran extends well beyond Yemen and is not a threat just to Saudi Arabia,” he said.<sup>111</sup>
- Iran is a party to neither the Missile Technology Control Regime (MTCR) nor the Hague Code of Conduct against Ballistic Missile Proliferation (HCOC). The MTCR is “aimed at preventing proliferation of unmanned delivery systems capable of delivering weapons of mass destruction.”<sup>112</sup> The HCOC is “aimed at bolstering efforts to curb ballistic missile proliferation.”<sup>113</sup> Iran’s decision to adopt neither treaty reflects its interest in developing and proliferating ballistic missiles capable of carrying weapons of mass destruction across long distances.<sup>114</sup> Iran has long avoided entering into treaties that prohibit or limit its ballistic missile capacities, calling into question its commitment to comply with international standards on critical security issues.
- The JCPOA does not prevent Iran from continuing its role in widespread arms proliferation. Iran has repeatedly armed non-state actors in the past, and will likely use its increased wealth (a JCPOA legacy of access to international markets and unfrozen assets) to expand its arms shipments abroad. Iran can send more arms to Hezbollah and Hamas by sending them to formal state actors, with the end user concealed.<sup>115</sup>
- The IRGC operates as a parallel, ideologically driven military in Iran. The goal of the IRGC is to export the Iranian Revolution. The unusual relationship between Iran’s traditional military and the IRGC makes containing Iran’s military adventurism through formal legal and negotiating channels difficult, so long as the IRGC continues to operate in accord with its founding maxims.<sup>116</sup>
- Iran has been involved by proxy in nearly every Middle Eastern conflict in the past decade. It has repeatedly sown discord through support for resistance groups like the Houthis in Yemen and the Taliban in Afghanistan, and for major state actors such as Hamas in the Gaza Strip and Hezbollah in Lebanon.<sup>117</sup>
- Throughout the region, Iran engages in asymmetric warfare. This provides Tehran a cost-effective way to destabilize other governments and support regional pro-Iran organizations in the process of exporting the revolution. Iran provided anti-tank missiles to Hezbollah in the mid-2000s, which were the main killers of Israeli troops during the 2006 war in Lebanon.<sup>118</sup> During the U.S. military occupation of Iraq, Iran’s IRGC supplied the most deadly improvised

111. John Kerry, quoted in: “Iran arms shipments to Yemen ‘cannot continue’: Kerry,” *AFP*, August 25, 2016. (<http://www.al-monitor.com/pulse/afp/2016/08/yemen-conflict-iran-weaponry.html>)

112. See: “N/A,” *Missile Technology Control Regime Website*, accessed May 24, 2017. (<http://mtcr.info/>)

113. “Hague Code of Conduct Against Ballistic Missile Proliferation (HCOC),” *NTI*, February 1, 2017. (<http://www.nti.org/learn/treaties-and-regimes/hague-code-conduct-against-ballistic-missile-proliferation-hcoc/>)

114. For an understanding of the Iranian ballistic missile program, see: Behnam Ben Taleblu, “Don’t Forget About Iran’s Ballistic Missiles,” *War on the Rocks*, August 25, 2014. (<http://warontherocks.com/2014/08/dont-forget-irans-ballistic-missiles/>)

115. Patrick Megahan and Behnam Ben Taleblu, “Putting Iran’s Arms Proliferation Back in Business,” *Military Edge*, August 5, 2015. (<http://militaryedge.org/analysis-articles/putting-irans-arms-proliferation-business/>)

116. See: Emanuele Ottolenghi, Saeed Ghasseminejad, Annie Fixler & Amir Toumaj, “How the Nuclear Deal Enriches Iran’s Revolutionary Guard Corps,” *Foundation for Defense of Democracies*, October 2016. ([http://www.defenddemocracy.org/content/uploads/documents/IRGC\\_Report.pdf](http://www.defenddemocracy.org/content/uploads/documents/IRGC_Report.pdf))

117. See: Kenneth Katzman, “Iran’s Foreign and Defense Policies,” *Congressional Research Service*, April 6, 2017. (<https://www.fas.org/sgp/crs/mideast/R44017.pdf>)

118. Patrick Megahan and Behnam Ben Taleblu, “Putting Iran’s Arms Proliferation Back in Business,” *Military Edge*, August 5, 2015. (<http://militaryedge.org/analysis-articles/putting-irans-arms-proliferation-business/>); Steven Erlanger and Richard A. Opiel Jr., “A Disciplined Hezbollah Surprises Israel With Its Training, Tactics and Weapons,” *The New York Times*, August 7, 2006. (<http://www.nytimes.com/2006/08/07/world/middleeast/07hezbollah.html>)

explosive devices to Shiite militias, which then used them to target American soldiers.<sup>119</sup> Despite sectarian enmity, the Islamic Republic has a long history of working with al-Qaeda, permitting its personnel to use Iranian territory.<sup>120</sup> The government of Iran has been targeted by the U.S. Treasury Department for ties to al-Qaeda.<sup>121</sup>

- According to Hamas' representative in Iran, as of February 2017, "In terms of financial and political support – and even military support – Iran's [financial] offerings have not stopped...What we want is for Iran to keep Palestine as one of its priorities. Indeed, Iran's support for the Palestinian cause is ongoing."<sup>122</sup>
- Iran possesses ballistic missiles that can target the entire Middle East,<sup>123</sup> including the main U.S. military installations in the region. It is also developing an advanced cruise missile capability (likely through reverse engineering) that can reach the heart of central Europe.<sup>124</sup> Iran also reportedly received some long-range missiles from North Korea.<sup>125</sup> Given its conventional military weakness, these are useful investments for Iran to make to develop its military and bolster its deterrence.<sup>126</sup>
- According to missile expert Anthony H. Cordesman, "Iran presently fields the largest ballistic missile arsenal in the Middle East."<sup>127</sup> Moreover, according to former Director of National Intelligence (DNI) James Clapper, "Iran's ballistic missiles are inherently capable of delivering weapons of mass destruction."<sup>128</sup> While not every missile that Iran has produced or procured can carry a nuclear payload, or meet the criterion laid out by the Missile Technology Control Regime (MTCR) to be considered "nuclear capable," that does not mitigate Tehran's missile threat.<sup>129</sup>

119. Michael R. Gordon, "Deadliest Bomb in Iraq Is Made by Iran, U.S. Says," *The New York Times*, February 10, 2007. (<http://www.nytimes.com/2007/02/10/world/middleeast/10weapons.html>); Michael R. Gordon and Andrew W. Lehren, "Leaked Reports Detail Iran's Aid for Iraqi Militias," *The New York Times*, October 22, 2010. (<http://www.nytimes.com/2010/10/23/world/middleeast/23iran.html?pagewanted=all&r=0>)

120. Thomas Joscelyn, "Treasury designates 3 senior al Qaeda members in Iran," *FDD's Long War Journal*, July 20, 2016. (<http://www.longwarjournal.org/archives/2016/07/treasury-designates-three-senior-al-qaeda-members-in-iran.php>)

121. U.S. Department of the Treasury, Press Release, "Treasury Designates Iranian Ministry of Intelligence and Security for Human Rights Abuses and Support for Terrorism," February 16, 2012. (<https://www.treasury.gov/press-center/press-releases/Pages/tg1424.aspx>)

122. Adnan Abu Amer (Translated by Mohammad Khalil), "Hamas insists ties with Iran strong, despite regional polarization," *Al Monitor*, February 9, 2017. ([http://www.al-monitor.com/pulse/originals/2017/02/hamas-iran-relations-support-military.html?utm\\_source=dlvr.it&utm\\_medium=twitter](http://www.al-monitor.com/pulse/originals/2017/02/hamas-iran-relations-support-military.html?utm_source=dlvr.it&utm_medium=twitter))

123. See inventory in: Michael Eisenstadt, "The Role of Missiles in Iran's Strategy," *The Washington Institute for Near East Policy*, November 2016. (<http://www.washingtoninstitute.org/uploads/Documents/pubs/ResearchNote39-Eisenstadt.pdf>)

124. Behnam Ben Taleblu and Patrick Megahan, "Iran Fires Cruise Missile Through Sanctions Loophole," *Foundation for Defense of Democracies*, March 11, 2015. (<http://www.defenddemocracy.org/media-hit/behnam-ben-taleblu-iran-fires-cruise-missile-through-sanctions-loophole/>)

125. See: Uzi Rubin, "The Global Reach of Iran's Missiles," *INSS (Israel)*, November 2006. (<http://www.inss.org.il/publication/the-global-reach-of-irans-ballistic-missiles/>); Larry Niksch, "The Iran-North Korea Strategic Relationship," *Testimony before the House Foreign Affairs Committee*, July 28, 2015. (<http://docs.house.gov/meetings/FA/FA18/20150728/103824/HHRG-114-FA18-Wstate-NikschL-20150728.pdf>)

126. Anthony H. Cordesman, "Iran, Missiles, and Nuclear Weapons," *Center for Strategic & International Studies*, December 9, 2015. (<https://www.csis.org/analysis/iran-missiles-and-nuclear-weapons>)

127. Noted in: Michael Elleman, "Could Iran deliver a bomb? Four basics about Iran's ballistic missiles," *Iran Primer*, January 11, 2011. (<http://iranprimer.usip.org/blog/2011/jan/21/could-iran-deliver-bomb-four-basics-about-iran%E2%80%99s-ballistic-missiles>)

128. James R. Clapper, "Statement for the Record: Worldwide Threat Assessment of the U.S. Intelligence Community," *Testimony before Senate Armed Services Committee*, February 9, 2016, page 8. ([https://www.armed-services.senate.gov/imo/media/doc/Clapper\\_02-09-16.pdf](https://www.armed-services.senate.gov/imo/media/doc/Clapper_02-09-16.pdf))

129. This point is made in: Behnam Ben Taleblu, "Iranian Ballistic Missile Tests Since the Nuclear Deal," *Foundation for Defense of Democracies*, February 9, 2017. ([http://www.defenddemocracy.org/content/uploads/documents/20917\\_Behnam\\_Ballistic\\_Missile.pdf](http://www.defenddemocracy.org/content/uploads/documents/20917_Behnam_Ballistic_Missile.pdf)). For the standard metric used by the MTCR, see: Kelsey Davenport, "The Missile Technology Control Regime at a Glance," *Arms Control Association*, August, 2016. (<https://www.armscontrol.org/factsheets/mtcr>)

- Although some analysts have derided Iran's missiles as lacking "military utility" due to their poor accuracy, post-nuclear deal developments are amending this conventional wisdom.<sup>130</sup> Iran is improving the accuracy of an entire class of its short-range ballistic missiles (SRBMs).<sup>131</sup> In October 2015 Iran tested what it claimed was a precision-guided medium-range ballistic missile (MRBM) dubbed the Emad, which reportedly "has a functioning maneuvering reentry vehicle (MARV)."<sup>132</sup> Should present trends continue – and missile experts believe this to be the case – then Tehran will, according to experts, be able to "plan limited attacks to achieve strategic objectives."<sup>133</sup>
- Based on available open-source reporting, since agreeing to the JCPOA nuclear deal in July 2015 until February 2017, Iran has launched up to 14 ballistic missiles in defiance of U.N. resolutions that contain prohibitions on missile testing.<sup>134</sup> Former U.N. Secretary General Ban-Ki moon said that Iran's March 2016 missiles tests "are not consistent with the constructive spirit" of the JCPOA nuclear deal.<sup>135</sup>

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 130. This is noted in: Behnam Ben Taleblu, "Missing The Point on Iran's Ballistic Missiles," *War on the Rocks*, April 28, 2017. (<https://warontherocks.com/2017/04/missing-the-point-on-irans-ballistic-missiles/>). For the lack of "military utility" argument, see: William Luers, Thomas Pickering, and Greg Thielmann, "Dealing With Iran's Ballistic Missile Program," *The National Interest*, February 8, 2016. (<http://nationalinterest.org/feature/dealing-irans-ballistic-missile-program-15140?page=show>)

131. This is the Fateh-110 class SRBMs, of which the Hormuz, Fateh-313, and Zulfiqar are now part. For more on this claim, see: Bilal Y. Saab and Michael Elleman, "Precision Fire: A Strategic Assessment of Iran's Conventional Missile Program," *Atlantic Council*, September 2016. ([http://www.atlanticcouncil.org/images/publications/Precision\\_Fire\\_web\\_0907.pdf](http://www.atlanticcouncil.org/images/publications/Precision_Fire_web_0907.pdf)). Also, see: Behnam Ben Taleblu, "Assessing the Latest Iranian Ballistic Missile: The Zulfiqar," *Military Edge*, September 29, 2016. (<http://militaryedge.org/analysis-articles/assessing-latest-iranian-ballistic-missile-zulfiqar/>)

132. Anthony Cordesman, "Iran, Missiles, and Nuclear Weapons," *Center for Strategic and International Studies*, December 9, 2015. (<https://www.csis.org/analysis/iran-missiles-and-nuclear-weapons>); Tamir Eshel, "Could Tehran's EMAD Missile Outsmart Israel's Arrow 3?" *Defense Update*, October 12, 2015. ([http://defense-update.com/20151012\\_emad\\_missile.html](http://defense-update.com/20151012_emad_missile.html))

133. Noted by (among many): Bilal Y. Saab and Michael Elleman, "Precision Fire: A Strategic Assessment of Iran's Conventional Missile Program," *Atlantic Council*, September 2016. ([http://www.atlanticcouncil.org/images/publications/Precision\\_Fire\\_web\\_0907.pdf](http://www.atlanticcouncil.org/images/publications/Precision_Fire_web_0907.pdf))

134. Noted in: Behnam Ben Taleblu, "Iranian Ballistic Missile Tests Since the Nuclear Deal," *Foundation for Defense of Democracies*, February 9, 2017. ([http://www.defenddemocracy.org/content/uploads/documents/20917\\_Behnam\\_Ballistic\\_Missile.pdf](http://www.defenddemocracy.org/content/uploads/documents/20917_Behnam_Ballistic_Missile.pdf))

135. Quoted in: Michelle Nichols, "Iran missile tests 'not consistent' with nuclear deal spirit: U.N. report," *Reuters*, July 7, 2016. (<http://www.reuters.com/article/us-iran-missiles-un-idUSKCN0ZN2JV>)

### SUMMARY

Since President Hassan Rouhani's election in 2013, Iran's human rights violations have intensified, despite the claim that Rouhani is a reformer. These abuses can be broadly categorized as legal abuses and civil rights abuses. Legal abuses include widespread torture, sham trials (particularly against dissidents or human rights advocates), and the abundant use of the death penalty. Civil abuses include the widespread subjugation of women, the oppression of religious minorities, and the restriction of free press and assembly. These problems have been highlighted by a series of arrests of dual-nationals, their trials marked by opacity and harsh sentences. Iran's willingness to take foreign hostages and use them to compromise their company's confidential information through computer hacking increases risks for all foreign companies with employees in Iran.

### Key Points

The March 2017 report of the U.N. special rapporteur on the situation of human rights in the Islamic Republic of Iran, Asma Jahangir, states:

- "...information... did not reveal any notable improvement in the situation of human rights in the country. The situation relating to independence of judges and lawyers, freedom of expression and use of arbitrary detention continues to be a matter of serious concern.... some measures are under way, but their implementation and effectiveness is yet to be assessed."<sup>136</sup>
- "Human rights organizations tracking executions in the Islamic Republic of Iran estimate that at least 530 executions took place in 2016. As in previous years, the majority of those executions were not for the 'most serious' drug-related offences."<sup>137</sup> No other country in the world other than China executed more people that year.
- "...concern regarding reports alleging that drug offenders are often deprived of basic due process and fair trial rights, including long periods of incommunicado and pretrial detention, lack of adequate access to a lawyer and/or proper defence, beatings and coerced confessions, which are later used in revolutionary courts to secure their death sentences... the recently amended Criminal Procedure Code, which mandates the Supreme Court to review all death sentences, including those for drug-related offences, does not seem to have led to any significant change in this respect."<sup>138</sup>
- "... continued practice of public executions, which has already been documented by the previous mandate holder and the Secretary-General in several reports. Reportedly, some executions are carried out in public places in the presence of children; however, this has been denied by the [Iranian] Government. Some non-governmental sources stated that most of the public executions are attended by large crowds, which include

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136. United Nations Human Rights Council, "Report of the Special Rapporteur on the situation of human rights in the Islamic Republic of Iran," *A/HRC/34/65*, March 17, 2017, page 3. ([http://www.ohchr.org/EN/HRBodies/HRC/RegularSessions/Session34/Documents/A\\_HRC\\_34\\_65\\_AEV.docx](http://www.ohchr.org/EN/HRBodies/HRC/RegularSessions/Session34/Documents/A_HRC_34_65_AEV.docx))

137. United Nations Human Rights Council, "Report of the Special Rapporteur on the situation of human rights in the Islamic Republic of Iran," *A/HRC/34/65*, March 17, 2017, page 4. ([http://www.ohchr.org/EN/HRBodies/HRC/RegularSessions/Session34/Documents/A\\_HRC\\_34\\_65\\_AEV.docx](http://www.ohchr.org/EN/HRBodies/HRC/RegularSessions/Session34/Documents/A_HRC_34_65_AEV.docx))

138. United Nations Human Rights Council, "Report of the Special Rapporteur on the situation of human rights in the Islamic Republic of Iran," *A/HRC/34/65*, March 17, 2017, page 4. ([http://www.ohchr.org/EN/HRBodies/HRC/RegularSessions/Session34/Documents/A\\_HRC\\_34\\_65\\_AEV.docx](http://www.ohchr.org/EN/HRBodies/HRC/RegularSessions/Session34/Documents/A_HRC_34_65_AEV.docx))

children. This shows that the serious concerns expressed by the Committee on the Rights of the Child about the impact on children of those executions have so far been disregarded.”<sup>139</sup>

- “... numerous reports about the use of torture and other cruel, inhuman or degrading treatment or punishment. These include amputations, blinding and flogging as forms of punishment, physical and mental torture or ill-treatment to coerce confessions (mostly during pretrial detention), prolonged periods of solitary confinement and denial of access to proper and necessary medical treatment for detainees. Rights groups documented at least two amputations, one blinding and several floggings in 2016.”<sup>140</sup>
- “As highlighted in previous reports, the [Iranian] Government rejects the notion that amputations and floggings amount to torture and maintains that they are effective deterrents to criminal activity. The Government reported that 4,332 complaints alleging human rights violations had been submitted in the past four years, including regarding torture and ill-treatment and that ‘only a small percentage’ warranted action. No specific information was provided regarding prosecutions or convictions of individuals alleged to be involved in the torture or ill-treatment of detainees.”<sup>141</sup>
- “The legal profession in the Islamic Republic of Iran is not independent. The Law on the Qualifications of Attorneys, enacted in 1997, gives the judiciary the authority to vet and exclude candidates from holding positions in the bar association. Reportedly, dozens of prominent lawyers have been rejected from contesting elections to the Board of Directors of the bar association by the Supreme Disciplinary Court of Judges.”<sup>142</sup>
- “... in many instances, the right of anyone who is arrested to be promptly informed about the charges against him or her is not respected....individuals may be arrested without being shown a warrant. Several cases in which individuals and/or their families were not provided with information regarding the reasons and circumstances for their arrest or their whereabouts were reported to her during the reporting period. Often, those who are called in for interrogation have no idea of the identity of the persons who initiated the investigation against them.”<sup>143</sup>
- “... the restrictions imposed on the freedom of association and assembly of workers and labour activists who are often not allowed to establish independent unions. Although the Government has allowed an increasing number of peaceful gatherings by workers protesting unpaid wages and other conditions, arrest and detention of labour union leaders and activists are not uncommon.”<sup>144</sup>

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139. United Nations Human Rights Council, “Report of the Special Rapporteur on the situation of human rights in the Islamic Republic of Iran,” *A/HRC/34/65*, March 17, 2017, page 4. ([http://www.ohchr.org/EN/HRBodies/HRC/RegularSessions/Session34/Documents/A\\_HRC\\_34\\_65\\_AEV.docx](http://www.ohchr.org/EN/HRBodies/HRC/RegularSessions/Session34/Documents/A_HRC_34_65_AEV.docx))

140. United Nations Human Rights Council, “Report of the Special Rapporteur on the situation of human rights in the Islamic Republic of Iran,” *A/HRC/34/65*, March 17, 2017, pages 6-7. ([http://www.ohchr.org/EN/HRBodies/HRC/RegularSessions/Session34/Documents/A\\_HRC\\_34\\_65\\_AEV.docx](http://www.ohchr.org/EN/HRBodies/HRC/RegularSessions/Session34/Documents/A_HRC_34_65_AEV.docx))

141. United Nations Human Rights Council, “Report of the Special Rapporteur on the situation of human rights in the Islamic Republic of Iran,” *A/HRC/34/65*, March 17, 2017, pages 6-7. ([http://www.ohchr.org/EN/HRBodies/HRC/RegularSessions/Session34/Documents/A\\_HRC\\_34\\_65\\_AEV.docx](http://www.ohchr.org/EN/HRBodies/HRC/RegularSessions/Session34/Documents/A_HRC_34_65_AEV.docx)), page 7.

142. United Nations Human Rights Council, “Report of the Special Rapporteur on the situation of human rights in the Islamic Republic of Iran,” *A/HRC/34/65*, March 17, 2017, page 8. ([http://www.ohchr.org/EN/HRBodies/HRC/RegularSessions/Session34/Documents/A\\_HRC\\_34\\_65\\_AEV.docx](http://www.ohchr.org/EN/HRBodies/HRC/RegularSessions/Session34/Documents/A_HRC_34_65_AEV.docx))

143. United Nations Human Rights Council, “Report of the Special Rapporteur on the situation of human rights in the Islamic Republic of Iran,” *A/HRC/34/65*, March 17, 2017, page 9. ([http://www.ohchr.org/EN/HRBodies/HRC/RegularSessions/Session34/Documents/A\\_HRC\\_34\\_65\\_AEV.docx](http://www.ohchr.org/EN/HRBodies/HRC/RegularSessions/Session34/Documents/A_HRC_34_65_AEV.docx))

144. United Nations Human Rights Council, “Report of the Special Rapporteur on the situation of human rights in the Islamic Republic of Iran,” *A/HRC/34/65*, March 17, 2017, page 13. ([http://www.ohchr.org/EN/HRBodies/HRC/RegularSessions/Session34/Documents/A\\_HRC\\_34\\_65\\_AEV.docx](http://www.ohchr.org/EN/HRBodies/HRC/RegularSessions/Session34/Documents/A_HRC_34_65_AEV.docx))

- “... no progress has yet been made towards the ratification of the Convention on the Elimination of Discrimination against Women and the elimination of legal provisions that discriminate against women in various areas. It is particularly disturbing that blatantly discriminatory provisions such as those contained in the Islamic Penal Code and which stipulate that the value of a woman’s life is equal to half that of a man’s remain in force in the country. Of concern also is the possible adoption of new discriminatory legal provisions against women.”<sup>145</sup>
- “... continuing systematic discrimination, harassment and targeting of adherents to the Baha’i faith... discrimination against the Baha’i community is legally sanctioned owing to the fact that the faith is not recognized in the Constitution and the absence of other legal protections for adherents of the faith.”<sup>146</sup>
- “... the Special Rapporteur has been contacted by a large number of Iranians both outside and inside the country. She is extremely disturbed by the level of fear of those who have communicated with her. She notes that interlocutors living outside the country expressed fear, mainly of possible reprisals against their family members living in the Islamic Republic of Iran.”<sup>147</sup>
- “The harassment and widespread arrest and detention of persons exercising their right to freedom of opinion and expression or carrying out activities as human rights defenders demonstrate that the authorities continue to exert a high level of control over citizens and severely limit the democratic space. The Special Rapporteur recalls that freedom of opinion and freedom of expression are indispensable conditions for the full development of the person. They are essential for any society and they constitute the foundation stone for every free and democratic society. The Government has a responsibility to ensure that human rights defenders do not face prosecution for promoting and advancing human rights in the country.”<sup>148</sup>

### **Kidnapping of Dual Nationals**

- *U.S. State Department Travel Warning*, August 22, 2016: “Iranian authorities continue to unjustly detain and imprison U.S. citizens, particularly Iranian-Americans, including students, journalists, business travelers, and academics, on charges including espionage and posing a threat to national security. Iranian authorities have also prevented the departure, in some cases for months, of a number of Iranian-American citizens who traveled to Iran for personal or professional reasons. U.S. citizens traveling to Iran should very carefully weigh the risks of travel and consider postponing their travel. U.S. citizens residing in Iran should closely follow media reports, monitor local conditions, and evaluate the risks of remaining in the country.”<sup>149</sup>

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 145. United Nations Human Rights Council, “Report of the Special Rapporteur on the situation of human rights in the Islamic Republic of Iran,” *A/HRC/34/65*, March 17, 2017, page 14. ([http://www.ohchr.org/EN/HRBodies/HRC/RegularSessions/Session34/Documents/A\\_HRC\\_34\\_65\\_AEV.docx](http://www.ohchr.org/EN/HRBodies/HRC/RegularSessions/Session34/Documents/A_HRC_34_65_AEV.docx))

146. United Nations Human Rights Council, “Report of the Special Rapporteur on the situation of human rights in the Islamic Republic of Iran,” *A/HRC/34/65*, March 17, 2017, page 16. ([http://www.ohchr.org/EN/HRBodies/HRC/RegularSessions/Session34/Documents/A\\_HRC\\_34\\_65\\_AEV.docx](http://www.ohchr.org/EN/HRBodies/HRC/RegularSessions/Session34/Documents/A_HRC_34_65_AEV.docx))

147. United Nations Human Rights Council, “Report of the Special Rapporteur on the situation of human rights in the Islamic Republic of Iran,” *A/HRC/34/65*, March 17, 2017, page 17. ([http://www.ohchr.org/EN/HRBodies/HRC/RegularSessions/Session34/Documents/A\\_HRC\\_34\\_65\\_AEV.docx](http://www.ohchr.org/EN/HRBodies/HRC/RegularSessions/Session34/Documents/A_HRC_34_65_AEV.docx))

148. United Nations Human Rights Council, “Report of the Special Rapporteur on the situation of human rights in the Islamic Republic of Iran,” *A/HRC/34/65*, March 17, 2017, page 18. ([http://www.ohchr.org/EN/HRBodies/HRC/RegularSessions/Session34/Documents/A\\_HRC\\_34\\_65\\_AEV.docx](http://www.ohchr.org/EN/HRBodies/HRC/RegularSessions/Session34/Documents/A_HRC_34_65_AEV.docx))

149. U.S. Department of State, Bureau of Consular Affairs, “Iran Travel Warning,” August 22, 2016. (<https://travel.state.gov/content/passports/en/alertswarnings/iran-travel-warning.html>)

- Dual U.S.-Iranian citizens Siamak Namazi, arrested in October 2015, and his 80-year old father, Bacquer, arrested in February 2016, are serving 10-year sentences for “cooperating with the hostile government of America.”<sup>150</sup>
- U.S. resident and dual Iranian-Lebanese citizen Nizar Zakka in September 2016 was sentenced to a 10 year jail term in a secret verdict over spying allegations held before a closed court. Zakka received a formal invitation from the Iranian government to attend a conference in Iran, but was taken hostage during that visit. Zakka had worked on projects funded by the State Department.<sup>151</sup>
- Robin Shahini, a dual American-Iranian citizen from San Diego, was visiting family in Iran in July 2016 when he was detained without charges. He was sentenced to 18 years in a secret trial for “collaboration with a hostile government.” In April 2017, the regime released him on bail.<sup>152</sup>
- Iranian-American art dealer Karan Vafadari and his wife, Afarain Niasari, have been detained in Evin Prison without counsel since July 2016, ostensibly for organizing mixed-gender parties for foreign diplomats and for serving alcohol. Vafadari is Zoroastrian, a persecuted minority.<sup>153</sup>
- Ahmadreza Jalali, a Swedish-Iranian physician, was arrested in April 2016 after “being officially invited [to Iran] by Tehran University,” and was charged with “collaborating with enemy states,”<sup>154</sup> a trumped-up allegation the regime often uses against political opponents.
- Nazanin Zaghari-Ratcliffe, a British-Iranian, was sentenced in September 2016 to five years in prison, and the passport of her 2-year-old daughter was revoked. The trial was conducted in secret and with no public disclosure of specific charges.<sup>155</sup>
- Robert Levinson, a retired FBI agent working freelance on a CIA operation, disappeared on Kish Island in 2007 and is believed to have been taken hostage by the IRGC. The U.S. government has repeatedly raised his disappearance with Iran. Washington has been unable to learn of his whereabouts or gain his release.<sup>156</sup>
- Roya Saberi Negad Nobakht, a British-Iranian, was arrested in 2013, and received a 20-year sentence in 2014 for Facebook posts criticizing the regime. The sentence was reduced to seven years after a retrial.<sup>157</sup>
- Kamal Foroughi, a British-Iranian, was arrested in 2011 and received an eight-year sentence in 2013 on charges of espionage and possessing alcohol in his home.<sup>158</sup>

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 150. Bozorgmehr Sharafedin and Yeganeh Torbati, “Iran sentences two U.S. citizens to 10 years in prison,” *Reuters*, October 18, 2016. (<http://www.reuters.com/article/us-iran-usa-prison-idUSKCN12I1HX>)

151. <https://www.theguardian.com/world/2016/sep/20/iran-sentences-us-resident-to-10-years-in-jail-after-spying-claims>)

152. “Robin Shahini, American held in Iran, released on bail, activists say,” *Associated Press*, April 3, 2017. (<http://www.cbsnews.com/news/robin-shahini-american-held-in-iran-released-on-bail-activists-say/>)

153. “Sister Breaks the Silence Over Iranian-American and Wife Held for Three Months Without Charge or Counsel,” *Center for Human Rights in Iran*, December 2, 2016. (<https://www.iranhumanrights.org/2016/12/karan-vafadari-afarin-neyssari-arrest/>)

154. “Iranian-Swedish Disaster Medicine Expert Held in Iran Jail for Nine Months, on Hunger Strike Since Dec. 25,” *Center for Human Rights in Iran*, January 12, 2017. (<https://www.iranhumanrights.org/2017/01/ahmadreza-jalali-iranian-swedish-disaster-relief-expert/>)

155. Asa Fitch, “Iran Sentences Iranian-British Charity Worker to Five Years in Prison,” *The Wall Street Journal*, September 9, 2016. (<http://www.wsj.com/articles/iran-sentences-iranian-british-charity-worker-to-five-years-in-prison-1473444047>)

156. Brian Ross and Lee Ferran, “Robert Levinson: The American, Former FBI Agent, ‘Left Behind’ in Iranian Prisoner Release,” *ABC News*, January 16, 2016. (<http://abcnews.go.com/International/robert-levinson-american-fbi-agent-left-iranian-prisoner/story?id=36332930>)

157. Chris Green, “Roya Nobakht: British woman imprisoned in Iran over anti-government Facebook comments is ‘being physically tortured’, say campaigners,” *The Independent*, July 15, 2015. (<http://www.independent.co.uk/news/world/middle-east/roya-nobakht-british-woman-imprisoned-in-iran-over-anti-government-facebook-comments-being-10391450.html>)

158. Saeed Kamali Dehghan, “Briton, 76, has been in Iranian jail for 4 years on spying charges,” *The Guardian*, October 14, 2015. (<https://www.theguardian.com/uk-news/2015/oct/14/briton-kamal-foroughi-76-iran-jail-spying-charges>)

- Saeed Malekpour, a Canadian permanent resident born and raised in Iran, was arrested in 2008 on trumped-up charges of managing a pornographic website, and is currently serving a life sentence.<sup>159</sup>
- Ahmadreza Jalali, an Iranian-born Swedish resident, was arrested in April 2016 on trumped-up charges of “collaborating with enemy states.”<sup>160</sup>
- Iranian media suggested in October 2016 that the Iranian government is seeking to obtain “many billions of dollars” in ransom payments for U.S. dual citizens it has arrested.<sup>161</sup>

### Iranian Prisoners of Conscience: Recent Highlights

Iranian prisoners of conscience continue to languish in Iranian prisons. The following are highlights of notable recent cases:

- In May 2016, a 16-year sentence was handed down for Narges Mohammadi, a human rights activist who advocated for the end of the death penalty in Iran. She was accused of “gathering and conspiring with the aim of committing crimes against national security,” “propaganda against the state,” and “forming and managing an illegal group.”<sup>162</sup>
- Zeinab Sekaanvand, 22, has received a death sentence for allegedly stabbing to death her abusive husband when she was 17. She has recanted her confession. Police refused to help when she reported the beatings; instead they tortured her when she was in their custody.<sup>163</sup>
- Ahmad Montazeri was tried without a lawyer in October 2016 for releasing tapes in which his father criticized the Iranian government’s 1988 massacre of political prisoners. He received a 21-year sentence.<sup>164</sup>
- Iranian journalist Sadra Mohaghegh was arrested in September 2016 for contact with “anti-revolutionary media outlets.” Mohaghegh was the editor of the social affairs section of a reform-focused newspaper.<sup>165</sup>
- Yashar Soltani, the editor of *Memari News*, was charged in September 2016 with disclosing classified material, though the material he revealed, which showed administrative corruption, was not marked as classified.<sup>166</sup>
- Golrokh Ebrahimi Iraee, an Iranian writer and human rights activist, was arrested in September 2016 for writing a piece that mentioned a young woman burning a Koran. She and her husband were tortured and had

159. Olivia Ward, “Saeed Malekpour: the prisoner left behind in Iran,” *The Star*, April 11, 2016. (<https://www.thestar.com/news/world/2016/04/11/saeed-malekpour-the-prisoner-left-behind-in-iran.html>)

160. “Iranian-Swedish Disaster Medicine Expert Held in Iran Jail for Nine Months, on Hunger Strike Since Dec. 25,” Center for Human Rights in Iran, January 12, 2017. (<https://www.iranhumanrights.org/2017/01/ahmadreza-jalali-iranian-swedish-disaster-relief-expert/>)

161. <http://www.foxnews.com/politics/2016/10/19/iran-seeking-many-billions-dollars-in-ransom-to-free-us-hostages.html#>

162. Saeed Kamali Dehghan, “UN condemns 16-year jail sentence for Iranian activist Narges Mohammadi,” *The Guardian*, May 24, 2016. (<https://www.theguardian.com/global-development/2016/may/24/narges-mohammadi-iranian-activist-un-condemns-10-year-jail-sentence>); Thomas Erdbrink, “Iranian Women’s Rights Activist Is Given 16-Year Sentence,” *The New York Times*, September 28, 2016. (<https://www.nytimes.com/2016/09/29/world/asia/narges-mohammadi-iran-sentencing.html>)

163. Maanvi Singh, “Iran Plans To Hang Child Bride Charged With Killing Her Husband,” *NPR*, October 14, 2016. (<http://www.npr.org/sections/goatsandsoda/2016/10/14/497964594/iran-plans-to-hang-child-bride-charged-with-killing-her-husband>)

164. “Shocking Montazeri Sentence Reveals a Prosecution Lacking Legal or Moral Legitimacy,” *Center for Human Rights in Iran*, November 28, 2016. (<https://www.iranhumanrights.org/2016/11/shocking-montazeri-sentence/>)

165. Saeed Kamali Dehghan, “Concerns raised over arrest of Iranian journalist Sadra Mohaghegh,” *The Guardian*, September 29, 2016. (<https://www.theguardian.com/world/iran-blog/2016/sep/29/concerns-arrest-iranian-journalist-sadra-mohaghegh>)

166. “Detained Editor Who Exposed Corruption Slapped with Additional Charge,” *Center for Human Rights in Iran*, September 28, 2016. (<https://www.iranhumanrights.org/2016/09/yashar-soltani/>)

no access to a lawyer. They face long jail terms for “insulting Islamic sanctities” and “spreading propaganda against the system.”<sup>167</sup>

- Pressure from the IRGC in cases against activists often means that activists receive the maximum possible punishment, and are not allowed to present a defense.<sup>168</sup>

## CASE STUDY: SIAMAK AND BACQUER NAMAZI

Iranian- born American citizen Siamak Namazi enjoyed a successful career. He was named a World Economic Forum Young Global Leader, served as a scholar at the Woodrow Wilson International Center for Scholars in Washington D.C., worked for Atieh Bahar, a Tehran-based business consulting firm that encourages foreign investment in Iran, and more recently was the head of strategic planning for Crescent Petroleum, an oil company based in the United Arab Emirates, where he lived.<sup>169</sup>

During a visit at his family’s home in Tehran on October 15, 2015, Namazi was arrested and sent to Evin Prison, where he was “denied access to his lawyer and visits by family members,” according to the Center for Human Rights in Iran.<sup>170</sup>

Namazi was arrested without being told of the charges against him. According to *The New Yorker*, “His mother’s home was ransacked.” Moreover, his computer was confiscated and “has since been used by an intelligence wing of the Revolutionary Guard to launch cyber-attacks against his contacts.”<sup>171</sup> Wright was among the victims of the cyber-attacks, a list that also includes officials in the State Department.

On February 22, 2016, Siamak’s father, Baquer Namazi, also a dual U.S-Iranian citizen, was arrested and taken to Evin. On October 18, 2016, both Siamak and Baquer Namazi were sentenced to 10 years in prison on charges of espionage and cooperating with the United States. Siamak’s brother said his father had “been handed practically a death sentence.”<sup>172</sup>

**Reuters called Namazi’s plight a “chilling message to investors” who might consider doing business in Iran.”<sup>173</sup>**

167. “Iranian writer given long jail term for story about stoning,” *BBC News*, October 6, 2016. (<http://www.bbc.com/news/world-middle-east-37575193>)

168. “Iran’s Revolutionary Guards Push Harsh Prison Sentences for Activists,” *Center for Human Rights in Iran*, October 3, 2016. (<https://www.iranhumanrights.org/2016/10/4-civil-activists-in-tehran-sentenced-to-18-years/>)

169. “An American Arrested in Iran,” *The Atlantic*, October 30, 2015. (<http://www.theatlantic.com/international/archive/2015/10/iran-us-siamak-namazi/413305/>)

170. “Imprisoned Iranian-American Siamak Namazi Held Incommunicado without Access to Lawyer,” *International Campaign for Human Rights in Iran*, February 23, 2016. (<https://www.iranhumanrights.org/2016/02/siamak-namazi/>)

171. “An American Hostage in Iran—Again,” *The New Yorker*, October 30, 2015. (<http://www.newyorker.com/news/news-desk/an-american-hostage-in-iran-again>)

172. “Tehran Sentences Iranian-American Businessman to 10 Years, Report Says,” *The New York Times*, October 18, 2016. ([http://www.nytimes.com/2016/10/19/world/asia/siamak-namazi-iran-prison.html?\\_r=0](http://www.nytimes.com/2016/10/19/world/asia/siamak-namazi-iran-prison.html?_r=0))

173. “U.S.-Iranian businessman’s jailing sends chilling message to investors,” *Reuters*, February 9, 2016. (<http://www.reuters.com/article/us-iran-economy-businessman-idUSKCN0V11VI>)

### SUMMARY

The aviation sector highlights the risks associated with with Iran. In 2016 Boeing and Airbus received U.S. approval to sell planes to Iran Air, which was designated in 2011 by the U.S. Treasury Department for “providing material support and services to the Islamic Revolutionary Guard Corps (IRGC) and Ministry of Defense and Armed Forces Logistics (MODAFL).” Though it has since been delisted as part of the Iran deal, there is no evidence it has ceased these activities.

Aircraft sales to Iran carry significant economic and security risks.<sup>174</sup> First, financing and associated contracts have been difficult because of the myriad known liabilities. Second, it is unclear how Iran Air will pay for its order. Third, Iranian airlines have consistently been used to support terrorism, including by resupplying the Assad regime in Syria with troops and equipment.

The Boeing and Airbus deals would transfer a fleet of aircraft larger than what Iran Air can currently absorb. Iran Air may re-sell the aircraft to other Iranian airlines, which may include four still under sanctions. These four airlines remain sanctioned because they are “willing and knowing facilitators of acts of terrorism,” according to FDD Senior Fellow Emanuele Ottolenghi. Indeed, these deals could make aircraft manufacturers unwittingly complicit in Iran’s support for atrocities and war crimes in Syria and for Hezbollah’s terror activities.<sup>175</sup>

U.S. Treasury Secretary Steven Mnuchin testified before Congress on May 24, 2017, that the required licenses the U.S. provided to Boeing and Airbus are under review,<sup>176</sup> presumably because of concerns about Iran Air’s suspicious flights to Syria and its longstanding connections to the IRGC.

### Key Points

- IRGC has coerced foreign aviation firms in the past. In 2004, it forced an Austrian-Turkish company out of managing the Imam Khomeini International Airport due to what it called “security concerns.”<sup>177</sup> It is widely regarded that this action was taken for business reasons, to ensure that the IRGC got to manage the airport.<sup>178</sup>
- Iran Air was sanctioned in 2011, with the Treasury department noting that the airline had ferried weapons to the Assad regime in Syria. When sanctions were lifted, there was no evidence that Iran Air had changed its behavior.<sup>179</sup>

174. Emanuele Ottolenghi, “The Iran Deal Rewards Airlines that Served as IRGC Terror Fronts,” Policy Brief, *Foundation for Defense of Democracies*, August 13, 2015. (<http://www.defenddemocracy.org/media-hit/emanuele-ottolenghi-the-iran-deal-rewards-airlines-that-served-as-irgc-terror-fronts/>)

175. Bill Coffin, “Is the Iranian airline industry still filled with bandits?” *Compliance Week*, October 14, 2016. (<https://www.complianceweek.com/blogs/coffin-on-compliance/is-the-iranian-airline-industry-still-filled-with-bandits#.WCNxxzfrLIU>)

176. David Lawder, “Treasury chief says reviewing Iran’s aircraft licenses,” *Reuters*, May 24, 2017. (<https://www.reuters.com/article/us-usa-iran-sanctions-idUSKBN18K2U4>)

177. Jonathan Schanzer and Amir Toumaj, “Why Boeing shouldn’t do business with Iran,” *MarketWatch*, July 12, 2016. (<http://www.defenddemocracy.org/media-hit/schanzer-jonathan-opinion-why-boeing-shouldnt-do-business-with-iran/>)

178. Julian Borger and Robert Tait, “The financial power of the Revolutionary Guards,” *The Guardian*, February 15, 2010. (<https://www.theguardian.com/world/2010/feb/15/financial-power-revolutionary-guard>)

179. <http://www.defenddemocracy.org/media-hit/emanuele-ottolenghi-the-iran-deal-rewards-airlines-that-served-as-irgc-terror-fronts/>

- Iran Air may shift some of its plane purchases to Mahan Air, which is still under US sanctions. Iran Air could be re-sanctioned if it continues to airlift weapons and troops into Syria.<sup>180</sup>
- Iran Air and Mahan Air flights reportedly support Bashar Assad’s military activities in Syria.<sup>181</sup> Iran Air and Mahan Air continue to fly from Iran to Syria, often from IRGC bases in Iran to military bases in Syria, under the guise of civilian flights, at times turning their transponders off to conceal their route.
- There have been more than 700 flights from Tehran to Damascus since the Iran deal’s Implementation Day on January 16, 2016, and 120 have been Iran Air flights. These Iran Air flights apparently cannot be purchased on Iran Air’s website or through travel agencies.<sup>182</sup> Iran Air’s website does not include Damascus among its destinations from Tehran’s international airport, although that is where the flights usually originate.<sup>183</sup> Iran Air flights to Damascus sometimes make unscheduled stopovers in Abadan, an IRGC logistical hub.<sup>184</sup>
- It is unclear how Boeing and Airbus will be legally protected from losing their licenses if it comes to light that Iran Air is using the planes for illicit purposes.

## STATEMENTS BY IRANIAN OFFICIALS ON FATF COMPLIANCE

### SUMMARY

Iran’s global economic isolation, and its inclusion on the Financial Action Task Force’s (FATF) “blacklist,” reflects its history of supporting international terrorism and its robust money laundering activities. Removal from the blacklist would be one, though not the only, step in helping Iran re-engage with the global financial system. FATF delisting Iran from its blacklist would improve the Iranian economy, but Iranian leaders have resisted many necessary FATF-required reforms because they believe their adoption would force transparency in their opaque financial system and would impair their ability to fund proxies designated as terrorist organizations.

This proxy network – constituting dozens of militias from Afghanistan, Pakistan, Iraq, Syria and Lebanon – is strategically vital to the Islamic Republic’s influence abroad.<sup>185</sup> Government officials, particularly those close to the

180. Emanuele Ottolenghi, “Boeing Should Think Twice Before Iran Sale,” *Forbes*, August 23, 2016. (<https://www.forbes.com/sites/realspin/2016/08/23/boeing-should-think-twice-before-iran-sale/#4bd1f53239b5>)

181. Emanuele Ottolenghi, “Increasing the Effectiveness of Non-Nuclear Sanctions Against Iran,” *Testimony before Committee the House Financial Services Monetary Policy and Trade, and Terrorism and Illicit Finance Subcommittee*, April 4, 2017. (<http://www.defenddemocracy.org/testimony/increasing-the-effectiveness-of-non-nuclear-sanctions-against-iran1>)

182. Emanuele Ottolenghi, “Increasing the Effectiveness of Non-Nuclear Sanctions Against Iran,” *Testimony before Committee the House Financial Services Monetary Policy and Trade, and Terrorism and Illicit Finance Subcommittee*, April 4, 2017. (<http://www.defenddemocracy.org/testimony/increasing-the-effectiveness-of-non-nuclear-sanctions-against-iran1>)

183. Emanuele Ottolenghi, “Increasing the Effectiveness of Non-Nuclear Sanctions Against Iran,” *Testimony before Committee the House Financial Services Monetary Policy and Trade, and Terrorism and Illicit Finance Subcommittee*, April 4, 2017. (<http://www.defenddemocracy.org/testimony/increasing-the-effectiveness-of-non-nuclear-sanctions-against-iran1>)

184. Emanuele Ottolenghi, “Increasing the Effectiveness of Non-Nuclear Sanctions Against Iran,” *Testimony before Committee the House Financial Services Monetary Policy and Trade, and Terrorism and Illicit Finance Subcommittee*, April 4, 2017. (<http://www.defenddemocracy.org/testimony/increasing-the-effectiveness-of-non-nuclear-sanctions-against-iran1>)

185. Max Peck, “Doubling Down on Damascus,” *Foundation for Defense of Democracies*, January 2016. ([https://www.defenddemocracy.org/content/uploads/documents/Doubling\\_Down\\_on\\_Damascus.pdf](https://www.defenddemocracy.org/content/uploads/documents/Doubling_Down_on_Damascus.pdf)); Amir Toumaj, “Array of pro-Syrian government forces advances in Aleppo,” *FDD’s Long War Journal*, December 9, 2017. (<http://www.longwarjournal.org/archives/2016/12/array-of-pro-syrian-government-forces-advance-in-aleppo.php>)

Supreme Leader, say that the adoption of these FATF provisions would pose an existential threat and is tantamount to abandoning the revolution itself.

Since June 2016 Iranian officials have taken Iran's case to world capitals, asserting they deserve to be re-integrated into the global financial system, and blame the U.S. in particular of thwarting their reintegration. Yet, many Iranian officials have been vocal inside Iran about their determination not to comply with key components of FATF's anti-money laundering and anti-terrorism standards. And where they have complied with technical requirements, the underlying malign behavior – terrorism, defiance of international norms, and systemic corruption – has not ceased.

The Supreme National Security Council in Iran has placed conditions on the country's interactions with FATF, but they have not been divulged. The possibility that Iran could be acting in bad faith is a serious concern. To the extent that it has cooperated with FATF to establish an Action Plan should be seen as gamesmanship intended to access a broader market while maintaining support for terrorist organizations rather than genuine reform.

Select quotes from Iranian leadership on FATF:

**Ali Akbar Velayati, Senior Foreign Policy Adviser to Supreme Leader Ayatollah Ali Khamenei**

- “This agreement [FATF], is not in the country's expediency. Because he who can continue resistance will be victorious. So if anyone does not stand against these sanctions and shows weakness, he will lose and the other side will be victorious.”<sup>186</sup>
- “The reason for sanctions on Khatam [Al Anbiya Construction] base or the Qods [Force] was because these are at the frontlines against Zionism and the supporters of Zionist regime. They are at the frontlines of fighting those or those countries that move against Islam. During these past several decades, they were the flagbearers of the fight against Zionism and the supporters of Zionism, and this is the most important issue.”
- “Our fighters, whether inside Iran, in the region, in Palestine, Lebanon and in total – the chain of resistance will not abandon resistance for the excuse of these sanctions.”<sup>187</sup>
- “The essence of the Islamic revolution is resistance. As long as resistance continues, the Islamic Republic of Iran's success will continue. Anytime we are tired of resistance, therefore, victory will cease. Experience shows that the Iranian people and those who obey Iran including Iraq, Syria, Lebanon, Palestine, etc. will not be tired of resistance.”<sup>188</sup>
- “The goal of international organizations is to deprive the Islamic Republic of Iran from financial capabilities and international economic credit, which is a type of sanction, and limiting the Islamic Republic of Iran and economic activists. We must not obey them.”<sup>189</sup>

186. “.....  
186. FATF is not in the country's expediency/we must not obey the enemy's plans,” *Fars News Agency* (Iran), July 4, 2016. (<http://www.farsnews.com/newstext.php?nn=13950614001034>)

187. “.....  
187. FATF is not in the country's expediency/we must not obey the enemy's plans,” *Fars News Agency* (Iran), July 4, 2016. (<http://www.farsnews.com/newstext.php?nn=13950614001034>)

188. “.....  
188. FATF is not in the country's expediency/we must not obey the enemy's plans,” *Fars News Agency* (Iran), July 4, 2016. (<http://www.farsnews.com/newstext.php?nn=13950614001034>)

189. “.....  
189. FATF is not in the country's expediency/we must not obey the enemy's plans,” *Fars News Agency* (Iran), July 4, 2016. (<http://www.farsnews.com/newstext.php?nn=13950614001034>)



mean by terrorists are resistance groups like Hezbollah of Lebanon and Hamas in Palestine, which have stood against the violations and crimes of the Zionist regime.”<sup>197</sup>

- **Parliamentarian Farhad Fallahati:** “Unfortunately, we do not have a common definition of money laundering with FATF, and until this common definition is attained, we will have a complex path ahead... Should FATF not misguide the [path of] the system’s Revolution, then it appears to be a favorable thing.”<sup>198</sup>
- **Parliamentarian Ahmad Salek:** “The goal of agreements like FATF is to restrain, humiliate, and weaken the Islamic Republic of Iran and the Islamic Revolution... The JCPOA was for controlling the nuclear industry. Where are our centrifuges and where has our enrichment reached today? FATF is for controlling [our] financial affairs and the transfer and movement of money of the Islamic Republic of Iran in order to prevent the supporting of the oppressed... What has the Supreme Council for Combating Money Laundering which was established in 86 done? 25 billion illicit commodities exist in this country, my main question [thus] is exactly what effect will this have for the nation of Iran which is plagued with unemployment and economic problems, other than influence? The 10th parliament is a revolutionary parliament and will not permit [the imposition of] influence on the country.”<sup>199</sup>
- **Parliamentarian Mohammad-Hossein Nejad** reportedly said, “We must wait and see what information FATF wants from Iran, and if it wants this information from the [whole] world. In the articles of this agreement some of [our] military institutions are subject to sanctions. What is more important for us, the IRGC or working with American banks? FATF wants more than the creation of transparency with the Islamic Republic of Iran. It is the extension of influence.”<sup>200</sup>
- **Mohammad Javad Jamali, member of the presiding board of parliament’s National Security and Foreign Policy Commission,** said: “If the [FATF] deal is implemented, the security of the Islamic establishment will be threatened.”<sup>201</sup>
- **Gholamreza Kateb, member of the Iranian parliament’s Leadership Board:** “Under no circumstances should our national interest be distorted... Americans and Westerners have established this [FATF] system to hurt the forces of resistance to support terrorist groups including DAESH (ISIS). According to the constitution, Iran is obligated to have support for resistance forces under any circumstances. Therefore the Islamic Republic of Iran will not accept any contract or agreement that causes harm to resistance groups such as Lebanese Hezbollah.”<sup>202</sup>
- **Seyyed Javad Abtahi, member of Iranian parliament’s Education and Research Commission:** “This contract is a new financial capitulation... There is no reason for us to become the agent of sanctioning legal institutions and persons of our country... Joining this convention can pave the way for the erosion of the independence, security, and authority of the system of the Islamic Republic of Iran... Compartmentalized documents from the

197. Adam Kredo, “Iran Launches War Drills Amid Accusations U.S. Breaking Nuke Deal,” *Washington Free Beacon*, October 18, 2016 (<http://freebeacon.com/national-security/iran-launches-war-drills-amid-accusations-u-s-breaking-nuke-deal/>)

198. Tayebnia: we will not permit intelligence oversight),” *Fars News Agency* (Iran), September 27, 2016. (<http://www.farsnews.com/newstext.php?nn=13950706000507>)

199. Adam Kredo, “Iran Launches War Drills Amid Accusations U.S. Breaking Nuke Deal,” *Washington Free Beacon*, October 18, 2016 (<http://freebeacon.com/national-security/iran-launches-war-drills-amid-accusations-u-s-breaking-nuke-deal/>)

200. (مصادق-نفوذ-و-سوپر-برجام-است-FATF (FATF is the basis of infiltration and super JCPOA), *Mehr News Agency* (Iran), September 28, 2016 (<http://www.mehrnews.com/news/3778450/FATF-مصادق-نفوذ-و-سوپر-برجام-است>)

201. “FATF Deal against Iran’s National Security: MP,” *Iran Front Page* (Iran), September 6, 2016. (<http://ifpnews.com/news/business/money-finances/2016/09/fatf-deal-irans-national-security-mp/>)

202. (the parliament opposes any agreement that endangers national security),” *Tasnim News Agency* (Iran), September 16, 2016. (<https://www.tasnimnews.com/fa/news/1395/06/26/1187774/مجلس-نا-هر-توافقی-که-امنیت-نظام-را-بمخطر-بیندازد-مخالف-است>)

country must not be accessible to the enemies of the Islamic Republic of Iran... With such conventions, the enemies aim to do damage to the forces of resistance, such as Lebanese Hezbollah.”<sup>203</sup>

- **Abbas Araghchi, Iranian Deputy Foreign Minister:** “Ceasing support for Hezbollah in return for an [FATF] agreement [is] out of the question.”<sup>204</sup>
- **Ahmad Jannati, head of the Guardian Council:** “I do not understand how they could sign this confidential document. I’ve studied both the Persian and English versions and I soon came to the conclusion that they want to give our financial and banking information to the enemy. They want us to sanction ourselves. They want us to sanction the individuals and institutions that the enemy disagrees with. They want us to sanction the IRGC, revolutionary institutions and individuals who sacrificed their own lives to protect the nation for eight years [Iran-Iraq War in 1980-88], and the [IRGC-linked] Khatam al-Anbiya Construction Headquarters that has done lots of services — most of which our people aren’t aware of. How could you do that?”<sup>205</sup>
- **Mehdi Taghavi, Iranian economics professor:** “We should not worry about terrorism and its definition in the West. According to FATF policy, it is in its negotiations with countries that individuals and organizations are listed as terrorists. During such negotiations, Iran will have the opportunity to convince the body to accept its own definition of terrorism to ensure its security.”<sup>206</sup>
- **Valliollah Seif, Governor of the Central Bank of Iran:** “No Iranian entity will have financial restrictions put on them,”<sup>207</sup> and the Central Bank of Iran will be the only entity determining AML and CFT infractions.<sup>208</sup>

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203. «FATF» (FATF reduces the country’s security),” *Tasnim News Agency*, September 16, 2016. (<https://www.tasnimnews.com/fa/news/1395/06/26/1187771/fatf-دهد-کشور-را-کاهش-می-دهد>)

204. آیت‌الله جنتی در مخالفت با FATF: جلوی این کار گرفته می‌شود و امضای خود را پس می‌گیرند.” *ANA* (Iran), September 10, 2016. (<http://www.ana.ir/news/139759>)

205. Saheb Sadeghi, “Financial watchdog worries Iranian hard-liners,” *Al Monitor*, September 28, 2016. (<http://www.al-monitor.com/pulse/originals/2016/09/iran-financial-action-task-force-fatf-debate-wto.html>)

206. Saheb Sadeghi, “Financial watchdog worries Iranian hard-liners,” *Al Monitor*, September 28, 2016. (<http://www.al-monitor.com/pulse/originals/2016/09/iran-financial-action-task-force-fatf-debate-wto.html>)

207. “Anti-money-laundering agreement sparks fight between Iranian factions,” *BNE Intellinews*, September 13, 2016. (<http://www.intellinews.com/anti-money-laundering-agreement-sparks-fight-between-iranian-factions-105935/>)

208. “CBI to protect clients’ banking info in FATF exchange,” *Press TV* (Iran), July 6, 2016. (<http://www.presstv.ir/Detail/2016/07/06/473823/Iran-protects-banking-info>)

## STATEMENTS BY HEZBOLLAH AND HAMAS OFFICIALS AFFIRMING IRAN'S SUPPORT OF THEIR ACTIVITIES

### Hassan Nasrallah, Secretary General of Lebanese Hezbollah

- “The budget of Hezbollah, its salaries, its expenses, its food, its drink, its weapons, and its missiles come from the Islamic Republic of Iran ... No law will be able to prevent this money from reaching us.”<sup>209</sup> Referring to the U.S. law that imposes sanctions on banks that knowingly do business with Hezbollah, Nasrallah said: “As long as Iran has money, we will have money. Can one be more transparent than that? The money allocated for us reaches us directly, not through banks.”<sup>210</sup>

### Abdallah Safieddine, Hezbollah's Representative in Iran

- Safieddine has told a reporter that the Supreme Leader's foundations directly fund Hezbollah.<sup>211</sup>

### Mousa Abu Marzouk, Vice Chairman of Hamas

- Abu Marzouk praised Iran for the first time since Hamas left the Syrian capital of Damascus. He said, “The support offered by Iran to the Palestinian resistance — be it in logistics, training or funds — is unmatched and beyond the capabilities of other countries. Iran's support and backing to the resistance and the Palestinian cause is clear, explicit and equal to the stance of Arab, Muslim and free peoples of the world who back and support the resistance.”<sup>212</sup>

## WHAT KEY FIGURES ARE SAYING ABOUT THE RISKS OF DOING BUSINESS WITH IRAN

### SUMMARY

U.S. lawmakers and senior executive branch officials and high-level international figures continue to articulate the concerns over doing business with Iran. For reasons ranging from the Islamist regime's disturbance of the international order to concerns over companies accidentally facilitating Iranian-sponsored terrorism, a widespread and bipartisan consensus has emerged encouraging the private sector to exercise extreme caution.

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209. “Hassan Nasrallah: Hizbullah's Money and Missiles Reach Us Directly from Iran, No Law Will Prevent This,” *Middle East Media Research Institute*, June 24, 2016. (<https://www.memri.org/tv/hassan-nasrallah-hizbullahs-money-and-missiles-reach-us-directly-iran-no-law-will-prevent/transcript>)

210. “Hassan Nasrallah: Hizbullah's Money and Missiles Reach Us Directly from Iran, No Law Will Prevent This,” *Middle East Media Research Institute*, June 24, 2016. (<https://www.memri.org/tv/hassan-nasrallah-hizbullahs-money-and-missiles-reach-us-directly-iran-no-law-will-prevent/transcript>)

211. Amall Saad-Ghorayeb, “Hezbollah's Iran Money Trail: It's Complicated,” *Al Akhbar*, July 31, 2012. (<http://english.al-akhbar.com/content/hezbollahs-iran-money-trail-its-complicated>)

212. Hazem Balousha, “Why Hamas resumed ties with Iran,” *Al Monitor*, June 29, 2016, (<http://www.al-monitor.com/pulse/originals/2016/06/gaza-hamas-resume-relations-iran.html>)

### **Adam Szubin, Then-Acting Under Secretary for Terrorism and Financial Intelligence**

- “You cannot do business with IRGC companies. If you do, and you’re doing so knowingly, you are risking the most draconian sanctions in our toolkit, and that governs not just U.S. persons but actors all around the world.”<sup>213</sup>
- “Some foreign companies have indicated they do not want to take on any business in Iran, despite the sanctions lifting. And a number of large international banks have said that the risks are too large.

“In some instances, these concerns center on business conditions in Iran: on corruption, lack of transparency, or Iran’s designation as a high-risk jurisdiction by the Financial Action Task Force, or FATF, the world’s standard-setting body for anti-money laundering and counterterrorist financing. In others, the concerns focus on Iran’s malign activities outside the nuclear arena, and the resulting non-nuclear sanctions that remain...

“These are all real concerns. And it’s up to Iran to address them – by modernizing its economy, increasing transparency, and moderating its conduct.

“If Iran wants more business, Iran needs to address these problems head on. As President Obama said in April: ‘Iran has to understand what every country in the world understands, which is businesses want to go where they feel safe, where they don’t see massive controversy, where they can be confident that transactions are going to operate normally.’

“Iran has begun to internalize that its problems stem from more than just U.S. sanctions. Just a few hours ago, the FATF recognized Iran’s adoption of an Action Plan to address its strategic anti-money laundering and counterterrorist financing deficiencies. But Iran remains on the FATF blacklist, and for good reason – it has a lot more work to do. As the FATF stated, until Iran fully implements its Action Plan, ‘the FATF will remain concerned with the terrorist financing risk emanating from Iran and the threat this poses to the international financial system’ – and will continue to call for enhanced due diligence on transactions involving persons from Iran.”<sup>214</sup>

- “Companies going into Iran need to take care. They need to conduct the due diligence necessary to ensure that their Iranian counterparts are not affiliated with designated individuals or organizations, such as the Islamic Revolutionary Guards Corps (‘IRGC’) or its network of companies. ... More than 200 Iran-linked firms and individuals will remain sanctioned because of their ties to terrorism, human rights abuses, or other activities outside the scope of the deal.”<sup>215</sup>

### **Stuart Levey, Chief Legal Officer, HSBC Holdings, and Former Under Secretary for Terrorism and Financial Intelligence, Department of Treasury**

- “On the one hand, Washington is continuing to prohibit American banks and companies from doing Iran-related business. In February, FATF reaffirmed its prior concerns about the ‘serious threat’ Iran poses to the international financial system, urging countries to apply effective countermeasures. The U.S. Treasury Department’s designation of Iran, including its central bank and financial institutions, as a primary money-laundering concern also still stands. As part of that designation, Treasury determined that ‘the international

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213. Jenna Lihits, “Top Treasury Official: Business with Iran’s Revolutionary Guard Corps Risks ‘Most Draconian Sanctions’ Available,” *The Weekly Standard*, October 21, 2016. (<http://www.weeklystandard.com/top-treasury-official-business-with-irans-revolutionary-guard-corps-risks-most-draconian-sanctions-available/article/2005025>)

214. “Remarks by Acting Under Secretary Adam J. Szubin Truman Project Global Conference 2016,” Press Release, U.S. Treasury Department, June 24, 2016. (<https://www.treasury.gov/press-center/press-releases/Pages/jl0500.aspx>)

215. “Remarks By Acting Under Secretary for Terrorism and Financial Intelligence Adam Szubin at the Atlantic Council and The Iran Project Symposium,” Press Release, U.S. Treasury Department, December 17, 2015. (<https://www.treasury.gov/press-center/press-releases/Pages/jl0304.aspx>)

financial system [is] increasingly vulnerable to the risk that otherwise responsible financial institutions will unwittingly participate in Iran's illicit activities.<sup>216</sup>

- “Our decisions will be driven by the financial-crime risks and the underlying conduct. For these reasons, HSBC has no intention of doing any new business involving Iran. Governments can lift sanctions, but the private sector is still responsible for managing its own risk and no doubt will be held accountable if it falls short.”<sup>217</sup>
- “No one has claimed that Iran has ceased to engage in much of the same conduct for which it was sanctioned, including actively supporting terrorism and building and testing ballistic missiles. But now Washington is pushing non-U.S. banks to do what it is still illegal for American banks to do. This is a very odd position for the U.S. government to be taking.”<sup>218</sup>
- “Washington has warned repeatedly that the Islamic Revolutionary Guard Corps controls broad swaths of the Iranian economy. The IRGC remains sanctioned by both the U.S. and the EU because of the central role it plays in Iran's illicit conduct. When the U.S., EU, and U.N. removed sanctions from several hundred Iranian banks and companies, there were no assurances that the conduct of those banks and companies had changed.”<sup>219</sup>

**Juan C. Zarate, Chairman and Co-Founder, Financial Integrity Network, Former Deputy Assistant to the President and Deputy National Security Advisor for Combating Terrorism**

- “In 2011, the U.S. identified Iran as a state of primary money laundering concern pursuant to Section 311 of the USA PATRIOT Act. The FATF first raised concerns over Iran's lack of a comprehensive anti-money laundering/ countering the financing of terrorism (AML/CFT) framework in 2007, and it still urges Iran to meaningfully address AML/CFT deficiencies and will consider urging stronger countermeasures later this year. OFAC also has made it clear that activity inconsistent with a wide range of Executive Orders imposing sanctions on Iran (including for providing support to terrorism, undermining the stability of Yemen, and other behaviors) could still subject U.S. and non-U.S. persons to sanctions. Now, the Iranian government has indicated that it will begin to target ‘financial corruption,’ and has sentenced Iranian billionaire Babak Zanjani, who helped the regime evade oil-related sanctions, and two others to death for corruption. Attention on the issue of corruption will now grow, as Iran attempts to do business with the world. Any companies looking to do business in Iran must be acutely aware of serious financial integrity risks beyond those posed by remaining sanctions.”<sup>220</sup>
- “The risks are real for the international business and banking communities, given the nature of the regime, the opacity of its economy, its continued dangerous and threatening activities, and remaining sanctions ... As a result of the IRGC's control of the economy that has grown over time, together with sanctions relief, the risk of regime control over the economy will grow. In addition, the reality and risks of Iranian sanctions evasion, money laundering, the lack of transparency, and other financial crimes – the subject of international concern

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216. Stuart Levey, “Kerry's Peculiar Message About Iran for European Banks,” *The Wall Street Journal*, May 12, 2016. (<http://www.wsj.com/articles/kerrys-peculiar-message-about-iran-for-european-banks-1463093348>)

217. Stuart Levey, “Kerry's Peculiar Message About Iran for European Banks,” *The Wall Street Journal*, May 12, 2016. (<http://www.wsj.com/articles/kerrys-peculiar-message-about-iran-for-european-banks-1463093348>)

218. Stuart Levey, “Kerry's Peculiar Message About Iran for European Banks,” *The Wall Street Journal*, May 12, 2016. (<http://www.wsj.com/articles/kerrys-peculiar-message-about-iran-for-european-banks-1463093348>)

219. Stuart Levey, “Kerry's Peculiar Message About Iran for European Banks,” *The Wall Street Journal*, May 12, 2016. (<http://www.wsj.com/articles/kerrys-peculiar-message-about-iran-for-european-banks-1463093348>)

220. Juan C. Zarate, “Terrorism, Missiles and Corruption: The Risks of Economic Engagement with Iran,” *Testimony before the House Committee on Foreign Affairs*, May 12, 2016. (<http://docs.house.gov/meetings/FA/FA00/20160512/104912/HHRG-114-FA00-Wstate-ZarateJ-20160512.pdf>)

and U.S. regulatory action against Iran under the USA PATRIOT Act Section 311 – will increase, not decrease over time.”<sup>221</sup>

- “The Central Bank of Iran (CBI) itself has been designated in part because of broader sanctions evasion facilitation on behalf of the Iranian banking system. Treasury issued a finding in November 2011, under Section 311 of the USA PATRIOT Act that Iran, as well as its entire financial sector including the CBI, is a ‘jurisdiction of primary money laundering concern.’ Treasury cited Iran’s ‘support for terrorism,’ ‘pursuit of weapons of mass destruction,’ including its financing of nuclear and ballistic missile programs, and the use of ‘deceptive financial practices to facilitate illicit conduct and evade sanctions.’ The country’s entire financial system posed ‘illicit finance risks for the global financial system.’ Those concerns persist and are not alleviated by the JCPOA or any Iranian nuclear commitments or actions.”<sup>222</sup>
- “As Iran attempts to reintegrate into the world economy, many challenges remain for companies considering doing business in the Islamic Republic, with Iranian counterparties, or supporting customers operating in Iran. Dealing with the spectrum of risk – financial crime, regulatory, reputational, and policy – in the Islamic Republic will require that U.S., European, Asian, Middle Eastern, and other firms clearly understand the patchwork of sanctions that will remain in place on the country, as well as many of the systemic issues, such as corruption, impacting various Iranian business sectors. Companies must also factor the risk that sanctions may ‘snap back’ in the medium or long term into their business decisions. The risks are amplified by Iran’s long history of sanctions evasion, illicit finance and corruption, and opaque financial and commercial practices.”<sup>223</sup>

**Senators Richard Blumenthal (D-CT), Ron Wyden (D-OR), Michael Bennet (D-CO), Chuck Schumer (D-NY), Cory Booker (D-NJ), Bob Casey (D-PA), Mark Warner (D-VA), Bob Menendez (D-NJ)**

- “International financial institutions should not embolden Iran’s illegal activities that threaten the national security of the U.S. and our allies, particularly our major strategic partner Israel – the target of much of Iran’s terrorist financing in the region...Iran continues to support a swath of terrorist activities by funding its terrorist proxies and partners, including Hezbollah, Hamas, and the Assad regime. As long as Iran continues to fund these terrorist entities, the U.S. must work to strengthen enforcement actions against Iran, including strengthening international sanctions enforcement against individuals and entities involved in terrorist financing. As the U.S. Department of the Treasury represents the United States at FATF, we urge you to address these concerns with FATF and prevent any further attempts to reintegrate Iran into the international banking system, until Iran eliminates its entrenched practice of financing terrorism.”<sup>224</sup>

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221. Juan C. Zarate, “Understanding the Role of Sanctions Under the Iran Deal,” Testimony before the Senate Committee on Banking, Housing, and Urban Affairs, May 24, 2016. ([http://www.banking.senate.gov/public/\\_cache/files/ad9b965c-8129-40f7-80a9-3130fce4c54b/53C125884DD2B86B546C60D8136E95B4.052416-zarate-testimony.pdf](http://www.banking.senate.gov/public/_cache/files/ad9b965c-8129-40f7-80a9-3130fce4c54b/53C125884DD2B86B546C60D8136E95B4.052416-zarate-testimony.pdf))

222. Juan C. Zarate, “Terrorism, Missiles and Corruption: The Risks of Economic Engagement with Iran,” Testimony before the House Committee on Foreign Affairs, May 12, 2016. (<http://docs.house.gov/meetings/FA/FA00/20160512/104912/HHRG-114-FA00-Wstate-ZarateJ-20160512.pdf>)

223. Juan C. Zarate, “Terrorism, Missiles and Corruption: The Risks of Economic Engagement with Iran,” Testimony before the House Committee on Foreign Affairs, May 12, 2016. (<http://docs.house.gov/meetings/FA/FA00/20160512/104912/HHRG-114-FA00-Wstate-ZarateJ-20160512.pdf>)

224. “Menendez and Democratic Colleagues Call on Treasury Department to Hold Iran Accountable for Terrorist Funding,” Press Release, *Office of Sen. Robert Menendez*, June 30, 2016. (<https://www.menendez.senate.gov/news-and-events/press/menendez-and-democratic-colleagues-call-on-treasury-department-to-hold-iran-accountable-for-terrorist-funding>)

## Rep. Steny Hoyer (D-MD), House Democratic Whip

- “While I commend the Financial Action Task Force (FATF) for maintaining Iran on its blacklist, I am angered that FATF suspended its call for countermeasures against it. This sends mixed messages, the effect of which may be seen as a victory for Iran’s mullahs. Global financial entities have resisted doing business in Iran not because - as the mullahs claim- of a U.S. conspiracy, but because Iran, by FATF’s own conclusion, remains a state funder of terror and other illicit activities whose financial system is an integral part of its doing so.

“I am alarmed by actions of FATF or other bodies that give Iran’s leaders any reason to believe that their country can reintegrate into the international banking system without changing their dangerous behavior, including ceasing funding of Hezbollah and other terrorist entities, as well as threatening Israel and our other regional allies. Iran can’t have it both ways - wanting to be treated like a normal member of the international community while continuing to act as a pariah, sponsoring terror and fueling instability in its region. Iran must be held fully accountable for its actions and be judged not on future hopes but on past experience.”<sup>225</sup>

## Representative Eliot Engel (D-NY)

- “While Iran has rightly been kept on the FATF blacklist, I am deeply concerned about what appears to be a major policy shift by the Task Force. Iran has not shown any real intention to cut off their support for their major terrorist proxies, including Hezbollah, Hamas, and Palestinian Islamic Jihad. Until Iran does so, financial institutions around the globe should be wary of transactions with Iran. Congress will certainly be watching. We have not forgotten that Iran continues to be the biggest state sponsor of terrorism in the world. Global financial institutions should not enable Iran’s dangerous behavior.”<sup>226</sup>

- “For example, we keep hearing that because Iran hasn’t yet realized the anticipated windfall from sanctions relief, the Administration is going around the world trying to drum up business for Iran. Now, in my experience, when something sounds like a political attack, it’s usually because it is. I don’t think we should be making any concessions to Iran beyond the scope of what’s in the deal. But it’s perfectly reasonable for the United States to clarify for businesses what kind of transactions are now in bounds and what remains against the law.

“In my view, at the end of the day, if businesses continue to shy away from investing in Iran, Iran’s leaders have no one to blame but themselves. After all, with its history of corruption, money laundering, support for terrorism, human-rights abuses, and an illegal ballistic missiles program, Iran doesn’t exactly seem like a smart bet for investing. That’s why the Financial Action Task Force, FATF, continues to designate Iran as a high-risk jurisdiction.”<sup>227</sup>

- “At the end of the day, if Iran’s leaders are unhappy with the reluctance of the global business community to play ball, they have no one to blame but themselves. If Iran wants to shed its pariah status, it needs to abandon the activities that led us to isolation the first place. Stop supporting terrorism. Stop suppressing the human rights of the Iranian people. Stop building ballistic missiles.
- “So when we see ballistic missiles with the words ‘Israel must be wiped out’ etched on the side in Hebrew from the Iranians; when tens of millions of dollars go to Hamas to rebuild its network of terror tunnels; when

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225. Office of Rep. Steny Hoyer, Press Release, “Hoyer Statement on the Financial Action Task Force’s Decision on Iran,” June 27, 2016. (<http://www.democraticwhip.gov/content/hoyer-statement-financial-action-task-forces-decision-iran>)

226. Office of Rep. Eliot Engel, Press Release, “Engel Statement on Troubling FATF Decision on Iran,” June 26, 2016. (<https://engel.house.gov/index.cfm?sectionid=24&itemid=4503>)

227. Office of Rep. Eliot Engel, Press Release, “Engel Remarks on Iran Nuclear Deal Oversight,” May 25, 2016. (<https://engel.house.gov/latest-news1/engel-remarks-on-iran-nuclear-deal-oversight1/>)

thousands of rockets end up in Hezbollah's hands; when Iran continues to prop up the Assad regime, Shia militias in Iraq, and Houthi fighters in Yemen; when we intercept ship after ship carrying... Iranian weapons, we need to consider whether we're putting those existing authorities to their best use."<sup>228</sup>

**Rep. Albio Sires (D-NJ)**

"While the Financial Action Task Force (FATF) has rightfully continued to blacklist Iran, I am concerned about their decision to suspend countermeasures for an entire year. Iran has merely passed legislation creating a framework to tackle money laundering and not shown any tangible efforts to implement such laws. Most troubling, the legislation creates a carve-out for 'foreign fighters.' This stipulation shows that Iran is not at all serious about preventing money from being laundered to violent and extremist groups. Let us not forget that Iran continues to be the world's foremost sponsor of terrorism. I urge the Administration and all our allies across the globe to continue their vigilance in thwarting Iran's efforts to export terrorism and harm innocent civilians."<sup>229</sup>

**Matthew Levitt, Former Deputy Assistant Secretary for Intelligence and Analysis, Department of Treasury; Director of Stein Program on Counterterrorism and Intelligence, The Washington Institute for Near East Policy**

- "Asked about the risks of unwittingly doing business with the Islamic Revolutionary Guard Corps, which is still targeted by Treasury sanctions, [Iran's Central Bank Governor] Mr. [Valiollah] Seif said potential investors could engage Iranian companies that run checks to determine who they would be doing business with. The use of Iranian companies to hide the IRGC's involvement in business activities has been documented by the Treasury Department. And using in-country third parties to perform customer due diligence is seen as high-risk by international bodies that govern banking transactions. The bottom line is that Iran has yet to curb or stop the illicit conduct that makes it a pariah state and a financial risk."<sup>230</sup>

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228. Office of Rep. Eliot Engel, Press Release, "Engel Remarks on the Risks of Economic Engagement with Iran," May 12, 2016. (<https://engel.house.gov/index.cfm?sectionid=24&itemid=4447>)

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