

To the Senior Executive Officers
Of DFSA Authorised Firms and
Ancillary Service Providers

20 June 2010

**Subject: United Nations Security Council Resolution 1929 (2010)
and Related Matters**

Dear SEO

This letter is to provide you with the DFSA's requirements for compliance with United Nations Security Council (UNSC) resolution 1929, adopted on 9 June 2010. We have provided in our commentary some historical context, as obligations mandated by previous UNSC resolutions remain in effect. While the discussion provided below is intended to guide efforts to ensure full compliance with UNSC regulations, each person or entity subject to our jurisdiction is responsible for ensuring compliance. Please ensure that all relevant staff are familiar with these new obligations.

Background

By its resolutions 1737 (2006), 1747 (2007) and 1803 (2008), the UNSC imposed certain measures relating to the Islamic Republic of Iran (Iran). These measures include:

- a proliferation-sensitive nuclear and ballistic missile programmes-related embargo;
- an export ban on arms and related materiel from Iran; and
- individual targeted sanctions – namely, a travel ban, a travel notification requirement, and an assets freeze – on designated persons and entities.

In addition to the above, in resolution 1737 (2006) the UNSC called upon all States to prevent specialised teaching or training of Iranian nationals in disciplines which would contribute to Iran's proliferation-sensitive nuclear activities and development of nuclear weapon delivery systems.

In resolution 1747 (2007) the UNSC called upon all States to exercise vigilance and restraint in the provision of heavy weapons and related services to Iran, and called upon all States and international financial institutions not to enter into new commitments for grants, financial assistance and concessional loans to the Government of Iran, except for humanitarian and developmental purposes.



In resolution 1803 (2008) the UNSC called upon all States to exercise vigilance in the areas of public provided financial support for trade with Iran and of banking with Iran, particularly with respect to Bank Melli and Bank Saderat, and to inspect the cargoes to and from Iran of aircraft and vessels, at their airports and seaports, owned and operated by two Iranian companies, provided that there were reasonable grounds to believe that the aircraft or vessel was transporting goods prohibited under the aforementioned resolutions. In addition to the two banks mentioned above, paragraph 10 of this resolution “Calls upon all States to exercise vigilance over the activities of financial institutions in their territories with all banks domiciled in Iran. “

The Financial Action Task Force (FATF) has previously issued guidance to assist States in implementing their financial obligations under each of the resolutions.

UNSC Resolution 1929 (2010)

The UNSC has imposed additional sanctions on Iran through resolution 1929 (2010). This resolution has expanded an arms embargo and tightened restrictions on financial and shipping enterprises related to “proliferation-sensitive activities”.

Annexed to the current resolution are measures directed against 41 new named entities and individuals, including certain banks and the national shipping line. The list can be found at: <http://www.un.org/sc/committees/1737/consolist.shtml>. In addition to the entities listed, the text of the resolution now specifically requires an increased level of diligence over transactions involving the Central Bank of Iran, which is in addition to previously mentioned Bank Melli and Bank Saderat. The resolution should be read and understood in its entirety, but all regulated entities should pay close attention to paragraphs 19-24 of the resolution, particularly paragraphs 21 and 22 shown below.

Paragraph 21: *“Calls upon all States ... to prevent the provision of financial services, including insurance or re-insurance, or the transfer to, through, or from their territory, or to or by their nationals or entities organized under their laws (including branches abroad), or persons or financial institutions in their territory, of any financial or other assets or resources if they have information that provides reasonable grounds to believe that such services, assets or resources could contribute to Iran’s proliferation-sensitive nuclear activities, or the development of nuclear weapon delivery systems ...”*

Paragraph 22: *“Decides that all States ... exercise vigilance when doing business with entities incorporated in Iran or subject to Iran’s jurisdiction, including those of the IRGC and IRISL, and any individuals or entities acting on their behalf or at their direction, and entities owned or controlled by them, including through illicit means, if they have information that provides reasonable grounds to believe that such business could contribute to Iran’s proliferation-sensitive nuclear activities or the development of nuclear weapon delivery systems or to violations of resolutions 1737 (2006), 1747 (2007), 1803 (2008) or this resolution.”*



Actions Required

Given the escalating requirements of UN resolutions mentioned above and the recent issuance by the FATF about Iran as a jurisdiction of sufficiently high risk that warrants “countermeasures to protect the international financial system from the ongoing and substantial money laundering and terrorist financing risks”, the DFSA requires the following actions to be taken by all regulated entities relative to: correspondent banking accounts with Iranian domiciled banks; transactions with Iranian domiciled clients; and, wire transfers emanating from any person domiciled in Iran.

1. Conduct a risk assessment of direct correspondent relationships and customer due diligence processes with Iranian banks, in order to:

- Ensure that the due diligence processes for each correspondent bank domiciled in Iran has been completed consistent with the enhanced due diligence procedures contained in the “*Wolfsberg Anti Money Laundering Principles for Correspondent Banking*.” Appendix A contains a list of sample questions and topics that should be included, at a minimum, in this due diligence process. This requirement should apply to all correspondent banks domiciled in jurisdictions listed in the “FATF Public Statement” dated 18 February 2010 regarding jurisdictions that have strategic deficiencies posing a risk to the international financial system.
- Assess the respondent Iranian bank’s business (correspondent banking, private banking, trade finance, etc.) in order to properly understand its related risks. This assessment should take into account the amount of business the respondent Iranian bank handles for Iranian government entities.
- Assess whether the respondent Iranian bank has adequate controls to detect and prevent sanctions evasion, in order to avoid contributing to proliferation sensitive nuclear activities or to the development of nuclear weapon delivery systems, in particular, by violating or evading either: (i) the activity-based financial prohibitions contained in S/RES/1737(2006); or (ii) the targeted financial sanctions issued under S/RES/1737(2006), S/RES/1747(2007) or S/RES/1803(2008).
- Assess whether the respondent Iranian bank has adequate customer due diligence procedures or other controls to detect shell companies or front companies and to ascertain the beneficial ownership of such entities.

Regulated entities should amend policies, procedures and controls to mitigate the specific risks identified pursuant to the risk assessment described above. In addition, regulated entities should review and, if necessary, terminate or amend agreements related to the maintenance of correspondent relationships with or for the benefit of Iranian banks, based upon the risk assessment described above.



2. **Treat all transactions with clients domiciled in Iran as high risk transactions and apply the following risk mitigation practices with respect to enhanced identification and monitoring of any financial transactions, particularly with the Central Bank of Iran, Bank Melli and Bank Saderat or any entity specifically listed by the UNSC Committee established pursuant to resolution 1737 (2006).** Regulated entities should obtain sufficient information to avoid transactions that violate or evade either:
- (i) the activity-based financial prohibitions contained in S/RES/1737(2006); or
 - (ii) the targeted financial sanctions issued under S/RES/1737(2006), S/RES/1747(2007) or S/RES/1803(2008). To the extent necessary to avoid transactions prohibited under S/RES/1737(2006), S/RES/1747(2007) or S/RES/1803(2008), such additional information should include information on the:
- (a) the parties to the transaction;
 - (b) the source of funds for the transaction;
 - (c) the beneficial ownership of the counterparty; and,
 - (d) the purpose of the transaction or payment.

Regulated entities, where applicable, should have effective policies and processes in place to identify the air or sea transportation company used for the transactions, specifically noting whether Islamic Republic of Iran Shipping Lines or Iran Air's cargo division or vessels are, directly or indirectly, being utilised.

Regulated entities may also consider additional steps such as terminating the relationship with the relevant customer or account or suspending the relevant transaction pending further investigation, if the information shown above is not readily available. Further, if a client refuses to provide information necessary to determine the risk of the transaction, regulated entities should consider whether to file a Suspicious Transaction Report with the Anti Money Laundering Suspicious Cases Unit of the UAE Central Bank.

3. **Require that all information fields of payment instructions are completed which relate to the originator and beneficiary of the transaction in question and, if they are not, to obtain that information or refuse the transaction.**

Please do not hesitate to contact your DFSA Relationship Manager if you have any questions or if we may provide any additional information.

Sincerely,



Michael J. Zamorski
Managing Director - Supervision



APPENDIX A

Correspondent Bank Customer Due Diligence Standards

All correspondent banks should be subjected to appropriate due diligence that will seek to assure that an institution is comfortable conducting business with a particular correspondent given its risk profile. It may be appropriate for an institution to consider the fact that a correspondent bank operates in or is subjected to a regulatory environment that is internationally recognised as adequate in the fight against money laundering. In this regard, any jurisdiction listed by the FATF as having strategic deficiencies should be given an appropriate weight. An institution may rely on publicly available information obtained either from the correspondent bank or reliable third parties (regulators, exchanges, etc.) to satisfy its due diligence requirements. In conducting due diligence on any correspondent bank, the elements set out below shall be considered.

Client Domicile and Organisation

In which jurisdiction is the correspondent bank's ultimate parent incorporated and/or headquartered, and where are the particular operating units wishing to maintain the relationship conducting their business? What is the corporate legal form of the correspondent bank?

Client Ownership and Executive Management

The customer due diligence process should identify whether the correspondent bank is publicly held or privately owned. If publicly held, are its shares traded on an exchange in a jurisdiction with an adequately recognised regulatory scheme? Who are the significant controlling interests? What is the structure and experience of executive management?

For all significant controlling interests, the owners' sources of wealth and background, including their reputation in the market place, as well as recent material ownership changes (e.g. in the last five years) should be obtained. Similarly, describe a more detailed understanding of the experience of each member of the executive management and any recent (e.g. in the last two years) material changes in the executive management structure.

Are there any politically exposed persons (PEP) in the bank's executive management or ownership structure? If a PEP appears to have an interest or management role in a correspondent bank, then the institution should ensure it has an understanding of that person's role in the correspondent bank.

Correspondent Banking Client's Business

What types of financial products and services are the correspondent bank offering to its own clients and what geographic markets are served by the bank?



Products or Services Offered

What is the business purpose(s) for the relationship with the correspondent bank, including the products and services being offered to the correspondent bank?

Regulatory Status and History

Who is the primary regulatory body responsible for overseeing or supervising the correspondent bank? Has the institution been the subject of any criminal or adverse regulatory action in the recent past?

Anti Money Laundering Controls

What is the nature of the correspondent banks anti-money laundering controls to what extent are they globally applied? Describe the quality of the correspondent bank's anti money laundering and client identification controls, including whether these controls meet internationally recognised standards.



APPENDIX B

Useful Documents and Links Related to UNSC Resolution 1929 (2010)

Security Council Resolutions Related To The Work Of The Committee Established Pursuant To Resolution 1737 (2006) – including UNSCR 1929 (2010) http://www.un.org/sc/committees/1737/resolutions.shtml
FATF Guidance On Implementation Of Financial Provisions Of UN Security Council Resolution 1803 (October 2008)
FATF Guidance Regarding The Implementation Of Activity-Based Financial Prohibitions Of UN Security Council Resolution 1737 (October 2007)
FATF Guidance Regarding The Implementation Of Financial Provisions Of UN Security Council Resolutions To Counter The Proliferation Of Weapons Of Mass Destruction (June 2007, Annex September 2007)
FATF Combating Proliferation Financing: A Status Report on Policy Development and Consultation (February 2010) http://www.fatf-gafi.org/document/2/0,3343,en_32250379_32236920_45061314_1_1_1_1,00.html
FATF Typologies on Proliferation Financing (June 2008)
FATF Guidance Regarding The Implementation Of Financial Provisions Of UN Security Council Resolutions To Counter The Proliferation Of Weapons Of Mass Destruction (September 2007)
FATF Public Statement (February 2010) – on jurisdictions with strategic deficiencies http://www.fatf-gafi.org/dataoecd/34/29/44636171.pdf

