Doing Business with Iran
Sanctions-related Risks and Challenges

ACAMS Germany Chapter Event - Sanctions
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Joint Comprehensive Plan of Action (JCPOA)

Overview

► Joint Comprehensive Plan of Action (JCPOA)
An agreement reached in Vienna on 14 July 2015 between Iran, members of the United Nations Security Council (China, France, Russia, United Kingdom, United States - plus Germany) and the EU.
= Relief from most of the economic and financial sanctions on Iran in case Iran meets specific dismantling measures of its nuclear program.

► Implementation Day
On 16 January 2016, the International Atomic Energy Agency (IAEA) confirmed that Iran met the relevant requirements. As immediate consequence the EU sanctions were (almost) completely lifted. USA lifted only secondary Sanctions applicable for non-U.S. persons:

<table>
<thead>
<tr>
<th>U.S. person</th>
<th>U.S. primary sanctions</th>
<th>U.S. secondary sanctions</th>
</tr>
</thead>
<tbody>
<tr>
<td>▶ U.S. Citizens, regardless of where they live in the U.S.;</td>
<td>▶ apply directly to</td>
<td>▶ are designed to deter non-U.S. persons and firms from engaging in various activities involving certain sectors of the Iranian economy, including energy, the automotive sector, financial services, mining, shipbuilding and shipping.</td>
</tr>
<tr>
<td>▶ U.S. Permanent Residents (Green Card Holders);</td>
<td>▶ the activities of U.S. persons (and in the case of the Iran sanctions, non-U.S. entities that are “owned or controlled” by a U.S. person),</td>
<td></td>
</tr>
<tr>
<td>▶ All persons or entities within the U.S.;</td>
<td>▶ non-U.S. persons who cause U.S. persons to violate the sanctions maintained by OFAC, and</td>
<td></td>
</tr>
<tr>
<td>▶ U.S. Citizens or U.S. Permanent Residents located outside the U.S.;</td>
<td>▶ transfers of U.S.-regulated goods and technology to Iran.</td>
<td></td>
</tr>
<tr>
<td>▶ All U.S. incorporated entities and their foreign branches or subsidiaries owned or controlled by U.S. entities.</td>
<td></td>
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</tbody>
</table>
Joint Comprehensive Plan of Action (JCPOA) Restrictions changed

The changes to U.S. sanctions are far more limited compared to the changes to EU sanctions:

<table>
<thead>
<tr>
<th>U.S. sanctions</th>
<th>EU sanctions</th>
</tr>
</thead>
<tbody>
<tr>
<td>► Secondary sanctions were lifted for certain economic sectors of Iran</td>
<td>► The majority of the sanctions were lifted, including restrictions on</td>
</tr>
<tr>
<td>► Non-U.S. persons are allowed to engage in transactions in these sectors (unless they are not subsidiaries of U.S. companies or otherwise subject to U.S. primary sanctions), e.g.:</td>
<td>► financial transfers to and from Iran</td>
</tr>
<tr>
<td>▶ Financial and banking transactions with Iranian individuals and entities removed from the restricted OFAC lists (SDN, FSE, NS-ISA)</td>
<td>► Insurance sector</td>
</tr>
<tr>
<td>▶ Transactions and other activity related to the Iranian Rial;</td>
<td>► oil and gas sector</td>
</tr>
<tr>
<td>▶ Provision of U.S. bank notes to the government of Iran and material support for such transactions</td>
<td>► Petrochemical sector</td>
</tr>
<tr>
<td>▶ Purchase, subscription to, or facilitation of the issuance of Iranian sovereign debt, including governmental bonds</td>
<td>► shipping, shipbuilding and transportation sector</td>
</tr>
<tr>
<td>▶ Provision of financial messaging services to the Central Bank of Iran and other Iranian financial institutions removed from the restricted lists</td>
<td>► Certain persons were removed from the EU’s asset freeze sanctions</td>
</tr>
<tr>
<td></td>
<td>► The export of goods related to Iran’s nuclear program and the provision of associated services was amended consistent with the UN Security Council Resolution</td>
</tr>
</tbody>
</table>
**Joint Comprehensive Plan of Action (JCPOA)**

**Remaining restrictions**

<table>
<thead>
<tr>
<th>U.S. sanctions</th>
<th>EU sanctions</th>
</tr>
</thead>
<tbody>
<tr>
<td>► Primary sanctions remain in place</td>
<td>► A number of EU sanctions will remain in place:</td>
</tr>
<tr>
<td>► Transactions involving blocked persons (especially SDNs) are still prohibited</td>
<td>► Some persons/financial institutions (e.g. Bank Sederat, Bank Sepa) remain blocked</td>
</tr>
<tr>
<td>► U.S. persons generally will continue to be prohibited from engaging in transactions or dealings in or with Iran, including with most parties removed from the SDN List</td>
<td>► Certain dual use goods listed by the Missile Technology Control Regime (MTCR))</td>
</tr>
<tr>
<td>■ “Snap back Mechanism”: Violations of the JCPOA by Iran might result in the reinstatement of the sanctions.</td>
<td>► Armaments, military equipment and related services</td>
</tr>
<tr>
<td>■ Global businesses will still need to take into account the potential application of the U.S. sanctions that remain in place.</td>
<td>► Goods for internal repression</td>
</tr>
<tr>
<td>■ Financial institutions and banks should stay vigilant, especially in situations involving correspondent banking, since the U.S. government might fine institutions where there is a U.S. Nexus.</td>
<td>■ Export licence required</td>
</tr>
<tr>
<td></td>
<td>► Graphite and certain metals (aluminium, titanium etc.)</td>
</tr>
<tr>
<td></td>
<td>► Goods used in the nuclear industry and related services</td>
</tr>
<tr>
<td></td>
<td>► Dual use goods listed by the Nuclear Suppliers Group (NSG) and other dual use goods</td>
</tr>
<tr>
<td></td>
<td>► Software for industrial processes, especially for the nuclear industry</td>
</tr>
<tr>
<td></td>
<td>► Eavesdropping equipment</td>
</tr>
</tbody>
</table>
US Nexus & Due Diligence Requirements
Key challenges

As activities involving blocked persons (e.g. SDNs) are still prohibited, any organisation dealing with Iran must ensure it conducts Due Diligence regarding any prospective business activity in Iran:

► Checks on beneficial ownership
  Ensure that counterparts are not owned (or controlled) by blocked persons

► Checks on U.S. Nexus
  Examples:
  ► Transactions conducted in U.S. dollars or authorised by a U.S.-based clearing bank
  ► Involvement of a U.S. person
A German Entity wants to conduct a business activity in the Iranian market.

Person X and Person Y are blocked persons.

Blocked Persons X and Y each own 25% of Entity A. Entity A owns 50% of the Iranian Entity.

Business activity shall be conducted in USD.

**Entity A**
is considered to be blocked due to the aggregated ownership of 50% by Blocked Persons X and Y.

**Iranian Entity**
is considered to be blocked due to the fact that blocked Entity A owns 50% of the Iranian Entity.

**Outcome**
Business relation may not be established

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**Diagram:**

- **Blocked Person X**
- **Blocked Person Y**
- **Entity A**
- **German Entity**
- **Iranian Entity**

Flowchart showing the relationship and blocking conditions.
US Nexus & Due Diligence Requirements
Example: cascade-down-effect

- A German Entity wants to conduct a business activity in the Iranian market.
- The German entity is related to a U.S. Person/U.S. parent company.
- Blocked Person X owns 50% of Entity A.
  Entity A owns 50% of Entity B.
  Entity B owns 50% of the Iranian Entity.
- Business activity shall be conducted in EUR.

**Entity A & Entity B**
are considered to be blocked due to the chain of ownership (50%) by Blocked Person X

**Iranian Entity**
is considered to be blocked due to the ownership of 50% by Entity B.

**Outcome**
Business relation may not be established
US Nexus & Due Diligence Requirements
Summary: key things to consider

- **Banks/Corporates**
  - Blocked Person/SDN
  - German Branch
  - Iranian Entity
  - STOP

- **U.S. Person/Parent**
  - German Branch
  - Iranian Entity
  - STOP

- **U.S. Person/Parent**
  - German Subsidiary/Non-U.S. Person
  - Iranian Entity
  - Particular business
  - €

- **Particular business**
  - €
Stumbling stones
Setting up business and subsidiaries in Iran

- Understanding of “Western” Compliance-culture has to be established
- Increased risk of corruption
  CPI 2015 rank: 130/167
- Group-wide implementation of Compliance Standards
- Applicable law (U.S./EU law)
  “Snap back” in Sanctions
  Unclear status after the next US presidential election
- Different local legislation
- Enhanced Due Diligence

AML/CTF

Culture

Anti-Corruption

Legal Challenges

CMS Structures
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