

Definition of terrorism

- Neither an academic nor an accurate legal consensus regarding the **definition of terrorism**
- Various legal systems and government agencies **use different definitions**
- Governments have been **reluctant** to formulate an agreed upon, legally binding definition
 - The term being **politically** and **emotionally charged**.
- UN attempted to define the term but fell short in defining and use of violence in the context of conflict
- A 2003 study for the US Army counted **109 Definition**, covered **22 differential elements**.

The know **Who** and know **How** have become crucial

Banking Environment today

2008 banking crisis fundamentally transformed the approach of governments and regulators to the regulation of the banking sector

- **Prior to 2008**

- 'Light touch' regulation, **self-reporting**, **limited** active supervision
- Little focus on (or understanding of) global systemic risk exposure

- **Since 2009**

- Aggressive & intrusive, **active supervision**
- **Active** pursuit of **high risk areas** identified by international standards
- **Risk mitigation** and **financial crime** are now **high profile** EU-wide regulatory themes
- A **multi-layered regulatory** framework is now in place for financial crime,

Post-JCPoA Challenges

Banks willing to engaging with Iranian banks expect to see the following areas to be addressed:

- 1. Financial soundness of FI**
- 2. Compliance, AML and countering financing of terrorism**
- 3. Corporate governance**
- 4. Trade finance practices**
- 5. IT systems**

Post-JCPoA Challenges

1. Financial soundness

- **CAR** (Basel I vs. Basel III)
- **Liquidity** (ALM practices, LCR and NSFR)
- **Supervision** (Proportionate to the nature, size and complexity, New supervisory structures, globally and how **CBI** collaborate, cooperation of CBI with the Basel Committee)
- **Bank's Rating** (International Agencies vs. what's available to date)
- **Absence of International Audit/advisory firms** (Local Accounting Standards vs IFRS, Supporting/certifying a robust compliance and AML structure)

Post-JCPoA Challenges

2. Compliance, AML and countering financing of terrorism

1. **International Standards** (FATF, Transparency International and Corruption index, OECD Convention on Combating Bribery of Foreign Public Officials, UN Convention against Corruption, **FATCA**)
 2. **Regional Legislations** (EU AML Directive, the 4th amendments implemented by 2017)
 3. **National Legislations** (UK Legislation on Terrorism, Bribery and the Proceeds of Crime)
 4. **National regulations** (The UK Money Laundering Regulations 2007)
- **Enhanced Due Diligence measures** (source of fund, determining the high-risk relationships, e.g.: PEPs and Correspondent banking institutions the FI works/deals with)

Post-JCPoA Challenges

4. Trade finance practices

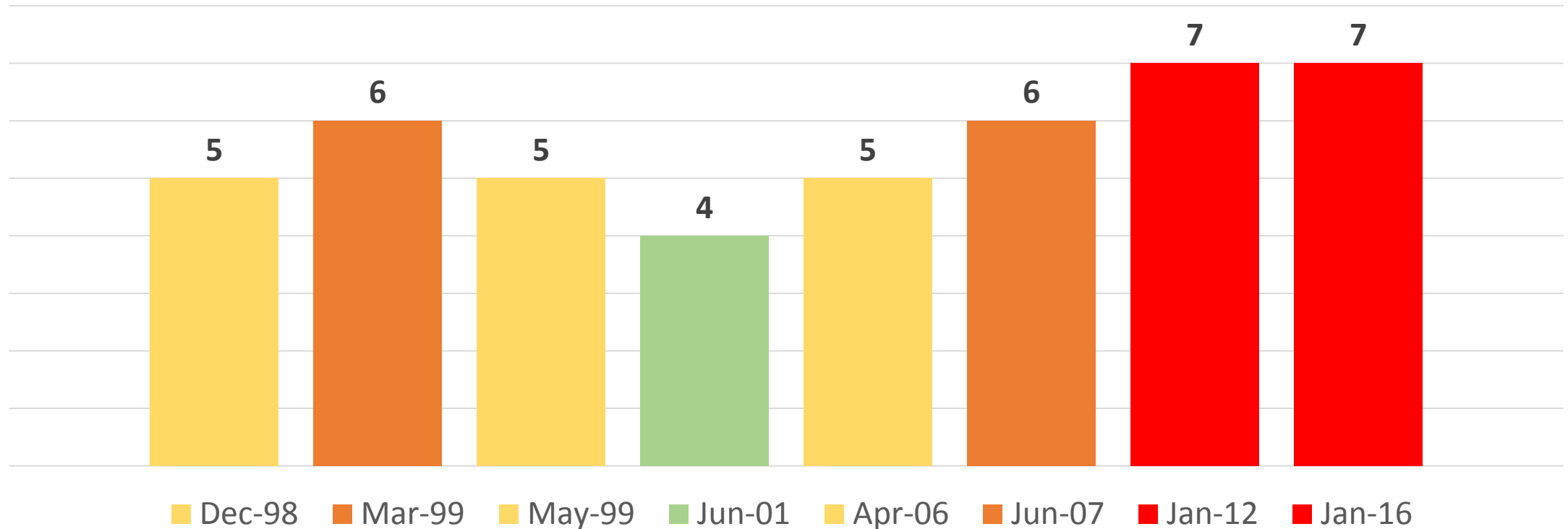
- New rules under Basel III:
 - Increase in cost of doing trade finance
 - More capital against trade finance deals **and** on interbank credit exposure (approx. 1.25%)
- More focus on AML requirements
 - FATF on misuse of international trade finance by criminal organizations
 - E.g. Over/under/multiple invoicing, short/over/phantom shipping
 - The provision of trade finance related services to Iranian counterparties is subject to a **risk-based assessment** by **banks**:
 - **Enhanced Due Diligence** and extensive ongoing monitoring

Workable solutions

- **Important role of ECAs**
- **Having a forward looking perspective & evaluation:**
 - **On Financial Statements of banks, and adaptation of IFRS,**
 - **On updating Compliance and AML policies & Procedures and,**
 - **Implementing the right IT system**
- **Focus on Short Term TF and gradually move to MT and LT financing**
 - **For your clients (KYC's already undertaken)**
- **Establish direct line of communication with Compliance & AML dpt. of those banks that already have them in place**
- **Timespan required for all banks to have them upgraded, 12 to 18 months**

OECD Country Risk Classifications on Officially Supported Export Credits

Iran



Source: oecd.org

Liquidity vs. Inflation

