



financial intelligence centre

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Mr Errol Kruger
Registrar
Banking Supervision Department
South African Reserve Bank
Pretoria
0001

By E-mail

Dear Mr Kruger

FINANCIAL ACTION TASK FORCE CALL FOR ENHANCED SCRUTINY OF TRANSACTIONS WITH CERTAIN JURISDICTIONS AND UNITED NATIONS SANCTIONS IN RELATION TO PROLIFERATION OF WEAPONS OF MASS DESTRUCTION

Please be informed that the Financial Action Task Force (FATF)¹ in its meeting held on 11 October 2007 identified a risk presented by the lack of an anti-money

¹ Members of the FATF are: Argentina; Australia; Austria; Belgium; Brazil; Canada; China; Denmark; European Commission; Finland; France; Germany; Greece; Gulf Co-operation Council; Hong Kong, China; Iceland; Ireland; Italy; Japan; Kingdom of the Netherlands; Luxembourg; Mexico; New Zealand; Norway; Portugal; Russian Federation; Singapore; South Africa; Spain; Sweden; Switzerland; Turkey; United Kingdom; United States. Countries with observer status are India and Republic of Korea

laundering and combating of financing of terrorism systems in certain jurisdictions. In particular, the FATF called on its members to implement enhanced due diligence with respect to the Northern part of Cyprus, the Republic of Uzbekistan and the Islamic Republic of Iran².

In relation to Iran, the FATF issued a statement with reference to this vulnerability stating that it "...is concerned that the Islamic Republic of Iran's lack of comprehensive anti-money laundering/ combating the financing of terrorism (AML/ CFT) regime represents a significant vulnerability within the international financial system. FATF calls upon Iran to address on an urgent basis its AML/ CFT deficiencies, including those identified in the 2006 International Monetary Fund Article IV Consultation Report for Iran. FATF members are advising their financial institutions to take the risk arising from the deficiencies in Iran's AML/ CFT regime into account for enhanced due diligence."

This position was subsequently discussed and confirmed by the FATF at its meeting in February 2008 in Paris, France.

I therefore urge South African banks to take account of the vulnerabilities identified by the FATF and to ensure that the due diligence applied in relation to any transactions that might involve financial institutions identified in the FATF statement, particularly those domiciled in Iran, is commensurate with the increased risk posed by deficiencies in the system to combat money laundering and terror financing in Iran.

² <http://www.fatf-gafi.org/dataoecd/16/26/40181037.pdf>

In addition, on 3 March 2008 the United Nations Security Council under article 41 of Chapter VII of the UN Charter, adopted Resolution 1803 (2008) with South Africa's support³.

Resolution 1803 (2008) calls upon member states (including South Africa) to exercise vigilance over the activities of financial institutions in their own territories with all banks domiciled in Iran, and their branches and subsidiaries abroad. This vigilance system extends to granting export credits to and new financial transactions with Iran. This provision makes special mention of the risks posed by Bank Melli and Bank Saderat.

The provisions in Resolution 1803 are made pursuant to an earlier Resolution of the United Nations Security Council (1737 (2006)) which prevents the supply of certain goods and services to Iran and also prevents the provision to Iran of any financial assistance, investment, brokering or other services, and the transfer of financial resources or services, related to the supply of those prohibited goods and services to Iran. In this regard, I urge that banks develop processes for the identification of customers, financial products and services, and transactions that present heightened risks that might expose them to transactions concerning the supply of the prohibited goods or services to Iran. This should be complemented by the development of reasonable and effective controls to mitigate these risks through enhanced diligence, scrutiny and monitoring.

Furthermore the United Nations Security Council has also listed a number of persons and entities to whom it is prohibited to provide any funds, financial assets or economic resources (Resolutions 1737 (2006), 1747 (2007) and 1803 (2008)). I urge that banks take account of these listings, in particular the fact that the listing pursuant to Resolution 1747 (2007) includes an Iranian bank, namely

³ <http://daccessdds.un.org/doc/UNDOC/GEN/N08/257/81/PDF/N0825781.pdf?OpenElement>

Bank Sepah and Bank Sepah International, and to employ similar risk management controls to ensure that they are not exposed to transactions which may facilitate the provision of funds, financial assets or economic resources to listed entities.

I shall greatly appreciate your kind assistance in helping to ensure that South African financial institutions are compliant with the obligations of the Financial Action Task Force, while taking note of the Resolutions adopted by the United Nations Security Council, by circulating this information to banks.

Kind regards

A handwritten signature in black ink, appearing to be 'Murray Michell', with a long horizontal stroke extending to the right.

MURRAY MICHELL
DIRECTOR