
BALL OF CONFUSION (THAT'S WHAT THE WORLD IS TODAY)*

Sorting out confusion by using sanctions as a tool for needed change

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The Temptations' most covered song* addressed a 1970 world of war, illegal drugs, and crooked politicians. (Remember "vote for me and I'll set you free?") Funny how we start 2012 with corruption, fear of Iran's nuclear programs, and a border country, Mexico, with rampant violence because of the extensive drug trade.

So, has anything improved in the last 40-plus years in the U.S. and global ability to respond to these continuous challenges?

Sanctions--an effective weapon

In the compliance world of AML and related obligations, I would argue that the answer lies with the generally universal use of sanctions to punish wayward jurisdictions. I thought of this effective tool while reading the following press statement. It came from Treasury Secretary Tim Geithner and Secretary of State Hilary Clinton on the newly announced sanctions against Iran from the European Union; the sanctions followed on new U.S. sanctions:

"These new ... sanctions intensify the ongoing pressure on Iran and strengthen the impact of existing measures by targeting transactions with the Central Bank of Iran and by providing strong incentives to reduce Iran's ability to earn revenue from its oil exports. Taken in combination with the many other sanctions on Iran that continue to be implemented by the United States and the international community, this new, concerted pressure will sharpen the choice for Iran's leaders and increase their cost of defiance of basic international obligations."

Okay, it does read like many press releases designed to encourage unity against a common foe. But does the financial sector appreciate this tool?

On the same day, the Department of the Treasury also designated for sanctions Iran's third-largest bank--Bank Tejarat--for providing financial services to several Iranian banks and firms already subject to international sanctions for their involvement in Iran's weapons of mass destruction proliferation activities, raising to 23 the number of Iranian-linked financial institutions that have been sanctioned. Treasury Under Secretary David Cohen made the cogent point that these sanctions "deepen Iran's financial isolation."

And sanctions can and do impact many criminal and terrorist organizations.

Sanctions send a message

Another example came earlier this month, when the Treasury's Office of Foreign Assets Control (OFAC), a bureau known well to all AML officials, added yet another group of individuals to the list of "specially designated narcotics traffickers" (SDNT).

In this case, one of the designated has been closely tied to Mexican cartels so attacking the finances of those named by closing their access to the U.S. financial system will be both costly and effective as a security and law enforcement tool.

Note that over 1,000 individuals and entities since 2000 have been named as SDNTs.

Sometimes we hear compliance officers bemoan their obligations on the basis that they claim that there are less onerous requirements outside the U.S. While we do note that our examination process is particularly more stringent than most countries, the use of sanctions has been fairly common within all of the FATF (Financial Action Task Force) countries. In fact, FATF recommendation 17 very clearly recommends:

"Countries should ensure that effective, proportionate and dissuasive sanctions, whether criminal, civil or administrative, are available to deal with natural or legal persons covered by these Recommendations that fail to comply with anti-money laundering or terrorist financing requirements." (Emphasis added.)

This is clear evidence of global support from FATF-participating governments of the importance of sanctions.

Sanctions go beyond drugs

Besides drug trafficking and proliferation financing, sanctions can be effective tools against transnational organized crime (TOC).

Assistant Secretary Daniel Glaser told the Senate in November that the first four groups chosen to be sanctioned under a

new type of sanction against TOCs "are large, sophisticated, multi-national organizations engaged in a wide variety of dangerous criminal enterprises ranging from narcotics trafficking; human trafficking; weapons trafficking; murder; complex financial fraud; and intellectual property theft that threaten the U.S. national security, foreign policy, and economy."

In other words, pretty bad guys.

Sanctions may present some compliance challenges but they are effective.

40-plus years after the Temptations sang "run, run, run , but you sure can't hide," they could be talking to SDNTs and their ilk, who won't be able to keep moving their money if sanctions are successful.

- About John Byrne, CAMS

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