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Sanctions Round-Up: Second Quarter 2013

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The end of the second quarter was marked by a flurry of Iran-related activity, with President Obama authorizing new sanctions targeting Iran and OFAC preparing for IFCA sanctions that came into effect on July 1. OFAC otherwise continued to target human rights abusers, foreign sanctions evaders, and North Korea's nuclear weapons and ballistic missile programs. Meanwhile, OFAC's issuance of a new licensing policy and a waiver authorizing certain transactions in support of Syrian opposition forces mirrored the Obama administration's evolving policy toward greater involvement in the Syrian conflict. Minor changes were also made to US sanctions targeting Burma and Sudan. Additionally, both OFAC and the NY Department of Financial Services announced settlements regarding sanctions violations at the end of the second quarter.

This quarter's sanctions update includes a discussion of:

- The Iran Freedom and Counter-Proliferation Act of 2012
- E.O. 13645, issued June 3, 2013
- Enforcement Against Foreign Sanctions Evaders
- Enforcement Against Human Rights Abuses
- New US Sanctions Targeting North Korea
- Evolving US Sanctions Targeting Syria
- Extension but Easing of US Sanctions Targeting Burma
- New General License for US Sanctions Targeting Sudan
- High Profile Settlements
- Sanction Removals
- Online Licensing Tool Launched by OFAC

IFCA Provisions Go Into Effect

As described in our Q4 2012 Sanctions Roundup, the Iran Freedom and Counter-Proliferation Act of 2012 ("IFCA") was signed into law on January 2, 2013 as part of the National Defense Authorization Act for FY 2013 ("NDAA 2013"). Most of IFCA's provisions, which target specific sectors of Iran's economy along with the provision of certain goods and services to Iran,[1] apply to conduct occurring on or after July 1, 2013. This includes IFCA's broad prohibitions on activities related to Iran's energy, shipping, and shipbuilding sectors; the sale of precious or other materials to or from Iran; the provision of underwriting services, insurance, and reinsurance for sanctionable activities related to Iran; and financial transactions involving sanctioned Iranian persons. Under IFCA, foreign financial institutions ("FFIs") are subject to correspondent account sanctions imposed by OFAC pursuant to the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 ("CISADA"), and non-US persons are subject to sanctions pursuant to the Iran Sanctions Act ("ISA"), as amended, imposed by the State Department.[2]

On June 3, OFAC published on its website answers to a number of frequently asked questions regarding IFCA, noting that OFAC regulations and guidance from the State Department are forthcoming. A few additional FAQs were subsequently published on July 1. The guidance provided by these answers is qualified by OFAC's repeated disclaimer that it is merely "anticipating" what will be included in the contents of the formal regulations.

The new sanctions that came into effect on July 1 include those targeting:

Activities Related to Iran's Energy, Shipping, and Shipbuilding Sectors

IFCA authorizes sanctions on anyone participating in "significant" activities and transactions related to Iran's energy, shipping, and shipbuilding sectors, including the provision of support or significant goods or services used in connection with those sectors.[3] Particularly relevant to the shipping and shipbuilding industries, OFAC has stated that this includes

[1] OFAC has stated that forthcoming regulations implementing IFCA will include a definition of "goods and services" as used throughout IFCA.

[2] CISADA targets foreign financial institutions through prohibitions on the opening or maintenance of correspondent accounts in the US, effectively cutting off direct access to the US financial system. As a general matter, the ISA seeks to punish non-US entities for conducting business in or with Iran by imposing sanctions that restrict the access of such entities to the US economic system. Sanctions that could be imposed for conducting the activities described above, as set forth in the ISA, include prohibitions on: (i) export assistance from the Export-Import Bank of the United States; (ii) specific licenses for export of US military, dual-use, or nuclear-related goods or technology; (iii) US bank loans exceeding $10 million in any 12-month period; (iv) designation as a primary dealer in US government debt for financial institutions; (v) procurement contracts with the US government; (vi) foreign exchange transactions subject to US jurisdiction; (vii) financial transactions subject to US jurisdiction; (viii) transactions with respect to property and interests in property subject to US jurisdiction; (ix) investment in equity or debt of the sanctioned person by US persons; (x) entry into the US of corporate officers of sanctioned entities (visa ban); and (xi) any of the above activities with respect to principal executive officers of sanctioned entities.

[3] For purposes of IFCA and E.O. 13645, the Treasury Department will apply §561.04 of the Iranian Financial Sanctions Regulations ("IFSR"), which lists the various factors that are taken into consideration in determining whether a transaction is "significant." These factors include: (a) the size, number, and frequency of the transactions; (b) the type, complexity, and commercial purpose of the transactions; (c) the level of awareness of management and whether the transactions are part of a pattern of conduct; (d) the nexus of the transactions; (e) the impact of the transactions on statutory objectives; (f) whether the transactions involved deceptive practices; (g) whether the transactions solely involved passive holdings of Central Bank of Iran; and (h) other factors deemed relevant.

activities that may occur offshore in areas where Iran claims jurisdiction, including the continental shelf and Iran's exclusive economic zone.

OFAC anticipates that under the forthcoming regulations, the "Iranian shipping sector" will be defined to include all seagoing vessels, including tankers and cargo vessels, that fly the Iranian flag or are owned or controlled, directly or indirectly, by the Government of Iran. Examples of the types of activities that may be sanctionable include the sale or charter of a vessel; the provision of services such as registry, classification, repair, survey, issuance of certificates or maintenance; and supply, bunkering, or docking of a vessel.

The "Iranian shipbuilding sector" is expected to be defined to include activities related to the construction of seagoing vessels, including oil tankers and cargo vessels, in Iran. Sanctions will target parties involved in the building and refit of vessels; the provision or refit of items such as turbines, marine propulsion engines, propellers and blades, and compasses and other navigational instruments; the provision of other goods used in connection with building and propulsion of vessels; and the provision of technical assistance and training relating to, and financing of, the building, maintenance or re-fitting of vessels.

OFAC anticipates that the "Iranian energy sector" will be defined to include activities involving the exploration, extraction, production, refinement, or liquefaction of petroleum, natural gas, or petroleum products in Iran. Sanctions will target parties involved in the supply or provision of goods or services that contribute to Iran's ability to develop, maintain, or expand its domestic petroleum resources or to import or export petroleum or petroleum products.

Going forward, individuals and entities determined to be part of each of these sectors will be identified as such on OFAC's SDN List. On July 3, OFAC published a list of SDNs whose entries had been updated with this information, marked by the addition of the phrase, "IFCA Determination."

Provision of Precious Metals, Graphite and Other Raw and Semi-Finished Materials, and Industrial Software

IFCA authorizes sanctions on anyone involved in the sale, supply, or transfer of a precious metal, directly or indirectly, to or from Iran. OFAC expects that precious metals will be defined to include silver and gold along with base metals or waste and scrap containing precious metal or precious-metal compounds. This provision, which prohibits anyone to sell or transfer any amount of gold to Iran, is largely intended to prevent Iran from trading its oil and gas for gold in contravention of sanctions that target conventional banking methods.

IFCA also authorizes sanctions on any person involved in the sale, supply, or transfer to or from Iran of graphite, raw or semi-finished metals such as aluminum and steel, coal, or industrial software, where such materials are intended for use in certain ways. This includes use in the energy, shipping, or shipbuilding sectors; in any sector of the Iranian economy controlled by Iran's Islamic Revolutionary Guard Corps ("IRGC") or by an SDN; or for Iran's nuclear or weapons of mass destruction programs. OFAC's June 3 answers to FAQs include a detailed list of the materials that are likely to be included in the definitions of "precious metals" and "graphite, raw, or semi-finished metals." OFAC has also stated that it will publish a report indicating which sectors of the Iranian economy are controlled directly or indirectly by Iran's IRGC.

This provision of IFCA includes a due diligence exception, meaning that persons who are deemed by the Treasury or State Departments to have established and enforced proper policies and controls to ensure that they are not involved in the sale, supply, or transfer of such materials and metals used in prohibited ways will not be targeted for sanctions.

Insurance and Reinsurance Activities

A number of insurance activities are subject to sanctions under IFCA, including the provision of insurance, reinsurance, or underwriting services (a) related to any activity with respect to Iran for which sanctions have been imposed under US law or (b) to or for any Iranian person included on the SDN List.[4] Thus, the scope of sanctionable activities relating to insurance and underwriting services is extremely broad. However, the due diligence exception also applies to this provision of IFCA, meaning that sanctions will not be imposed on insurers or reinsurers that establish and enforce official policies and controls to ensure that they do not underwrite or enter into contracts to provide insurance or reinsurance for sanctionable activities.

* * *

Given the breadth of the new sanctions that came into effect on July 1, non-US companies that continue to trade with Iran after that date face not only the potential sanctions outlined above, but also commercial risks such as the denial of coverage by insurers and reinsurers unwilling to risk sanctions; the refusal by banks to process transactions related to Iran; and attempts by counterparties to avoid performance on contracts that involve Iran-related conduct.

In addition to those provisions that provide exceptions for the conduct of due diligence, IFCA contains certain explicit exceptions. Like other US sanctions targeting Iran, trade for the sale of agricultural commodities, food, medicine, or medical devices to Iran is not affected by IFCA. IFCA contains an express exception for the provision of humanitarian assistance to the people of Iran, which has not been included in past legislation; OFAC has not yet issued guidance on the scope or application of this exception. IFCA also provides express exceptions for certain oil and natural gas transactions; reconstruction assistance or economic development for Afghanistan; and certain activities related to a pipeline to supply natural gas from the Shah Deniz gas field in Azerbaijan to Europe and Turkey. Exemptions granted under the National Defense Authorization Act for FY 2012 ("NDAA") to countries that have significantly reduced their volume of Iranian oil imports extend to IFCA's provision as well.[5]

While IFCA does not contain any exception for transactions arising out of pre-existing contractual obligations, the pre-existing nature of a contract may be a mitigating factor in determining whether a particular transaction was "significant" and therefore sanctionable.

President Obama Tightens Iran Sanctions Regime via Executive Order

On June 3, President Obama issued E.O. 13645, "Authorizing the Implementation of Certain Sanctions Set Forth in the Iran Freedom and Counter-Proliferation Act of 2012 and Additional Sanctions with Respect to Iran." The executive order, which also goes into effect on July 1, both implements certain statutory provisions contained in the IFCA and authorizes the imposition of additional sanctions. This includes new sanctions targeting "significant" transactions related to the Iranian rial and Iran's automotive sector. As is the case with IFCA, E.O. 13645 provides both for correspondent account

[4] This latter provision contains an exception with regards to Iranian financial institutions appearing on the SDN List that have not been designated as global terrorists, weapons of mass destruction proliferators, or involved in human rights abuses.

[5] The countries that have received exemptions are China; India; Malaysia; South Korea; Singapore; South Africa; Sri Lanka; Turkey; Taiwan; Japan; Belgium; Britain; the Czech Republic; France; Germany; Greece; Italy; the Netherlands; Poland; and Spain. Exemptions are subject to renewal every 180 days. The most recent renewals occurred on June 5 for China, India, Malaysia, South Korea, Singapore, South Africa, Sri Lanka, Turkey and Taiwan.

sanctions on FFIs and ISA-style sanctions on non-US entities. OFAC has indicated that it will issue regulations to implement certain provisions of E.O. 13645. Likewise, the above-mentioned exceptions to IFCA apply to the sanctions created by E.O. 13645.

Under E.O. 13645, foreign financial institutions will face sanctions for knowingly conducting or facilitating, on or after July 1, 2013, significant transactions related to the purchase or sale of Iranian rials or financial transactions whose value is based on the exchange rate of the Iranian rial. FFIs also risk sanctions for maintaining significant funds or accounts outside the territory of Iran that are denominated in the Iranian rial. FFIs in violation of these new sanctions face a prohibition on the maintenance of correspondent accounts in the US and the blocking of all property subject to US jurisdiction.

E.O. 13645 also authorizes sanctions on persons engaged in transactions on or after July 1, 2013, for the sale, supply, or transfer to Iran of significant goods or services used in connection with Iran's automotive sector. Thus, the executive order continues IFCA's approach of prohibiting contact with entire sectors of the Iranian economy. The automotive sector of Iran is defined as "manufacturing or assembling in Iran of light and heavy vehicles including passenger cars, trucks, buses, minibuses, pick-up trucks, and motorcycles, as well as original equipment manufacturing and after-market parts manufacturing relating to such vehicles." OFAC has indicated that while it will pass regulations defining "goods or services" used in connection with the automotive sector, it anticipates that the definition will include goods and services that contribute to (i) Iran's ability to research, develop, manufacture, and assemble light and heavy vehicles; and (ii) the manufacturing or assembling of original equipment and after-market parts used in Iran's automotive industry. In additional guidance issued on July 2, OFAC clarified that the export of finished vehicles to Iran for sale by a non-sanctioned Iranian dealer, where no further assembly or manufacturing is required, is not a sanctionable activity. (However, it is important to note that the export of any *US-origin* finished vehicles to Iran is likely to violate other sanctions provisions targeting Iran.) In contrast, the export of "auto kits" or "knock down kits" for assembly in Iran will be considered the provision of goods used in connection with the automotive sector of Iran and thus may be sanctionable where deemed "significant."

E.O. 13645 also authorizes the imposition of new sanctions on any person that is deemed to have materially assisted, including the provision of significant financial, material, or technological support for, or goods or services to, Iranian persons or persons identified as SDNs pursuant to E.O. 13599, which blocks the property of the Government of Iran and Iranian financial institutions, or E.O. 13645.[6] This provision is likely to greatly expand the extraterritorial application of sanctions to non-US entities, as it effectively imposes a ban on any transaction with any entity owned or controlled by the Government of Iran. Further, E.O. 13645 clarifies and expands the scope of E.O. 13622, which was issued in July 2012 to target persons engaging in significant transactions related to the purchase of petroleum and petrochemicals from Iran. The new executive order makes clear that persons involved in the transport or marketing of Iranian petroleum and petrochemical exports are included in the scope of US sanctions.

Finally, the executive order authorizes sanctions targeting persons involved in the diversion of goods intended for the Iranian people or the misappropriation of proceeds from the sale or resale of such goods as of Jan. 2, 2013. This provision

[6] Again, there is an exception with regards to Iranian financial institutions appearing on the SDN List solely pursuant to E.O. 13599, meaning they have not been designated as global terrorists, weapons of mass destruction proliferators, or involved in human rights abuses.

extends to anyone who provides material support to persons engaged in such corruption and to persons owned or controlled by, or acting on behalf of, persons engaged in corruption.

The June 3 and July 1 FAQs published by OFAC include guidance on E.O. 13645 and how it interacts with the provisions of IFCA. Additionally, on July 2, OFAC published a list of changes made to its SDN List since the beginning of the year. These updates include the addition of the phrase "Additional Sanctions Information – Subject to Secondary Sanctions" to relevant SDN listings. This change is intended to assist foreign financial institutions in identifying those SDNs that fall into the category of persons for whom FFIs may not conduct significant financial transactions under E.O. 13645. Still, these new sanctions also generally extend to all entities owned and controlled by SDNs, which may not appear on the updated list issued by OFAC.

The Administration Targets Foreign Sanctions Evaders

Through the second quarter of 2013, OFAC continued to focus on closing any loopholes that Iran may be exploiting to circumvent sanctions, including the use of third parties and front companies. Accordingly, OFAC designated as SDNs a number of these alleged front companies, triggering a ban on US persons doing business with them and freezing all of their assets subject to US jurisdiction. Under IFCA, non-US persons now face sanctions for doing business with any SDN, which includes these designated front companies. In public testimony before Congress this quarter, representatives from the US State and Treasury Departments indicated that they plan to increasingly focus on Iran's use of non-bank financial institutions, including exchange houses and money services businesses, to circumvent economic sanctions.

Further, in order to assist in the identification of sanctioned parties to further block off Iran's evasion of sanctions, OFAC continued to designate entities owned or controlled by the National Iranian Oil Company ("NIOC") and the National Iranian Tanker Company ("NITC"), key parts of Iran's energy sector previously identified as owned or controlled by the Government of Iran and the IRGC. This included the April 11 designation of Naftiran Intertrade Company Ltd. ("NICO"), a Swiss-based Iranian oil trading company. On May 9, OFAC updated its SDN List to include a number of vessels used by the NITC that were either previously unidentified or had recently changed their names or flags, bringing the total number of identified vessels to 64.

On April 11, OFAC added Iranian businessman Babak Zanjani and a global network of front companies under his control to the SDN List for helping move billions of dollars on behalf of the Iranian regime. Mr. Zanjani is the chairman of more than 60 companies collectively known as the Sorinet Group, which he used to finance sales of oil on behalf of NIOC, NICO, and other entities previously identified as being under the ownership or control of the Government of Iran.

On May 9, the State Department blacklisted four Iranian companies and one individual for providing goods, technology, and services in violation of U.N. Security Council sanctions targeting Iran's nuclear activities. The same day, OFAC designated Sambouk Shipping pursuant to E.O. 13599 due to its ties to Dr. Dimitris Cambis, who was designated in March 2013 along with a network of front companies allegedly used in a scheme to avoid international oil sanctions targeting Iran. Dr. Cambis is alleged to have continued that scheme by using the recently formed Sambouk Shipping to manage vessels operated on behalf of the NITC. On June 4, the State Department and OFAC also sanctioned Ferland, a company based in Cyprus and Ukraine, for allegedly scheming with the NITC and a vessel owned by Dr. Cambis in March 2013 to disguise the source of Iranian oil and evade sanctions by passing it off as Iraqi in origin. This action by OFAC marked the first use of sanctions pursuant to E.O. 13608, issued in May 2012, which specifically targets foreign sanctions evaders, including those that facilitate deceptive transactions for or on behalf of persons sanctioned in connection with Iran or Syria. The State Department took concurrent action against Ferland by imposing sanctions under the ISA, as amended by the Iran Threat Reduction and Syria Human Rights Act of 2012. These sanctions include a ban on visas for corporate officers or loans from US financial institutions, and prohibit financial, property, or foreign exchange transactions subject to US jurisdiction.

OFAC designated a number of persons on May 23 for their involvement in Iran's nuclear and missile proliferation networks and Iran's continued attempts to circumvent sanctions. Fourteen of these persons are alleged to be part of a global network responsible for clandestinely moving supplies and providing essential services to Iran's nuclear and weapons programs. An additional six individuals were designated for their roles as leaders in Iran's energy sector who have been involved in Iranian attempts to evade international sanctions. On May 31, OFAC also designated eight Iranian petrochemical companies owned or controlled by the Government of Iran; the State Department concurrently imposed sanctions on two companies for doing business with Iran's petrochemical sector.

Also on June 4, OFAC targeted a network of 37 firms alleged to be front companies for Iran's senior leadership, hiding assets and generating billions of dollars' worth of revenue on behalf of the Government of Iran. The companies, which include entities in Germany, South Africa, Croatia, and the United Arab Emirates, are governed by the Execution of Imam Khomeini's Order (or "EIKO"), a program set up by Iran's leadership to manage its commercial holdings. While the sanctioned entities have business links to Iran's government, they generally have non-Iranian or Iranian expatriate owners, allowing them to get around restrictions on Iran's ability to do business in Europe and other parts of the world. These sanctions marked the first time that OFAC accused Iran's supreme leader, Ayatollah Ali Kamenei, of directing efforts to bypass international sanctions. The same day, OFAC sanctioned key companies and individuals in Kyrgyzstan, Ukraine, and the United Arab Emirates that allegedly leased aircraft used by two Iranian carriers to move "illicit cargo" to help the Syrian regime fight its opposition. Treasury also identified the aircraft the Iranian airlines received from the companies. The two Iranian carriers, Mahan Air and Iran Air, were previously designated in 2011.

Finally, OFAC also targeted entities found to have assisted Iran in gaining access to global financial systems, designating an exchange house and a trading company in the United Arab Emirates on May 15 for providing services to blacklisted Iranian banks in a manner designed to obscure the banks' involvement. On May 9, OFAC designated the Iranian Venezuelan Bi-National Bank pursuant to E.O. 13382 for processing financial transactions on behalf of the Export Development Bank of Iran.

The Administration Focuses on Human Rights Concerns

OFAC continued to target persons contributing to human rights abuses in Iran under E.O. 13628 by naming an individual and multiple entities as SDNs on May 30 for their alleged involvement in the use of communications technology to intimidate Iranian citizens. The same day, the State Department imposed US visa restrictions on nearly 60 officials of the Government of Iran and other individuals who participated in the commission of human rights abuses related to political repression in Iran. The individuals subject to these new visa restrictions include government ministers, military, intelligence, and law enforcement officers; judiciary and prison officials; and members of Iran's information technology sector.

In addition to imposing sanctions, OFAC took additional steps to enable Iranian and Syrian persons to more fully exercise their human rights. This included the May 2013 issuance of Iranian General License D authorizing the exportation from the US or by US persons of certain hardware, software, and related services, which will allow US companies to provide the Iranian people with more secure personal communications technology. This includes, for instance, the export of smart phones, modems, laptops, and fee-based services incident to Internet use such as instant messaging, email, networking, blogging, and sharing photos and movies. The license, which is intended to help counter attempts by the Iranian government to cut off its citizens' ability to communicate and access information, does not extend to exports to the Iranian government or to persons on the SDN List.

The Administration Tightens Sanctions Targeting North Korea

Throughout the second quarter, the Obama administration took additional steps to implement US obligations under applicable UN Security Council Resolutions and to disrupt financing related to North Korea's weapons of mass destruction proliferation activities. Under UN statutes, member states are obligated to impose sanctions on any companies that are facilitating business on behalf of firms blacklisted by the UN Security Council.

On May 10, OFAC sanctioned both a Taiwanese individual and entity pursuant to E.O. 13382, which targets proliferators of weapons of mass destruction and their supporters, for their links to a North Korean procurement agent, Alex Tsai. Mr. Tsai and his son were recently arrested in Estonia and the United States, respectively, and each was charged in US District Court for the Northern District of Illinois with conspiring to defraud the United States in its enforcement of sanctions targeting the proliferation of weapons of mass destruction. On June 27, OFAC imposed sanctions on a North Korean state bank and one of its top executives based in China, indicating ongoing concern about China's possible role in aiding the development of North Korea's nuclear and missile programs. Daedong Credit Bank has allegedly conducted millions of dollars in transactions in support of North Korea's activities by using a front company with offices in the British Virgin Islands and China to evade sanctions. OFAC also designated the External Affairs Bureau Chief of North Korea's General Bureau of Atomic Energy.

In a related action, on July 2, OFAC designated Lt. General Thein Htay, the head of Burma's Directorate of Defense Industries ("DDI"), pursuant to E.O. 13619, which targets those involved in arms trading between North Korea and Burma. OFAC emphasized that the designation does not target the Government of Burma, which OFAC noted continues to take positive steps in severing ties between its military and North Korea.

Evolving Administration Policy Reflected in Actions Targeting Syria

The Obama administration continued to issue sanctions targeting members of the Syrian regime, particularly those involved in human rights abuses. However, the administration also continued to sanction members of the opposition forces alleged to have ties to global terrorism, highlighting the multiple considerations being taken into account as the United States develops an approach to addressing the conflict in Syria.

Most significantly, on June 12, the Obama administration eased economic sanctions on Syrian opposition forces fighting the Assad regime, with Secretary of State John Kerry signing a limited waiver of the Syria Accountability and Lebanese Sovereignty Restoration Act of 2003. The waiver authorizes the export and re-export, subject to case-by-case review, of certain US-origin items to liberated areas of Syria for the benefit of the Syrian people. The Commerce Department will now process applications for exporting commodities, software, and technology for use in activities such as water supply and sanitation, power generation, oil and gas production, and transportation. The export of food and medicine does not currently require a license and medical devices are covered under an existing waiver. In addition, OFAC issued a Statement of Licensing Policy inviting US persons to apply for specific licenses to conduct oil-related business that will benefit the National Coalition of Syrian Revolutionary and Opposition Forces and to conduct transactions with the Syrian agricultural and telecommunications sectors that would otherwise be prohibited under E.O. 13582, issued by President Obama in August 2011 to block property of the government of Syria and prohibit certain transactions with respect to Syria. The licensing policy is intended to enable private persons in Syria to better and more securely access the Internet and to enable projects that enhance the agricultural sector in the food insecure country. Specific licenses issued pursuant to this policy will not authorize any transactions or activities with the Government of Syria or any SDN. Specific licenses may also be issued on a case-by-case basis for activities not specified that would otherwise be prohibited.

The same day, OFAC issued Syria General License 11A, which authorizes services in support of certain not-for-profit activities in support of the preservation and protection of cultural heritage sites in Syria. General License 11A amends and supersedes General License 11, which was issued on September 26, 2011 to authorize certain services in support of not-for-profit humanitarian, education, democracy-building, and development projects.

On May 16, OFAC designated four Syrian government ministers, an airline, and a private television station alleged to have aided the Assad government in its crackdown on opposition forces. These designations were made pursuant to E.O. 13573, which targets the Syrian regime's continuing escalation of violence against the Syrian people; E.O. 13572, which targets those who participate in the perpetuation of human rights abuses in Syria; and E.O. 13582. OFAC also designated government-owned Syrian Arab Airlines under E.O. 13224 for acting on or behalf of Iran's IRGC, alleging that the airline has been used by the IRGC to transport illicit cargo to Syria to support the regime's crackdown.

However, also on May 16, the State Department designated Syrian rebel fighter Muhammad al-Jawlani as a global terrorist due to his position as leader of the al-Nusra Front. The State Department labeled al-Nusra a terrorist organization affiliated with al Qaeda back in December 2012.

Computerlinks FZCO, a Dubai distribution company, agreed in April to pay a $2.8 million civil penalty to the US Department of Commerce for shipping $1.4 million worth of embargoed US equipment to the Syrian government to monitor and control internet traffic. Computerlinks FZCO sold the devices, made by the US-based Blue Coat Systems Inc., to the Syrian government in three separate transactions in 2010 and 2011 after falsely claiming that the products were being shipped to Iraq and Afghanistan. Notably, on April 15, the Treasury Department's Financial Crimes Enforcement Network ("FinCEN") issued an advisory reminding US financial institutions to take into account ongoing events in Syria when assessing the risks and reporting requirements related to particular customers, accounts, and transactions. Section 312 of the USA PATRIOT Act requires US financial institutions to perform due diligence or enhanced due diligence for correspondent accounts maintained in the United States for foreign financial institutions and for private banking accounts maintained in the United States for non-US persons. In its advisory, FinCEN cautioned that institutions should be vigilant against transactions involving persons specifically designated for sanctions relating to Syria, as well as proxies acting on behalf of such persons. FinCEN previously issued an advisory on July 8, 2011 regarding the possible flight of assets of certain individuals and entities believed to be associated with Syrian President Bashar al-Assad.

OFAC Eases But Extends Sanctions Targeting Burma

On May 2, the US lifted a sweeping ban on visas for officials from Burma. Although the State Department never published the names of those who were banned, the restrictions on traveling to the United States, which were first imposed in 1996, applied to hundreds of military officers and other officials who were part of the country's military dictatorship, as well as their families. However, on May 3, the US extended targeted sanctions against Burma for another year in an effort to maintain pressure on the country to continue with political reform and to prevent ethnic violence and military abuses. The targeted sanctions that remain in place prohibit US persons from doing business with companies or individuals who thwart political reform in Burma, commit serious human rights abuses, or propagate military trade with North Korea. Additionally, while US sanctions targeting Burma have been eased throughout 2013, new compliance requirements have come into effect. Among these are the requirements imposed under General License No. 17, issued on July 11, 2012, which authorizes US persons to make new investments in Burma subject to certain limitations and requirements. General License No. 17 requires US persons engaging in new investments in Burma to submit reports to the Department of State if their aggregate investment, over any period, exceeds $500,000. These reports are intended to provide the government with information regarding the impact and effects of significant new investment. The first reports under this requirement were due July 1.

OFAC Issues General License for Certain Exchange Activities with Sudan

On April 15, OFAC issued a general license authorizing certain academic and professional exchange activities between the United States and Sudan otherwise prohibited by the Sudanese Sanctions Regulations (31 C.F.R. Part 538). General License No. 1 permits US academic institutions to operate academic exchange programs with academic institutions in Sudan and authorizes the administration of professional certification and university entrance examinations and the conduct of professional training seminars for the benefit of persons in Sudan. The general license also authorizes certain financial transactions and, subject to some restrictions, the release of technology and software to Sudanese students attending school in the United States. Finally, the license permits certain US persons to conduct research in Sudan for noncommercial studies.

High-Profile Sanctions-Related Settlements

On Friday, June 28, Intesa Sanpaolo S.p.A. ("Intesa"), entered into a settlement OFAC, agreeing to pay civil penalties of $2,949,030 for apparent violations of US sanctions targeting Cuba, Sudan, and Iran. According to the enforcement release issued by OFAC, Intesa violated US sanctions targeting Iran by processing payments for or on behalf of Irasco S.r.l., an Italian company headquartered in Italy that is owned or controlled by the Government of Iran. Intesa admitted to having processed a total of 31 wire transfers valued at $3,142,565 between November 1, 2004, and December 8, 2006. OFAC noted that despite Irasco's ownership and line of business as an exporter of goods to Iran, and its financial and commercial associations with Iranian state-owned financial institutions, companies, and projects, Intesa failed to identify Irasco as meeting the definition of the "Government of Iran" and, at the time of the apparent violations, did not take appropriate measures to prevent the bank from processing transactions for or on behalf of Irasco that terminated in the United States and/or with US persons. Significantly, Intesa was not found to have engaged in any non-transparent processes to make OFAC-prohibited payments through the United States. Intesa separately admitted to processing approximately 120 transactions to or through the US that involved Cuba or Sudan.

Also in June, Deloitte Financial Advisory Services reached a voluntary agreement with the New York Department of Financial Services ("NY-DFS") resulting in a one-year suspension from any new consulting work for financial firms in the state of New York and payment of a $10 million fine. NY-DFS previously criticized the entity's work for Standard Chartered in relation to anti-money laundering, including for lacking the required degree of autonomy and violating NY banking law by disclosing confidential client information.

The Administration Rewards Changes in Behavior

On April 12, the State Department lifted sanctions on three companies targeted in May 2011 for their roles in a 2010 transaction that provided a tanker worth $8.65 million to Iran's state shipping line in violation of US sanctions. The State Department noted that significant steps taken by the companies to ensure compliance with US law led to the removal of sanctions. OFAC subsequently removed the companies from the SDN List on April 15. Similarly, on April 18, OFAC removed Nabil Rafik al Kuzbari, a top Syrian official and former chairman of Cham Holding, from the SDN List. Kuzbari was sanctioned in May 2011 during the start of the Syrian conflict due to his ties to Rami Makhlouf, a cousin of Syrian President Bashar al-Assad. The de-listing occurred as a result of OFAC's finding that Kuzbari had severed his relationship with Makhlouf by leaving his job at Cham Holding, which remains under US sanctions.

On May 17, OFAC lifted sanctions against the Elaf Islamic Bank in Iraq following what it called a “significant and demonstrated change in behavior,” removing the bank from the so-called “Part 561 List.” OFAC previously imposed sanctions under CISADA on July 31, 2012, for knowingly facilitating significant financial transactions and providing significant financial services for the US and E.U.-designated Export Development Bank of Iran. In removing the sanctions, OFAC noted that Elaf Islamic Bank immediately engaged the Treasury Department following its designation and implemented a course of action to stop the conduct that led to sanctions, including the reduction of its overall exposure to the Iranian financial sector.

OFAC Licensing Goes Online

Starting April 18, OFAC began accepting requests for licenses, license amendments, and interpretive guidance electronically. The OFAC License Application Page, located at www.treasury.gov/resource-center/sanctions/Pages/licensing.aspx, contains links to apply (1) to export agricultural commodities, medicine, or medical devices to Sudan or Iran; (2) to travel to Cuba; (3) for the release of a wire transfer blocked at a US financial institution; and (4) for a license or interpretive guidance in all other circumstances. All applicants still have the option of submitting applications by mail.

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As always, we would be happy to discuss with you any questions you may have about compliance with US sanctions programs or trends and patterns in US enforcement.

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