Enforcement Release: November 19, 2024

OFAC Imposes $1.1 Million Penalty on an Individual for Violations of the Iranian Transactions and Sanctions Regulations

OFAC has issued a Penalty Notice imposing a $1,104,408 penalty on a natural U.S. person ("U.S. Person-1") for 75 violations of OFAC sanctions on Iran valued at approximately $561,802. Between 2019 and 2022, U.S. Person-1 executed a plan to purchase, renovate, and operate a hotel in Iran. In furtherance of this scheme, U.S. Person-1 used foreign money services businesses in Iran and Canada to evade U.S. sanctions. U.S. Person-1 was aware at all times of U.S. sanctions on Iran. The penalty amount reflects OFAC's determination that the violations were egregious and were not voluntarily self-disclosed.

Description of the Violations

Beginning in or about 2019 and lasting through 2022, U.S. Person-1 executed a plan to purchase, renovate, and operate a 19-suite hotel on the Caspian Sea in Iran. U.S. Person-1 financed the project through two different methods. First, U.S. Person-1 sold real property they had previously acquired in Iran and reinvested the proceeds in the hotel. Second, U.S. Person-1 transferred separate funds from the United States to Iran. At all relevant times, U.S. Person-1 maintained personal and business accounts at Bank Melli Iran and Bank Keshavarzi Iran, both of which are blocked entities on OFAC's List of Specially Designated Nationals and Blocked Persons. U.S. Person-1 utilized their accounts at these two blocked Iranian financial institutions to pay for the hotel's renovation and operations.

To effectuate payments to contractors and others, including any fees associated with Iranian government permits or licenses, U.S. Person-1 utilized a Canadian money services business (MSB) to circumvent the prohibition on most commercial financial transfers between the United States and Iran. To execute these transfers, U.S. Person-1 would first contact the MSB to request the transfer of Iranian rials to one or more of U.S. Person-1's Iranian bank accounts. The MSB employed a mechanism known as an informal value transfer system (IVTS), through which the value of each funds transfer from U.S. Person-1 would reach Iran without any actual cross-border movement of funds.[1] After agreeing on an exchange rate, the MSB would instruct U.S. Person-1 to remit an

[1] The Financial Crimes Enforcement Network (FinCEN) has explained that IVTS includes "any system, mechanism, or network of people that receives money for the purpose of making the funds or an equivalent value payable to a third party in another geographic location, whether or not in the same form." While such systems may be used for legitimate purposes, they may also be used to facilitate sanctions evasion and other unlawful activity. As a type of MSB, IVTS businesses may legally operate in the United States so long as they abide by applicable state and federal laws, including registering with FinCEN and complying with applicable anti-money laundering and counter-terrorist financing provisions of the Bank Secrecy Act. For additional information about IVTS, see FinCEN, "Informal Value Transfer Systems (FIN-2010-A011)" (September 1, 2010) and "Informal Value Transfer Systems (Issue 33)" (March 2003). Per OFAC FAQ 242, where a U.S. person wishes to process Iran-related funds transfers ordinarily incident and necessary to

equivalent amount of funds in U.S. dollars to a specified individual in the United States with whom U.S. Person-1 had no preexisting relationship. Upon completion of the transfer, the MSB arranged for the same amount in rials to be transferred to U.S. Person-1's Iranian accounts, after which U.S. Person-1 would use the funds to make payments in Iran.

U.S. Person-1 primarily used checks to remit U.S. dollars to the U.S.-based individuals specified by the MSB. The memo lines sometimes referenced Iran or inaccurately purported to be in connection with a loan. In mid-2020, U.S. Person-1's bank opened an investigation into the payments based on their number, frequency, and typology, including the consecutive transfer of funds to separate accounts owned by the same recipient. Following the conclusion of the bank's investigation in late 2020, which identified the Iranian nexus in the funds transfers, U.S. Person-1's bank exited U.S. Person-1 as a customer. Shortly thereafter, U.S. Person-1 opened new accounts at another U.S. financial institution and resumed the same activity. U.S. Person-1 appears to have attempted to better conceal the nature of the activity at the second bank, including by primarily executing the violative funds transfers through accounts held by two companies majority-owned by U.S. Person-1: an existing construction company and a newly created company for which the bank apparently had no written record of intended business activities. U.S. Person-1 also omitted explicit references to Iran from check memo lines and reduced the average value of each funds transfer.

To repatriate hotel proceeds from Iran to the United States, the same MSB worked with a currency exchange located in Iran to complete a similar transaction in the opposite direction. Unlike the majority of the outgoing transactions, the last leg of the repatriation transaction included in the 75 violations at issue was executed via wire transfer and with a blank payment reference field.

During the same period, and separate from the hotel project, U.S. Person-1 also transferred ownership of a parcel of Iranian real property to their U.S.-person children without authorization.

The conduct described above resulted in 75 violations of the Iranian Transactions and Sanctions Regulations (ITSR), 31 C.F.R. §§ 560.203(a) (transactions that evade, avoid, or cause a violation of the ITSR), 560.206(a)(1) (prohibited transactions related to services of Iranian origin), 560.207 (prohibited new investment in Iran), 560.208 (prohibited approval or facilitation by a U.S. person of a transaction by a foreign person that would be prohibited if performed by a U.S. person), and 560.211(b) (prohibited transactions involving blocked property).

Penalty Calculations and General Factors Analysis

Following the issuance of a Pre-Penalty Notice to U.S. Person-1, OFAC issued a Penalty Notice to U.S. Person-1 in accordance with the ITSR, 31 C.F.R. § 560.704, finding the violations and assessing a civil monetary penalty. The statutory maximum civil monetary penalty applicable in this matter is $27,610,200. OFAC determined that U.S. Person-1 did not voluntarily self-disclose the violations and that the violations constitute an egregious case. Accordingly, under OFAC's Economic Sanctions Enforcement Guidelines ("Enforcement Guidelines"), 31 CFR part 501, app.

giving effect to an underlying transaction that has been authorized by a specific or general license in the Iranian Transactions and Sanctions Regulations, the usage of an IVTS or MSB directly by such a U.S. person is prohibited unless the IVTS or MSB is: (a) in a third country and (b) engaged to provide services by a U.S. depository institution or U.S. broker-dealer in securities. *See* 31 C.F.R. §§ 560.319 & 560.321.

A., the base civil monetary penalty applicable in this matter equals the statutory maximum of $27,610,200.

The final penalty amount of $1,104,408 reflects OFAC's consideration of the General Factors under the Enforcement Guidelines.

OFAC determined the following to be **aggravating factors**:

(1) U.S. Person-1 acted recklessly, and with respect to certain transactions, willfully by engaging in unauthorized commercial activity and by continuing to engage in funds transfers to and from Iran when they knew such transfers were prohibited by U.S. sanctions.

(2) U.S. Person-1 at all times had actual knowledge of the violative conduct in which they were engaged.

(3) U.S. Person-1's scheme invested at least a half-million dollars in Iran and effectively provided liquidity to two blocked, government-owned Iranian financial institutions.

(4) U.S. Person-1 was not fully cooperative with OFAC's investigation.

OFAC determined the following to be **mitigating factors**:

(1) U.S. Person-1 has little expertise in sanctions-related issues and has not been the subject of an OFAC enforcement action in the five years preceding the earliest transaction giving rise to the violations.

(2) Based on the financial condition of U.S. Person-1, OFAC determined significant mitigation from the base penalty to be warranted.

Compliance Considerations

This action underscores the risks associated with violating U.S. sanctions, including comprehensive sanctions programs like the long-standing U.S. embargo on Iran. OFAC's Iran sanctions include prohibitions against conduct including new investment in Iran; transactions related to Iranian-origin goods or services; dealings involving the Government of Iran or any Iranian financial institution; U.S. person facilitation of transactions by a foreign person that would be prohibited for a U.S. person; and actual or attempted sanctions evasion.

At the same time, OFAC has issued general licenses[2] that authorize transactions including noncommercial, personal remittances to or from Iran and the sale of certain real and personal

[2] General licenses authorize a particular type of transaction for a class of persons without the need to apply for a specific license. Some general licenses are codified in the Code of Federal Regulations, while others may be published in the form of a web general license on a program-specific OFAC sanctions page (see https://ofac.treasury.gov/sanctions-programs-and-country-information). Persons engaging in transactions pursuant to a general license must ensure that all conditions of the license are strictly observed, including any reporting requirements.

property in Iran and transfer of related funds to the United States. These general licenses allow U.S. persons, including those with family in Iran, to carry out these types of transactions without needing to seek specific permission from OFAC. U.S. Person-1's conduct in this matter did not meet the conditions of any general license.

This case also highlights the vital importance to an effective financial institution compliance function of both sanctions screening and anti-money laundering and counter-terrorism financing (AML/CFT) programs. The initial stage of the violative funds transfers in this case took place within the United States and between U.S.-person individuals—a common feature of IVTS. Given the challenge of detecting potential sanctions violations under such circumstances, AML/CFT programs can help to identify suspicious transactional activity, including atypical funds transfers between customers and third parties with whom they otherwise maintain no ongoing financial relationship and transactions atypical of the stated business purpose for a corporate customer. These types of patterns may, when combined with other factors, serve as a red flag indicative of potential sanctions evasion.

OFAC encourages financial institutions that identify potentially violative activity by their customers to file voluntary self-disclosures with OFAC's Enforcement Division.[3] In addition to reducing the amount of any potential civil monetary penalty against the financial institution, such disclosures can provide OFAC with critical investigative leads that may prevent further sanctions violations.

All U.S. persons, including individuals, are required to comply with U.S. sanctions. OFAC's website includes numerous sanctions program-specific FAQs; contact information for OFAC's compliance hotline; and other sanctions program-specific resources designed to assist the public with sanctions compliance. Persons who wish to engage in a transaction that would ordinarily be prohibited by OFAC sanctions may apply for a specific license from OFAC.

OFAC Enforcement and Compliance Resources

On May 2, 2019, OFAC published A Framework for OFAC Compliance Commitments in order to provide organizations subject to U.S. jurisdiction, as well as foreign entities that conduct business in or with the United States or U.S. persons, or that use goods or services exported from the United States, with OFAC's perspective on the essential components of a sanctions compliance program. The *Framework* also outlines how OFAC may incorporate these components into its evaluation of apparent violations and resolution of investigations resulting in settlements. The *Framework* includes an appendix that offers a brief analysis of some of the root causes of apparent violations of U.S. economic and trade sanctions programs OFAC has identified during its investigative process.

Information concerning the civil penalties process can be found in the OFAC regulations governing each sanctions program; the Reporting, Procedures, and Penalties Regulations, 31 CFR part 501; and the Economic Sanctions Enforcement Guidelines, 31 CFR part 501, app. A. These references, as well as recent civil penalties and enforcement information, can be found on OFAC's website at https://ofac.treasury.gov/civil-penalties-and-enforcement-information.

[3] Please submit all voluntary self-disclosures electronically to OFACDisclosures@treasury.gov. OFAC encourages anyone who may have violated OFAC-administered sanctions programs, or anyone who is aware of potential violations, to disclose the apparent or potential violation to OFAC.

Sanctions Whistleblower Program

The U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN) maintains a whistleblower incentive program for violations of OFAC-administered sanctions, in addition to violations of the Bank Secrecy Act. Individuals located in the United States or abroad who provide information may be eligible for awards, if the information they provide leads to a successful enforcement action that results in monetary penalties exceeding $1,000,000. FinCEN is currently accepting whistleblower tips.

For more information regarding OFAC regulations, please visit: https://ofac.treasury.gov.