Perception versus reality: Iranian banks and international anti-money laundering expectations

Structured abstract

Purpose.

Iran has been ranked by the Basel Committee on Banking Supervision and the Financial Action Task Force as one of the foremost countries in the world for money laundering. However, Iranian banks claim that they comply with international standards for reporting suspicious activity, risk management, and training. We investigate this dichotomy between perception and reality.

Design.

A Wolfsberg-style questionnaire was sent to partners in Iranian accounting firms which have audited domestic banks over the past five years to investigate the adequacy of risk management systems.

Findings.

Most Iranian banks have anti-money laundering systems which compare favourably with those of international counterparties. Banks take a risk-based approach to potential criminal behaviour. The negative perception of Iranian banks is principally attributable to the government's unwillingness to accede to 'touchstone' international conventions.

Despite having in place anti-money laundering laws which are comparable in intent with those of the United Kingdom and the United States, weak enforcement remains a significant impediment of which the political establishment is aware.

Originality/value.

The research provides a unique insight into the extent of anti-money laundering compliance in Iranian banks as verified by external auditors.

Practical implications.

Measures required to bring Iranian banks into compliance with international standards may be less extensive than perceptions suggest. However, failure of the government to accede to conventions stipulated by the FATF mean that banks may remain ostracised by foreign counterparties for the foreseeable future.

Keywords: Money laundering. Iranian banks. Financial Action Task Force. Wolfsberg Group. Audit.

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1. Introduction

Iran has been associated with money laundering by the Basel Committee on Banking Supervision (achieving 'first place' in the Basel Anti-Money Laundering Index of 2017), and the Financial Action Task Force (FATF), and this has negatively impacted upon the ability of its banks to form associations with foreign counterparties (Rahmdel, 2018). These problems are in addition to an international sanctions regime to which the country is subject. It is also on a FATF blacklist (with North Korea) of countries which do not comply with its anti-money laundering (AML) requirements (Sharman, 2009). This is mainly attributable to the country's failure to accede to two international conventions: the United Nations Convention against Transnational Organised Crime (the Palermo Convention), and the Terrorist Financing Convention of 1999 (formerly the International Convention for the Suppression and Financing of Terrorism) (Compin, 2018). The FATF requires countries to criminalise terrorist financing, including removing the exemption for designated groups "attempting to end foreign occupation, colonialism and racism". However, the Iranian government does not recognise Lebanon's Hizbullah as a terrorist organisation, nor Iraq's Hashado Shabi, nor Yemen's Ansarollah, notwithstanding that they are so designated by the FATF, the EU and the US. This divergence has contributed to the country's blacklisting; it is attributable to a political decision and not to risk management weaknesses in the banking sector. There is therefore greater nuance between perception and reality than initial impressions would suggest. Iran does have a significant and persistent problem with money laundering, mainly arising from the illegal narcotics trade and political corruption. The purpose of this paper is to investigate whether, paradoxically, banks meet in whole or in part international expectations and that weaknesses reside elsewhere, principally inadequate enforcement of domestic legislation as well as an unwillingness to accede to international conventions. Previous research by Salehi and Molla Imeny (2019) found that Iranian banks have adequate AML internal systems and protocols. A limitation of the work was that it investigated banks' perceptions of themselves, and the results were not verified by an independent third party. However, these provide a comparative reference point for this paper in terms of its methodology in illuminating how banks perceive their own AML compliance compared with how others- independent auditors- report the reality. This paper provides this independent assessment.

Auditor opinion of AML compliance in financial institutions has been previously drawn upon in academic research by Gaganis and Pasiouras (2007). This paper adopts a similar approach, its originality deriving from the fact that the Wolfsberg Questionnaire which has traditionally been used by banks to evaluate counterparty risk has instead been completed by auditors. We found the reality to be that internal systems relating to risk management, training, and suspicious activity reporting in Iranian banks are more in accord with international expectations than perception might otherwise suggest. The research question can be stated thus: to what extent do Iranian banks as verified by independent auditors comply with the Wolfsberg Principles for the detection and prevention of money laundering? The answer is important in Iran's efforts to achieve removal from the FATF blacklist, but also to governments of other countries which are deemed non-compliant with FATF standards (Buchanan, 2004). A body such as the FATF which concerns itself with governments' adherence to international conventions may, paradoxically, certify a country to be in compliance and safe against the risk of money laundering when in fact it is not if its domestic banks are the weak point in the chain (Gnutzmann *et al*., 2010). If banks are deemed safe according to the Wolfsberg Principles, then changes to domestic laws should hasten quicker removal from the blacklist. The remainder of the paper is as follows. The next section provides a literature review. Section 3 examines systemic weaknesses in the Iranian banking system as identified by the Financial Action Task Force. Section 4 explains the paper's methodology and provides its empirical results. Section 5 concludes.

Section 2. Literature review

Money laundering may be defined as the attempt to disguise the origin of illegally obtained earnings and its movement into the legitimate financial system in such a way that it can be used by beneficiaries without attracting the attention of regulatory or confiscatory authorities (Lehman and Okcabol, 2005; Guenin-Paracini and Gendron, 2010; Humphrey and Owen, 2000). Certain accounting practices make money laundering possible and have been discussed in the literature (Arnold and Sikka, 2001; Neu *et al*., 2013). Mitchell *et al*. (1998) have also described how accounting firms make money laundering possible, although outright collusion in criminal activity, for example through the setting up of sham corporate structures, would be illegal. For Kerry and Brown (1992 at p. 594), money laundering is not conceived by wicked individuals; ‘Rather it is planned, executed, minuted and concealed in clean, respectable, warm and well-lit city centre offices’. For Compin (2008, at p. 594), ‘Accounting provides sophisticated support to the criminal approach and serves as a risk minimization tool. The technique becomes the smokescreen, allowing financial communications to be given a positive spin to meet the required standards’. Traditionally money laundering has been defined as comprising three stages: placement, layering, and integration (Schneider and Windischbauer, 2008). Placement is the first attempt to integrate illegal earnings into the financial system and may involve adding the proceeds of crime to legitimate takings. Layering is the repeated use of placement and extraction through many transactions and is the first concerted attempt at concealment. Integration is when money can be withdrawn from the financial system without attracting the attention of law enforcement agencies or tax authorities. Despite these differentiations, it is a process rather than a series of distinct events.

Financial institutions can be accessories to money laundering, either deliberately or accidentally (Levi and Reuter, 2006). The latter would arise for example when banks have flawed internal controls or reporting systems regarding suspicious activities, or have inadequate training to enable employees to recognise ‘red flags’ or indicators of money laundering which will then be reported to management and ultimately to the board, or to a designated reporting officer within the bank (Webb, 2004). Or it may be that the bank has inadequate ‘know your customer’ protocols or does not manage the risk of criminality (Gullkvist and Jokipii, 2013). These are systemic considerations which exist alongside domestic legal frameworks. For example, laws may require that suspicious transactions are reported to state agents in the form of Suspicious Activity Reports or SARs (Harvey, 2008). Or they may provide for the seizure and confiscation of money or assets which are suspected to be linked to criminal activity. An example of statutory provision for the seizure of assets suspected of having been acquired from illegal money is the United Kingdom’s (UK) Proceeds of Crime Act 2002. Recently the UK introduced Unexplained Wealth Orders which are issued by domestic courts to compel the person against whom they are issued to reveal the sources of assets of disproportionate value relative to, for example, earnings. If they fail to do so the National Crime Agency is empowered to apply to the High Court for the assets to be seized. The Patriot Act 2001 in the United States has similar provisions for the seizure of assets deemed to have been obtained through illegal activity. Iran has similar legislation; for example, Article 49 of the Constitution provides for the seizure of illegally obtained assets, while the Anti-Money Laundering Law of 2008 imposes suspicious activity reporting obligations upon bankers, lawyers, and auditors.

For Takats (2011), banks should face fines when they fail to report money laundering. But excessive fines can lead banks to report transactions which are less suspicious, which can in turn overwhelm the reporting system. This phenomenon of over-reporting has been noted in research by Norton (2018). Naheem (2016) noted that banks must deal with increasingly sophisticated laundering techniques. Historically governments have addressed the crime through national regulations which in most cases have arisen because of the state’s focus on prevention of the trade in illegal narcotics. However, as other criminal activities are now financed with laundered funds, including the purchase of armaments, political corruption and bribery, the regulatory system has similarly expanded and there is now the added social obligation on banks, lawyers and accountants to support the state in detecting criminal activity (Mitchell *et al*., 1998; Mulig and Smith, 2004). Banks can become unwitting providers of services to customers whose credentials appear unimpeachable. For example, a customer may convert illegal moneys through the purchase of high value assets such as real estate, antiques, paintings, precious metals, and then use this as security deposited with a bank to support a loan made to a company owned either directly or indirectly by the criminal (Zdanowicz, 2009). The money appears as a loan in the company's balance sheet but unbeknown to investigators, it will only have been made because the borrower/criminal has been able to provide collateral: the proceeds of illegal activity. Indeed, the borrower may appear simply as the recipient company: the criminal's name will not appear anywhere, even though they have provided the collateral underpinning the transaction. In developing countries like Iran, the reality is that the purchase of such high value assets will be beyond the resources of a substantial part of the population. Instead, such purchasing behaviour will be within the capacity of the political, military, or social elite. For this reason recent FATF recommendations have required banks and other cash-handling businesses such as brokers, casinos, and real estate agents to pay additional attention when the client is a Political Exposed Person such as a high-ranking public official, a former judge, politician, or military official (Choo, 2008).

Another common method of laundering in developing countries involves cash shipments by boat or plane to several banks by couriers or smurfs, equating to the placement stage of laundering. An agent will then move the funds into the personal accounts of overseas intermediaries, each of whom arranges to transfer the funds back into the country into accounts at the national central bank, which would then grant authorisation. The criminal then cancels the transfers and the funds drawn in cash from the intermediary's account are then wired back in country to other accounts, using the authorisation from the national central bank to explain the origin of funds (Quirk, 1997). In this way the central bank is giving legitimacy to illegal drug money. The moneys are then used to purchase assets such as real estate, this forming part of the integration stage of the process. Money laundering in Iran shares many of these characteristics and has become a concern to national politicians and officials, including a former head of the state Central Bank, as will be seen next.

Section 3. Iran and FATF AML requirements

Money laundering in developing countries such as Iran can have different characteristics to the same crime in developed economies where levels of sophistication are higher and the wherewithal of criminals is greater to make use of intermediaries such as accountants, lawyers, brokers and real estate purchasers (Veng Mei Long, 2007). Developing countries tend to have weak anti-money laundering (AML) laws, limited operational independence of financial intelligence units (FIUs), absence of protection of whistleblowers, and limited penalties for those convicted of the crime (Everrett, 2007). Sohraby *et al*.(2016) found that Iran has proper bank regulations for customer due diligence, record keeping and reporting, to combat money laundering. Rahmdel (2018) also suggested that Iran's AML regulations comply with FATF recommendations and international standards. But there is very limited enforcement of these regulations or effective oversight by the FIU (Sohraby *et al*., 2016; Keesoony, 2016). These limitations, combined with an absence of effective AML training for professionals, result in an increase in banking fraud and money laundering in Iran according to Rezaee and Davani (2013).

In 2017 Pedram Soltani, former Vice President of the Iranian Chamber of Commerce, confirmed the government's estimate for annual money laundering to be $35 billion: other sources put the figure closer to $42 billion. In an interview on state television in 2019 the legal adviser to President Rouhani, Jonaidi, stated: "The money from organised crime or drug trafficking is now an integral element within the banking system and we do not know the source and destination of money from organised crimes." The smuggling of goods is also a major source of illegal earnings, with at least 40% of imported goods coming in through this method. Failure to return dollars earned from exports is a major component of money laundering activity. Amir Hemmati, Head of Iran's Central Bank, observed in an interview on state television in November 2019: "Since the beginning of the year, we had $27 billion worth of non-oil exports, but less than $7 billion is back to the system, and I don't know where the rest of it is." According to a Statement issued by the FATF in February 2019, Iranian AML legislation suffers from several deficiencies which facilitate this degree of illegality. The country had previously embarked upon an action plan to meet

FATF requirements and to address these concerns, but this expired in January 2018. In February 2019, the FATF noted that there were issues which had not been addressed satisfactorily, including failure to adequately criminalise terrorist financing or to ratify the Palermo and Terrorist Financing Conventions.

In February 2020 the FATF called on all jurisdictions to impose effective countermeasures on Iran such as requiring financial institutions to review, amend, or if necessary terminate correspondent relationships with Iranian banks or limiting business relationships or financial transactions with Iran (Tang and Ai, 2010; Gardner, 2007). These countermeasures were to be developed and implemented to protect the international financial system from the ongoing money laundering, terrorist financing, and proliferation financing (ML/TF/PF) risks emanating from Iran. The FATF indicated in the Statement that it recognised Iran's legislative efforts to implement anti-money laundering and countering of financing terrorism polices, but the failure to implement the conventions was the main reason for its inclusion on the list of High Risk Jurisdictions which are Subject to a Call for Action. The Statement continued:

"Until Iran implements the measures required to address the deficiencies identified with respect to countering terrorism-financing in the Action Plan, the FATF will remain concerned with the terrorist financing risk emanating from Iran and the threat this poses to the international financial system".

Despite these criticisms and the imposition of countermeasures by the FATF to effectively insulate the international financial system against the risk of money laundering from Iran, the perception of a legal vacuum is tempered by the reality that the country has had in place significant AML laws for several decades, as well as provision for the seizure of illegally obtained assets (Malakoutikhah, 2020). These include Article 49 of the Constitution, Article 662 of the Islamic Penal Code 1996, and the Executive By-Law of the Anti-Money Laundering Act, 2009. Although the legislative framework applicable to money laundering has similarities with comparable legislation in the UK and US, it falls short in terms of enforcement. When a country's domestic laws are flawed, either in design or in implementation, then risk management systems of domestic banks take on added significance for international agencies and potential counterparties if these deficiencies are to be worked around. Auditors of such banks are best placed to provide impartial evaluation of the effectiveness of such systems.

Section 4. methodology and investigation

The Wolfsberg Group is an association of thirteen global banks set up in 2000 to develop frameworks and guidelines for the management of financial crime risks particularly with regard to know your customer, money laundering, and terrorist financing (Aiolfi and Bauer, 2012; Pieth and Aiolfi, 2003; van Erp *et al*., 2015). The Group aims to evolve over time principles of good practice for AML in banks. The Wolfsberg Anti-Money Laundering Principles for Private Banking were published in October 2000, revised in May 2002, and again most recently in June 2012. The Group does not advocate a standardised 'one size fits all' approach to risk management, and accordingly its documents and guidelines are intended to enable financial institutions to identify their own unique risks given the businesses with which they interact, their geographical location, and the regulatory competencies of domestic agencies (Ay, 2018; Mabunda, 2018). Risk management strategies will vary in different contexts (Simonova, 2011). The important requirement is that banks should be able to identify the risks to which they are subject and develop their own management strategies, drawing upon the Group's guidelines (de Koker, 2009). Financial Institutions should not simply adopt each publication, but instead consider the risks described, the applicable regulatory standards, and their own risk management strategy as a response. The Group launched the Correspondent Banking Due Diligence Questionnaire (CBDDQ) in 2018 covering the major aspects of banks' financial crime programmes (AML, ABC and Sanctions), and is designed to be an enhanced and reasonable standard for cross-border and/or other higher risk Correspondent Banking Due Diligence, reducing to a minimum any additional data requirements, as per the Wolfsberg definition and current FATF Guidance (Flohr, 2014). Supporting materials have been designed to aid 'capacity building' in the industry and support the objectives of the G20 and other supranational organisations towards a well supervised and more harmonised regulatory standard in the correspondent banking space. This paper has drawn upon the Wolfsberg Questionnaire in designing a comparable document to be administered, not to Iranian banks, but instead to the auditors who audit them. Melnik (2000) has criticised the inadequate use made of auditors by the United States government in its fight against money laundering; the use of auditors in this research is warranted given the weight which can be assigned to their opinions as expressed in our questionnaire. The Group issued a standard questionnaire in 2014 for evaluating banks' AML procedures. It consists of six sections. The first section deals with AML policies, practices, and procedures within banks. The second evaluates risk assessment procedures. The third examines protocols regarding know your customer, simple due diligence and enhanced due diligence procedures. The fourth concerns the adequacy of procedures for identification of transactions involving illegally obtained funds and the reporting of suspicious transactions. The fifth takes transaction monitoring further, whilst the final section concerns internal AML training programmes. We used the questionnaire as the basis for our enquiry of auditors of Iranian banks.

4.1 The Wolfsberg Questionnaire

The Wolfsberg Questionnaire has been traditionally used by banks to assess the robustness of internal risk management systems, particularly those of potential counterparties (Iken and Agudelo, 2017). This research takes an innovative and original approach by not inviting Iranian banks to complete it as was previously done in a paper by Salehi and Molla Imeny (2019), but instead by auditors who have audited such banks within the past five years. This has not previously been done in comparable research. The objective is to obtain an independent evaluation of internal risk management systems from an impartial source (Jeppesen, 2019). In 2019, 35 banks and credit institutions received authorisation from the Central Bank of Iran (the list of authorised institutions is available at https://www.cbi.ir/simplelist/1462.aspx). Over the past five years, 16 firms audited these authorised banks and credit institutions (we excluded the Audit Organization from the list to whom the questionnaire was sent because, as a governmental organisation, there was a risk that its managers' answers could be biased). Accordingly, the research sample consisted of 138 partners employed in 15 audit firms. 36 questionnaires (or 26 per cent of research sample) were returned completed. The Wolfsberg Questionnaire comprises nine questions about general AML policies and procedures in banks, two questions about risk assessment, six questions about customer due diligence, five questions about detection and reporting of suspicious transactions, one question about transaction monitoring, and five questions about AML training. Regarding each question we used a Likert scale instead of a yes/no option to increase the range of possible responses available to respondents.

4.2 Research variables

We used two variables in our methodology. First, as an independent variable and for comparative purposes, we drew upon results in Salehi and Molla Imeny's (2019) paper regarding self-perceptions in Iranian banks regarding the adequacy of their internal AML systems. Second, as a dependent variable we utilised auditors' perceptions of the AML performance of the banks which they have previously audited, based upon the Wolfsberg criteria. We then compared the results to see if they were the same, in which case both banks and auditors agree that international AML expectations are being met, or whether they differed, in which case the banks have an untrue or unrealistic perception of their own performance. The Wolfsberg Group has issued standards for a range of factors including customer identification, due diligence, dealing with financial institutions based in offshore jurisdictions, politically exposed persons, and suspicious activity reporting (Haynes, 2004). International banks use the Group's Questionnaire to assess a correspondent bank's AML status (Iken and Agudelo, 2017). Kutubi (2011) and Salehi and Molla Imeny (2019) used the questionnaire to investigate AML practices in a sample of banks. This variable registered 1 if auditors answered "definitely no", 2 if they answered "no", 3 if they answered "maybe", 4 if they answered "yes", and 5 if they answered "definitely yes". Its purpose was to determine the extent to which banks met the Wolfsberg criteria. The findings from this previous research provide the independent variable against which we compared, in the present research, auditors' opinion as to the correctness or otherwise of these views as held by the banks of themselves. Salehi and Molla Imeny's research indicated that Iranian banks were of the general view that their own internal AML systems were satisfactory and met international expectations. Auditors' opinions of these self-perceptions are examined here by reference to criteria used in the Wolfsberg Questionnaire, and as such constitutes the dependent variable in this research (AML status of Iranian banks, or AMLS, in the following tables). Banks' claims *(CLAIM)* as an independent variable was extracted from previous research by Salehi and Molla Imeny (2019) in which Iranian banks were asked to evaluate their own internal systems by completing a questionnaire based upon the Wolfsberg criteria. These responses were compared with the dependent variable of this research, this being auditor appraisal of the extent to which banks' perceptions of their own internal practices comply with the Wolfsberg criteria.

4.3 Findings and discussion

Table 1 comprises two panels. The frequency and percentage of responses are presented in panel A of table 1.

Table 1
Sample Statistics

	AML PPP		RA		KYC		STR		TM		Training		Whole	
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	Freq.
Panel A:Frequency and percentage of responses about AML status of Iranian banks (second section of the questionnaire)														
Categories:														
Definitely no	3	0.8	1	1.4	0	0.0	3	1.7	0	0.0	0	0.0	7	0.7
No	62	17.2	18	25.0	40	18.5	24	13.3	8	22.2	16	11.1	168	16.6
Maybe	105	29.2	19	26.4	61	28.2	63	35.0	8	22.2	42	29.2	298	29.6
Yes	121	33.6	28	38.9	86	39.8	65	36.1	16	44.4	71	49.3	387	38.4
Definitely yes	69	19.2	6	8.3	29	13.5	25	13.9	4	11.2	15	10.4	148	14.7

Panel B: Main statistics of dependent variables	N	Mean	Median	Stdev.	Skewness	Kurtosis	Min	Max
AMLS	1,008*	3.497	4.000	0.959	-0.177	2.250	1.000	5.000

AML PPP: general AML policies, practices and procedures (first section of the Wolfsberg questionnaire with 10 questions). RA: risk assessment (second section of the Wolfsberg questionnaire with 2 questions). KYC: know your customer, due diligence, and enhanced due diligence (third section of the Wolfsberg questionnaire with 6 questions). STR: reportable transactions and prevention and detection of transactions with illegally obtained funds (fourth section of the Wolfsberg questionnaire with 5 questions). TM: transaction monitoring (fifth section of the Wolfsberg questionnaire with one question). Training: AML training (sixth section of the Wolfsberg questionnaire with 4 questions). Whole: AML status of banks as a whole (sum of questions in each section which is equal to 28 questions).AMLS: anti-money laundering status of Iranian banks.
* We asked 28 questions of 36 auditors, making the number of observations for the AMLS variable 1,008.

Panel A of Table 1 shows the frequency and percentage of responses to the second section of the questionnaire for five categories of “definitely no”, “no”, “maybe”, “yes”, and “definitely yes”. In this panel, the AML status of Iranian banks is presented taking into consideration six areas as distinguished in the Wolfsberg Questionnaire. These areas are 1) general AML policies, practices and procedures; 2) risk assessment; 3) know your customer, due diligence, and enhanced due diligence; 4) reportable transactions and prevention and detection of transactions with illegally obtained funds; 5) transaction monitoring; and 6) AML training.

As panel A of Table 1 shows, the AML risk management capacity of Iranian banks is good. Only 0.7 per cent of respondents indicated that they definitely do not meet the Wolfsberg AML criteria. Most of the auditor respondents (82 per cent) verified that Iranian banks have AML policies, practices and procedures. 73.6 per cent of these respondents confirmed that Iranian banks assess their customers' risk or potentiality for criminal behaviour. 81.5 per cent believed that Iranian banks investigate their customers' true identity and conduct either simple or enhanced due diligence checks if necessary. Most of the respondents were of the view that the Iranian banks which they audited monitored their customers' transactions (77.8 per cent) and if they find a suspicious transaction, they then report it to the relevant authorities (85 per cent). Most of the respondents (88.9 per cent) believe Iranian banks provide rigorous and effective AML training. Generally, 82.7 per cent of respondents believe that Iranian banks meet the Wolfsberg criteria in their AML systems. The main statistics for dependent variables are summarised in panel B of Table 1. The mean and median of the AML status of Iranian banks are 3.50 and 4.00 respectively. The distribution of this variable is also left-skewed (-0.18), indicating that the distribution is concentrated in numbers higher than the mean. Accordingly, it suggests that respondents believe Iranian banks satisfy most of the AML controls and procedures as stipulated by the Wolfsberg Group.

Table 2 addresses the focus of this paper: a comparison between banks' claims and auditors' opinion about the extent of the former's compliance with AML expectations. To this end we assume the mean and median of banks' responses are equal to the mean and median of auditors' responses. There are different statistical methods for testing the equality of mean and median between two independent groups: we use some of these and present the results in Table 2.This shows the results of all tests for equality of means and proves that there is no difference between Iranian banks' claims and auditors' opinion about the AML status of Iranian banks. The banks believe that they comply with international AML expectations as covered in the Wolfsberg Questionnaire, and this view is independently confirmed by auditors also working to the Wolfsberg criteria. Although the results of Mann-Whitney and Kruskal-Wallis tests reject the assumption of equality of medians, they are not significant at 1 per cent. Furthermore, the results of Chi-square and van der Waerden tests do not reject the proposition that the banks and auditors agree on a satisfactory level of compliance. Therefore, we conclude the medians of both groups are equal, with the result that Iranian banks' claim about their AML compliance are consistent with auditors' opinion.

Table 2
Research hypothesis test

	Method	Value	Prob.
H0: $\mu_{AMLS} = \mu_{CLAIM}$			
	t-test	1.391	0.170
	Satterthwaite-Welch t-test	1.391	0.172
	Anova F-test	1.934	0.170
	Welch F-test	1.934	0.172
H0: $MD_{AMLS} = MD_{CLAIM}$			
	Wilcoxon/Mann-Whitney	1.975	0.048*
	Med. Chi-square	1.788	0.181
	Kruskal-Wallis	3.931	0.047*
	van der Waerden	3.055	0.080

* significant at 5%

5. Conclusion

This paper has evaluated three dimensions to money laundering in Iran. First, there is the behaviour of the government in the international context. The principal reason for the inclusion of Iran in the FATF blacklist is the country's unwillingness to accede to two international conventions applicable to money laundering and terrorist financing: the Palermo and Anti-Terrorist Financing Conventions. For the FATF these conventions represent the touchstone of a country's commitment to combatting these two crimes.

Second, perception of weaknesses in Iranian laws, particularly regarding a general lack of enforcement, is borne out in reality: statements made in the political domain point towards laws which are failing to counteract money laundering. This heightens the need for banks to be robust in their own internal risk management systems if they are, in time, to form associations with international counterparties. If these are not satisfied with the efficacy of domestic laws, there will be higher expectations of Iranian partners to overcome such shortcomings. This leads to the paper's principal focus: auditors' independent appraisal of the effectiveness of AML systems in Iranian banks. Here the research finds grounds for cautious optimism. These banks do appear to have adequate risk management systems and AML training. Although the country has refused to sign up to the Palermo and ATF Conventions, internal risk management systems in its banks appear to comply to a satisfactory extent with the expectations of international counterparties, based upon the Wolfsberg criteria.

For as long as Iran refuses to accede to the Conventions it will remain on the FATF blacklist. Sharman (2009) has shown how such blacklisting can result in damage to states' reputations among investors, thus producing pressure to comply through fear of actual or anticipated capital flight. To be removed from blacklists generally, and thereby to prevent future economic damage, those targeted have had to comply with stringent regulatory standards mandated by international organisations (Hendriyetty and Grewal, 2018). The divergence between Iran on the one hand and the FATF, EU, and the US on the other as to what constitutes a terrorist organisation also means that Iran will not be removed from the FATF blacklist for the foreseeable future. For Hulsse (at p459) 'Coercion is successful at securing formal compliance only, which has little effect on the problems that the rules are supposed to solve. The main advantage of legitimation, in comparison, is not that it is relatively inexpensive, but that it is able to secure *actual compliance'*. If Iran accedes to the Conventions, the risk is that its compliance will be formal and tokenistic rather than genuine and supported with enforcement. Sharman and Chaikin (2009) have demonstrated that, although powerful outsiders have successfully diffused AML systems among developing countries, a lack of a sense of 'ownership' in the latter explains why these systems are often established only as tokens to enhance international legitimacy and reputations. This view coincides with that of Johnson and Lim

(2003), who questioned whether the FATF has made a difference in terms of achieving genuine compliance with its requirements.

If and when Iran leaves the blacklist and the international sanctions regime is either ameliorated or dismantled, then re-establishing relations between Iranian banks and foreign counterparties may prove relatively easy and quick to achieve, given that internal risk management systems are already at a satisfactory level. If the national FIU is also weak in terms of being underfunded, or not sufficiently independent of the state, then verification as to robustness of internal risk management systems is better undertaken by independent auditors. In terms of domestic AML laws Iran has made substantial progress in a relatively short period of time as confirmed by the FATF, but further progress is needed. Regarding internal AML practices and procedures, this paper finds that contrary to perception, the reality is that Iranian banks are to a significant extent meeting the Wolfsberg criteria. In so doing, the future expectations of potential international counterparties may be easier to satisfy than present perceptions might suggest.

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