

MEMO# 26173

May 21, 2012

OFAC Settlement with US Asset Manager Under Iranian Transactions Regulations

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TO: AML COMPLIANCE WORKING GROUP No. 5-12
COMPLIANCE MEMBERS No. 6-12
INVESTMENT ADVISER MEMBERS No. 8-12
INTERNATIONAL MEMBERS No. 18-12 RE: OFAC SETTLEMENT WITH US ASSET MANAGER UNDER IRANIAN TRANSACTIONS REGULATIONS

On May 21, 2012, the Office of Foreign Assets Control ("OFAC") of the US Department of the Treasury announced a settlement with a US asset manager for an apparent violation of the Iranian Transactions Regulations ("ITR"). Information regarding the settlement is available at

http://www.treasury.gov/resource-center/sanctions/CivPen/Documents/05212012_genesis_notice.pdf.

According to OFAC, a US asset manager of a non-US fund hired its London-based subsidiary to provide investment advice and recommendations to the US manager relating to the non-US fund. The UK subsidiary, on behalf of the non-US fund, purchased shares of a Cayman Island company that invests exclusively in Iranian securities. Generally, the ITR does not apply directly to non-US persons and sanctions under ITR apply to investments in Iranian entities. In this case, the investment was made by a non-US fund at the direction of a non-US subadviser, and the investment was in a Cayman Island fund that invests exclusively in Iranian securities. Nevertheless, OFAC brought enforcement action against the US manager for an apparent violation of the ITR (which the OFAC stated was not egregious).

In reaching a settlement for potential civil liability, OFAC noted several aggravating factors in this case, including that the US adviser did not have an OFAC compliance program in place at the time of the violation and that the US adviser failed to exercise a minimal degree of caution or care in the conduct that led to the apparent violation of the ITR. The case appears to suggest that US asset managers may need to ensure that their non-US subadvisers are complying with OFAC regulations and to assess carefully their funds/clients exposure to sanctioned jurisdictions.

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