Title: Financial Restrictions (Iran) Order 2012	Impact Assessment (IA)
IA No:	Date: 20/11/2012
Lead department or agency: HM Treasury	Stage: Final
Other departments or agencies:	Source of intervention: Domestic
	Type of measure: Secondary legislation
	Contact for enquiries: Nanyamka Brown, 020 7270 6487, nanyamka.brown@hmtreasury.gsi.gov.uk

Summary: Intervention and Options

RPC Opinion: RPC Opinion Status

Cost of Preferred (or more likely) Option				
Total Net Present Value	**Business Net Present Value**	**Net cost to business per year** (EANCB on 2009 prices)	**In scope of One-In, One-Out?**	**Measure qualifies as**
£m	£m	£m	Yes	Zero Net Cost

What is the problem under consideration? Why is government intervention necessary?

Iran's continued proliferation-sensitive activities pose significant risks to the national interests of the UK. The International Atomic Energy Agency's August 2012 report set out their continued concerns over Iran's nuclear activities. In October 2012 the Financial Action Task Force (FATF) renewed its call for countries to protect their financial sectors from money laundering and terrorist financing risks emanating from Iran. On 21 November 2011 the Treasury gave a direction requiring the UK financial sector to cease all transactions and business relationships with Iranian banks. The direction ceases to have effect on 20 November 2012.

What are the policy objectives and the intended effects?

The policy objective is to minimise the threat to the UK's national interests posed by Iran's proliferation sensitive activities. The intended effect is to protect the UK financial sector from being unknowingly used to facilitate Iran's proliferation-related activities, through engaging with Iranian banks that may be engaged in activities to facilitate the development or production of nuclear weapons. This will restrict the options for international financial transactions available to Iran to support its activities of concern. Cutting Iranian banks off from a key financial centre will add to wider pressure on Iran to engage with the international community.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

1) Do nothing: the existing direction ceases to have effect on 20 November 2012. An EU-wide measure with similar effect is due to come into force later this year. If a new prohibition on transactions and business relationships between UK credit and financial institutions and Iranian banks is not made this option presents a risk that the UK financial sector could inadvertently be involved in transactions that relate to Iran's nuclear proliferation activities.

2) Give a new direction: this option enables the UK to mitigate the risks to the UK financial sector and comply with the FATF recommendation.

Will the policy be reviewed? It will be reviewed. **If applicable, set review date:** 11/2013

Does implementation go beyond minimum EU requirements?			Yes		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	**Micro** Yes	**< 20** Yes	**Small** Yes	**Medium** Yes	**Large** Yes
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)			**Traded:** N/A		**Non-traded:** N/A

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.

Signed by the responsible SELECT SIGNATORY: Lanoon Date: 13/11/12

Summary: Analysis & Evidence

Policy Option 1

Description: UK credit and financial institutions to cease business relationships and financial transactions with Iranian banks

FULL ECONOMIC ASSESSMENT

Price Base Year	PV Base Year	Time Period Years	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	**High:** Optional	**Best Estimate:**

COSTS (£m)	**Total Transition** (Constant Price) Years		**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	Optional		Optional	**Optional**
High	Optional		Optional	**Optional**
Best Estimate				

Description and scale of key monetised costs by 'main affected groups'

The terms of the direction will be the same as those currently in force under the 2011 Order and as a result we do not expect the UK financial sector to bear any additional costs in complying with the new direction. Indeed, HM Treasury will issue general licences to make clear to UK banks which low risk payments are exempt from the prohibition. We expect the administrative costs of implementing the direction to continue to be met by HM Treasury's existing resources.

Other key non-monetised costs by 'main affected groups'

It is likely that UK exporters will continue to experience difficulty securing trade finance arrangements for contracts with Iranian counterparts as UK banks will be unable to process necessary transactions. The value of UK exports to Iran fell by 43% from January to June 2012 as against the same period in 2011. However, this cannot be wholly attributed to the domestic Order as it was implemented alongside US and EU sanctions and HM Government does not support trade with Iran.

BENEFITS (£m)	**Total Transition** (Constant Price) Years		**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Low	Optional		Optional	**Optional**
High	Optional		Optional	**Optional**
Best Estimate				

Description and scale of key monetised benefits by 'main affected groups'

It has not been possible to calculate the financial impact of these proposals.

Other key non-monetised benefits by 'main affected groups'

The direction will protect the UK financial sector from unknowingly facilitating Iran's nuclear proliferation activities and thereby contributing to the threat Iran's nuclear programme poses to UK national security. Additionally, this will enable the UK to comply with FATF's recent calls for all countries to take steps to protect their financial sectors from money laundering and terrorist finance risks emanating from Iran.

Key assumptions/sensitivities/risks **Discount rate (%)**

The key assumption is that the Order will be necessary until such time as a similar EU measure comes into force. Any overlap between the Order and an EU wide measure would increase the implementation and compliance burden for UK credit and financial institutions. To mitigate this, we will consider whether to revoke the direction once the EU measure comes into force and communicate any changes to UK credit and financial institutions in a timely manner.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			**In scope of OIOO?**	**Measure qualifies as**
Costs:	**Benefits:**	**Net:**	Yes	Zero net cost

Evidence Base (for summary sheets)

Iran: background

Iran continues to fail to meet international calls for it to suspend its nuclear proliferation activities. The UK has consistently sought to pressure Iran to cease these activities through working with international partners and implementing international sanctions. International measures adopted by the UK include UN and EU sanctions designed to combat facilitation of the development of Iranian nuclear weapons by prohibiting certain activities and financial transactions.

Despite these measures, Iran has continued to develop its nuclear programme. The August 2012 Board Report of the International Atomic Energy Agency (IAEA) set out the Agency's serious concerns about *'the possible existence in Iran of undisclosed nuclear related activities involving military related organisations, including activities related to the development of a nuclear payload for a missile'*.

The report also referred to a previous IAEA report of 18 November 2011 which discussed activities carried out by Iran that are relevant to the development of a nuclear explosive device, including:

- Efforts to procure nuclear related and dual use equipment and materials by military related individuals and entities;

- Efforts to develop undeclared pathways for the production of nuclear material;

- The acquisition of nuclear weapons development information and documentation from a clandestine nuclear supply network; and

- Work on the development of an indigenous design of a nuclear weapon including the testing of components.

Further, on 5 November 2012, in his report to the UN General Assembly, the Director General of the IAEA stated that Iran is not cooperating with an investigation into their suspected development of nuclear weapons.

In addition to these concerns, on 19 October 2012, the Financial Action Task Force (FATF), the global standard setting body for anti-money laundering and combating the financing of terrorism, renewed its call for all jurisdictions to apply effective counter-measures to protect their financial sectors from money laundering and financing of terrorism risks emanating from Iran. The FATF stated that they remain particularly and exceptionally concerned about Iran's failure to address these concerns and the serious threat this poses to the integrity of the international financial system.

Rationale for intervention

UN and EU sanctions measures have brought significant pressure to bear on Iran's international procurement for its proliferation-sensitive activities. HM Government supports these efforts and continues to pursue multilateral efforts through international forums.

However, the risk posed by Iran's nuclear activities to the UK's national interests remains. Despite recent UN and EU sanctions, HM Government believes that further action is required.

It is the firm view of HM Government that it is in the UK's national interest to stop Iran from developing a nuclear weapon and that there would be serious consequences for UK interests should this goal not be met. A nuclear armed Iran could result in an arms race in the Middle East which could have a significant destabilising effect on the region. This could jeopardise UK interests in the region.

The FATF recently renewed its call for countries to apply effective measures to protect their financial sectors from money laundering and financing of terrorism risks emanating from Iran. One of FATF's recommendations for potential counter-measures is for countries to give special attention to business relationships and transactions with Iran, including Iranian companies and financial institutions.

Schedule 7 to the Counter-Terrorism Act gives HM Treasury the power to give a direction if one or more of the following conditions is met in relation to a country:

1. FATF has advised that measures should be taken in relation to the country because of the risk of terrorist financing or money laundering activities being carried on in the country, by the government of the country, or by persons resident or incorporated in the country.

2. HM Treasury reasonably believes there is a risk that terrorist financing or money laundering activities are being carried on in the country, by the government of the country, or by persons resident or incorporated in the country, and that this poses a significant risk to the national interests of the United Kingdom.

3. HM Treasury reasonably believes that: a) the development or production of nuclear, radiological, biological or chemical weapons in the country, or b) the doing in the country of anything that facilitates the development or production of any such weapons, poses a significant risk to the national interests of the United Kingdom.

In November 2011 two of the three conditions were met in relation to Iran and the UK government gave a direction under Schedule 7 to the Counter-Terrorism Act 2008.

In line with FATF recommendation 19(2)(e), which specifically calls for members to limit business relationships or financial transactions with identified countries or persons in those countries, the direction requires UK credit and financial institutions to cease business relationships and transactions with Iranian banks. This domestic measure goes further than UN and EU financial sanctions by seeking to comprehensively sever the connection between the UK and Iranian financial sectors.

The current direction ceases to have effect on 20 November 2012. On this date, HM Treasury will give a new direction to maintain the existing prohibition and the level of protection it offers to the UK's financial sector.

Policy objective

The policy objective remains to minimise the threat to the UK's national interests posed by Iran's nuclear proliferation activities and protect the UK financial sector from unwittingly being involved in transactions that facilitate the support of Iran's nuclear development programme.

Policy options

HM Treasury has considered the costs and benefits of two options:

Option 1 - Do nothing

The existing domestic direction ceases to have effect on 20 November 2012. A decision not to make a new Order will result in the prohibition on financial transactions and business relationships between UK credit and financial institutions and Iranian banks lapsing. This presents a risk that the UK financial sector could be involved in transactions relating to Iran's nuclear programme.

Costs

There are no direct financial costs associated with this option. However, engagement with the Iranian finance sector increases the possibility of UK financial and credit institutions being unwittingly used to facilitate payments in support of Iran's nuclear development programme. The Order lapsing could expose UK financial and credit institutions to this risk.

Additionally, there could be a significant foreign policy impact in allowing the measure to lapse as it would send an unfavourable message to the UK's international partners at a time when the UK has committed to working with international partners to maintain pressure on Iran.

This option would not require additional resource from HM Treasury.

Benefits

As a similar EU measure is expected to come into force later this year, this option reduces the possible challenge for UK credit and financial institutions of complying with two similar but not identical financial sanctions frameworks.

However, it is not certain when the EU measure will be implemented because an EU Regulation is required to implement the measure and this is currently under negotiation. Once the domestic Order expires, the UK's financial sector could be exposed to unwitting involvement in transactions relating to Iran's nuclear development programme.

Option 2 - Give a new direction

This option involves giving a new direction that would cease to have effect after 12 months. However, the Order could be revoked once the EU measure comes into force later this year. This is the preferred option.

Costs

This option would not carry any direct additional financial costs for the UK financial sector or HM Government.

It is likely that UK exporters will continue to experience difficulty securing trade finance arrangements for contracts with Iranian counterparts. The value of UK exports to Iran fell by 43% from January to June 2012 compared to the same period in 2011. However, it is not possible to quantify what proportion of this is attributable to the domestic Order as it has been implemented alongside existing US and EU sanctions that impact upon trade with Iran.

For example, EU companies are already subject to a variety of restrictions on trade with Iran, including export controls, investment restrictions, sanctions on named Iranian entities and the requirement to seek a licence when transferring large sums of money to or from an Iranian person, entity or body. Any administrative costs to UK businesses are expected to remain when the EU measure comes into force.

It is also expected that general caution and HM Government's policy of not encouraging or supporting trade with Iran will continue to affect business between the UK and Iran.

Benefits

By continuing to comprehensively block Iran's access to the UK finance sector, the new direction would continue to restrict the options for international financial transactions available to Iran to support its activities of proliferation concern. Iranian banks will not be able to undertake transactions involving UK financial and credit institutions, which will narrow the options available to Iran for processing international financial transactions.

Administrative burden

UK banks already have relevant systems and processes in place to ensure compliance with the existing direction. As the new direction would amount to the maintenance of the current status quo, UK banks would not need to bear any further compliance related costs.

Further, HM Treasury will seek to reduce the existing administrative burden placed on UK banks obliged to comply with the direction by issuing new general licences which provide exemptions for specific categories of low risk payment (i.e. humanitarian payments and personal remittances). HM Treasury will seek to better clarify these exemptions and reflect feedback from officials at the British Bankers' Association on the general licences issued under the existing direction.

The administrative burden of implementing the new direction will continue to be met by HM Treasury; there is no requirement for additional resource.

Wider impacts

Environmental
No environmental impact has been identified.

Social
The direction may have a social impact on Iranian citizens as it may affect the completion of contracts for the transfer of essential funds or goods. However, alongside the direction, HM Treasury will issue general licences that provide exemptions for specific low risk transactions, such as transfers for humanitarian purposes or activities and personal remittances. These general licences will allow essential transactions to continue. This can include the transfer of funds for medical equipment or food and payments from Iran to Iranian nationals studying in the UK.

Economic
The potential knock-on economic impact is restricted to UK trade with Iran. However, HM Government does not encourage or seek to support trade with Iran and the impact will be limited to those few businesses and micro businesses that trade with Iran.

Further, it is not possible to quantify the exact impact the direction will have on UK businesses' trade with Iran as it will be enforced alongside existing US and EU sanctions that also restrict transactions relating to trade between the EU and Iran.

Finally, a new EU wide measure is expected to come into force later this year that prohibits EU credit and financial institutions from undertaking transactions with Iranian banks. Any impact on UK trade is expected to continue once the EU measure comes into force.

Micro-businesses

Micro-businesses will not be exempt from the new Order. The direction will apply to small businesses that are credit and financial institutions with a number of exclusions for certain firms that have only limited, occasional or incidental financial activities. The direction will apply to small businesses because the intended effect of the Order, to protect the UK financial sector from unwitting involvement in the facilitation of activities of proliferation concern, applies across the financial sector, and not only to institutions exceeding a certain size.

To minimise the impact of the direction of firms employing up to 20 people the HM Treasury will work with the financial sector on the requirements for complying with the Order. The Treasury have provided detailed guidance to assist businesses in complying with these measures.

During the period that the existing direction has been in effect, officials have engaged in an ongoing dialogue with the financial sector about the implementation of the measure and during that time have not been informed of any particular problems posed to small credit and financial institutions as a result of the requirements.

Risks and assumptions
On 15 October 2012, the EU Foreign Affairs Council agreed to introduce an EU wide restriction, similar to the UK direction. The key assumption is that, while it is necessary to ensure that the UK financial sector continues to be protected once the existing direction ceases to have effect, the new direction may only be necessary until such time as a similar EU measure comes into force.

Any overlap between the Order and an EU wide measure would increase the implementation and compliance burden for UK credit and financial institutions. To mitigate this, we will consider revoking the direction once the EU measure comes into force and communicate any changes to UK credit and financial institutions in a timely manner.

Rationale for analysis
As the new direction replicates the existing direction, the assessment of its environmental, social and economic impact is based on the impact of the existing direction since its introduction in November 2011.

HM Treasury has used information from the IAEA's reports on Iran and the FATF's public statements about Iran's financial sector to assess the risks posed by Iran. Additionally, HM Treasury has sought informal feedback on the existing Order from officials at the British Bankers' Association (BBA) and drawn on its experience of implementing the existing Order.

Summary and preferred option with description of implementation plan
IAEA reports continue to show that Iran still has the capacity to develop its nuclear programme. Government intervention is deemed necessary to mitigate the risk that the UK financial sector could unwittingly be used to facilitate payments in support of Iran's nuclear development programme.

On 21 November 2011, HM Treasury gave a direction under Schedule 7 to the Counter-Terrorism Act 2008 which prohibited UK credit and financial institutions from entering into new or continuing existing business relationships and transactions with Iranian banks. This direction will expire on 20 November 2012.

On 21 November 2012, HM Treasury will give a new direction to ensure that the prohibition, and the protection it offers to the UK financial sector, is maintained.

Under the new direction, HM Treasury will issue general licences which will serve to clarify the necessary low risk transactions that are exempt from the direction thereby reducing the administrative burden on UK credit and financial institutions.

Implementation
The new direction will be made and laid before Parliament on 20 November 2012 and will come into force on 21 November 2012. HM Treasury will update guidance on its public website and issue new general licences which exempt certain low risk transactions with Iranian banks. This information will also be circulated to subscribers to HM Treasury's financial sanctions email alerts. Last year, the Department for Business Innovation and Skills (BIS) issued a notice to UK exporters setting out the changes and expected impact on trade with Iran. HM Treasury is liaising with BIS to issue a similar notice when the new direction is made.

An EU wide measure similar to the UK's direction is expected to come into force later this year. Once the EU measure is in effect, HM Treasury will consider whether to revoke the direction.