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# The Dual Impact of International Sanctions and FATF Requirements on the Independence and Effectiveness of Government Financial Supervision in Iran's Public Law System

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## ABSTRACT

Financial supervision is a core function of the modern administrative state, ensuring legality, accountability, transparency, and the proper management of public resources. In Iran, this function operates under sustained external regulatory pressure arising from international sanctions and the requirements of the Financial Action Task Force. This article examines how the simultaneous presence of these two external forces reshapes the independence and effectiveness of government financial supervision within Iran's public law system. Using a scientific narrative review and descriptive legal analysis, the study explores the structural consequences of sanctions for domestic financial governance, including restricted access to financial data, limited international cooperation, institutional distortion, and the expansion of informal financial mechanisms. It also analyzes FATF standards as a normative and regulatory framework that promotes transparency, risk-based supervision, and enhanced detection capabilities while imposing compliance costs and influencing domestic regulatory priorities. The findings demonstrate that sanctions and FATF obligations operate through opposing yet interacting logics: sanctions encourage opacity, emergency governance, and centralization, whereas FATF requirements incentivize formalization, disclosure, and procedural oversight. Together, they generate a complex regulatory environment in which supervisory institutions may gain technical tools but lose functional autonomy. The article argues that supervisory independence in this context cannot be assessed solely on the basis of formal legal status, as functional independence is deeply shaped by external constraints and resource limitations. Ultimately, the study highlights the need for a public law perspective that recognizes financial supervision as a dynamic institution situated between sovereignty, global regulatory integration, and domestic accountability.

**Keywords:** Financial supervision; International sanctions; FATF; Public law; Regulatory autonomy; Iran

## Introduction

Financial supervision constitutes one of the most essential functions of the modern administrative state, operating at the intersection of legality, accountability, and economic governance. In public law, financial supervision is not



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merely a technical or managerial activity but a constitutional and institutional mechanism through which the state ensures the lawful allocation of public resources, prevents misuse of public funds, and preserves public trust in governmental action. The supervision of public revenues and expenditures, oversight of financial institutions, and enforcement of transparency obligations together form a core infrastructure for budgetary discipline and anti-corruption policy. In legal systems grounded in administrative law, the independence and effectiveness of financial supervision are therefore treated as foundational principles rather than discretionary policy choices. When these principles are compromised, the consequences extend beyond fiscal inefficiency to the erosion of the rule of law and democratic accountability.

Within this framework, financial supervision performs several interrelated functions. At the most basic level, it serves budgetary control by monitoring compliance with approved budgets and preventing unauthorized expenditures. This function is closely connected to parliamentary oversight and the constitutional allocation of fiscal powers. At a second level, financial supervision plays a preventive and corrective role in combating corruption and financial misconduct by detecting irregularities and enforcing sanctions where necessary. The effectiveness of this role depends on the capacity of supervisory institutions to act independently from political pressure and economic interests. At a third level, financial supervision advances transparency and accountability by generating reliable financial information, enabling public scrutiny, and facilitating judicial or administrative review. These functions are mutually reinforcing, and their realization requires a stable legal environment in which supervisory bodies possess both formal autonomy and practical operational capacity. In public law theory, the weakening of any of these elements is understood as a systemic risk rather than an isolated administrative failure.

Iran's financial supervisory system operates within a complex domestic and international environment that distinguishes it from many comparable legal orders. On the one hand, the Iranian public law system formally recognizes the importance of state oversight over public finances, banking activities, and economic transactions. On the other hand, Iran occupies a contested position within the global financial and regulatory order, shaped by prolonged exposure to international sanctions and ongoing scrutiny under international financial standards. This dual condition places Iranian supervisory institutions under continuous external pressure while simultaneously constraining their access to international cooperation mechanisms and financial infrastructures. Studies examining Iran's economic governance under sanctions have shown that external restrictions significantly alter institutional behavior and regulatory priorities, often forcing states to adopt adaptive or informal mechanisms to maintain economic functionality (1). These adaptations, while sometimes necessary, can have unintended consequences for the coherence and transparency of financial supervision.

International sanctions constitute the first major source of external regulatory pressure affecting financial supervision in Iran. Unlike temporary or sector-specific measures, sanctions imposed on Iran have been extensive, long-term, and deeply embedded in the financial and banking sectors. Research on the structural effects of sanctions demonstrates that they disrupt normal financial flows, restrict access to international payment systems, and increase transaction costs across the economy (2). As a result, domestic financial institutions and supervisory bodies are compelled to operate under conditions of uncertainty and isolation. The legal implications of this situation are profound, as sanctions not only limit economic capacity but also reshape the institutional environment in which financial supervision is exercised. The emergence of parallel financial channels and non-transparent mechanisms to bypass restrictions has been identified as a recurring outcome of prolonged sanctions regimes (3). These

developments directly challenge the principles of transparency and accountability that financial supervision is meant to uphold.

In addition to sanctions, Iran faces sustained pressure to align its financial regulatory framework with the standards promoted by the Financial Action Task Force. FATF recommendations, although formally categorized as soft law, function in practice as quasi-binding norms due to their integration into global financial compliance mechanisms. The requirement to implement anti-money laundering and counter-terrorist financing standards has significant implications for domestic legal systems, particularly in states already subject to international financial restrictions. Scholarly analyses of FATF implementation in Iran emphasize that compliance is not merely a technical matter but a politically and legally sensitive process that affects legislative autonomy and regulatory priorities (4). The obligation to harmonize domestic laws with externally defined standards introduces a new dimension of regulatory dependency that intersects with existing sanction-related constraints.

The interaction between sanctions and FATF requirements creates a compounded regulatory environment in which financial supervision is simultaneously expanded and constrained. On the one hand, FATF standards promote risk-based supervision, improved financial intelligence, and stronger monitoring mechanisms, all of which can enhance the technical effectiveness of supervisory institutions. On the other hand, the implementation of these standards under conditions of sanctions raises concerns about selective compliance, increased administrative burdens, and potential exposure of sensitive financial data. Legal studies have highlighted that political and legal obstacles often impede the full realization of FATF recommendations in Iran, resulting in partial or fragmented implementation (5). This fragmented approach can undermine the coherence of financial supervision and create legal uncertainty for both regulators and regulated entities.

The dual impact of sanctions and FATF requirements must also be understood in relation to the concept of supervisory independence. Independence in public law is not limited to formal institutional separation but encompasses functional autonomy, resource adequacy, and protection from undue influence. Under sanction regimes, supervisory bodies may experience increased centralization of decision-making as governments seek to manage economic risks and maintain control over limited financial resources. Such centralization, while potentially enhancing short-term efficiency, can weaken institutional checks and balances. Empirical research on the effects of sanctions on economic governance indicates that prolonged external pressure often leads to adaptive resilience strategies that prioritize survival over institutional refinement (1). In this context, the independence of financial supervision may be formally preserved while substantively eroded.

The legal literature addressing sanctions in the Iranian context also points to broader normative concerns, including the relationship between sanctions and human rights standards. Although financial supervision is primarily an economic and administrative function, its effectiveness has indirect implications for social justice and economic equality. Sanctions have been shown to exacerbate income inequality and distort public spending priorities, thereby increasing the stakes of effective financial oversight (6). When supervisory mechanisms are weakened, the capacity of the state to mitigate these adverse effects through targeted fiscal policy is correspondingly reduced. This linkage underscores the public law dimension of financial supervision as a mechanism for protecting collective interests rather than merely enforcing technical compliance.

Against this background, the central research question of this article concerns the manner in which simultaneous exposure to international sanctions and FATF obligations reshapes the autonomy and performance of state financial supervision in Iran's public law system. Rather than treating sanctions and FATF standards as separate or

sequential phenomena, the article approaches them as interacting forces that jointly influence legal structures and institutional behavior. Existing studies have often focused on either the economic impact of sanctions (7) or the legal challenges of FATF compliance (8), but fewer analyses have examined their combined effect on the foundational principles of financial supervision. This gap in the literature warrants a comprehensive descriptive and analytical examination grounded in public law theory.

Methodologically, the article adopts a scientific narrative review approach combined with descriptive legal analysis. This method is particularly suited to examining complex regulatory environments in which legal norms, institutional practices, and external pressures intersect. By synthesizing doctrinal legal analyses, policy-oriented studies, and empirical findings from the existing literature, the narrative review enables a holistic understanding of how financial supervision evolves under external constraints. The descriptive analytical method allows for systematic identification of legal patterns and institutional responses without imposing a prescriptive or reform-oriented agenda. This approach is consistent with prior public law scholarship addressing sanctions and regulatory compliance in Iran, which emphasizes contextual analysis over normative generalization.

### **Conceptual and Legal Framework of Financial Supervision in Public Law**

Financial supervision in public law refers to the set of legal norms, institutional arrangements, and control mechanisms through which the state monitors, regulates, and evaluates the management of public resources and financial activities. Unlike private-sector auditing or market-based oversight, financial supervision in public law is inherently normative and authority-based, deriving its legitimacy from constitutional principles and statutory mandates. It encompasses the supervision of public expenditures, revenues, state-owned enterprises, banking systems, and financial transactions that bear upon the public interest. In doctrinal terms, financial supervision is closely linked to the principle of legality, as it ensures that financial actions by public authorities conform to the law and approved budgets. Comparative public law scholarship emphasizes that effective financial supervision is indispensable for maintaining fiscal discipline and preventing systemic misuse of public funds, particularly in states with complex administrative structures (1).

A fundamental distinction in the theory of financial supervision concerns the differentiation between internal and external supervision. Internal financial supervision refers to control mechanisms embedded within executive and administrative bodies, such as internal audit units, compliance departments, and ministerial oversight structures. These mechanisms are designed to provide continuous monitoring and early detection of irregularities within the administrative apparatus itself. External financial supervision, by contrast, is exercised by institutions structurally independent from the executive branch, such as supreme audit institutions, parliamentary oversight committees, and, in some systems, judicial bodies. External supervision serves as a corrective and accountability-oriented function, ensuring that internal controls do not become instruments of self-protection or political concealment. Legal analyses of financial governance in Iran indicate that both forms of supervision formally exist within the legal system, but their effectiveness depends on the degree of institutional autonomy and access to accurate financial information (8).

The operation of both internal and external financial supervision is governed by a set of core legal principles that define their scope and legitimacy. Independence is widely regarded as the most critical of these principles, as supervisory bodies must be insulated from political interference and economic pressure in order to perform their functions objectively. Independence, however, is not an absolute concept; it must be balanced against the principle

of legality, which requires that supervisory actions remain within the boundaries of statutory authority. Proportionality further constrains supervisory intervention by requiring that oversight measures be appropriate and necessary in relation to the objectives pursued. Accountability ensures that supervisory bodies themselves remain subject to review and justification, preventing the concentration of unchecked power. Effectiveness, finally, relates to the practical capacity of supervisory institutions to achieve their legally defined goals, including the detection of violations and enforcement of corrective measures. These principles collectively form the normative backbone of financial supervision in public law (5).

In the Iranian public law context, the institutional architecture of financial supervision reflects a combination of constitutional mandates and statutory developments. The Supreme Audit Institution occupies a central position in external financial oversight, tasked with examining the legality and efficiency of public expenditures and reporting its findings to representative bodies. This institution embodies the classical model of parliamentary financial supervision, which seeks to align fiscal control with democratic accountability. Alongside it, the Central Bank plays a crucial role in supervising monetary policy, banking operations, and financial stability. Although the Central Bank's mandate includes regulatory and supervisory functions, its degree of independence has been a subject of ongoing legal and scholarly debate, particularly in light of economic pressures and policy coordination requirements (4). The Ministry of Economic Affairs and Finance further contributes to financial supervision through policy formulation, fiscal management, and oversight of state-owned assets.

In recent years, specialized anti-money laundering and counter-terrorist financing units have assumed increasing importance within Iran's financial supervisory framework. These units are responsible for monitoring suspicious transactions, collecting financial intelligence, and coordinating with law enforcement and regulatory authorities. Their establishment reflects the growing influence of international financial norms on domestic legal structures. Legal scholarship has observed that the integration of such units into the existing supervisory architecture raises questions about jurisdictional overlap, information sharing, and procedural safeguards (8). The effectiveness of these bodies depends not only on their formal mandates but also on their ability to operate across institutional boundaries and access reliable financial data.

The relationship between financial supervision and state sovereignty represents a central conceptual issue in public law. Sovereignty traditionally implies the state's exclusive authority to regulate its internal affairs, including fiscal and financial governance. However, globalization and the expansion of international financial norms have progressively redefined this notion by introducing external standards that influence domestic regulation. International sanctions and FATF recommendations exemplify this shift, as they impose constraints and expectations that transcend national legal systems. Scholarly analyses of Iran's regulatory environment emphasize that external financial norms can limit regulatory autonomy by conditioning access to international markets on compliance with specific standards (3). This dynamic creates a tension between the formal preservation of sovereignty and the practical necessity of regulatory alignment.

Regulatory autonomy in this context should be understood as the capacity of domestic institutions to design, implement, and enforce financial rules in accordance with national priorities and legal traditions. While international norms may enhance technical standards and promote best practices, they can also narrow the range of policy options available to domestic regulators. Studies examining FATF-related reforms in Iran suggest that legal adaptation often occurs under conditions of asymmetrical power, where non-compliance carries significant

economic and reputational costs (4). As a result, financial supervision becomes a site of negotiation between domestic legal principles and external regulatory expectations, rather than an exclusively internal matter.

A critical analytical distinction in assessing supervisory autonomy is that between formal independence and functional independence. Formal independence refers to the legal status of supervisory bodies as defined by constitutional or statutory provisions, including appointment procedures, tenure security, and reporting obligations. Functional independence, by contrast, concerns the practical ability of these bodies to perform their tasks without undue influence, encompassing factors such as budgetary autonomy, access to information, technical expertise, and enforcement capacity. Legal research on Iranian supervisory institutions indicates that formal independence may exist on paper while functional independence is constrained by economic conditions, administrative hierarchies, or political considerations (5). This discrepancy is particularly pronounced under conditions of external pressure, where supervisory priorities may be informally reshaped to accommodate broader policy objectives.

The distinction between formal and functional independence is especially relevant in sanction-affected economies. Sanctions can indirectly undermine functional independence by restricting access to international financial systems, limiting technological resources, and increasing reliance on centralized decision-making. Research on the economic effects of sanctions demonstrates that such constraints often lead to adaptive governance practices that prioritize short-term stability over institutional autonomy (1). In this environment, supervisory bodies may retain their legal mandates but lack the operational capacity to enforce them effectively. This phenomenon illustrates why assessments of financial supervision must move beyond formal legal analysis to consider institutional practice and context.

The conceptual framework outlined above provides the analytical lens through which the subsequent examination of sanctions and FATF obligations will be conducted. By grounding the analysis in public law principles and institutional theory, it becomes possible to evaluate not only whether financial supervision complies with external standards, but also how such compliance affects the internal coherence and legitimacy of supervisory institutions. Existing literature on sanctions and regulatory compliance in Iran often addresses economic outcomes or political implications in isolation (9), but a public law perspective reveals deeper structural transformations in governance. Understanding these transformations requires careful attention to the interplay between legal norms, institutional design, and external regulatory forces.

Ultimately, the conceptual and legal framework of financial supervision in public law underscores that independence and effectiveness are not static attributes but dynamic qualities shaped by legal choices and external conditions. In the Iranian context, financial supervision operates within a layered system of domestic institutions and international constraints, each exerting influence over regulatory outcomes. By clarifying the doctrinal foundations and institutional architecture of financial supervision, this section establishes a basis for analyzing how sanctions and FATF requirements alter the balance between sovereignty, regulatory autonomy, and effective oversight in practice.

### **Impact of International Sanctions on Government Financial Supervision**

International sanctions constitute a structural external factor that profoundly shapes the legal and institutional environment of government financial supervision in Iran. Unlike episodic regulatory interventions, sanctions affecting Iran have been persistent, multi-layered, and increasingly sophisticated, encompassing financial, banking, trade-related, and secondary sanctions that extend beyond direct state-to-state measures. Financial and banking

sanctions have targeted access to international payment systems, correspondent banking relationships, and foreign exchange operations, thereby constraining the ordinary channels through which financial supervision relies on transparent and traceable transactions. Analyses of Iran under successive sanction regimes demonstrate that these measures operate not only as economic constraints but also as regulatory disruptors that alter institutional behavior across the financial sector (2). Secondary sanctions, in particular, amplify these effects by deterring third-party states and private actors from engaging with Iranian financial institutions, effectively internationalizing the sanction regime and deepening its impact on domestic supervisory capacity (3).

From a public law perspective, the legal consequences of sanctions for domestic financial governance are both direct and indirect. Directly, sanctions limit the applicability and enforcement of ordinary financial regulations by rendering certain transactions legally or practically impossible. Indirectly, they necessitate adaptive legal and administrative responses that may deviate from established supervisory norms. Research examining the impact of sanctions on Iran's economic sectors illustrates that regulatory compliance increasingly occurs under conditions of legal uncertainty, where domestic law must be interpreted and applied in light of external prohibitions (1). This environment complicates the task of supervisory bodies, which are required to enforce legality while operating within a constrained and often fragmented financial system.

One of the most significant effects of sanctions on financial supervision concerns access to financial data. Effective supervision depends on the availability of accurate, comprehensive, and timely financial information, including transaction records, cross-border payment data, and banking disclosures. Sanctions disrupt these information flows by excluding Iranian institutions from international reporting networks and financial intelligence-sharing mechanisms. Studies focusing on sanction-induced isolation indicate that supervisory authorities face increased difficulty in verifying transaction authenticity and tracing financial flows (10). This informational deficit undermines risk assessment, weakens audit processes, and reduces the capacity to detect financial irregularities, thereby directly impairing supervisory effectiveness.

International cooperation is another critical dimension affected by sanctions. Financial supervision increasingly relies on cross-border regulatory collaboration, mutual legal assistance, and participation in international standard-setting bodies. Sanctions constrain Iran's ability to engage in such cooperation, limiting access to best practices and reducing opportunities for coordinated enforcement. Legal analyses of sanctions regimes emphasize that exclusion from international financial governance structures not only isolates domestic institutions but also reinforces asymmetries in regulatory power (11). As a result, Iranian supervisory bodies operate in relative isolation, compelled to develop internal mechanisms to compensate for the absence of external support.

Supervisory enforcement is similarly affected by sanction-induced constraints. Enforcement actions, such as penalties, corrective measures, or institutional reforms, often require coordination with financial institutions and, in some cases, international partners. Sanctions restrict these interactions, increasing the cost and complexity of enforcement. Empirical research on sanction impacts highlights that enforcement priorities may shift toward maintaining system stability rather than strict regulatory compliance (1). This shift reflects a pragmatic response to external pressure but raises concerns about the dilution of rule-based supervision.

Institutional distortions constitute one of the most enduring consequences of prolonged sanctions. When formal financial channels are restricted, economic actors often resort to parallel or informal mechanisms to conduct transactions. These include alternative payment arrangements, barter systems, and non-transparent intermediaries that operate outside the scope of ordinary supervision. Studies examining Iran's sanction-affected economy

document the expansion of such parallel channels and their implications for regulatory oversight (7). From a public law standpoint, the proliferation of informal mechanisms represents a structural challenge to financial supervision, as supervisory bodies lack jurisdictional reach and informational access over these activities.

Opacity is a related and particularly problematic outcome of sanction-induced institutional distortion. Financial supervision is predicated on transparency, disclosure, and traceability, yet sanctions incentivize practices that obscure transaction details to avoid detection or restriction. Legal scholarship addressing sanctions and domestic governance underscores that opacity becomes a rational response to external constraints, even as it undermines internal accountability (9). This dynamic places supervisory institutions in a paradoxical position: they are tasked with enforcing transparency in a system structurally oriented toward concealment.

The emergence of emergency governance frameworks further complicates the landscape of financial supervision under sanctions. Emergency governance refers to the adoption of exceptional legal and administrative measures designed to manage crisis conditions and preserve economic functionality. In the Iranian context, sanctions have contributed to the normalization of such measures, including discretionary fiscal interventions and centralized financial decision-making. Research on sanction-driven governance adaptations suggests that these measures often prioritize expediency over procedural regularity (10). While emergency governance may enhance short-term resilience, it can weaken the normative foundations of financial supervision by sidelining established rules and oversight mechanisms.

This tension between emergency governance and rule-based supervision has significant implications for public law. Rule-based supervision depends on predictability, procedural safeguards, and adherence to predefined legal standards. Emergency measures, by contrast, tend to rely on broad discretionary authority and flexible interpretation of legal norms. Legal analyses of sanctions in Iran highlight that prolonged reliance on emergency frameworks risks entrenching exceptional practices as permanent features of governance (12). Such entrenchment blurs the boundary between lawful discretion and arbitrary intervention, complicating the role of supervisory institutions tasked with upholding legality.

Paradoxically, sanctions may simultaneously weaken supervisory effectiveness while increasing the degree of state control over financial activities. On the one hand, sanctions reduce the capacity of supervisory bodies to monitor and enforce compliance due to informational deficits, institutional distortions, and limited cooperation. On the other hand, the state often responds to external pressure by centralizing financial authority and expanding regulatory reach to manage scarce resources. Studies on Iran's sanction-induced governance strategies indicate that state intervention in financial markets intensifies under external constraints (13). This intensification can create an appearance of strengthened supervision while masking underlying weaknesses in institutional autonomy and effectiveness.

The expansion of state control under sanctions also raises questions about the independence of supervisory institutions. Increased centralization may lead to closer alignment between supervisory bodies and executive priorities, reducing the space for independent judgment. Legal research examining the implementation of sanctions within domestic legal systems suggests that supervisory discretion is often reoriented toward policy objectives defined by crisis management rather than regulatory compliance (5). This reorientation can compromise the impartiality of supervision and weaken public trust in oversight mechanisms.

Moreover, the distributive consequences of sanctions further complicate the task of financial supervision. Sanctions have been shown to exacerbate economic inequalities and distort public spending priorities, increasing

the demand for effective oversight to protect vulnerable populations (6). When supervisory institutions are weakened, the state's ability to ensure equitable allocation of resources and prevent misuse of public funds is diminished. This outcome underscores the broader social implications of sanction-induced constraints on financial supervision, extending beyond technical regulatory concerns.

Legal analyses of sanctions from an international law perspective emphasize that while sanctions are formally directed at state behavior, their domestic effects are mediated through legal and institutional structures (11). In the Iranian context, this mediation occurs through the financial supervisory system, which absorbs and redistributes the pressures generated by external restrictions. Understanding sanctions as structural constraints rather than episodic political tools allows for a more nuanced assessment of their impact on public law institutions.

In sum, international sanctions reshape government financial supervision in Iran by imposing structural constraints that affect legal norms, institutional capacity, and supervisory practice. They restrict access to financial data and international cooperation, distort institutional arrangements through the proliferation of informal mechanisms, and generate a persistent tension between emergency governance and rule-based oversight. While sanctions may prompt increased state control over financial activities, this control often comes at the cost of supervisory effectiveness and independence. Recognizing these dynamics is essential for evaluating the broader implications of sanctions for public law and for understanding how external regulatory pressure reconfigures the foundations of financial supervision.

### **FATF Requirements and Their Implications for Supervisory Independence and Efficiency**

The Financial Action Task Force has emerged as one of the most influential actors in shaping contemporary financial regulation, particularly in the areas of anti-money laundering and counter-terrorist financing. From a legal perspective, FATF standards occupy an ambiguous position between binding international law and voluntary regulatory guidance. Formally, FATF recommendations are categorized as soft law, lacking direct treaty status or compulsory enforcement mechanisms. Nevertheless, their practical effect renders them quasi-binding, as compliance with FATF standards has become a prerequisite for meaningful participation in the global financial system. Legal analyses of FATF implementation emphasize that states failing to align their domestic frameworks with these standards face reputational harm, increased transaction costs, and restrictions on international financial engagement (4). This dual character of FATF norms, combining formal non-binding status with substantive coercive effects, makes them a particularly significant external influence on domestic financial supervision.

The normative reach of FATF standards extends beyond technical compliance to the internal organization and priorities of supervisory institutions. FATF recommendations require states to establish comprehensive legal frameworks for identifying, assessing, and mitigating financial risks associated with money laundering and terrorist financing. These requirements directly implicate state supervisory bodies by mandating systematic monitoring, information collection, and enforcement activities. Legal scholarship notes that FATF's risk-based approach shifts supervisory focus from formal rule compliance to continuous assessment of financial behavior and institutional vulnerability (8). This shift represents a substantial transformation in supervisory logic, privileging preventive governance and anticipatory control over ex post enforcement.

Among the core FATF requirements relevant to state supervision are obligations related to transparency, reporting, and customer due diligence. Financial institutions are required to implement know-your-customer procedures, maintain detailed transaction records, and report suspicious activities to designated authorities. For

supervisory bodies, these obligations translate into expanded oversight responsibilities, including the supervision of compliance systems within financial institutions and the evaluation of reporting accuracy. Studies examining FATF-related reforms in Iran highlight that these requirements necessitate significant legal and administrative adjustments, particularly in aligning existing banking and financial regulations with international expectations (5). The expansion of reporting and transparency obligations enhances the informational basis of supervision but simultaneously increases regulatory complexity.

Domestic legal reforms undertaken in response to FATF standards have had a notable impact on Iran's institutional landscape. Legislative initiatives aimed at strengthening anti-money laundering frameworks and establishing specialized financial intelligence units reflect attempts to demonstrate regulatory alignment. These reforms often involve reallocating supervisory authority, redefining institutional mandates, and introducing new compliance obligations for both public and private actors. Legal analyses indicate that while such reforms contribute to the formal modernization of financial supervision, their implementation is shaped by political, economic, and institutional constraints (4). As a result, the effectiveness of these reforms depends not only on legislative enactment but also on administrative capacity and inter-institutional coordination.

Institutional restructuring associated with FATF compliance also affects the balance of power within the supervisory system. The creation or empowerment of financial intelligence units centralizes the collection and analysis of financial data, potentially enhancing detection capabilities. At the same time, this centralization raises questions about accountability, data protection, and oversight of supervisory authorities themselves. Research on Iran's experience with FATF-related institutional reforms suggests that jurisdictional overlap and unclear lines of authority can undermine supervisory coherence (8). These challenges illustrate the difficulty of integrating international standards into existing legal frameworks without generating institutional friction.

Despite these complexities, FATF obligations offer tangible benefits for supervisory efficiency. Standardization of regulatory practices facilitates consistency in supervision and reduces ambiguity for regulated entities. The adoption of risk-based supervision enables supervisory bodies to allocate resources more effectively by focusing on high-risk sectors and activities. Empirical studies of sanction-affected economies indicate that enhanced risk assessment mechanisms can improve the detection of financial irregularities even under constrained conditions (1). By promoting analytical tools and structured reporting systems, FATF standards contribute to the technical modernization of financial supervision.

Improved detection mechanisms represent another significant advantage of FATF compliance. Enhanced reporting obligations and data analysis capacities enable supervisory bodies to identify suspicious patterns and intervene at earlier stages. This preventive dimension aligns with contemporary public law approaches that emphasize proactive governance and harm prevention. Legal scholarship highlights that the effectiveness of such mechanisms depends on the integrity of data collection processes and the independence of supervisory authorities responsible for analysis and enforcement (5). Where these conditions are met, FATF-inspired reforms can strengthen the substantive effectiveness of financial supervision.

At the same time, FATF requirements introduce substantial risks for supervisory independence and regulatory autonomy. One of the most frequently cited concerns relates to the external influence exerted over domestic regulatory priorities. Compliance with FATF standards often necessitates prioritizing specific regulatory objectives, such as counter-terrorist financing, even when domestic risk assessments might suggest alternative priorities. Legal analyses of FATF implementation in Iran emphasize that such externally driven prioritization can displace locally

determined policy agendas and constrain legislative discretion (4). This dynamic raises normative questions about the extent to which regulatory autonomy is preserved under conditions of compliance-driven reform.

Compliance costs constitute another significant challenge associated with FATF obligations. Implementing and maintaining complex reporting systems, training supervisory personnel, and upgrading technological infrastructure impose substantial financial and administrative burdens. These costs are particularly pronounced in sanction-affected economies, where access to technology and international expertise is limited. Studies examining the economic effects of sanctions suggest that compliance-related expenditures may divert resources from other supervisory functions, potentially undermining overall effectiveness (7). From a public law perspective, the allocation of scarce resources toward externally mandated objectives can distort the internal balance of supervisory priorities.

Concerns about the erosion of sovereignty further complicate the relationship between FATF standards and domestic supervision. While FATF does not formally override national law, its evaluative mechanisms and blacklisting practices exert considerable pressure on states to conform. Legal scholarship argues that this pressure effectively constrains sovereign regulatory choices by linking compliance to access to international financial networks (3). In the Iranian context, where sanctions already limit regulatory autonomy, FATF compliance adds an additional layer of external constraint that affects both the content and implementation of financial supervision.

The interaction between FATF compliance and existing sanction regimes represents a particularly complex dimension of regulatory governance. Sanctions restrict Iran's integration into the global financial system, while FATF standards condition such integration on regulatory alignment. This interaction creates a paradoxical situation in which compliance efforts may not yield immediate economic benefits due to persistent sanctions. Legal analyses indicate that this misalignment can generate domestic skepticism regarding the utility of FATF reforms and complicate their political legitimacy (5). For supervisory institutions, this environment increases uncertainty and complicates strategic planning.

Moreover, FATF compliance under sanction conditions raises concerns about information asymmetry and exposure. Enhanced transparency and reporting obligations may increase the visibility of financial data without corresponding access to international cooperation mechanisms. Studies on sanction-induced isolation suggest that such asymmetry can expose domestic institutions to scrutiny without delivering reciprocal benefits in terms of financial integration (2). This imbalance has implications for supervisory independence, as institutions may face heightened external expectations without adequate support or protection.

The dual impact of FATF obligations on supervisory efficiency and autonomy is thus characterized by inherent tension. On one hand, FATF standards promote modern supervisory techniques, improve data-driven oversight, and align domestic practices with international norms. On the other hand, they reshape regulatory priorities, impose compliance costs, and constrain sovereign discretion. Legal analyses of Iran's regulatory experience emphasize that these effects cannot be evaluated in isolation but must be understood in relation to broader structural constraints, including sanctions and domestic institutional capacity (9).

From a public law standpoint, the critical issue is not whether FATF standards are inherently beneficial or detrimental, but how they interact with domestic legal principles governing supervision. Independence and effectiveness are dynamic qualities that depend on both normative design and contextual conditions. FATF obligations may enhance technical efficiency while simultaneously challenging the autonomy of supervisory institutions, particularly in environments marked by external pressure and limited resources. Recognizing this duality provides a nuanced framework for assessing the role of international financial norms in shaping state supervision.

In conclusion, FATF requirements function as a powerful regulatory and normative framework that exerts significant influence over financial supervision in Iran. Their soft-law character masks substantial practical effects that reshape legal structures, institutional mandates, and supervisory practices. While FATF standards offer opportunities for modernization and improved effectiveness, they also introduce risks related to external influence, compliance burdens, and sovereignty. Understanding these dynamics is essential for evaluating how financial supervision evolves under overlapping regimes of international regulation and sanction-induced constraint, and it sets the stage for a broader assessment of the balance between efficiency and autonomy in Iran's public law system.

## Conclusion

This article has examined the dual and intersecting effects of international sanctions and FATF requirements on the independence and effectiveness of government financial supervision within Iran's public law system. By approaching financial supervision as a core public law institution rather than a purely technical or economic function, the analysis has shown that external regulatory pressures do not merely constrain policy choices but actively reshape legal principles, institutional arrangements, and supervisory practices. Financial supervision, as a mechanism for safeguarding legality, accountability, and public trust, becomes a critical site where the tension between state sovereignty and global regulatory integration is most visibly expressed.

A central conclusion emerging from this study is that international sanctions and FATF obligations operate through fundamentally different logics, yet their combined impact produces a cumulative structural constraint on financial supervision. Sanctions function primarily as exclusionary mechanisms that restrict access to international financial systems, information flows, and cooperative enforcement frameworks. Their effect is to fragment financial governance, encourage informal or parallel mechanisms, and normalize emergency-oriented decision-making. FATF standards, by contrast, operate as inclusionary norms that condition participation in global finance on regulatory alignment, transparency, and risk-based supervision. While sanctions push the system toward opacity and adaptive informality, FATF requirements pull it toward formalization, disclosure, and proceduralization. The coexistence of these opposing forces places supervisory institutions in a structurally contradictory position.

One of the most significant findings of the analysis is that supervisory independence cannot be adequately understood through formal legal status alone. In the Iranian context, supervisory bodies may retain constitutional or statutory mandates that guarantee autonomy, yet their functional independence is substantially shaped by external constraints. Sanctions limit access to data, technology, and international cooperation, thereby reducing operational capacity. FATF-driven reforms, while enhancing technical tools and supervisory methodologies, often redirect institutional priorities in response to external evaluations rather than domestically determined risk assessments. Independence, therefore, emerges as a relational and contextual concept, contingent on both internal legal design and external regulatory environments.

The effectiveness of financial supervision is similarly ambivalent under conditions of dual pressure. On the one hand, FATF-related reforms have contributed to the modernization of supervisory techniques, the institutionalization of reporting mechanisms, and the adoption of risk-based approaches that can improve detection and prevention. These developments reflect genuine gains in technical efficiency and regulatory sophistication. On the other hand, sanctions undermine the practical utility of these tools by restricting the environments in which they can operate effectively. Enhanced reporting and transparency requirements do not automatically translate into improved

outcomes when supervisory authorities lack access to international verification mechanisms or when significant segments of economic activity move beyond formal channels. Effectiveness, in this sense, becomes uneven and selectively realized.

The analysis also highlights a paradoxical expansion of state control over financial activity in response to external pressure. Sanctions often prompt greater centralization of financial decision-making as governments seek to manage scarcity, stabilize markets, and preserve strategic sectors. This expansion of control can give the appearance of strengthened supervision, yet it frequently occurs at the expense of rule-based oversight and institutional pluralism. When supervisory discretion is increasingly aligned with emergency governance objectives, the boundary between regulation and policy management becomes blurred. Over time, this blurring risks normalizing exceptional measures and weakening the legal safeguards that underpin accountable supervision.

Another important conclusion concerns the relationship between financial supervision and sovereignty in contemporary public law. Sovereignty in the financial domain no longer consists solely of formal authority over domestic institutions but is increasingly mediated by participation in global regulatory networks. FATF standards exemplify this transformation by redefining acceptable regulatory behavior through evaluative processes and peer review rather than coercive enforcement. In sanction-affected states, however, this transformation is experienced asymmetrically. Compliance efforts may not yield proportional benefits in terms of reintegration or reduced economic isolation, thereby intensifying domestic debates over the costs and legitimacy of regulatory alignment. Financial supervision thus becomes a field in which sovereignty is negotiated rather than simply exercised.

The combined effect of sanctions and FATF obligations also raises broader normative questions about equality and fairness in global financial governance. States operating under sanctions face higher compliance costs, reduced access to support mechanisms, and greater exposure to reputational risk, even as they are expected to meet the same supervisory standards as fully integrated economies. This asymmetry affects not only economic outcomes but also institutional development, as supervisory bodies must adapt to standards designed for contexts with vastly different resource endowments. Recognizing these disparities is essential for a balanced assessment of supervisory reform in sanction-affected legal systems.

From a methodological perspective, the narrative review and descriptive legal analysis employed in this study have allowed for an integrated understanding of how legal norms, institutional structures, and external pressures interact over time. Rather than isolating sanctions or FATF requirements as independent variables, the analysis has treated them as mutually reinforcing elements within a broader regulatory environment. This approach underscores the value of public law analysis in contexts where economic regulation, international norms, and domestic governance intersect. It also demonstrates the limitations of narrowly technical assessments that overlook institutional and legal dynamics.

Looking forward, the findings of this study suggest that strengthening financial supervision in Iran requires more than formal legal reform or technical compliance with international standards. It requires a strategic recalibration of supervisory objectives that acknowledges structural constraints while preserving core public law principles. Enhancing functional independence, investing in domestic analytical capacity, and clarifying institutional mandates can mitigate some of the adverse effects of external pressure. At the same time, a realistic appraisal of the limits imposed by sanctions is necessary to avoid overestimating the transformative potential of regulatory alignment alone.

In conclusion, international sanctions and FATF requirements exert a dual impact on Iran's system of government financial supervision, simultaneously constraining autonomy and reshaping effectiveness. Sanctions weaken supervisory capacity by fragmenting financial governance and fostering opacity, while FATF standards introduce tools and norms that can enhance technical performance but challenge regulatory sovereignty. The interaction of these forces produces a complex and often contradictory regulatory landscape in which financial supervision operates under persistent tension. Understanding this landscape through the lens of public law reveals that the future of financial supervision depends not only on compliance or resistance, but on the careful balancing of sovereignty, accountability, and effectiveness within an evolving global regulatory order.

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### **Authors' Contributions**

All authors equally contributed to this study.

### **Declaration of Interest**

The authors of this article declared no conflict of interest.

### **Ethical Considerations**

All ethical principles were adhered in conducting and writing this article.

### **Transparency of Data**

In accordance with the principles of transparency and open research, we declare that all data and materials used in this study are available upon request.

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