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# The Supremacy of International Trade Regulations over Legal Entities' Bank Deposits from the Perspective of Money Laundering

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## ABSTRACT

The Financial Action Task Force (FATF) is an international body whose objective is to strengthen and enhance the international response to combating money laundering. This institution expanded its mandate in October 2001 to include combating both money laundering and the financing of terrorism. In the field of anti-money laundering, it issued the Forty Recommendations, which constitute a fundamental framework for combating money laundering and were designed and formulated for implementation at the global level. The FATF monitors the progress of its members in implementing anti-money laundering measures, examines and reports on money laundering methods and techniques, and encourages the adoption and implementation of anti-money laundering principles worldwide. Each FATF member country is politically committed to combating money laundering in accordance with the FATF Forty Recommendations (Financial Action Task Force [FATF], 2001). In this study, by examining institutions such as the Financial Action Task Force, we seek to analyze the function of international trade law in preventing money laundering by legal entities within banks. This research employs a descriptive–analytical method, and through the examination of books, documents, and reports of relevant institutions, concludes that the role of international trade law in establishing disciplined institutional frameworks has been highly effective in preventing money laundering by legal entities in banks.

**Keywords:** *FATF, Money Laundering, International Financial Terrorism Institution, Economic Crimes, Legal Entities*

## Introduction

Today, money laundering is considered one of the most significant financial crimes and is recognized as an organized and transnational offense that has received increasing attention in international law and legal instruments in recent decades. Money laundering is a process in which dirty, illegal, and illegitimate funds are placed into cycles of transactions in such a way that, after passing through various stages, they appear legitimate and clean. In other words, the source of assets obtained through illegal activities—including drug trafficking, trafficking of psychotropic substances, human trafficking and organ trafficking, theft, usury, bribery and corruption, tax evasion, and terrorism—is concealed through repeated financial transfers and transactional mechanisms, making the funds appear lawful and legitimate. Money laundering, as one of the prominent manifestations of economic crime, refers



to concealing the original source of criminal proceeds and converting them into apparently lawful assets in such a manner that identifying their true origin becomes impossible or extremely difficult (1, 2). Although concealing the proceeds of crime is not a new phenomenon and has existed for centuries, what is relatively new is the criminalization of such concealment under modern legal frameworks and its regulation at both national and international levels (3, 4). Estimates indicate that the volume of illicit financial flows in developing countries amounts to billions of dollars annually, reflecting the magnitude and severity of this phenomenon and its significant impact on economic systems and financial stability (5, 6).

This phenomenon is influenced by the level of development and the size of national economies. In other words, smaller economies may be more vulnerable to money laundering risks due to weaker institutional frameworks and limited regulatory oversight. Research indicates that illicit financial outflows from developing countries reach extremely high levels and, in some cases, exceed the total volume of foreign direct investment and official development assistance received by those countries during the same period (5, 7). Such trends highlight the structural vulnerabilities of financial systems and the urgent need for effective legal and institutional mechanisms to address financial crimes.

Therefore, establishing appropriate legal, regulatory, and operational frameworks to identify and block channels through which illicit funds infiltrate formal financial systems is of fundamental importance. Money laundering has extensive economic consequences, including increased inflation, reduced government revenues, increased public expenditures, distortion of investment patterns, capital flight, weakening of economic security, weakening of the private sector, creation of barriers to privatization, negative effects on banking interest rates and exchange rates, and disruption of financial markets and transactions. The severe economic, political, and social consequences of money laundering require governments to take serious and coordinated measures to combat this crime (8, 9). Since the 1980s, legislative efforts to combat money laundering have been initiated at national levels and subsequently expanded into international legal frameworks, resulting in the adoption of numerous international conventions, guidelines, and institutional mechanisms designed to prevent and combat money laundering (6, 10). In response to these developments, many countries, including Iran, have taken measures to align their domestic legal systems with international anti-money laundering standards and conventions. These efforts include adopting transparency mechanisms, strengthening reporting systems, and revising relevant anti-money laundering and counter-terrorism financing laws in accordance with international requirements and institutional recommendations (11, 12).

Based on the foregoing, this study seeks to examine international regulations related to money laundering and evaluate Iran's position in terms of compliance and alignment with these international standards. Accordingly, the discussion is structured into four main sections. First, money laundering in international legal instruments is examined. Second, the status of money laundering within Iran's legal and banking system is analyzed. Third, Iran's position in international institutions and conventions, including FATF and related international frameworks, is evaluated. Finally, the study addresses the fundamental question of the extent to which international trade regulations influence the prevention of money laundering by legal entities in banking systems (4, 12).

### **Conceptual Framework**

In addition to trade-based money laundering, the concept of service-based money laundering also exists, and these two concepts must be distinguished analytically and legally due to their differing mechanisms and detection challenges.

### *Concept of Trade-Based Money Laundering*

The Financial Action Task Force defines trade-based money laundering as the process of disguising criminal proceeds and transferring funds through commercial transactions to legitimize their illicit origin. This definition also extends to activities related to the financing of terrorism, recognizing the close relationship between money laundering and terrorism financing within global financial systems (6, 12). Trade-based money laundering typically involves manipulation of trade documentation, including misrepresentation of the value, quantity, or nature of goods, in order to facilitate the transfer of illicit funds across borders while maintaining the appearance of legitimate commercial activity (13, 14).

### *Concept of Service-Based Money Laundering*

Both trade-based and service-based money laundering revolve around invoice manipulation; however, service-based money laundering involves the use of services rather than tangible goods. It relies on exploiting service industries and intangible assets, such as consulting services, intellectual property rights, and financial services, to transfer illicit proceeds. Unlike trade-based money laundering, where physical goods allow for verification through customs and trade data analysis, service-based money laundering presents greater detection challenges due to the absence of physical goods and the subjective valuation of services (15, 16). Consequently, identifying suspicious transactions in service-based laundering schemes requires more sophisticated financial monitoring systems and regulatory oversight mechanisms.

Currently, the Financial Action Task Force and other international institutions are actively addressing the misuse of international trade systems for money laundering purposes by developing regulatory standards, strengthening monitoring mechanisms, and promoting international cooperation among financial institutions and regulatory authorities (9, 12).

### **Money Laundering in International Legal Instruments**

The high volume of money laundering worldwide, combined with its organized and transnational nature, necessitates a coordinated global response. Its significant economic, political, and social consequences, as well as its close association with other forms of organized crime, have led to the adoption of numerous international and regional conventions and legal instruments aimed at combating money laundering. These include international conventions, regulatory frameworks, institutional guidelines, and cooperative enforcement mechanisms designed to prevent illicit financial activities and promote financial transparency. These instruments provide comprehensive strategies for combating money laundering, which can be categorized into four main areas: legislative measures, executive and administrative measures, preventive measures, and judicial measures (4, 12).

The issue of the supremacy of international trade regulations over the deposits of legal entities in banks from the perspective of money laundering represents a critical and complex legal and financial subject. This issue involves examining how international regulatory frameworks govern banking operations, financial transactions, and institutional compliance mechanisms to prevent money laundering. These regulatory frameworks generally include customer identification procedures (Know Your Customer – KYC), suspicious transaction reporting (STR), ongoing monitoring and supervision, compliance with international standards established by institutions such as the

Financial Action Task Force, and international cooperation among regulatory authorities and law enforcement agencies (12, 13).

Several international organizations regularly publish reports on money laundering, including activities involving legal entities. These organizations include the Financial Action Task Force, the International Monetary Fund, the World Bank, the United Nations Office on Drugs and Crime, and international law enforcement organizations. Through cooperation and information exchange, these institutions assist countries in strengthening their financial systems, enhancing regulatory oversight, and effectively combating money laundering threats. Their reports provide comprehensive analyses, policy recommendations, and identification of money laundering trends and patterns, serving as essential informational and strategic resources for combating financial crimes and strengthening global financial integrity (6, 9).

### **Examination of Countries with the Highest Level of Cooperation with International Organizations in Combating Money Laundering**

#### *United States of America*

##### Reasons for High Cooperation:

– **Financial Intelligence Units (FIUs):** The United States possesses one of the most advanced financial intelligence units, known as the Financial Crimes Enforcement Network (FinCEN), which plays a central role in identifying, analyzing, and reporting suspicious financial transactions. Financial intelligence units serve as essential institutional mechanisms in detecting money laundering activities and facilitating cooperation between domestic and international enforcement agencies (6, 9).

– **Strong Legal and Regulatory Framework:** Comprehensive anti-money laundering legislation, including the Bank Secrecy Act (BSA), the USA PATRIOT Act, and other federal regulations, has established the United States as one of the leading countries in combating financial crimes. These legal frameworks impose strict compliance obligations on financial institutions, enhance monitoring mechanisms, and ensure effective reporting and enforcement procedures (4, 11).

– **International Cooperation:** The United States maintains extensive cooperation with international organizations such as the Financial Action Task Force, the United Nations, and Interpol. This cooperation includes information exchange, participation in international regulatory initiatives, and enforcement of international financial sanctions, all of which contribute to strengthening global anti-money laundering efforts (10, 12).

#### *United Kingdom*

##### Reasons for High Cooperation:

– **Strong Supervisory and Enforcement Institutions:** Regulatory bodies such as the Financial Conduct Authority (FCA) and Her Majesty's Revenue and Customs (HMRC) play a crucial role in supervising financial institutions and enforcing anti-money laundering laws. These institutions ensure compliance with regulatory requirements and monitor financial activities to detect and prevent illicit financial transactions (6, 9).

– **Comprehensive Legal Framework:** The United Kingdom has established comprehensive legal and regulatory measures to combat money laundering and terrorist financing. These regulations provide financial institutions with

clear compliance obligations, strengthen enforcement mechanisms, and facilitate effective monitoring of financial transactions (4, 11).

– **Commitment to FATF and International Standards:** The United Kingdom actively participates in FATF mutual evaluation processes and consistently implements FATF recommendations. This commitment demonstrates the country's adherence to international anti-money laundering standards and strengthens its position as a global leader in financial transparency and regulatory compliance (6, 12).

### *Australia*

#### Reasons for High Cooperation:

– **Use of Advanced Technologies:** Australia employs advanced technological systems and intelligent monitoring tools to identify suspicious financial activities and prevent money laundering. The use of modern financial monitoring technologies enhances detection efficiency and improves regulatory effectiveness (16, 17).

– **Australian Financial Intelligence Unit (AUSTRAC):** AUSTRAC plays a fundamental role in collecting, analyzing, and reporting financial intelligence. It also actively cooperates with international organizations to facilitate information exchange and strengthen global anti-money laundering efforts (6, 9).

– **International Cooperation:** Australia maintains active cooperation with international organizations such as FATF, the United Nations, and regional anti-money laundering bodies. This cooperation strengthens international enforcement mechanisms and promotes global financial integrity (10, 12).

### **Countries with the Lowest Level of Cooperation with International Organizations in Combating Money Laundering**

Some countries, due to structural, legal, and political challenges, may demonstrate limited cooperation with international anti-money laundering organizations. These challenges include weak regulatory frameworks, legal deficiencies, widespread corruption, and political barriers.

### *Iran*

#### Reasons for Limited Cooperation:

– **International Sanctions:** Extensive sanctions imposed by the United States and the United Nations Security Council have restricted Iran's access to international financial systems. These sanctions have created structural limitations for financial transactions and international cooperation (12, 18).

– **Inadequate Legal and Regulatory Framework:** FATF has repeatedly identified deficiencies in Iran's anti-money laundering and counter-terrorism financing legal frameworks, emphasizing the need for legal reforms and institutional strengthening to ensure effective compliance with international standards (11, 12).

– **Lack of Financial Transparency:** Transparency challenges within financial and economic structures hinder effective cooperation with international regulatory institutions and weaken enforcement mechanisms (3, 9).

## North Korea

### Reasons for Limited Cooperation:

– **International Isolation:** Due to its isolationist policies and extensive international sanctions, North Korea has limited integration with global financial systems, which restricts its participation in international regulatory frameworks (6, 12).

– **Involvement in Illicit Financial Activities:** North Korea has been associated with various illicit financial activities, including counterfeiting and illegal trafficking, which contribute to international distrust and financial restrictions (4, 5).

– **Lack of Legal Alignment:** The inability to align domestic legal frameworks with international anti-money laundering standards remains a major obstacle to effective cooperation (10, 11).

## Syria

### Reasons for Limited Cooperation:

– **Internal Instability and Conflict:** Political instability and internal conflict significantly undermine the ability to establish effective financial regulatory systems and enforcement mechanisms (6, 7).

– **Presence of Armed Groups:** The existence of armed groups and terrorist organizations complicates financial monitoring and regulatory enforcement, increasing the risk of illicit financial activities (4, 15).

– **International Sanctions:** Extensive international sanctions limit financial transactions and hinder cooperation with international financial institutions (12, 18).

These countries, due to internal structural weaknesses, political instability, widespread corruption, and international sanctions, have faced significant challenges in cooperating with international anti-money laundering institutions. Lack of cooperation not only exacerbates internal economic vulnerabilities but also contributes to increased international isolation. Strengthening legal frameworks, enhancing financial transparency, and implementing effective anti-money laundering measures are essential steps toward improving compliance and facilitating international cooperation (6, 9).

## Financial Action Task Force (FATF)

The Financial Action Task Force is an intergovernmental body established in 1989 by member states with the objective of developing international standards and improving the implementation of legal, regulatory, and operational measures to combat money laundering, terrorist financing, and the financing of weapons of mass destruction proliferation. FATF also cooperates with international institutions to identify vulnerabilities within national financial systems and strengthen global financial security (6, 12).

The FATF Recommendations provide a comprehensive and coherent framework consisting of measures that countries must implement to combat money laundering, terrorist financing, and proliferation financing. Since countries possess diverse legal, regulatory, and financial systems, they cannot adopt identical measures. Therefore, FATF establishes international standards that countries must implement in accordance with their specific national conditions (11, 12).

The FATF Recommendations require countries to undertake several essential actions, including:

- Identifying risks, developing national policies, and ensuring coordination at the national level to combat money laundering, terrorist financing, and proliferation financing;
- Implementing preventive measures within financial institutions and designated non-financial sectors to reduce money laundering risks (9, 13);
- Assigning authority and responsibility to competent authorities, including supervisory bodies, law enforcement agencies, and investigative institutions responsible for detecting and prosecuting financial crimes (4, 6);
- Enhancing transparency and ensuring access to beneficial ownership information related to legal entities and legal arrangements, thereby preventing misuse of legal structures for illicit purposes (8, 12);
- Facilitating international cooperation, information exchange, and coordinated enforcement efforts among countries and international regulatory bodies to strengthen global anti-money laundering mechanisms (10, 12).

### **Nature and Functions of the Financial Action Task Force (FATF)**

The Financial Action Task Force (FATF) is an intergovernmental body established in 1989, whose function consists of setting standards to combat money laundering, terrorist financing, and other crimes that threaten the integrity of the financial system. FATF seeks to enhance the implementation of these standards by countries and to encourage international cooperation to combat the misuse of economic enterprises and the financial system for the commission of the foregoing crimes (6, 12). The standards of FATF, in summary, include the following: identifying risks and adopting policies for domestic cooperation; prosecuting money laundering, terrorist financing, and other crimes that threaten the integrity of the financial system; adopting preventive measures for the financial sector of the economy and other sectors specified in the standards (economic enterprises, designated non-financial professions, etc.); and granting the necessary powers and responsibilities to competent authorities—judicial, executive, supervisory authorities—and implementing other institutional measures to combat money laundering and terrorist financing (8, 12). The FATF Secretariat supports the Task Force, its working groups, and its President. The Secretariat is located at the OECD headquarters in Paris, and Secretariat services are provided by the OECD (6). Mahmoudi Janki (2004) states that the major responsibilities of the FATF Secretariat include: supporting FATF activities (including working groups), facilitating cooperation among members, partners, and others, ensuring effective cooperation among members and others, managing records, managing internal and external websites, handling FATF correspondence, performing all tasks assigned by the President and all members, and administering the annual budget; the annual budget, financing of the FATF Secretariat, and other services are provided by members, with the OECD serving as a channel for these services (6). Individual members contributing to the FATF budget do so through OECD contribution indices.

### **FATF Recommendations and Membership**

The Task Force has responsibilities such as examining money laundering typologies and developments, reviewing measures previously adopted at national and international levels, and endorsing legislation that remains necessary to combat money laundering. In April 1990—less than one year after its establishment—FATF published a detailed report containing the Forty Recommendations, aimed at presenting a comprehensive program of necessary measures to combat money laundering (12). In 2001, the development of standards to combat terrorist financing was added to FATF's mandate (6). In October 2001, FATF issued eight Special Recommendations to address the fight against terrorist financing (6). The gradual evolution of money laundering methods led FATF to

comprehensively revise its standards in June 2003 (12). In October 2004, nine Special Recommendations were issued, and with the further development of agreed international standards to combat money laundering and terrorist financing, they became known as the “40+9 Recommendations” (6). In February 2012, FATF conducted a comprehensive review of its standards and published revised recommendations, with the aim of strengthening global safeguards and more robustly supporting the integrity of the financial system by providing governments with stronger tools to act against financial crimes; the revised recommendations were also developed to address new threats such as the financing of proliferation of weapons of mass destruction, to increase transparency, and to adopt stricter approaches toward financial corruption. The Special Recommendations on terrorist financing were fully integrated with anti-money laundering rules, resulting in a stronger and more transparent set of standards (6, 8). During 1991 and 1992, FATF expanded its membership from 16 to 28 members; in 2000, it increased to 31 members; and thereafter, up to the present, it has increased to 36 members. FATF currently consists of 34 jurisdictions and 2 regional organizations, representing the most important financial centers in all regions of the world, including: Argentina, Australia, Austria, Belgium, Brazil, Canada, China, Denmark, the European Commission, Finland, France, Germany, Greece, the Gulf Cooperation Council, Hong Kong, Iceland, Ireland, India, Italy, Japan, the Republic of Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Portugal, the Russian Federation, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States.

### Iran and FATF

FATF has been particularly skeptical regarding Iran’s ability to address the possibility of terrorist financing within its financial system. For this reason, it has requested members to pay special attention to their financial dealings with Iran and to warn their financial and commercial institutions about the risk of money laundering and terrorist financing within Iran’s financial system (6). However, the interpretation of this warning does not necessarily mean that the institution explicitly accuses Iran of financing terrorism through money laundering; rather, it implicitly indicates that, due to a lack of transparency in the financial system and the existence of auditing weaknesses, Iran is among high-risk countries with respect to preventing money laundering and, consequently, terrorist financing (9, 11). FATF has pressured Iran to establish transparent mechanisms to counter terrorist financing—or, in other words, to strengthen anti-money laundering measures—as soon as possible (6). In its 2007 statement, FATF noted that the absence of a comprehensive anti-money laundering and counter-terrorist financing regime in the Islamic Republic of Iran had increased the vulnerability of the international financial system (6). The same criticism continued in the 2009 statement and in the public statement of 2012, returning to the tone of 2007 (6). In Article 21 of United Nations Security Council Resolution 1929 (2010), a linkage was also drawn between FATF and Iran’s nuclear program (6). In its 2016 public statement, FATF welcomed Iran’s commitments and suspended Iran’s blacklisting for 12 months, ultimately conditioning the continuation of that suspension on establishing transparency within Iran’s financial system (6).

The Joint Comprehensive Plan of Action (JCPOA)—Iran’s 2015 nuclear agreement with major powers—was regarded as a turning point in Iran’s relations with the world, and in particular with FATF. In 2016, this institution welcomed Iran’s commitments to combat money laundering and terrorist financing, and Iran’s suspension from the blacklist was extended until February 2018 (6). From 2016 onward, Iran sought to increase cooperation in the anti-money laundering domain with other members, and in practice the United Kingdom engaged in certain forms of

cooperation with Iran in this area to help enhance Iran's financial system (6). Iran also became an observer member of several institutions active in combating money laundering. Moreover, Iran's parliament approved a bill for Iran's accession to the United Nations Convention against Transnational Organized Crime (9). The adoption of the Law on Combating the Financing of Terrorism in 2015 was an action taken by Iran in response to FATF pressure and the risk of banking restrictions, particularly the potential loss of the ability to transfer funds with foreign banks (6, 11).

The government's four bills intended to meet FATF-related commitments have today become one of the most important political issues in the country. One of Iran's challenges regarding full acceptance is Israel's presence as an observer member; and because FATF is an intergovernmental organization, reservations are not considered feasible within it (18). The core issue is that FATF is an advisory body; the coexistence of these characteristics turns the matter into a security issue that is not easily disregarded by Iran merely for economic reasons (18). It should also be noted that Iran's acceptance would not immediately mean removal from the blacklist; rather, Iran would enter the next stage—namely, the assessment of Iran's eligibility for delisting.

Another issue raised by opponents of Iran's accession to FATF concerns United States sanctions, which may render Iran's external transactions and even current-level financial dealings impossible; consequently, joining FATF would not necessarily provide any guarantee of resolving this problem (18). Another point cited by opponents in Iran is the nature of the relationship between financial intelligence units and FATF: these units, as national-level bodies, would operate within the Ministry of Economy and, due to their access to financial information and transaction data for supervisory and intelligence purposes, would provide information to FATF in ways that could be perceived as weakening Iran vis-à-vis other countries (18).

By contrast, proponents view the issue through a different lens: in their view, Iran's failure to join FATF and the continued presence of the country's name on the blacklist would distance even Iran's limited partners due to the consequences of dealing with Iran, effectively completing the economic sanctions regime. This would reduce foreign investment in Iran to zero, completely halt the activities of Iranian companies in other countries, and deter any bank or financial institution from establishing branches in Iran or cooperating with Iranian banks. If Iran does not join FATF, virtually no bank or financial institution would cooperate with Iran, and the costs of transferring funds would impose a heavy burden on the Iranian public (18).

## **Stages of Money Laundering Operations**

### *Creation of Illicit Funds*

Illicit money is usually generated by non-reputable and informal enterprises and by individuals who engage in unlawful activities in connection with such enterprises. These enterprises typically obtain valuable goods or special services outside ordinary procedures—often through unauthorized methods and through connections with influential officials—and at volumes exceeding prescribed limits. They also commonly expand the circulation of illicit funds by using planned methods to evade taxes.

In countries where distribution is carried out through subsidy-based mechanisms or where non-auditable centers are supported, a favorable environment is created for the expansion of illicit money, and rent-seekers maximize their gains from the gap between regulated prices and free-market prices (3, 7).

### *Financial Document Fabrication*

Illicit money is often introduced into the banking network through unauthorized financial enterprises and intermediaries that are not committed to banking regulations, frequently by using forged documents. Preventing this flow is difficult, particularly with the expansion of electronic technology; however, the same technology can, in the near future, identify more accurately the principal parties and the true owners of financial resources (8, 17).

It is evident that the adoption of any new technology faces challenges in its early stages; nevertheless, as societies increasingly regulate the use of electronic technology, ambiguities surrounding the money laundering process will diminish. Contrary to the view held by some bankers, it can be expected that, with gradual acceptance of international regulations in the field of electronic banking, this problem will also decline relative to prevailing conditions (6, 17).

In this regard, what requires careful consideration is the reconstruction of an environment in which financial intermediary institutions can develop lawfully. Clearly, if large state monopolies—particularly in the financial sector—are supported directly or indirectly, suppliers and demanders of funds will be driven, inevitably, toward black markets. Ultimately, with the expansion of informal and underground financial institutions, a dark and uncontrollable space for money laundering will emerge (13, 14).

Unstructured money markets—except in exceptional cases—should never be confronted directly. Rather, by encouraging and supporting healthy financial intermediaries and by benefiting from their advisory input, the groundwork for eliminating money laundering can be established (13).

Weakening the base of informal financial intermediaries, simultaneously with creating a liberal transactional environment, will expose money laundering operations to serious risks. If an acceptable level of transparency cannot be established between individuals and financial intermediaries, a form of “financial commingling” may arise that facilitates money laundering (6, 9).

### *Financial Commingling*

Financial commingling is the most complex stage of the money laundering process because, at this stage—where monetary exchanges are typically conducted through intermediary institutions or financial brokers—the primary trace of the transaction, namely the providers of the funds, becomes obscured. The complexity of commingling increases substantially when trade and transactions take on an international dimension, because in many countries international anti-money laundering regulations have not been adopted or are not effectively implemented. For this reason, those who engage in drug trafficking or goods smuggling through money laundering, by commingling contaminated funds, may once again target the legitimate and real institutions of each country with greater power (4, 5).

At times, individuals who gain proximity to decision-making circles obtain substantial wealth through informational rent-seeking; this should also be regarded as a form of implicit money laundering. When wealth generated through informational rent is commingled with other resources of banks and credit institutions, it can immediately strengthen the political faction under its influence, and in such circumstances combating money laundering becomes considerably more difficult (3, 14).

### *Encouragement of Money Laundering*

Assume that resources obtained through theft or the purchase and sale of smuggled and unauthorized goods, by being deposited into the banking network and by using banking services, can conduct banking operations—like other individuals—through seemingly lawful methods in the direction desired by the depositor. So long as the illicit owners of money deceive law enforcement officials and proceed with their operations, money laundering may appear to be a “simple” issue. However, after illicit owners gain experience and learn how to shape the system to their advantage—illustrated in some Latin American contexts—the phenomenon may evolve into an accelerated and more entrenched money laundering problem (5, 6).

In any case, money laundering may initially occur as isolated incidents and under the influence of various criminological vulnerability models; in that respect, it may be remediable like many social harms. However, once money laundering gains legitimacy as an organized political objective, it can turn into an expansive fire affecting society at large. Today, this “invasion” of monetary corruption—which immediately produces economically disruptive tumors—has been raised in the context of money laundering capacity (3, 4).

### *Methods of Money Laundering*

Given the diversity of methods for gaining profit from unlawful conduct, the techniques of laundering money will naturally be complex and diverse. In other words, money laundering methods depend on factors such as the type of underlying offense committed, the nature of the economic system, the laws and regulations of the country in which the predicate offense occurred, and the regulatory regime of the country in which the proceeds are laundered (2, 11).

One of the most significant methods is “structuring”: launderers, in order to reduce attention from law enforcement, convert large amounts of cash into smaller amounts, deposit them directly in banks, purchase financial instruments such as checks and promissory notes, and then deposit or move them through other locations and channels (6, 13).

Other laundering methods include temporary investment in lawful industrial–commercial enterprises, investment in stock markets and bonds, creation of sham charities, investment in high-value markets such as precious stones (e.g., diamonds), participation in auctions of artworks and antiques, and transferring money to jurisdictions with permissive banking regulations, such as Switzerland. In this way, once dirty money is injected and invested in lawful activities, it becomes commingled with clean money through circulation and repeated transfers to such a degree that classification and “layering” (placement) become impossible (5, 13).

Money laundering operations are commonly described as occurring in three stages: placement, layering, and integration. Placement refers to the stage in which cash is physically introduced into the financial system, which typically occurs when illicit funds are deposited into financial institutions. Layering refers to the stage in which illicit proceeds are subjected to a series of transactional activities in order to obscure the link between funds and their illegal source; for example, transferring funds between banks is considered part of this stage. In the integration stage, illicit funds are combined with lawful commercial activities and integrated into the main body of the economy, including through investment in legitimate commercial institutions (4, 6).

### *Methods of Combating Money Laundering*

Governments must revise laws and regulations that provide opportunities for money laundering and pursue policies aimed at combating it. For the formulation of anti-money laundering policies, accurate statistical reporting is needed by international financial oversight and policy frameworks. Subsequently, anti-money laundering legislation should be drafted and enacted. In many countries, technical and regulatory methods have been used to formulate the laws governing central banks and commercial and foreign-exchange banks. For this purpose, banking laws must be enacted to keep all banks and their foreign branches away from money laundering risks (6, 13).

Another policy concerns control and supervision over foreign currencies. Governments must adopt measures to position themselves at the apex of financial markets and supervise the transfer and movement of foreign currencies. Supervising financial institutions and banks is another anti-money laundering policy. In this regard, international standard-setting initiatives have emphasized cooperation by law enforcement authorities in identifying bank customers and monitoring their behaviors through the retention and registration of relevant information and reporting of their unlawful conduct. This is because large-scale money laundering can lead to the contamination of banking system managers and, ultimately, of the entire financial system (8, 12).

Another macro-level governmental policy is tax collection. In this regard, reforming the national tax structure prevents tax evasion and, as a result, prevents the creation of dirty money and reduces money laundering incentives (3, 7).

### **Conclusion**

Money launderers constantly discover new methods for laundering illicit funds and conducting unlawful financial activities. Therefore, programs designed to monitor and trace money laundering processes must continuously evolve in accordance with contemporary developments. Modern money laundering tracking technologies may have partially succeeded in controlling the tools and mechanisms used by money launderers; however, they cannot completely eliminate this phenomenon and must continuously adapt to emerging technological and financial realities. Such adaptation requires international cooperation, particularly through the sharing of information, intelligence, and technological capabilities among countries. In particular, with the expansion of terrorist activities over the past two decades, more governments have reached a shared understanding that combating terrorism—especially terrorist financing, which is recognized as a critical operational lifeline of terrorist organizations—requires greater cooperation based on mutual trust, transparency, and coordinated regulatory mechanisms. Accordingly, through the implementation of policies such as the “Know Your Customer” (KYC) principle and transparency-based financial stability approaches, governments have established numerous mechanisms to prevent money laundering and terrorist financing, with the most prominent manifestation of these efforts reflected in the framework of the Financial Action Task Force (FATF).

By issuing recommendations aimed at enhancing transparency within national financial systems and facilitating international cooperation, FATF has sought to prevent money laundering and terrorist financing. In certain instances, FATF has also indirectly relied on mechanisms of pressure and compliance enforcement through other international institutions. Nevertheless, the path toward international cooperation within this framework has not been entirely smooth. One of the most significant challenges to cooperation in preventing money laundering and terrorist financing involves issues of national sovereignty, as governments are often reluctant to share sensitive financial

and security information with international organizations or foreign governments. Another major challenge is the lack of adequately trained and specialized personnel in the field of financial monitoring and anti-money laundering enforcement. Even where trained personnel exist, maintaining their expertise in alignment with constantly evolving laws, regulatory standards, and laundering techniques remains a persistent challenge for governments and international institutions alike.

Another critical issue faced by certain countries in cooperating with FATF relates to ideological differences and broader international political considerations. In the case of the Islamic Republic of Iran, cooperation with FATF and compliance with its prerequisites encounter three major obstacles. The first obstacle is the presence of politically hostile states within the FATF framework, which Iran considers incompatible with its national security interests, particularly in relation to information exchange. The second obstacle concerns differences in the definition of terrorism and terrorist organizations, as Iran and several FATF member states hold fundamentally different perspectives on this issue. This divergence complicates financial transparency and information exchange related to terrorist financing. The third obstacle, which is directly related to the previous two, is the institutional nature of FATF itself. As an intergovernmental body rather than a treaty-based convention, FATF does not permit the use of reservations, and therefore countries cannot formally limit their commitments in specific areas. This structural characteristic presents additional challenges for countries seeking selective or conditional engagement.

Trade-based money laundering in Iran, due to the relatively recent development of anti-money laundering measures and differing national priorities in combating financial crimes, remains more ambiguous compared to global standards. The primary focus of anti-money laundering efforts in Iran has historically been on the banking system rather than on broader trade-based laundering mechanisms. Accordingly, consistent with the hypothesis of this research, it can be concluded that Iran's foreign trade sector is affected by fundamental structural challenges that are interconnected in a domino-like fashion, making the international trade sector particularly vulnerable to corruption and exploitation by money launderers. The most significant challenge facing Iran's foreign trade is the imposition of international sanctions, which have disrupted access to global financial and commercial systems. As a result, economic actors have been forced to rely on alternative financial channels, such as exchange offices and informal transfer networks, which are inherently more susceptible to trade-based money laundering risks.

Furthermore, the restriction of access to international financial systems, including limitations on international banking communication platforms, has compelled the country to rely on barter transactions and alternative settlement arrangements. These mechanisms create conditions conducive to transferring value through trade-based money laundering methods. Additionally, extensive government intervention in economic activities, the presence of quasi-governmental enterprises, and the use of administratively determined exchange rates have contributed to economic distortions and the creation of substantial rent-seeking opportunities. Certain individuals and entities have exploited exchange rate differentials and trade-related laundering techniques—such as over-invoicing and under-invoicing—to generate illicit profits. In the context of sanctions, failure to repatriate export earnings has also contributed to a chain of economic disruptions, including depletion of foreign exchange reserves, budget deficits, and challenges in importing essential goods. These interconnected structural vulnerabilities demonstrate the extent to which deficiencies in international trade governance can facilitate money laundering and undermine economic stability.

In light of these findings, several strategic measures can be proposed to prevent and combat trade-based money laundering. First, rebuilding Iran's position in global trade as a reliable and transparent partner and pursuing the

removal of financial and economic sanctions would significantly reduce reliance on informal and high-risk financial channels. Second, strengthening financial and commercial relations with allied and neighboring countries through bilateral agreements, joint banking institutions, and the use of national currencies in trade settlements would facilitate legitimate financial flows and enhance economic stability. Third, expanding international cooperation and shifting from a confrontational approach toward a cooperative engagement strategy with global anti-money laundering institutions would improve transparency and facilitate effective information exchange. Fourth, systematic analysis of financial and trade data should be conducted to detect anomalies, including comparing banking records, trade documentation, and tax declarations across trading partners. Fifth, enhanced oversight of government procurement and public tenders would prevent corruption, collusion, and the creation of illicit financial advantages. Sixth, careful monitoring of barter transactions and precise valuation of exchanged goods and services would reduce opportunities for trade-based laundering and ensure transparency regarding transaction participants. Finally, moving away from a dual exchange rate system toward a unified exchange rate regime would reduce arbitrage opportunities, minimize rent-seeking incentives, and strengthen the overall integrity of the financial system.

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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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