CLIENT MEMORANDUM

Imminent Changes to Iran Sanctions: Implementation of the Joint Comprehensive Plan of Action and a Changing Legal Landscape for International Business

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The impending sanctions changes pursuant to the Joint Comprehensive Plan of Action (the "JCPOA") create significant legal risk and potential liability for both U.S. and foreign companies if they fail to exercise extreme care with respect to the shift in sanctions policy, particularly for secondary relationships with partners, vendors, customers, or investment targets that may have connections to Iran. Companies that fail to exercise care with respect to the changes and to the new complex regime could risk significant penalties and even be cut off from the U.S. financial system.

Public reports, including comments from Secretary of State John Kerry, indicate that Implementation Day is imminent. When the International Atomic Energy Agency ("IAEA") verifies that Iran has implemented its significant nuclear commitments under the JCPOA, the United States will suspend nuclear-related sanctions and the European Union and the UN Security Council also will suspend most sanctions on Iran. The changes on Implementation Day will dramatically alter the sanctions landscape for U.S. and foreign companies doing business with direct or indirect links to Iran.

Vigilance Under Existing Sanctions

No relief beyond that already provided under the Joint Plan of Action ("JPOA") in January 2014 will be provided until Iran completes its obligations ahead of Implementation Day.

- **Persons subject to U.S. jurisdiction** remain generally prohibited from exporting or importing goods or services to or from Iran, directly or indirectly.

- **Non-U.S. persons** also face potential liability for "causing" violations of the restrictions on U.S. persons and could, themselves, be subject to sanctions for engaging in significant transactions with certain designated individuals or entities in Iran or engaging in certain transactions with Iran's finance, energy, insurance, communications, and other sectors.

Companies at Risk After Implementation Day

Once we reach Implementation Day and the IAEA verifies that Iran has implemented the relevant commitments, the United States will suspend nuclear-related sanctions on Iran and the European Union and UN Security Council will also suspend most sanctions, allowing non-U.S. companies to engage generally in business in Iran. However, many sanctions will remain in place. Companies will face two issues in particular that will create the risk of unwanted enforcement actions.

1. **The primary sanctions that prohibit transactions with Iran by persons subject to U.S. jurisdiction will remain in place.**

    - The majority of U.S. sanctions relief applies to nuclear-related secondary sanctions. Accordingly, U.S. persons will continue to be generally prohibited from exporting or importing goods or services to or from Iran. Foreign companies also could be subject to penalties for "causing" violations, such as routing transactions with Iran through a U.S. financial institution.

    - The enduring U.S. primary sanctions will be subject to three key exceptions. The Department of the Treasury's Office of Foreign Assets Control ("OFAC") will issue: (1) specific licenses to authorize exports and leasing to Iran of commercial passenger aircraft, parts, and services for civil end-use; (2) a general license for imports into the United States of Iranian-origin carpets and foodstuffs; and (3) authorization for activities involving Iran "consistent with" the JCPOA by non-U.S. entities that are owned or controlled by U.S. persons.

    - The scope of licensing for foreign subsidiaries of U.S. persons has been the subject of intense speculation. U.S. parent companies will need to pay close attention to the relationships with their subsidiaries to avoid prohibited facilitation of the activities undertaken with Iran.

    - Many existing general licenses will remain in place, allowing U.S companies and their foreign partners to engage in certain business with Iran, including broad licensing authority for food, medicine, and medical devices.

2. **Significant non-nuclear secondary sanctions will remain in place for foreign companies.**

   - Foreign companies could still be subject to U.S. sanctions for engaging in significant transactions with Iran's Islamic Revolutionary Guard Corps or any of its blocked agents or affiliates or any other individuals or entities designated in connection with Iran's support for international terrorism.

   - SEC-registered issuers may need to disclose whether the issuer or an affiliate of the issuer knowingly conducted or engaged in a transaction or dealing with the Government of Iran or certain individuals and entities that remain designated.

Taking Precautionary Steps to Avoid Risk

As these changes go into effect after Implementation Day, both U.S. and foreign companies should closely monitor their compliance with U.S. and other relevant laws to avoid unwelcome scrutiny from enforcement authorities or the risk of sanctions from the U.S. Government.

- U.S. companies should exercise caution with respect to the activities of their overseas partners involving Iran and persons designated in connection with Iran, including the compliance practices of partners, vendors, and subsidiaries, to prevent re-exports of U.S.-origin goods, technology, or services that will remain subject to control.

- Non-U.S. companies also will need to exercise caution with respect to indirect transactions between the United States and Iran and review their transactions potentially involving Iran to avoid the risk of secondary U.S. sanctions. Companies can reduce their potential exposure to enforcement actions or sanctions following the dramatic changes on Implementation Day.

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