

**FEDERAL RESERVE BANK OF DALLAS**  
**DALLAS, TEXAS 75222**

**Circular No. 80-138**  
**July 16, 1980**

**IRANIAN ASSETS CONTROL REGULATIONS**

**TO ALL MEMBER BANKS IN THE  
ELEVENTH FEDERAL RESERVE DISTRICT:**

Printed on the following pages is a proposed amendment to the Treasury Department's Iranian Assets Control Regulations. The purpose of the amendment is to require that certain types of blocked Iranian property be held in interest-bearing status. Interested persons are invited to submit comments to the Acting Director, Office of Foreign Assets Control, Department of the Treasury, Room 504, 1331 G Street, N.W., Washington, D.C. 20220. Comments must be received by August 15, 1980.

Any questions on the proposed amendment should be directed to Dennis M. O'Connell at (202) 376-0395.

Sincerely yours,

Robert H. Boykin

First Vice President

4810-25-M

DEPARTMENT OF THE TREASURY

31 CFR Part 535

Iranian Assets Control Regulations

AGENCY: Office of Foreign Assets Control, Department of the Treasury

ACTION: Proposed Rule.

SUMMARY: The Office of Foreign Assets Control is proposing an amendment to the Iranian Assets Control Regulations. The purpose of the amendment would be to add section 535.205, requiring that certain types of blocked Iranian property be held in interest-bearing status. The need for the amendment is to ensure that blocked property is held in a manner consistent with good management of the property and with the policy objectives of the Regulations. The effect of the amendment would be that most types of blocked Iranian property henceforth would be held in interest-bearing status.

DATE: Comments must be received on or before [date 30 days after publication].

ADDRESS: Send comments to the Acting Director, Office of Foreign Assets Control, Department of the Treasury, Room 504, 1331 G Street, NW, Washington, D.C. 20220.

FOR FURTHER INFORMATION CONTACT: Dennis M. O'Connell, Acting Director, Office of Foreign Assets Control, Department of the Treasury, Washington, D.C. 20220, (202) 376-0395.

SUPPLEMENTARY INFORMATION: Since the Regulations involve a foreign affairs function, the provisions of the Administrative Procedure Act, 5 U.S.C. 553, requiring notice of proposed rule making, opportunity for public participation and delay in effective date are inapplicable. Nonetheless, because of the technical nature of the regulations, comments are being requested. However, the comment period has been limited to 30 days.

Paragraph (a) of section 535.205 would require either that property identified in paragraph (f) be transferred into an interest-bearing account or that interest be credited to the property in the hands of the present holder

or obligor. The provision would not require any holder to break an existing certificate of deposit or to sell a bond or other interest-bearing instrument to conform to the rules governing the relevant rate of interest. However, it would mean that, at any time when a holder of blocked assets is required to account for those assets, it will be responsible for accrued interest.

The requirement to credit interest would be effective as of December 1, 1979. Persons who held blocked property as of that date would be subject to the requirement. In certain cases, blocked bank accounts may already have been transferred at the request of the depositor from demand to interest-bearing status. Section 535.420, published December 28, 1979, makes clear that transfers of such deposits from demand to interest-bearing status at the request of the account owner are authorized by section 535.508, published on November 20, 1979. In addition, depository institutions may have made such transfers on their own initiative, in view of the inequity of continuing to hold the funds in demand status and earning income on the funds while the depositor has not had the effective power to demand either withdrawal or payment on his order.

The December 1, 1979 effective date prevents any holder of blocked assets subject to the interest requirement from deriving any unjust enrichment from the fact that the emergency blocking action by the President, as a practical matter, converted obligations payable immediately or on demand into either deferred obligations or time deposits. This requirement is in furtherance of the preservation of the assets to ensure satisfaction of claims of Americans against the Government of Iran, a primary objective announced in the President's November 14, 1979 report to the Congress. It would be inequitable to permit the retention by holders of windfall profits derived from the interest-free use of blocked funds. Holders would have 30 days to comply with the interest requirement.

Paragraph (b) would defer the immediate effect of the interest requirement as to the amount of any set-off which would have been claimed against the owner by the holder of the blocked property absent the blocking of the assets. However, use of this exemption is subject to a duty to pay interest from the effective date of this section if the set-off is ultimately not recognized, either because it is determined to be without merit under applicable law or is otherwise disallowed as part of a claims settlement.

With respect to standby letters of credit opened in favor of Iranian entities by U.S. account parties, three distinct situations should be noted. First, where there has been a demand and payment has been made by the bank into a blocked account in the name of the Iranian entity, this

account would be subject to the interest requirement on the same basis as any other blocked bank account. (See, paragraph (c)(1).)

Second, where no demand has yet been made under the letter of credit, there would be no matured obligation subject to the interest requirement. (Paragraph (c)(2) excludes unmatured obligations from the interest requirement.)

Third, where there has been a demand, but a substitute blocked account, in lieu of payment by the bank, has been established by the U.S. account party pursuant to a specific license issued under the provisions of section 535.568, that account is exempt. However, interest shall be due from the effective date of the section on any liquidated obligation of the U.S. account party to an Iranian entity on its underlying contract, performance of which is secured by the standby letter of credit, to the extent of any obligation to an Iranian entity which is ultimately determined to exist and which is recognized, either by judicial or quasi-judicial determination or for purposes of a claims settlement.

Paragraphs (d) and (e) set forth the rates of interest to be credited on various types of blocked property.

Paragraph (f) identifies the types of blocked property subject to the interest requirement: currency, bank deposits and bank accounts, and undisputed debts, claims or obligations which are either liquidated or matured. However, the provisions of section 535.205 do not apply to blocked Iranian property held by foreign affiliates of U.S. firms. The duty to credit interest will be determined by the law of the host country of the foreign affiliate.

Paragraph (g) states that the requirement to credit interest applies to the United States Government and any agency or instrumentality thereof, except as otherwise licensed by the Office.

31 CFR Part 535 is amended by the addition of section 535.205 as follows:

Section 535.205 Holding of certain types of blocked property in interest-bearing accounts.

(a) Except as otherwise provided or as licensed under this part, any person holding any property included in paragraph (f), or who held such property at any time on or since December 1, 1979, is prohibited from holding, withholding, using, transferring, engaging in any transaction involving, or exercising any right, power, or privilege with respect to any such property, unless it is

held in an interest-bearing account, or unless interest is credited on the property by the holder in accordance with the provisions of this section. Persons subject to this requirement have thirty days from the effective date of this section to comply with the requirement.

(b) Persons who would have claimed a set-off against property subject to the provisions of paragraph (a) of this section but for the prohibitions of section 535.201 are exempt from paragraph (a) to the extent of the set-off, provided however, that interest shall be due from the effective date of this section if the claim to a set-off is ultimately not recognized.

(c) The interest requirement of paragraph (a) applies to obligations under standby letters of credit, as defined in section 535.568, as follows:

(1) Where there has been a demand under the letter of credit and payment has been made by the bank into a blocked account in the name of the Iranian entity, that account is subject to the interest requirement of paragraph (a), in accordance with paragraph (f)(1).

(2) Where no demand has been made under the letter of credit, the contingent obligations of the bank and the account party are not subject to the interest requirement of paragraph (a), in accordance with paragraph (f)(2) which excludes unmatured obligations from the scope of the interest requirement.

(3) Where there has been a demand, but a substitute blocked account, in lieu of payment by the bank and reimbursement by the account party, has been established by the U.S. account party pursuant to a specific license issued under section 535.568, the substitute blocked account is exempt from the interest requirement of paragraph (a), provided however, that interest shall be due from the effective date of this section if any liquidated obligation of the account party to an Iranian entity on the underlying contract between the parties is ultimately determined to exist and is recognized.

(d) The rate of interest required by paragraph (a) on interest-bearing accounts or other obligations subject to the interest requirement shall be calculated as from December 1, 1979, and shall be not less than 5-1/2%, provided however, that on amounts of \$100,000 or more, the rate payable on 30-day certificates of deposits, as stated in Federal Reserve Board weekly release H.15, shall apply.

(e) Any account subject to the provisions of this section may be held at a higher rate than specified in paragraph (d) upon instruction of the account owner.



(f) The following types of property are subject to paragraph (a):

(1) currency, bank deposits and bank accounts subject to the provisions of section 535.201; and,

(2) property subject to the provisions of section 535.201 which consists, in whole or in part, of undisputed and either liquidated or matured debts, claims, obligations or other evidences of indebtedness, to the extent of any amount that is undisputed and liquidated or matured; Provided however, that the duty to credit interest on any property subject to the provisions of section 535.201 which, as of the effective date of this section, was held outside the United States by a foreign branch or subsidiary of a U.S. person shall be determined in accordance with the local law of the host country of the foreign branch or subsidiary. Property in the form of a debt is not held outside the United States if the funds intended to pay that debt are held inside the United States.

(g) The provisions of this section apply to the United States Government and any agency or instrumentality thereof, except as otherwise licensed by the Office of Foreign Assets Control.

(h) Soley for purposes of this section, the term "effective date" shall mean December 1, 1979.

Dated: \_\_\_\_\_

Dennis M. O'Connell  
Acting Director

Approved: \_\_\_\_\_  
Richard J. Davis  
Assistant Secretary

[Authority: Secs. 201-207, 91 Stat. 1626, 50 U.S.C. 1701-1706; E.O. No. 12170, 44 FR 65720; E.O. 12211, 45 FR 26685.]