



## OFAC Dramatically Expands Reporting Obligations Regarding Rejected Transactions; Comments Due By July 22

***Ambiguous, undefined terms create uncertainty and confusion, including whether owned or controlled subsidiaries of U.S. companies outside the United States are subject to this reporting requirement.***

On June 21, the Department of the Treasury's Office of Foreign Assets Control ("OFAC") issued an [interim final rule](#) amending several of its regulations relating to reporting procedures and requirements. All U.S. companies should pay particular attention to the revised regulation regarding "Reports on rejected transactions," 31 C.F.R. § 501.604, as reporting obligations have been dramatically expanded.

Previously, this regulation only required reporting by "[a]ny financial institution that rejects a funds transfer" where processing that transfer would violate or facilitate the violation of OFAC's proscriptions. The revised regulation, however, now requires "[a]ny U.S. person (or person subject to U.S. jurisdiction), including a financial institution, that rejects a transaction" that would otherwise violate OFAC's prohibitions to file a report with OFAC within 10 business days. Notably, the term "transaction" is defined in the regulation to include goods and services. OFAC did not issue guidance or any additional FAQs to assist in interpreting the scope of this revised regulation, other than what is in the Federal Register notice. One obvious area that needs to be clarified is the extent to which this reporting requirement applies to majority owned or controlled subsidiaries of U.S. companies located outside the United States in respect of any rejected transactions relating to Iran and Cuba.

Given that this revised regulation was issued as an interim final rule, OFAC is accepting comments until July 22, providing an opportunity to voice concerns with its impact before it becomes final. For example, this revised regulation could lead to the perverse result that a company acting in compliance with law by turning down a transaction now faces a mandatory reporting obligation, while a company risking engagement in a questionable transaction—which then turns out to violate OFAC's regulations—only faces the prospect of submitting a voluntary disclosure.



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