



DEPARTMENT OF THE TREASURY
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OFAC Settles with Danfoss A/S for \$4,379,810 Related to Apparent Violations of the Iran, Syria, and Sudan Sanctions Programs

Danfoss A/S (“Danfoss”), a multinational Danish company that manufactures and sells refrigeration products, air conditioners, compressors, and other cooling products, has agreed to pay \$4,379,810 to settle its potential civil liability for 225 apparent violations of multiple OFAC sanctions programs. The apparent violations occurred when Danfoss FZCO, Danfoss’s wholly owned UAE subsidiary, directed customers in Iran, Syria, and Sudan to make payments to its bank account at the UAE branch of a U.S. financial institution (“U.S. Branch Account”) and when Danfoss FZCO made payments from that same account to entities in Iran and Syria. As a result of this conduct, Danfoss FZCO caused the U.S. financial institution to facilitate prohibited financial transactions and export financial services to sanctioned jurisdictions. The settlement amount reflects OFAC’s determination that the apparent violations were non-egregious and not voluntarily self-disclosed.

Description of the Apparent Violations

Between approximately November 21, 2013, and August 28, 2017, Danfoss FZCO sold cooling and heating equipment and related components to customers in Sudan, Syria, and Iran. During this period, Danfoss FZCO employees directed these customers to remit payments to at least three accounts at banks located in the UAE, including Danfoss’s U.S. Branch Account. Danfoss FZCO’s customers in Iran, Syria, and Sudan used third-party agents such as money exchangers in non-sanctioned jurisdictions (“third-party payers”) to pay Danfoss FZCO at this account. Danfoss FZCO also used third-party payers to make five transfers from its U.S. Branch Account to parties in Syria and Iran. The use of third-party payers disguised the originator or beneficiary of these transactions. As a result, the payments at issue were not stopped by the bank’s transactional screening filters. The total value of all transfers was approximately \$16,959,683.

While OFAC found no evidence that Danfoss willfully used third-party payers for the purpose of evading sanctions, Danfoss FZCO was aware since at least 2011 that using a U.S. financial institution to send or receive payments related to sanctioned jurisdictions could be prohibited. Both prior to and during the relevant period, Danfoss FZCO received communications from its parent company as well as from various financial institutions regarding Danfoss FZCO’s banking activity giving rise to sanctions concerns, including rejected transactions. For example, in March 2011 Danfoss’s U.S. bank rejected a payment that was related to Iran, and in February 2016 Danfoss’ compliance division discovered that an Iranian customer had been invoiced in U.S. Dollars and advised Danfoss FZCO that such activity was impermissible. Despite these communications, Danfoss FZCO continued to use its U.S. Branch Account to collect payments from customers in sanctioned jurisdictions until on or about August 28, 2017.

These apparent violations occurred primarily because of deficiencies in Danfoss's global sanctions compliance program. Danfoss FZCO relied on compliance guidance from Danfoss; however, Danfoss did not have in place procedures to regularly monitor Danfoss FZCO's activities to identify potential sanctions issues. As a result, Danfoss lacked the means to know when problems arose unless Danfoss FZCO proactively contacted Danfoss' Compliance Program Manager. Here, Danfoss FZCO personnel, including the Regional Finance Director, did not have substantive training on U.S. sanctions and did not consult with Danfoss' Compliance Program Manager on the transactions giving rise to the apparent violations. This insufficient understanding of U.S. sanctions left the Regional Finance Director with a lack of urgency to address Danfoss FZCO's banking issues and substantially contributed to the delay in stopping the violative transactions.

Danfoss's financial institution identified the apparent violations in May 2017 and notified Danfoss. On October 31, 2017, Danfoss disclosed the apparent violations to OFAC. OFAC, however, was already in possession of relevant information and assessed that Danfoss' submission did not qualify as a voluntary self-disclosure.

Danfoss appears to have violated § 1705(a) of the International Emergency Economic Powers Act, 50 U.S.C. 1701-1705 (IEEPA), 31 C.F.R. part 560 of the Iranian Transactions and Sanctions Regulations (ITSR), 31 C.F.R. part 542 of the Syrian Sanctions Regulations, and 31 C.F.R. part 538 of the Sudanese Sanctions Regulations (SSR), when on 225 occasions it caused a U.S. financial institution to facilitate prohibited financial transactions and export financial services to either Iran, Syria, or Sudan.

Penalty Calculations and General Factors Analysis

The statutory maximum civil monetary penalty applicable in this matter is \$71,383,826. OFAC determined that Danfoss did not voluntarily self-disclose the apparent violations and that the apparent violations constitute a non-egregious case. Accordingly, under OFAC's Economic Sanctions Enforcement Guidelines ("Enforcement Guidelines"), 31 C.F.R. Part 501, app. A., the base civil monetary penalty amount applicable in this matter equals the sum of the applicable schedule amount for each apparent violation, which is \$21,899,050.

The settlement amount of \$4,379,810 reflects OFAC's consideration of the General Factors under the Enforcement Guidelines.

OFAC determined the following to be **aggravating factors**:

- (1) Throughout a four-year period, Danfoss FZCO failed to exercise a due degree of caution or care in complying with U.S. sanctions requirements when it used its U.S. Branch Account to receive payments from, and make payments to, customers in sanctioned jurisdictions. Although Danfoss FZCO did not recognize warning signs that such transactions were prohibited, OFAC found no evidence that Danfoss willfully disregarded the relevant prohibitions.
- (2) Danfoss FZCO had actual knowledge that it was being paid by, and was making payments to, customers in sanctioned jurisdictions using its U.S. Branch Account.

- (3) By accepting multiple payments from third parties in non-sanctioned jurisdictions, Danfoss FZCO prevented the foreign branch of a U.S. financial institution from appropriately screening and rejecting these transactions; it also enabled businesses in Iran, Syria, and Sudan to engage in international commerce through the U.S. financial system. OFAC found no evidence that Danfoss willfully used third-party payers for the purpose of evading sanctions.
- (4) Danfoss is a commercially sophisticated entity that operates 69 factories globally, employs approximately 42,000 people worldwide, and serves customers in more than 100 countries, including the United States.

OFAC determined the following to be **mitigating factors**:

- (1) Danfoss has not received a penalty notice or Finding of Violation from OFAC in the five years preceding the earliest date of the transactions giving rise to the apparent violations.
- (2) Danfoss took quick action to ascertain the root causes of the conduct at issue. It also adopted new and more effective internal controls and procedures to prevent a recurrence of the apparent violations, including the following:
 - Ceased doing business entirely in Iran, Syria, and Sudan.
 - Developed a new procedure for monitoring and documenting payments to its U.S. bank accounts to identify true originators and reject any payments that originate from a sanctioned jurisdiction.
 - Updated its Export Control Standards and its Export Control Manual to contain sections that specifically highlight the roles and responsibilities of all employees to address specific U.S. sanctions regulations compliance, and released several new required forms, announcements, and supporting documentation to reinforce its employees' understanding of U.S. export controls and sanctions and to help employees identify sanctions compliance red flags.
 - Created a sanctions manual specifically for Danfoss FZCO and implemented training for Danfoss FZCO employees to make clear their obligations under U.S. sanctions and the risks specific to doing business in the Middle East.
- (3) Danfoss was highly cooperative in providing relevant information and responding to all OFAC requests for information in a timely manner. Danfoss also agreed to toll the Statute of Limitations for the apparent violations.

Compliance Considerations

This enforcement action highlights the risks to multinational companies, including to non-U.S. entities, that involve the U.S. financial system in commercial activity involving an OFAC-

sanctioned country, region, or person. Commercial activity that might not otherwise violate OFAC regulations—such as the sale of non-U.S. goods by a non-U.S. person to an entity in an OFAC-sanctioned country—can nonetheless cause a violation when the financial transactions related to that activity are processed through or involve U.S. financial institutions.

This action also emphasizes the importance for entities to maintain effective, risk-based sanctions compliance programs, and to train key staff including senior management to identify and escalate potential violations of U.S. sanctions to the appropriate compliance personnel. It is particularly important to implement controls specific to the risks posed by the regions in which subsidiaries operate, and any risks stemming from specific business practices, such as accepting payments from third parties.

Relatedly, this case demonstrates the value of considering OFAC guidance and advisories to inform and strengthen sanctions compliance programs. As relevant here, OFAC published an [advisory](#) on January 10, 2013, alerting U.S. financial institutions to Iranian efforts to circumvent U.S. sanctions, and in particular risks arising from the use of third-country exchange houses and trading companies acting as money transmitters in support of business with Iran. Even where a non-U.S. company engages in otherwise permissible trade with Iran, knowledge of the risks described in the advisory may help the company avoid engaging in prohibited dealings with U.S. financial institutions and other persons.

OFAC Enforcement and Compliance Resources

On May 2, 2019, OFAC published [A Framework for OFAC Compliance Commitments](#) in order to provide organizations subject to U.S. jurisdiction, as well as foreign entities that conduct business in or with the United States or U.S. Persons, or that use goods or services exported from the United States, with OFAC's perspective on the essential components of a sanctions compliance program. The *Framework* also outlines how OFAC may incorporate these components into its evaluation of apparent violations and resolution of investigations resulting in settlements. The *Framework* includes an appendix that offers a brief analysis of some of the root causes of apparent violations of U.S. economic and trade sanctions programs OFAC has identified during its investigative process.

Information concerning the civil penalties process can be found in the OFAC regulations governing each sanctions program; the Reporting, Procedures, and Penalties Regulations, 31 C.F.R. part 501; and the Economic Sanctions Enforcement Guidelines, 31 C.F.R. part 501, app. A. These references, as well as recent civil penalties and enforcement information, can be found on OFAC's website at <https://home.treasury.gov/policy-issues/financial-sanctions/civil-penalties-and-enforcement-information>.

For more information regarding OFAC regulations, please go to: www.treasury.gov/ofac.