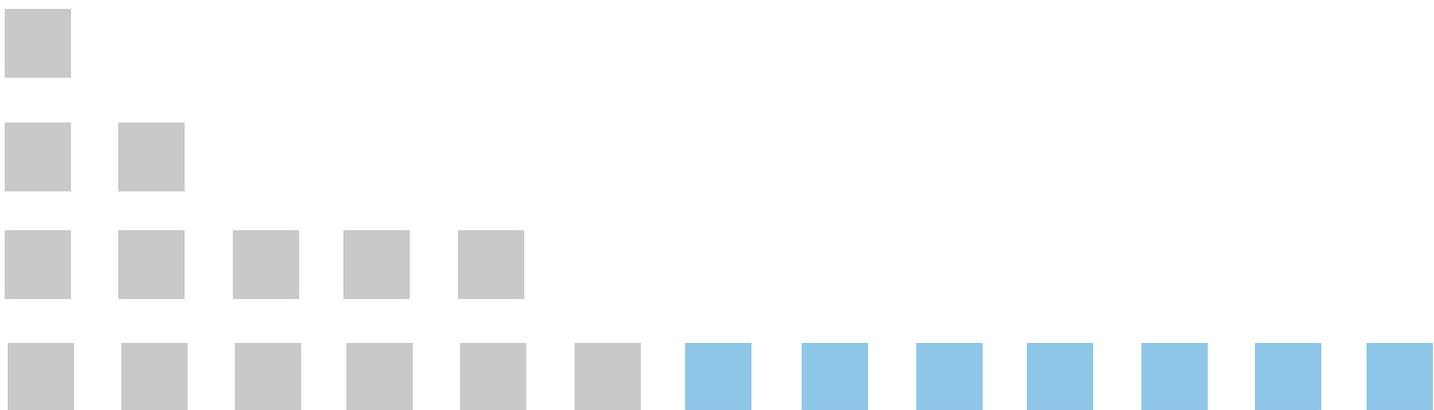


# Country Risk Updates

GFSC Newsletter No.1/2017



This newsletter constitutes advice issued by the Gibraltar Financial Services Commission (GFSC) about risks posed by unsatisfactory money laundering controls in a number of jurisdictions.

Requirement 54 of the Anti-Money Laundering and Terrorist Financing Guidance Notes on Systems of Control to prevent the financial system from being used for money laundering or terrorist financing activities (Guidance Notes) requires firms to “assess and document the risks posed by different countries and territories, or classes of countries and territories, and what additional systems of control it will implement to mitigate these risks”.

Statement of Principle 2 of the Guidance Notes requires firms to “adopt a risk-based approach to these statements of principle and their requirements”.

## **Financial Action Task Force**

The Financial Action Task Force (FATF) is the global standard setting body for anti-money laundering and combating the financing of terrorism (AML/CFT). In order to protect the international financial system from money laundering and financing of terrorism (ML/FT) risks and to encourage greater compliance with the AML/CFT standards, the FATF identifies jurisdictions that have strategic deficiencies and works with them to address those deficiencies that pose a risk to the international financial system.

Jurisdictions subject to a FATF call on its members and other jurisdictions to apply counter-measures to protect the international financial system from the on-going and substantial ML/FT risks, and to apply enhanced due diligence measures proportionate to the risks emanating from:

### **Democratic People's Republic of Korea (DPRK)**

The FATF remains concerned by the DPRK’s failure to address the significant deficiencies in its AML/CFT regime and the serious threat this poses to the integrity of the international financial system. The FATF urges the DPRK to immediately and meaningfully address its AML/CFT deficiencies. Further, FATF has serious concerns with the threat posed by DPRK’s illicit activities related to the proliferation of weapons of mass destruction (WMDs) and its financing.

The FATF reaffirms its 25 February 2011 call on its members and urges all jurisdictions to give special attention to business relationships and transactions with the DPRK, including DPRK companies, financial institutions and those acting on their behalf. In addition to enhanced scrutiny, the FATF further calls on its members and urges all jurisdictions to apply effective counter-measures, and targeted financial sanctions in accordance with applicable United Nations Security Council Resolutions, to protect their financial sectors from money laundering, financing of terrorism and WMD proliferation financing (ML/FT/PF) risks emanating from the DPRK. Jurisdictions should take necessary measures to close existing branches, subsidiaries and representative offices of DPRK banks within their territories and terminate correspondent relationships with DPRK banks, where required by relevant UNSC Resolutions.

### **Iran**

In June 2016, the FATF welcomed Iran’s adoption of, and high-level political commitment to, an Action Plan to address its strategic AML/CFT deficiencies, and its decision to seek technical assistance in the implementation of the Action Plan. Accordingly, in June 2016, the FATF suspended counter-measures for twelve months in order to monitor Iran’s progress in implementing the Action Plan. If the FATF determines that Iran has not demonstrated sufficient progress in implementing the Action Plan at the end of that period, FATF’s call for counter-measures will be re-imposed. If Iran meets its commitments under the Action Plan in that time period, the FATF will consider next steps in this regard.

Iran will remain on the FATF Public Statement until the full Action Plan has been completed. Until Iran implements the measures required to address the deficiencies identified in the Action Plan, the FATF

will remain concerned with the terrorist financing risk emanating from Iran and the threat this poses to the international financial system. The FATF, therefore, calls on its members and urges all jurisdictions to continue to apply enhanced due diligence to business relationships and transactions with natural and legal persons from Iran, consistent with FATF Recommendation 19.

The FATF will continue to engage with Iran and closely monitor its progress.

## **Improving Global AML/CFT Compliance: on-going process**

As part of its on-going review of compliance with the AML/CFT standards, the FATF identifies the following jurisdictions that have strategic AML/CFT deficiencies for which they have developed an action plan with the FATF. While the situations differ among each jurisdiction, each jurisdiction has provided a written high-level political commitment to address the identified deficiencies. The FATF welcomes these commitments.

A number of jurisdictions have not yet been reviewed by the FATF. The FATF continues to identify additional jurisdictions, on an on-going basis, that pose a risk to the international financial system.

The FATF and the FATF-style regional bodies (FSRBs) will continue to work with the jurisdictions noted below and to report on the progress made in addressing the identified deficiencies. The FATF calls on these jurisdictions to complete the implementation of action plans expeditiously and within the proposed timeframes. The FATF will closely monitor the implementation of these action plans and encourages its members to consider the information presented below.

Jurisdictions with strategic deficiencies:

- Afghanistan
- Bosnia and Herzegovina
- Ethiopia
- Iraq
- Lao PDR
- Syria
- Uganda
- Vanuatu
- Yemen

### **Afghanistan**

Since June 2012, when Afghanistan made a high-level political commitment to work with the FATF and APG to address its strategic AML/CFT deficiencies, Afghanistan has substantially addressed its action plan at a technical level, including by: (1) introducing mechanisms for policy and operational level coordination on AML/CFT; (2) adequately criminalising money laundering and terrorist financing; (3) establishing adequate provisions for freezing and asset confiscation; (4) establishing a targeted financial sanctions framework; (5) establishing an adequate supervisory and oversight system; (6) improving the legal status and resources of the FIU; (7) and developing a cross-border currency declaration system. The FATF will conduct an on-site visit to confirm that the process of implementing the required reforms and actions is underway to address deficiencies previously identified by the FATF.

### **Bosnia and Herzegovina**

In June 2015, Bosnia and Herzegovina made a high-level political commitment to work with the FATF and MONEYVAL to address its strategic AML/CFT deficiencies. Since October 2016, Bosnia and Herzegovina established a legal framework for freezing terrorist assets under UNSCR 1373 and made

progress in adopting several insurance laws. Bosnia and Herzegovina should continue to implement its action plan to address its deficiencies, including by: (1) harmonising criminalisation of terrorist financing and money laundering in the remaining criminal code; (2) implementing an adequate supervisory framework; (3) implementing adequate AML/CFT measures for the non-profit sector; (4) establishing and implementing adequate cross-border currency controls; and (5) ensuring adequate procedures for the confiscation of assets. The FATF encourages Bosnia and Herzegovina to continue implementing its action plan to address its AML/CFT deficiencies.

### **Ethiopia**

The 4th round mutual evaluation report of Ethiopia was adopted in March 2015. This report detailed some progress towards the development of an adequate AML/CFT legal framework, in line with the FATF standards. However, there is a lack of effective implementation in the country, including with regard to the recommendations provided in that report. Therefore, in February 2017, Ethiopia made a high-level political commitment to work with the FATF and ESAAMLG to strengthen its effectiveness and address any related technical deficiencies. Ethiopia will work to implement its action plan to accomplish these objectives, including by: (1) implementing the results of its national risk assessment; (2) fully integrating designated non-financial businesses and professions into its AML/CFT regime; (3) ensuring that the proceeds and instrumentalities of crime are confiscated; (4) consistently implementing terrorism-related targeted financial sanctions and proportionately regulating non-profit organizations in line with a risk-based approach; and (5) establishing and implementing WMD-related targeted financial sanctions.

### **Iraq**

In October 2013, Iraq made a high-level political commitment to work with the FATF and MENAFATF to address its strategic AML/CFT deficiencies. Since October 2016, Iraq has taken steps towards improving its AML/CFT regime. Iraq should continue to implement its action plan to address its remaining deficiencies, including by: (1) continue implementing the legal framework and appropriate procedures for identifying and freezing terrorist assets; (2) ensuring that all financial institutions are subject to adequate customer due diligence requirements; (3) ensuring that all financial institutions are subject to adequate suspicious transaction reporting requirements; and (4) establishing and implementing an adequate AML/CFT supervisory and oversight programme for all financial sectors. The FATF encourages Iraq to continue implementing its action plan to address its remaining AML/CFT deficiencies.

### **Lao PDR**

Since June 2013, when Lao PDR made a high-level political commitment to work with the FATF and APG to address its strategic AML/CFT deficiencies, Lao PDR has substantially addressed its action plan at a technical level, including by: (1) establishing mechanisms for domestic AML cooperation; (2) adequately criminalising money laundering and terrorism financing; (3) establishing a legal framework for the confiscation, freezing, and seizing of the proceeds of crime; (4) establishing a targeted financial sanctions framework; (5) improving the legal status and resources of the FIU; (6) strengthening its STR legal framework and financial sector supervision; (7) and developing a cross-border declaration system. The FATF will conduct an on-site visit to confirm that the process of implementing the required reforms and actions is underway to address deficiencies previously identified by the FATF.

### **Syria**

Since February 2010, when Syria made a high-level political commitment to work with the FATF and MENAFATF to address its strategic AML/CFT deficiencies, Syria has made progress to improve its AML/CFT regime. In June 2014, the FATF determined that Syria had substantially addressed its action

plan at a technical level, including by criminalising terrorist financing and establishing procedures for freezing terrorist assets. While the FATF determined that Syria has completed its action plan agreed upon with the FATF, due to the security situation, the FATF has been unable to conduct an on-site visit to assess whether the process of implementing the required reforms and actions is underway. The FATF will continue to monitor the situation, and will conduct an on-site visit at the earliest possible date.

### **Uganda**

In February 2014, Uganda made a high-level political commitment to work with the FATF and ESAAMLG to address its strategic AML/CFT deficiencies. Uganda should continue to work on addressing the following deficiencies: (1) adequately criminalise terrorist financing; (2) implement adequate procedures for freezing terrorist assets in accordance with UNSCRs 1267 and 1373, and their successor resolutions; (3) ensure that all financial institutions are subject to adequate record-keeping requirements; (4) establish a fully operational and effectively functioning financial intelligence unit; (5) introduce and implement an appropriate legal basis to permit the competent authorities to provide a wide range of mutual legal assistance; and (6) ensure that appropriate laws and procedures are in place with regard to international co-operation for the financial intelligence unit and supervisory authorities. The FATF encourages Uganda to continue implementing its action plan to address its AML/CFT deficiencies.

### **Vanuatu**

In February 2016, Vanuatu made a high-level political commitment to work with the FATF and APG to address its strategic AML/CFT deficiencies. Since October 2016, Vanuatu has enhanced the resources and capacity of its FIU. Vanuatu should continue to work on implementing its action plan to address its deficiencies, including by: (1) adequately criminalising money laundering and terrorist financing; (2) establishing and implementing adequate procedures for the confiscation of assets related to money laundering; (3) establishing and implementing an adequate legal framework for identifying, tracing and freezing terrorist assets and other UNSCR sanctions; (4) ensuring a fully operational and effectively functioning financial intelligence unit; (5) strengthening preventive measures, including for wire transfers; (6) establishing transparency for the financial sector, and for legal persons and arrangements; (7) implementing an adequate AML/CFT supervisory and oversight programme for all the financial sector and trust and company service providers; and (8) establishing appropriate channels for international co-operation and domestic coordination policies and actions on identified risks and ensuring effective implementation. The FATF encourages Vanuatu to continue implementing its action plan to address its AML/CFT deficiencies.

### **Yemen**

Since February 2010, when Yemen made a high-level political commitment to work with the FATF and MENAFATF to address its strategic AML/CFT deficiencies, Yemen has made progress to improve its AML/CFT regime. In June 2014, the FATF determined that Yemen had substantially addressed its action plan at a technical level, including by adequately criminalising money laundering and terrorist financing; establishing procedures to identify and freeze terrorist assets; improving its customer due diligence and suspicious transaction reporting requirements; issuing guidance; developing the monitoring and supervisory capacity of the financial sector supervisory authorities and the financial intelligence unit; and establishing a fully operational and effectively functioning FIU. While the FATF determined that Yemen has completed its action plan agreed upon with the FATF, due to the security situation, the FATF has been unable to conduct an on-site visit to assess whether the process of implementing the required reforms and actions is underway. The FATF will continue to monitor the situation, and conduct an on-site visit at the earliest possible date.

**Published by:**

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Europort Avenue  
Gibraltar

[www.gfsc.gi](http://www.gfsc.gi)

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