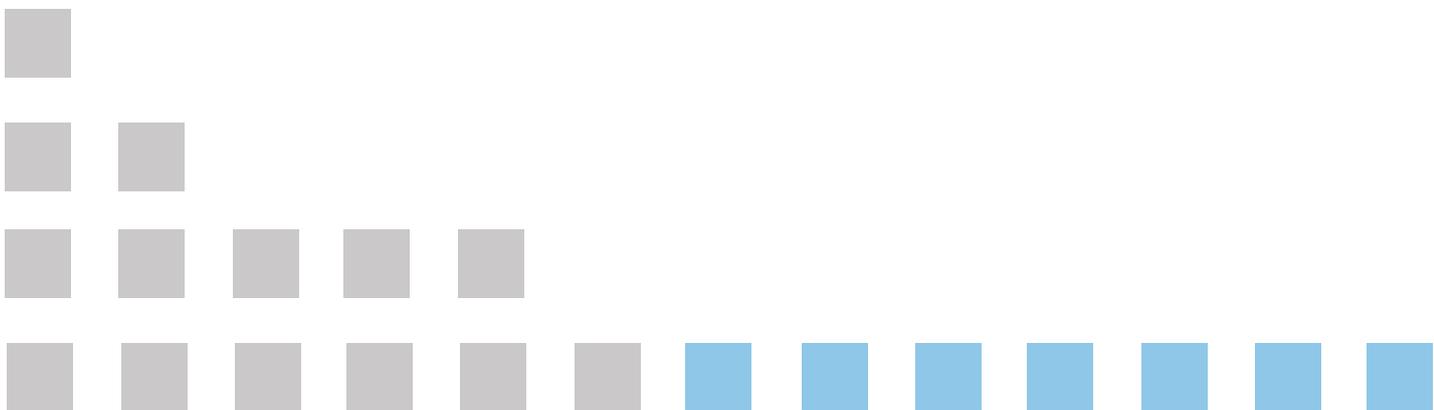


Country Risk Updates

GFSC Newsletter No.2/2017



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 money laundering and terrorist financing (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 anti-money laundering and combating the financing of terrorism (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. In light of Iran’s demonstration of its political commitment and the relevant steps it has taken in line with its Action Plan, the FATF has decided to continue the suspension of counter-measures. The FATF will keep monitoring progress in the implementation of the Action Plan and consider next steps. 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 urges Iran to fully address its AML/CFT deficiencies, in particular those related to terrorist financing.

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:

- Bosnia and Herzegovina
- Ethiopia
- Iraq
- Syria
- Uganda
- Vanuatu
- Yemen

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 February 2017, Bosnia and Herzegovina adopted several laws, including amendments to the criminal codes and amendments to financial sector laws. The FATF will need to review the final versions of these laws to determine the extent to which they address certain deficiencies, including: (1) harmonizing criminalization of terrorist financing and money laundering in the remaining criminal code; (2) establishing adequate procedures for the confiscation of assets; and (3) establishing an adequate supervisory framework. Bosnia and Herzegovina will also need to continue progress in implementing adequate and appropriate measures for the non-profit sector and cross-border currency controls. The FATF encourages Bosnia and Herzegovina to continue implementing its action plan to address its AML/CFT deficiencies.

Ethiopia

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 has begun working to

implement its action plan, which includes: (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. The FATF encourages Ethiopia to continue implementing its action plan to address its AML/CFT deficiencies.

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 February 2017, 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) continuing to implement its legal framework and related 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 institutions. The FATF encourages Iraq to continue implementing its action plan to address its remaining AML/CFT deficiencies.

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

Since February 2014, when Uganda made a high-level political commitment to work with the FATF and ESAAMLG to address its strategic AML/CFT deficiencies, Uganda has substantially addressed its action plan at a technical level, including by: (1) adequately criminalising terrorist financing; (2) establishing adequate procedures for freezing terrorist assets in accordance with UNSCRs 1267 and 1373, and their successor resolutions; (3) ensuring that all financial institutions are subject to adequate record-keeping requirements; (4) establishing a fully operational and effectively functioning financial intelligence unit; (5) introducing an appropriate legal basis to permit the competent authorities to provide a wide range of mutual legal assistance; and (6) ensuring that appropriate laws and procedures are in place with regard to international co-operation for the financial intelligence unit and supervisory authorities. 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.

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 February 2017, Vanuatu has taken steps towards improving its AML/CFT regime, including by the passage and entry into force of 12 amendment acts and introducing one new act related to targeted financial sanctions. The FATF will need to review the final versions of these laws. Vanuatu should continue to work on implementing its action plan to address its

deficiencies, including by: (1) assessing and responding to offshore terrorist financing risks; (2) adequately criminalising money laundering and terrorist financing; (3) establishing and implementing adequate procedures for the confiscation of assets related to money laundering; (4) establishing and implementing an adequate legal framework for identifying, tracing and freezing terrorist assets and other UNSCR sanctions; (5) ensuring a fully operational and effectively functioning financial intelligence unit; (6) strengthening preventive measures, including for wire transfers; (7) establishing transparency for the financial sector, and for legal persons and arrangements; (8) implementing a risk-based AML/CFT supervisory and oversight programme for all the financial sector and trust and company service providers; and (9) 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.

As per FATF's Public Statement on 23 June 2017, the following Jurisdictions are no longer subject to the FATF's ongoing global AML/CFT Compliance Process;

- Afghanistan
- Lao PDR

FATF Public Statements can be found here;

- <http://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/documents/public-statement-june-2017.html>
- <http://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/documents/fatf-compliance-june-2017.html>

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