



**Programme Area 25: Capacity building and Institutional Cooperation
between Beneficiary State and Norwegian Public Institutions, Local and Regional Authorities**

**Project to strengthen anti-corruption and anti-money laundering systems in the Czech
Republic**

Technical Paper

**ROADMAP FOR ANTI-MONEY LAUNDERING RISK-ASSESSMENT RELATED
TO TRANSPARENCY OF BENEFICIAL OWNERSHIP**

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Introduction

On 2 October a workshop was held in Prague on ‘Risks and Threats in the area of Corruption and related Economic Crime’, under the ‘Project to strengthen anti-corruption and anti-money laundering systems in the Czech Republic’ (CZ-ACAMOL). The main objective of the event was to choose 2 specific areas -under the areas of corruption and money laundering – on which to conduct risk assessments. It was agreed by the event participants to select the issue of ‘Beneficial ownership of legal entities’ under the anti-money laundering component. This document outlines a proposed schedule/roadmap for conducting the assessment.

1. Rationale

The Czech Republic has recently commenced and is undertaking a money laundering/terrorism financing National Risk Assessment (NRA), as required under the FATF Recommendation 1. The Czech authorities plan to finalize this exercise by end of 2014 and have already identified a range of high-risk sectors, which are the main focus of the on-going NRA (for example, risks arising from the challenge of determining beneficial ownership of corporate entities and from misuse of virtual currencies).

It has been recognized by all authorities involved in the anti-money laundering system in the Czech Republic that a lack of transparency in the beneficial ownership of legal entities constitutes one of the key vulnerabilities, open to exploitation by criminals seeking to launder proceeds from virtually any type of predicate offence. According to the authorities one of the sectors most exposed to this vulnerability is the system of public finances/budgetary expenditure. The abuse of this system arguably generates the largest volumes of criminal proceeds in the Czech Republic and has the largest negative repercussions (consequences) for the functioning of the system of government. Such lack of transparency also facilitates corruption, which is a core topic of the overall CZ10 project. At the same time Czech authorities are equally concerned with other serious proceeds generating offences, such as drug and human trafficking and other activities of organized crime which lead to significant quantities of money laundering with the use of legal entities. Another recognized proceeds-generating threat is cybercrime, however it is not clear to what extent the abuse of legal persons is a frequent phenomenon in this context.

Under the new international standards the requirements for beneficial owners of corporate entities and trust-type structures have been significantly expanded by placing additional obligations on legal entities and/or government authorities to maintain reliable beneficial ownership information such that it is available to competent authorities in a timely manner. However, the relevant FATF Recommendations offer a degree of flexibility to governments in establishing specific methods to achieve this.

The international impetus for effective action to tackle lack of transparency of corporate ownership has been further strengthened by the initiatives of the G7 and G20 towards the creation of centralised national registers of beneficial owners.

The Czech Republic has made significant progress with regard to company registration information, and the register is now publicly available for online searching. New legislation has also been

introduced to address bearer shares. However, as in most other countries, the issue of making information available – whether to relevant authorities or publicly - on the ultimate beneficial owners of corporate entities has not yet been addressed. The Czech authorities as well as CoE experts are of the view that these existing measures are, therefore, not sufficient, and need to be reinforced both in order to meet the new FATF Standards and to keep pace with the broader emerging international demands.

As a possible solution the authorities have begun to consider the feasibility of establishing a central registry of beneficial owners, which could potentially lead to a formal proposal. Although initiatives internationally have not yet advanced to a conclusion in any jurisdiction and discussions at EU level have yet to reach a consensus, more and more countries are publishing commitments and action plans that include the creation of such central registries. It is timely to draft an action plan for the Czech Republic to address this topic, based on an assessment of the underlying risks.

2. Issues to be covered

The assessment will include three main components:

- a. Research of international experience, models and emerging proposals for the identification/verification and registration of beneficial ownership information in relation to corporate bodies and trust-type entities and for providing appropriate access thereto.
- b. Assessment of the current legal and institutional framework in the Czech Republic for the registration of corporate bodies and, in particular, with regard to any measures in place to capture beneficial ownership information.
- c. Analysis of the key risks arising from an AML/CFT perspective (with an additional focus on vulnerabilities of and potential impact on government finances arising, for example, from corruption, tax evasion, fraud, or abuse of privatisation or procurement processes).
- d. Analysis of possible approaches to achieving transparency of beneficial ownership information; formulation of policy (and, where relevant, legislative) proposals.

3. Methods

- Research of international experience and emerging proposals (scoping exercise);
- Legislative review;
- Consultations with key stakeholders in the Czech Republic to assess the feasibility of implementation of possible solutions including, for example, a register of beneficial ownership;
- Development and application of an analytical framework towards achieving a sustainable level of transparency of beneficial ownership information, in line with international standards and developments.

4. Schedule

The period for conducting risk assessments is envisaged in the project document as September-November 2014. On the basis of the discussion held at the 2 October roundtable, it was agreed that the assessment should produce a first draft during December and be finalised by the end of January at the latest. The proposed schedule for the assessment is therefore as follows:

- Selection of national and international experts: by 24 October
- Agreement on risk assessment methodology between the experts: by 31 October
- Information gathering on-site mission: 10-12 November 2014
- Review of international experience on BO by international expert: 14 – 21 November 2014
- Collection of data by national expert (under international expert guidance) and preliminary review of national framework: 14 – 21 November 2014
- Provision of draft assessment: 3 January 2014
- Review of draft by project stakeholders: 30 January 2015
- Completion of final version by international expert with national expert input: 15 February 2015