

ANNUAL REPORT FOR 2014



MONEYVAL
Committee of Experts
on the Evaluation of Anti-Money
Laundering Measures
and the Financing of Terrorism

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French edition:

Rapport annuel sur les activités de MONEYVAL 2014

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Abbreviations and acronyms

CDD	Customer Due Diligence
CDPC	European Committee on Crime Problems
CEPs	Compliance Enhancing Procedures
CETS 198	2005 Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism – the Warsaw Convention
CFT	Countering the financing of terrorism
COP	Conference of the Parties to the 2005 Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism – the Warsaw Convention (CETS 198)
Core Recommendations	FATF Core Recommendations: R.1 Money laundering offence R.5 Customer due diligence R.10 Record keeping R.13 Suspicious transaction reporting SRII Criminalise terrorist financing SRIV Suspicious transaction reporting – terrorist financing
CTED	UN Counter-Terrorism Committee Executive Directorate
CTIF-CFI	Belgian Financial Intelligence Unit
DNFBPs EAG EDD	Designated non-financial businesses and professions Enhanced Due Diligence Eurasian Group on combating ML/TF
EPAS	Enlarged Partial Agreement on Sport
ERRG	Europe/Eurasia Regional Review Group
EU	European Union
FATF	Financial Action Task Force
FIA	Financial Intelligence Authority, the Financial Intelligence Unit of the Holy See
FIU	Financial intelligence unit
FSRB	FATF-Style Regional Body
FT GDP	Financing of Terrorism Gross Domestic Product
ICRG ICPO-Interpol	International Co-operation Review Group of the FATF International Criminal Police Organization
IFIs	International financial institutions – IMF and World Bank

IMF	International Monetary Fund
IS	Islamic State (Islamic State of Iraq and the Levant)
Key Recommendations	FATF Key Recommendations R.3 Confiscation and provisional measures R.4 Secrecy laws consistent with the Recommendations R.23 Regulation, supervision and monitoring R.26 The FIU R.35 Conventions R.36 Mutual legal assistance R.40 Other forms of co-operation SRI Implement UN instruments SRIII Freeze and confiscate terrorist assets SRV International co-operation
MER	Mutual evaluation report
ML	Money laundering
MLA	Mutual legal assistance
NPO	Non-profit organisation
OSCE	Organization for Security and Co-operation in Europe
PACE	Parliamentary Assembly of the Council of Europe
PC-GR-COT	Ad-hoc Drafting Group on Transnational Organised Crime
PEP	Politically exposed person
SAR	Suspicious activity report
STR	Suspicious transaction reports
TCSP	Trust and company service providers
TF	Terrorist financing
UN	United Nations
UNCTC	United Nations Counter-Terrorism Committee
UNODC	United Nations Office on Drugs and Crime
UNSCR	United Nations Security Council Resolutions
VTC	Voluntary Tax Compliance

Introduction from the Chairman



It is a privilege to present my second Annual Report as chairman of MONEYVAL.

The work of the Committee in 2014 is set out in detail in this Annual Report.

I should say at the outset that the second plenary of the year (in September) was overshadowed by the atrocities committed in the Middle East by IS. MONEYVAL marked symbolically the appalling beheadings of hostages with a moment's silence.

We then went on, at the practical level, to examine how we could act more effectively on financing of terrorism issues that arise in the context of these new threats, as this is an essential part of our mandate. We immediately began a special monitoring procedure under which our states and territories certify to MONEYVAL that they have implemented the relevant United Nations Security Council Resolutions related to IS and that their financial institutions have been made aware of them. We followed up these results in December with a further call to all our states and territories to provide information on their proactivity in nominating persons for designation by the relevant United Nations Committee in New York, especially in respect of foreign fighters who leave home to join IS. We also required our countries to provide information to

MONEYVAL on their capacities to ensure that ransom payments can be caught by their sanctioning regimes, as ransom payments are a significant income stream for this organisation. We are now also undertaking a one-off fact-finding exercise of the implementation of the main FT standards to ensure that our jurisdictions have sufficiently robust systems to freeze assets of those involved with IS, and to prosecute terrorist financing. The results of this exercise will be reviewed in 2015 and included in our next Annual Report.

It was a particular honour for me to welcome to the MONEYVAL plenary in September H.M. Queen Máxima of the Netherlands, in her capacity as the UN Secretary General's Special Advocate for Inclusive Finance. In 2014 MONEYVAL conducted its first survey of the extent to which our states and territories take financial inclusion into account when developing their AML/CFT policies. We discussed the outcome of this work in the presence of Queen Máxima. Her Majesty's inspiring remarks appear at appendix I to this report, together with the Executive Secretary's response (appendix II). Subsequently we published a first report "Strengthening Financial Integrity through Financial Inclusion", which can be downloaded from our website. We shall return to this important issue in 2015 with a further survey and an analysis of how financial inclusion policies are impacting on AML/CFT compliance. I am very grateful to Her Majesty for honouring us with her presence.

Overall, 2014 has been a year of transition. We concluded all but one of our planned 4th round onsite visits¹ and adopted 5 evaluation reports in the 4th round. We set a challenging schedule for our 5th round – which begins in 2015, using the revised FATF Recommendations of 2012 and the 2013 Methodology. The next round will take us to 2021/22. The MONEYVAL 4th round, with its increased focus on effectiveness, should provide a firm foundation for this new round, which will be less focused on technical compliance than hitherto, and much more focused on effectiveness. It is central to the new round of assessments that countries and territories undertake searching

1. The last onsite visit (to Jersey) took place in January 2015.

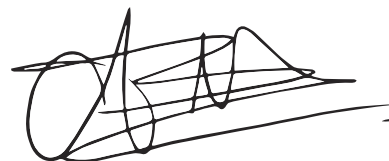
and honest assessments of the AML/CFT risks they face. One of the first questions that evaluators will ask in the new round is: does the evaluated jurisdiction really understand the AML/CFT risks it faces? MONEYVAL has been active in awareness-raising on the importance of getting national risk assessments right. The 5th round reports will then consider how well the jurisdiction is performing in 11 key areas (or "immediate outcomes") which are critical for an effective AML/CFT system. This new Methodology is both innovative and challenging. MONEYVAL has put much effort in 2014 into preparing all MONEYVAL delegations for the new round of evaluations. In 2014 we trained 36 experts to act as evaluators in the next round and we will have a further 70 persons trained to conduct these assessments by the end of 2015. We have organised seminars in plenary meetings on each of the immediate outcomes on effectiveness. We have also begun an ambitious programme of in-country training, which is being undertaken for all 33 jurisdictions in MONEYVAL, so that key players in the domestic systems fully understand the Methodology and what is expected of them. I am grateful to the secretariat for organising such a thorough process of preparation for the new round. I know it is appreciated by our jurisdictions.

The new round will be lengthy, and many jurisdictions will not be evaluated again for some years. In December we agreed a system, which is explained later in this report, whereby follow-up of our 4th round

evaluations (and its recommendations) will continue until one year before the jurisdictions' next onsite visits. We expect most of our jurisdictions to have effectively implemented the 4th round standards and recommendations so they can be removed from 4th round follow-up before their 5th round assessments. If they have not been able to exit 4th round follow-up successfully, then any outstanding issues will be given priority consideration in the next onsite visit and, as necessary, followed up further.

Given the grave external threats from terrorism and its financing in 2014, and the continuing need to ensure that crime does not pay through the implementation of effective AML policies, we remain even more committed to our statutory aim: "to improve the capacities of national authorities to fight money laundering and the financing of terrorism more effectively." As I said last year, we are fortunate in having a small and very professional secretariat. But to continue achieving our statutory aim successfully, MONEYVAL urgently needs its secretariat to be further reinforced with more permanent staff, with the expertise to drive forward this critical work in the years to come.

Dr. Anton Bartolo

A handwritten signature in black ink, consisting of a series of loops and strokes, positioned below the name Dr. Anton Bartolo.



Executive summary

This is the fourth report to the Committee of Ministers by the Chair and Executive Secretary of MONEYVAL.

Of the 33 jurisdictions evaluated by MONEYVAL at the start of the year, 22 were subject to active monitoring processes by MONEYVAL in 2014 and a further 2 countries received awareness-raising visits in preparation for the 5th round of evaluations. This is a very positive achievement given MONEYVAL's Secretariat resources.

The reports which have been considered at MONEYVAL plenary meetings continue to show a consistent improvement of technical compliance with international standards, particularly on the preventive side. However, the effective implementation of the standards remains more challenging. As noted in earlier reports, more needs to be done by law enforcement and prosecutorial authorities to achieve serious money laundering convictions of third parties that launder professionally on behalf of others and to obtain deterrent confiscation orders which take the profit out of crime. Demonstrating effectiveness in these important areas will need to be a priority for states and territories as MONEYVAL commences its 5th round of evaluations in 2015.

In May 2014 a seminar was held in San Marino in the context of a MONEYVAL research project on money laundering by organised crime. This meeting brought together prosecutors and judges from Europe and the USA to explore the reasons for the apparent absence of money laundering convictions of third parties who launder on behalf of organised crime. The seminar was helpful in raising

awareness of how success can be achieved in this area. Prosecutors present understood the need to challenge the courts with more third party money laundering cases based on circumstantial evidence.

In June, as the required legislative amendments to meet MONEYVAL recommendations had not been enacted within the agreed deadlines by Bosnia and Herzegovina, MONEYVAL issued a public statement under its Compliance Enhancing Procedures. Although the preventive AML/CFT Law was subsequently adopted the amendments to the Criminal Code were not adopted and the public statement remained in place at the end of 2014.

In response to international concern in September about atrocities committed by the so-called "Islamic State" (IS), it was reaffirmed that the fight against financing of terrorism was one of the primary missions of MONEYVAL. MONEYVAL States and territories were requested at the September plenary to report to MONEYVAL on their implementation of the recent financial sanctions provided for in respect of IS in UNSCR 2170(2014) and EU Regulation No. 914/2014. A report was subsequently presented on the action taken. At the December plenary States and territories were asked to provide information on proactive nominations made by them to the relevant United Nations Committee for designation (and financial sanctions), particularly in respect of nationals who leave to fight in the Middle East. States and territories were also asked to provide information on how their legal systems can accommodate that part of UNSCR 2170 (2014) dealing with ransom payments.

In September, MONEYVAL also welcomed H.M. Queen Máxima of the Netherlands, the UN Secretary-General's Special Advocate for Inclusive Finance for Development. Her Majesty gave an address to MONEYVAL's 45th plenary meeting. Queen Máxima stressed the role the 33 MONEYVAL States and territories can play in improving access to financial services and pointed out that money laundering and measures for the promotion of inclusive finance complement each other, noting that it is necessary to strike the right balance between security measures and access to formal financial services. MONEYVAL subsequently published a report entitled "Strengthening Financial Integrity through Financial Inclusion".

MONEYVAL is now an internationally recognised and influential global player in the Anti-Money Laundering/

Combatting the Financing of Terrorism (AML/CFT) world. It is a leading Associate Member of the Financial Action Task Force (FATF) and is respected as an effective monitoring mechanism for the quality of its outputs and the strength of its robust follow-up procedures, which are acknowledged to be delivering results. Through its activities, MONEYVAL identifies and helps to reduce risks to the global financial system, identifies gaps in national AML/CFT systems, and actively follows up the progress countries made to rectify them.

The Council of Europe benefits from MONEYVAL's strong reputation and high visibility. However, if MONEYVAL is to maintain its market position in AML/CFT monitoring in the future, it needs to develop a much bigger core of permanent AML/CFT expertise in the MONEYVAL secretariat.

Introduction and background

Money laundering – i.e. *the process through which criminals give an apparently legitimate origin to proceeds of crime* – is an expanding and increasingly international phenomenon. Current estimates of the amount of money laundered worldwide range from \$500 billion to a staggering \$1 trillion, with disastrous effects on the global economy, especially on vulnerable, developing economies.

The Council of Europe was the first international organisation to emphasise the importance of taking measures to combat the threats posed by money laundering for democracy and the rule of law. The Council's efforts thus led to the creation, in 1997, of the *Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism* (MONEYVAL). MONEYVAL now works in close co-operation with the FATF as one of the leading FATF-style regional bodies (FSRBs) and Associate Members of the FATF.

28 Council of Europe member States are assessed by MONEYVAL.² In addition, Israel and the Holy See (including the Vatican City State) and the three UK Crown Dependencies of Jersey, Guernsey and the Isle of Man participate fully in the evaluation processes of MONEYVAL, are subject to its follow-up procedures and have now been granted the right to vote and stand for election to the Bureau. Thus, MONEYVAL now is responsible for assessing 33 jurisdictions.

MONEYVAL's main activity consists in evaluating the implementation of international AML/CFT standards. In 2009, it started its 4th round of assessment visits. Other activities include studies on typologies of money-laundering and terrorist financing, joint actions with other AML/CFT-related bodies and, more recently, the review of Voluntary Tax Compliance programmes in its jurisdictions.³ Through these activities, MONEYVAL contributes to the protection of the global financial system from abuse. It also actively contributes to the fight against organised crime, as money laundering provides organised crime with its cash flow and the opportunity to invest in the legitimate economy.

OVERVIEW OF WORK CONDUCTED IN 2014

With a renewed interest in money laundering and terrorist financing, as well as in corporate transparency, at the global level, 2014 proved to be an intense and fruitful year for MONEYVAL. Of the 33 States and jurisdictions subject to evaluation by MONEYVAL in 2014, 22 were subject to active monitoring processes (through onsite visits, adopted reports, follow-up and compliance procedures) and 2 further states were visited in advance of their 5th round assessment. This work is summarised at appendix III.

2. See full list below.

3. For more information, visit MONEYVAL's website.

Principal achievements in 2014

- ▶ 4 onsite visits were undertaken with key findings left with the jurisdictions (Azerbaijan, Bosnia and Herzegovina, Guernsey and Montenegro).
- ▶ 1 third round progress report was subject to Secretariat review, full plenary discussion, adoption and publication (Russian Federation).
- ▶ 2 follow-up reports on the Special Assessment of Cyprus.
- ▶ 1 report by a jurisdiction on identified important deficiencies as a result of the process regarding the state of compliance on all NC and PC ratings in the 3rd round Mutual Evaluation Report (MER) was reviewed (Republic of Moldova).
- ▶ 5 fourth round evaluation reports were adopted (Azerbaijan, Estonia, Liechtenstein, "the former Yugoslav Republic of Macedonia" and Romania).
- ▶ 16 fourth round follow-up reports on 11 countries were subject to Secretariat review, and plenary discussion and adoption (Albania, Andorra, Czech Republic, Georgia, Israel, Latvia, Lithuania, Malta, Republic of Moldova, San Marino, Slovakia).
- ▶ 5 compliance reports for jurisdictions in Compliance Enhancing Procedures (CEPS) were presented to the Plenary in respect of the two jurisdictions in CEPs in 2013 (2 reports by Lithuania and 3 reports by Bosnia and Herzegovina).
- ▶ 7 reports on voluntary tax compliance legislation proposed by 4 countries (Albania, Hungary, Malta and San Marino).



MONEYVAL welcomed in September H.M. Queen Máxima of the Netherlands, the UN Secretary-General's Special Advocate for Inclusive Finance for Development, who gave an address to MONEYVAL's 45th plenary meeting. At the same meeting a report was adopted "Strengthening Financial Integrity through Financial Inclusion", which sets out the findings of a survey on the levels of financial inclusion in MONEYVAL states and territories and their possible impact on AML/CFT policies. The report was subsequently published on the MONEYVAL website.

Before starting the 5th round of mutual evaluations MONEYVAL conducted onsite country trainings in Armenia and Serbia in order to raise awareness of the requirements of the revised FATF standards and to prepare major stakeholders for the onsite visits in 2015. A series of seminars was also held during MONEYVAL plenary meetings aimed at raising awareness of the implications of compliance with the revised standards, and the new effectiveness' Methodology.

Members of the MONEYVAL Secretariat actively participated in the new global round of FATF evaluations. The Executive Secretary was an external reviewer of the first FATF evaluation (Spain) and is also involved as external reviewer of the first IMF evaluation under the new Methodology (Italy). A member of the Secretariat also participated as an evaluator in the FATF evaluation of Belgium.

As part of the preparation of the typologies report on *laundering the proceeds of organized crime* a meeting was held in San Marino. The meeting brought prosecutors and judges together to explore the reasons for the apparent absence of money laundering convictions of third parties who launder on behalf of organised crime. The typologies report will be presented in the April Plenary of 2015 for adoption.

An instructive and helpful joint MONEYVAL-Egmont Group seminar was held in August in Strasbourg, on issues involved in AML/CFT strategic analysis by FIUs.

During the year it was reaffirmed that the fight against financing of terrorism was one of the primary missions of MONEYVAL. MONEYVAL States and territories were requested to report on their implementation of the financial sanctions provided for in UNSCR 2170(2014) and EU Regulation No. 914/2014, regarding persons designated as affiliated to IS and a report was subsequently discussed on the action taken. Further information was sought from countries and territories on their proactivity in nominating person for such designations and the application of the sanctioning requirements to ransom payments.

The Chairman and the Executive Secretary consider that the success of MONEYVAL activities in 2014 clearly demonstrate that the Council of Europe Committee of Ministers' expectations of MONEYVAL, when granting MONEYVAL its statute, have been met or exceeded in 2014.

STRUCTURE OF THIS REPORT

This report starts by setting out the mission and working framework of MONEYVAL with key information on past and current activities.

It goes on to present the results of MONEYVAL's main processes for 2014, namely the 4th round mutual evaluations, follow-up of the 3rd round and 4th round evaluations, Compliance Enhancing Procedures, the review of important deficiencies from the 3rd round reports and consideration of voluntary tax compliance programmes. For more information, 3rd round MERs and progress reports, as well as 4th round MERs, biennial follow-up reports and reports prepared at the time a State or territory is removed from the follow-up process are published on the MONEYVAL website.⁴

The report continues with other key activities including MONEYVAL's partnerships with other organisations, representation of MONEYVAL in other forums, adopted and on-going typologies reports, links with the Conference of the Parties (COP) to the Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism (CETS 198), and training sessions and awareness-raising seminars.

Finally, the report concludes with a section on staffing and resources.

4. http://www.coe.int/t/dghl/monitoring/moneyval/Countries/Country_profiles_en.asp

Aim and status of MONEYVAL

MONEYVAL is a monitoring body of the Council of Europe entrusted with the task of assessing compliance with the principal international standards to counter money laundering and the financing of terrorism and the effectiveness of their implementation, as well as with the task of making recommendations to national authorities in respect of necessary improvements to their systems.

Through a dynamic process of mutual evaluations, peer review and regular follow-up of its reports, MONEYVAL aims to improve the capacities of national authorities to fight money laundering and the financing of terrorism more effectively.

MONEYVAL is a permanent monitoring mechanism of the Council of Europe reporting directly to the Committee of Ministers.

MEMBERS AND OBSERVERS

Evaluation by MONEYVAL currently covers, under Article 2 of the Statute of MONEYVAL:

- ▶ member States of the Council of Europe that are not members of the FATF (Article 2 2a of the Statute) and member States of the Council of Europe that become members of the FATF and request to continue to be evaluated by MONEYVAL (Article 2. 2b. of the Statute), currently:

- | | |
|---|-----------------------|
| - Albania | - Andorra |
| - Armenia | - Azerbaijan |
| - Bosnia and Herzegovina | - Bulgaria |
| - Cyprus | - Croatia |
| - Estonia | - Czech Republic |
| - Georgia | - Hungary |
| - Latvia | - Liechtenstein |
| - Malta | - Lithuania |
| - Monaco | - Republic of Moldova |
| - Poland | - Montenegro |
| - Russian Federation ⁵ | - Romania |
| - Serbia | - San Marino |
| - Slovenia | - Slovak Republic |
| - "the former Yugoslav Republic of Macedonia" | - Ukraine |

- ▶ Non-member States of the Council of Europe (Article 2.2e. of the Statute), currently: Israel;
- ▶ The Holy See (including Vatican City State) by virtue of Resolution CM/Res (2011)5;
- ▶ The UK Crown Dependencies of Guernsey, Jersey and the Isle of Man by virtue of Resolution CM/Res(2012)6.

In addition, the following bodies, countries, organisations and institutions have observer status with MONEYVAL and are entitled to send a representative to MONEYVAL meetings:

- ▶ the Parliamentary Assembly of the Council of Europe (PACE)
- ▶ the Council of Europe Development Bank (CEB)
- ▶ the European Committee on Crime Problems (CDPC)
- ▶ the Conference of the Parties of the Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism
- ▶ the European Commission and the Secretariat General of the Council of the European Union
- ▶ States with observer status of the Council of Europe (i.e. Canada, Japan, Mexico, United States of America)
- ▶ the Secretariat of the Financial Action Task Force on Money Laundering
- ▶ ICPO-Interpol
- ▶ the International Monetary Fund
- ▶ the United Nations International Drug Control Programme
- ▶ the United Nations Counter-Terrorism Committee (CTC)
- ▶ the United Nations Crime Prevention and Criminal Justice Division
- ▶ the World Bank (WB)
- ▶ the Commonwealth Secretariat
- ▶ the European Bank of Reconstruction and Development (EBRD)
- ▶ any other members of the FATF.

5. Also a member of FATF

ACTIVITIES AND PROGRAMMES

Objectives

The objective of MONEYVAL is to ensure that its evaluated jurisdictions have in place effective systems to counter money laundering and terrorist financing and comply with the relevant international standards in these fields. MONEYVAL endeavors to achieve this by

Methodology

- ▶ Assessing compliance with all relevant international standards in the legal, financial and law enforcement sectors through a peer review process of mutual evaluations
- ▶ Issuing reports which provide detailed recommendations on ways to improve the effectiveness of domestic regimes to combat money laundering and terrorist financing and States' capacities to cooperate internationally in these areas
- ▶ Ensuring an effective follow-up of evaluation reports, including Compliance Enhancing Procedures, to improve levels of compliance with international AML/CFT standards by the States and territories which participate in MONEYVAL's evaluation processes
- ▶ Conducting typologies studies of money laundering and terrorist financing methods, trends and techniques

Relevant Standards

MONEYVAL evaluations in 2014 were based on the following standards:

International standards upon which MONEYVAL evaluations are currently based⁶

- ▶ 40 FATF Recommendations of 2003⁷
- ▶ 9 FATF Special Recommendations on financing of terrorism and several other related United Nations (UN) instruments (UN Convention for Suppression of the Financing of Terrorism, relevant UN Security Council Resolutions (UNSCR) for the freezing of terrorist assets)
- ▶ 1988 UN Convention on Illicit Traffic of Narcotics, Drugs and Psychotropic Substances ("Vienna Convention", and the 2000 UN Convention against Transnational Organised Crime or "Palermo Convention")
- ▶ Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime (Strasbourg Convention, CETS No. 141)
- ▶ Directive 2005/60/EC of the European Parliament and of the Council of 26 October 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing and the implementing Commission Directive 2006/70/EC of 1 August 2006

Mutual evaluation rounds and follow-up processes

MONEYVAL has conducted three rounds of mutual evaluations and is currently involved in a follow-up assessment round, simply known as the "4th round". In 2014, MONEYVAL commenced preparations to conduct a new evaluation round based on the FATF 2012 Recommendations and 2013 Methodology for assessing technical compliance with the FATF Recommendations and the effectiveness of AML/CFT systems. For each round, evaluations of MONEYVAL States and territories give rise to *Mutual Evaluation Reports*.

Mutual evaluation rounds

First evaluation round (1998-2000)

The first round of mutual evaluations, based on the 1996 FATF Recommendations, was initiated in April 1998 and onsite visits were concluded in December 2000. 22 Council of Europe member States were evaluated in the first evaluation round.

Second evaluation round (2001-2004)

This second round was also based largely on the 1996 FATF Recommendations and included evaluation against the FATF's 2000 Criteria for non-co-operative States and territories. MONEYVAL concluded its second round of onsite visits at the end of 2003 and 27 Council of Europe member States were evaluated.

Third evaluation round (2005-2009)⁸

The third round of mutual evaluations was based on the 2003 revised FATF Recommendations. There appears at appendix IV a list of the standard covered by the 2003 Recommendations. In addition the evaluation reviewed aspects of compliance with the European Union's Third Anti-Money Laundering Directive, which came into force on 15 December 2007. 28 Council of Europe member States together with the Holy See (including Vatican City State) and Israel have been evaluated in the third evaluation round.

6. Although the third round of evaluations concluded in 2009, the Holy See (including Vatican City State) was subsequently evaluated in 2011, with the report being adopted in 2012 following the adoption by the Committee of Ministers on 6 April 2011 of Resolution CM/Res(2011).

7. MONEYVAL will commence using the 2012 revised FATF Recommendations for its 5th round of evaluations starting in 2015.

8. The revised FATF Recommendations of 2012 will form the basis of MONEYVAL's next round of evaluations which will commence in 2015.

Follow-up evaluation round or “MONEYVAL Fourth Round” (2009-2014)

MONEYVAL commenced a follow-up round of onsite visits in 2009. For each country, these evaluations focus on the effectiveness of implementation of core and key and some other important Recommendations in the FATF 2003 Recommendations together with any Recommendations for which the country received either a non-compliant or partially compliant rating in the third round. In addition the evaluation also reviews aspects of compliance with the European Union's Third Anti-Money Laundering Directive.

Fifth evaluation round (2015-2021/22)

The 2012 revised FATF Recommendations will constitute the basis of the next MONEYVAL round of evaluations. In this round of evaluations there will be a much greater emphasis on the effective implementation of the FATF Recommendations by States and Territories with each onsite visit lasting at least two weeks. The first onsite visits will be conducted in 2015 with the first report under the new Recommendations being considered in December 2015. The indicative list of 5th round onsite visits is attached.

As such, onsite visits constitute one of the cornerstones of the work carried out by MONEYVAL. In 2014 MONEYVAL has conducted the following missions:

4th round onsite visits in 2014

- ▶ Azerbaijan (17-21 February)
- ▶ Montenegro (2-8 March)
- ▶ Guernsey (6-11 October)
- ▶ Bosnia - Herzegovina (18 - 29 November)

The report resulting from the 2014 onsite visits to Azerbaijan was considered in plenary meeting in December 2014. The other reports will be considered at MONEYVAL plenary meetings in 2015. A member of the MONEYVAL Secretariat also actively participated in the onsite visit to Belgium (30 June – 15 July) which was conducted by the FATF.

Rules of Procedure and transitional measures applied between the 4th and the 5th evaluation rounds

In 2014, MONEYVAL held several exchange of views on the changes necessary to be made to its current Rules of procedure and to its procedures related to the implementation of voluntary tax compliance (VTC) programmes and AML/CFT requirements by countries and territories evaluated by MONEYVAL. At its 46th Plenary meeting, MONEYVAL adopted:

- ▶ its revised Rules of procedure applicable for the 4th round of mutual evaluations and for follow-up as a result of the third evaluation round⁹;

9. [http://www.coe.int/t/dghl/monitoring/moneyval/About/MONEYVAL\(2004\)12rev13_RoP34_EN_.pdf](http://www.coe.int/t/dghl/monitoring/moneyval/About/MONEYVAL(2004)12rev13_RoP34_EN_.pdf)

- ▶ the Rules of procedure for the 5th round of mutual evaluations¹⁰;
- ▶ revised VTC procedures, which mirror the FATF's VTC procedures¹¹.

Article 6 of the MONEYVAL Statute provides for a Bureau comprised of a Chair, a Vice-Chair and three other members. The tasks of the Bureau are to assist the Chair, supervise the preparation of plenary meetings and ensure continuity between meetings.

GOVERNANCE

MONEYVAL Bureau elected in 43rd Plenary

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| Chair | ▶ Dr Anton Bartolo (Malta) |
| Vice Chair | ▶ Mr Daniel Thelesklaf (Liechtenstein) |
| Members | ▶ Ms Elzbieta Frankow-Jaskiewicz (Poland) |
| | ▶ Mr Nicola Muccioli (San Marino) |
| | ▶ Mr Alexey Petrenko (Russian Federation) |

SCIENTIFIC EXPERTS

MONEYVAL is fortunate in having a panel of independent scientific experts. The role of a scientific expert is to provide neutral, experienced opinions where necessary and to assist the Chair and Secretariat in ensuring the consistency of MONEYVAL's outputs. This includes, among others, fulfilling a quality control function for draft Mutual Evaluation Reports, attending all MONEYVAL plenaries and enriching debates with their experience and knowledge. In 2014, the scientific experts were:

MONEYVAL scientific experts in 2014

- ▶ Dr William Gilmore, Professor of Public International Law, Edinburgh University – Legal scientific expert
- ▶ Mr Boudewijn Verhelst, Deputy Director of CTIF-CFI, and Attorney General in Belgium – Law enforcement scientific expert
- ▶ Mr Giovanni Ilacqua, Head of International Cooperation Division, Banca d'Italia – Financial scientific expert
- ▶ Mr Andrew Strijker, former Head of the Dutch delegation to FATF – Financial scientific expert with special responsibility for the EU Directives
- ▶ Mr Philipp Röser, Executive Officer, Legal and International Affairs, Financial Market Authority, Liechtenstein – Financial scientific expert

10. See [http://www.coe.int/t/dghl/monitoring/moneyval/About/MONEYVAL\(2014\)36_ROP5th_en.pdf](http://www.coe.int/t/dghl/monitoring/moneyval/About/MONEYVAL(2014)36_ROP5th_en.pdf).

11. See full text at : [http://www.coe.int/t/dghl/monitoring/moneyval/Activities/MONEYVAL\(2014\)45_VTC%20procedures%20ENG.pdf](http://www.coe.int/t/dghl/monitoring/moneyval/Activities/MONEYVAL(2014)45_VTC%20procedures%20ENG.pdf)

Third mutual evaluation round

OBJECTIVES AND FORMAT

The third round of mutual evaluations was based on the 2003 revised FATF Recommendations and took place between 2005 and 2009, with the exception of the Holy See, which was evaluated under the 2003 Recommendations in 2012 after the Committee of Ministers accepted its 2011 application to join the MONEYVAL evaluation process. The evaluations also reviewed, in all MONEYVAL States and territories, aspects of compliance with the European Union's Third Anti-Money Laundering Directive. 28 Council of Europe member States together with the Holy See (including Vatican City State) and Israel were evaluated in the third round.

The evaluation team normally comprised one member of the MONEYVAL Secretariat and four evaluators: one legal evaluator, one law enforcement evaluator and two financial evaluators. Ahead of the onsite visit, a *mutual evaluation questionnaire* was sent to the evaluated State or territory. The State or territory was required to provide comprehensive replies to a detailed evaluation questionnaire, relevant legal and regulatory provisions and relevant statistics. The onsite visit provided the evaluation team with the opportunity to meet with relevant governmental agencies, regulators, law enforcement and prosecution agencies, as well as with relevant private sector organisations and non-governmental organisations. The onsite visit normally did not exceed 8 days. The evaluation team then drafted the evaluation report, which was discussed with the State before being submitted to the Plenary for adoption.

One year after the adoption of the 3rd round evaluation report, each country was required to submit a progress report describing the new measures it had taken since the adoption of the report.

The MONEYVAL Secretariat prepared a written analysis of progress against the FATF Core Recommendations. This desk review was circulated to the plenary participants before the discussion of the progress report. One jurisdiction acted as *rapporteur* to assist the Plenary in its peer review. The rapporteur jurisdiction's role was to raise questions on the replies given to the progress

report questionnaire on non-Core Recommendations. The rapporteur jurisdiction advised the Plenary as to whether the information provided adequately answered the questions raised. If the Plenary was satisfied with the information provided and the progress being undertaken, the progress report and the analysis of the Core Recommendations would be adopted and published on the MONEYVAL website. If the Plenary was not satisfied with the information provided the reporting jurisdiction would be invited to submit a fuller report to the next meeting. If the progress was considered to be insufficient, further steps could be taken including the imposition of CEPs. An adopted progress report was subject to a second progress report two years later.

In 2013, the 3rd round report system was applied to the States and territories that joined MONEYVAL after the conclusion of the 3rd round and also to Montenegro, which still was required to satisfy the Plenary that progress was sufficient to adopt its second progress report.¹²

In December 2014, MONEYVAL decided that Ukraine would remain subject to the third round follow-up procedures and should submit a 3rd round progress report for examination by MONEYVAL in September 2015. This report would be subject to a desk-based analysis by the Secretariat of the core Recommendations and would also include an analysis of compliance with Recommendation 3, notably the issues which were highlighted in the context of the NC/PC process. Should these deficiencies remain unaddressed, enhanced scrutiny would be given to the relevant issues in the course of the 5th round assessment, scheduled to take place in 2016.

12. At the 45th Plenary meeting (September 2014), it was decided not to request Russia to report back under the 3rd round procedures, while retaining the discretion to revisit this decision should the 5th round evaluation be postponed beyond 2017. At its 46th MONEYVAL Plenary meeting (Strasbourg, 8-12 December 2014), it was decided that Ukraine shall continue reporting under 3rd round procedures until an assessment is carried out under the 5th round. Progress reports under the third round procedures would also be required for the Isle of Man and the Holy See until one year before the 5th round visits (in September and respectively December 2015)

Progress report format

- ▶ A general overview of the current situation and the developments since the last evaluation relevant in the AML/CFT field.
- ▶ An update on improvements which have been made in respect of the 2003 FATF so called Core Recommendations (Recommendations 1, 5, 10, 13; Special Recommendations II and IV)¹³.
- ▶ An update on improvements which have been made in respect of those other FATF Recommendations which were rated either non-compliant or partially compliant in the Mutual Evaluation Report.
- ▶ Questions related to the European Union's Third Money Laundering Directive (2005/60/EC) and the Implementation Directive (2006/70/EC).
- ▶ Updated statistical data.

THIRD ROUND PROGRESS REPORTS

Plenary meeting

45th meeting ▶ Russian Federation



Third progress report of the Russian Federation

Since the adoption of the MER and the MONEYVAL Second Progress Report in 2011 the Russian Federation has adopted a Law amending the Russian Federation Criminal Code. This Law follows MONEYVAL's strong advice in 2011 that the financial threshold placed on self-laundering should be reconsidered and removed. The amendment abolished the threshold for criminalisation of self-laundering of amounts exceeding RUB 6 million (approximately €123,000/ US\$163,000) and thus aligns the money laundering (ML) offence with international standards. As a result of endorsed legislative amendments tax crimes are also added to the list of designated categories of predicate offences for ML.

Additionally, amendments to the AML/CFT Law were introduced with a view to addressing deficiencies identified in the report in respect of the core Recommendations, related to the definition of "beneficial owner", prohibitions on maintaining accounts in fictitious names, as well as opening and maintaining accounts (deposits) using pseudonyms.

Procedures applied for understanding the nature and intended purpose of the business relationship have also been amended during the relevant period.

The legislation implementing UNSCR 1373 has also been amended and includes a new procedure to

block funds or uncertified securities and other assets, which is applicable in situations where an entity or an individual is reasonably suspected of being linked to the financing of terrorism, but does not qualify for designation (inclusion in the list of entities and individuals known to be linked to extremist activity or terrorism) on the grounds set forth in the AML/CFT Law.

In terms of legislative amendments, the authorities also referred to changes in the supervisory regime, in the progress report, in particular according to the Federal Law "On Amendments to Certain Legislative Acts of the Russian Federation following Assignment of Financial Markets Regulation, Monitoring and Supervision Powers to the Central Bank of the Russian Federation" the Bank of Russia is empowered to regulate, monitor and supervise operations of non-credit financial institutions since September 1, 2013.

The Russian authorities reported that they had implemented an interdepartmental National Action Plan for fighting tax evasion and concealment of beneficial owners of companies which is aimed at implementing the revised FATF Recommendations, the 2013 G8 Decisions on principles to prevent the misuse of companies and legal arrangements and the related G20 Declaration.

The Russian authorities also reported that, since the adoption of the 2nd progress report, from 2011 to 2013, 1,897 ML criminal investigations were initiated, 1,021 ML cases were forwarded to court and 406 convictions were issued on ML offences.

At the 45th Plenary meeting (September 2014), it was decided not to request Russia to report back under the 3rd round procedures, while retaining the discretion to revisit this decision should the 5th round evaluation be postponed beyond 2017.

13. For a detailed list of FATF Recommendations see Appendix IV.

Fourth mutual evaluation round

OBJECTIVES AND FORMAT

MONEYVAL commenced a follow-up round of onsite visits in 2009. 4th round onsite visits will conclude in January 2015 and the last reports will be adopted in 2015. For each State or territory evaluated, these evaluations focus on the effectiveness of implementation of Core and Key and some other important Recommendations in the FATF 2003 Recommendations together with any Recommendations for which the country received either a non-compliant or partially compliant rating. In addition the evaluation also reviews aspects of compliance with the European Union's Third Anti-Money Laundering Directive.

The evaluation procedure is similar to that of the third round, as set out above, but differs in its follow-up processes.

MONEYVAL's 4th round follow-up process broadly follows the practices and procedures used by the FATF in its 3rd round of assessments. There are three types of processes that can occur following the discussion and adoption of a 4th round evaluation report: *biennial update*, *regular follow-up* and *enhanced follow-up*.

BIENNIAL UPDATE

Countries which have received compliant or largely compliant ratings in the six Core Recommendations in their evaluation report are only required to provide a biennial update of their progress in meeting the deficiencies identified in their Mutual Evaluation Report or in taking other action to enhance their AML/CFT regime, starting two years after their MER is discussed.

REGULAR FOLLOW-UP

When assessed countries have received partially compliant or non-compliant ratings in any of the six Core Recommendations, they are placed in regular follow-up. The country is then expected to report back to the Plenary, initially within two years – though the Plenary can decide on a more expedited timetable –, and provide information on the actions it has taken or is taking to address the factors and deficiencies underlying any

of the Recommendations that are rated partially compliant or non-compliant. Countries are encouraged to seek removal from the follow-up process within three years of the adoption of the 4th round MER, or soon thereafter. Before a State or territory can be removed from regular follow-up, it is required to demonstrate that it has an effective AML/CFT system in force, under which the State or territory has implemented the Key¹⁴ and Core Recommendations at a level of or at a level essentially equivalent to compliant or largely compliant.

ENHANCED FOLLOW-UP

Where the Plenary is concerned about the lack of progress against the findings in the 3rd round report as demonstrated in a 4th round evaluation report, the assessed country can be placed in an enhanced follow-up process. The procedures include requesting the country to provide regular reports on progress in remedying deficiencies earlier than two years from the adoption of the report, possibly coupled with placing the country into CEPs. These procedures provide further peer pressure to rectify deficiencies.

PUBLICATION

Unlike the 3rd round progress reports, 4th round follow-up reports are not routinely published. Biennial reports are published on the MONEYVAL website but regular or enhanced follow-up reports, together with the Secretariat's analysis, are only published once the assessed country has successfully been removed from either regular or enhanced follow-up.

MONEYVAL FOLLOW-UP PROCEDURES AND TRANSITION TO THE 5TH ROUND

The MONEYVAL 5th round will use the revised FATF standards of 2012 and the 2013 Methodology for

14. The Key Recommendations are Recommendations 3, 4, 23, 26, 35, 36 and 40 and Special Recommendations I, III and V. See the list of abbreviations and acronyms for a fuller explanation.

assessing compliance with the FATF Recommendations and the Effectiveness of AML/CFT systems. As MONEYVAL transitions to the 5th round the aim of follow-up of 4th round recommendations is to bring all jurisdictions to a satisfactory level of compliance with the previous standards within a reasonable timeframe. We have always envisaged that countries should be able to seek exit from follow-up within 3 years of the adoption of the 4th round report. Numerous countries, as noted below at 5.3., are reaching that point and still have work to do fully to meet the previous standards. MONEYVAL has now extended the outside limit to 5 years, while exhorting jurisdictions still to aim to seek exit from follow-up within 3 years. If however a MONEYVAL state or territory has not been able to successfully exit follow-up within 5 years, we will nonetheless suspend follow-up reporting one year before their 5th round visit. MONEYVAL will ensure that its evaluators give increased scrutiny to any remaining problematic issues from the 4th round report in the 5th round evaluation. Then, if necessary, MONEYVAL will restart the follow-up process for any outstanding 4th round issues that still persist after the adoption of the 5th round report. MONEYVAL is maintaining a table of when all jurisdictions participating in the 4th round should seek removal from 4th round follow-up.

For those countries that have exited 4th round follow-up (only 2 countries so far – Slovenia and Hungary), they too will stop reporting under the biennial update system one year before their 5th round visit. For those countries that are undergoing or still undergoing 3rd round follow-up, 3rd round progress reports will continue until one year before their 5th round onsite visits.

Montenegro had issues still outstanding from its 3rd round report. These are being examined in the context of the March 2014 4th round onsite visit and will be taken forward under the 4th round follow-up.

FOURTH ROUND MUTUAL EVALUATION REPORTS

The following Mutual Evaluation Reports were considered and adopted in 2014:

Plenary meeting	
44th Meeting	<ul style="list-style-type: none"> ► Liechtenstein ► "The former Yugoslav Republic of Macedonia" ► Romania
45th meeting	► Estonia
46th meeting	► Azerbaijan



Liechtenstein¹⁵

Liechtenstein has made significant steps and achieved considerable progress since the last mutual evaluation, particularly in bringing its legal framework more closely in line with the Financial Action Task Force (FATF) recommendations, consolidating an overall robust institutional framework for combating money laundering (ML) and terrorist financing (TF) and moving towards greater transparency. Domestic cooperation is robust, and key stakeholders enjoy the trust of the financial and nonfinancial sectors.

However, effective implementation is uneven and not always optimal. Liechtenstein's proactive use of the *in rem* regime of confiscation of criminal proceeds has proven to be quite effective, however, the near absence of convictions for ML and the exiguous number of ML stand-alone prosecutions, already noted by the last mutual evaluation, call into question the effectiveness of the criminal approach to ML. The feedback received from several countries on mutual legal assistance (MLA) and the statistics provided by the authorities show that substantive progress has been achieved in an area that is particularly relevant, given that practically all the predicate offenses to ML occur outside the country. While the majority of countries indicated, to varying degrees, that information exchange with the Liechtenstein's Financial Intelligence Unit (FIU) is good, a few were more critical. The number of onsite inspections carried out by the Financial Market Authority (FMA) has increased significantly since the last mutual evaluation, but the over-reliance on external firms to conduct onsite inspections, the lack of a fully-fledged risk-based approach to supervision and the limited use of sanctions somewhat reduce the overall effectiveness of the supervisory regime. Finally, the effective implementation of the preventive measures and of the reporting of suspicious transactions is uneven across and within the various sectors subject to the anti-money laundering (AML)/counter financing of terrorism (CFT) requirements, and affected by the over-reliance on trust and company service providers (TCSPs) for the performance of certain elements of the customer due diligence (CDD) process.

Few, albeit significant, legal shortcomings remain. The most important one concerns financial secrecy provisions, which are fragmented, not always fully coordinated, and could have an impact on the FIU's core functions and negatively affect the overall effectiveness of the AML/CFT regime. A review of all secrecy

15. Liechtenstein's on-site visit took place from 12 June to 24 June 2013.

provisions should be undertaken to remove any inconsistencies and to ensure that these provisions do not limit or pose a challenge to an effective implementation of the AML/CFT framework. There should be a clear provision stating that authorities' powers with regard to AML/CFT supersede any secrecy provisions enshrined in other laws.

There are some intrinsic vulnerabilities, of which authorities are aware, that continue to expose the country to risk of ML (and could, potentially, create a risk of FT). The business model of Liechtenstein's financial center focuses on private banking, wealth management, and mostly non-resident business, which are regarded as high risk by the FATF. It includes the provision of corporate structures such as foundations and other companies and trusts that are designed for wealth management, the structuring of assets, and asset protection. Banks continue to be exposed to ML risks as they offer a variety of products that can be abused for ML purposes. The TCSP sector in Liechtenstein is particularly vulnerable to the risk of ML (and, potentially, to FT) because of the services offered and the types of customers served, who often are intermediated, non-resident, and components of existing legal structures. While industry representatives were generally aware of AML/CFT measures and obligations, their level of implementation is not always commensurate with the risk level of the sector. The role of TCSP in creating often very complex legal persons that can make it challenging to trace back beneficial ownership amplifies the risk that this particular sector is facing. The insurance sector has developed over the years, and a number of suspicious transaction reports (STRs) have been submitted that showed an increasing use of insurance products. The real estate sector does not appear to pose particular risks, considering the limited possibilities of investment and the inaccessibility for foreigners. There are no *bureaux de change*, no notaries, and (as yet) no casinos in Liechtenstein.

The vulnerabilities of the TCSP sector impact the entire framework in Liechtenstein due to their central role as repository of beneficial ownership information (for the purpose of Recommendation 33), and the over-reliance placed upon them by financial institutions and other Designated Non-Financial Businesses and Professions (DNFBPs) in carrying out the CDD process. These risks are further amplified by a general and residual tendency for industry and other participants to prioritise confidentiality. To mitigate these risks, the authorities should consider requiring enhanced due diligence (EDD). Such EDD should go well beyond the minimum current requirement of a signed certificate stating the identity of the beneficial owner and should include a high degree of knowledge of the expected profile of business coming from the beneficial owner.



"The former Yugoslav Republic of Macedonia"¹⁶

Steps have been taken by the authorities of "the former Yugoslav Republic of Macedonia" to assess the country risks by taking part in the on-line International Monetary Fund (IMF) project «Preliminary Assessment of the Risk of Money Laundering» in December 2011. No specific national risk assessment (NRA) has been conducted since the last evaluation, but there are indications that "the former Yugoslav Republic of Macedonia" is a transit country within the international channels for trafficking in human beings from high migration areas to Western Europe countries. In addition, links between domestic organised criminal groups and international ones were detected, particularly active in the field of the illicit trade in narcotics and psychotropic substances, smuggling of persons, smuggling of products, illegal trade in weapons and stolen luxury motor vehicles and in credit card fraud. The money laundering (ML) typologies identified by the Financial Intelligence Office (FIO) relate to the use of fast money transfer services; smurfed transactions; purchasing of movable and immovable property; various trade-based ML techniques and the use of legal entities from off-shore countries.

"The former Yugoslav Republic of Macedonia" has taken action to align its domestic anti-money laundering legislation even more closely with international standards. The removal of the value threshold from the wording of the ML offence, together with the explicit inclusion of the "*possession*" and "*use*" of proceeds from crime among the material elements of the offence, are particularly welcome. The number of criminal investigations, prosecutions, convictions and confiscations for ML indicate an increase since the last evaluation.

An autonomous terrorist financing (TF) offence was introduced in 2008, the scope of which was extended (by means of a further amendment being in force since April 2013), to cover the financing of terrorist organisations and individual terrorists. However, technical deficiencies still remain, limiting the country's compliance with the standards set by SR.II. There have not been any investigations or prosecutions for TF offences in "the former Yugoslav Republic of Macedonia".

In 2008, a new AML/CFT Law was adopted and subsequently amended, and as a result, the competences of the FIO have been extended to *i.a.*: cover the measures related to FT deterrence; notify the competent state authorities in case of suspicion of any crime (apart

16. "the former Yugoslav Republic of Macedonia"'s onsite visit took place from 2 to 8 June 2013.

from ML and TF); issue written orders for temporary postponement of transactions; and submit monitoring orders. The FIO remains an administrative type of a financial intelligence unit (FIU) having the core-functions of an FIU and in addition supervisory responsibilities and powers.

The reporting obligations were brought more in line with the international standards, now covering the attempted transactions. The FIO issued a number of separate lists of indicators for suspicious transactions reporting, applicable for various industries, which are based only on international experience. The terrorism financing indicators are rather limited and drafted in a general manner. Nevertheless, since the last evaluation the number of suspicious transaction reports (STRs) (including TF related) increased significantly, which is a positive outcome demonstrating the effectiveness of the reporting system.

Although detailed customer due diligence (CDD) measures are in place, there remain certain deficiencies including the incomplete definition of the beneficial owner and the absence of a requirement to take reasonable measures to verify the identity of the customer from *“reliable, independent source documents, data and information”*.

The situation of the CDD measures undertaken with regard to politically exposed persons (PEPs) has improved since the last evaluation. However, enhanced CDD measures do not extend to the beneficial owner and a requirement for the financial institutions to establish the *source of wealth* of customers who are PEPs is still missing.

The record keeping requirements are now largely in place in “the former Yugoslav Republic of Macedonia”, but the obligation to maintain records on transactions, identification data, account files and business correspondence longer if requested by a competent authority in specific cases was not yet implemented and the requirement to provide the information on a timely basis to supervisory authorities is absent.

The situation relating to the transparency of wire-transfers has improved significantly since the last evaluation and only the fully effective application of the legal provisions remains to be demonstrated.

The supervisory responsibilities for the AML/CFT compliance monitoring for the financial institutions and the DNFBPs are divided between the FIO and the prudential supervisors of the financial institutions. The supervisory system is carefully constructed and steps have been taken towards the application of dissuasive and proportionate sanctions. However, deficiencies regarding the application of the fit and proper criteria still remain, together with effectiveness issues.

On the DNFBPs compliance and supervision, since the last evaluation, steps have been taken to align the

requirements concerning these entities in “the former Yugoslav Republic of Macedonia” to the international standards. Supervisory actions have been undertaken and sanctions have been applied. The implementation of the necessary legal and regulatory measures to prevent criminals or their associates from holding or being the beneficial owner of a significant or controlling interest, holding a management function in, or being an operator of a casino is still to be addressed.

The steps taken before and since the 3rd round evaluation to centralise the registration and to digitalise (and thereby to simplify and to speed up) the registration process for legal entities as well as to provide full availability of registered data are appreciated. Notwithstanding that, the concept of beneficial ownership is entirely absent from the legislation governing corporate entities and their registration.

Comprehensive mechanisms are in place for national and international cooperation and “the former Yugoslav Republic of Macedonia” actively cooperates with other jurisdictions at all levels. However, the application of dual criminality in the Criminal Procedure Code may negatively impact the ability of “the former Yugoslav Republic of Macedonia” to provide Mutual Legal Assistance (MLA) due to shortcomings in FT criminalisation.



Romania¹⁷

Romania has taken several important steps to improve compliance with the FATF Recommendations and has registered progress in several areas since the 3rd round evaluation. Several pieces of legislation were amended and new acts, ordinances and government decisions were issued to address deficiencies identified in the 3rd round evaluation, to implement the requirements of international legal instruments, and notably to transpose the relevant European Union legislation.

Many indicators suggest that Romania is susceptible to money laundering and terrorist financing, and that it is attractive to organised criminals and tax evaders. This is due in part to its strategic position at the eastern border of the European Union, as it is both part of the Balkan route and of the Euro-Asiatic route. Romania’s economy remains to a large extent cash based and the size of the shadow economy ranges approximately 30% of the GDP. Proceeds of crime generated in Romania are estimated to be a high percentage of the GDP, primarily derived from tax evasion and smuggling.

17. Romania’s on-site visit took place from 27 May to 1 June 2013.

Though Romania is not a major financial hub and its exposure to foreign proceeds of crime may be limited, there are nevertheless indicators suggesting that organised criminal groups from the neighbouring countries and Italy invest in Romanian assets. Romanian organised criminal groups in Romania participate in a wide range of criminal activities in Europe ranging from prostitution and extortion to drug trade and have collaborated to establish international criminal networks for internet fraud activities and related money laundering schemes. Romania has not yet conducted a money laundering (ML)/financing of terrorism (FT) risk assessment.

The core elements of Romania's anti-money laundering and countering the financing of terrorism (AML/CFT) regime are established in the provisions of several specialized pieces of legislation, including notably the AML/CFT Law 656/2002 as updated and supplemented by several secondary legislative implementing acts, the Law on the Prevention and Repression of Terrorism 535/2004 as amended¹⁸, as complemented by the Criminal and Criminal Procedure Codes¹⁹, and sectoral regulations, orders and decisions on AML/CFT requirements issued by the supervisory authorities. Numerous positive changes have occurred since the third round as regards the institutional set up of the authorities responsible for the registration, licensing and supervision of several financial and non-financial institutions, with new structures/institutions established for the banking sector, casinos, currency exchange offices and the investment, insurance and pension sectors.

Despite the changes made since the last evaluation, the AML/CFT framework is not yet fully in line with the FATF Recommendations. The legal framework and its implementation fall short of the international standards, regarding inter alia certain customer due diligence requirements, the framework related to suspicious transactions, internal controls, compliance and audit, requirements to give special attention to higher risk countries. Romania should as a priority clarify and consolidate its AML/CFT legislation, notably by making necessary amendments to the AML/CFT Law and implementing acts as recommended in the report.

Furthermore there remain a number of concerns about the level of implementation, including in respect of the AML/CFT supervisory action by the various supervisory authorities and the sanctioning for non-compliance with the requirements. Overall, banks and, to a certain extent, non-bank financial

institutions appear to have an appropriate understanding of the applicable requirements under the national AML/CFT framework. Implementation of the AML/CFT requirements by designated non-financial businesses and professions (DNFBPs) was not sufficiently demonstrated. Resources of all authorities need to be increased and supervisory action be strengthened to ensure that both financial and non-financial institutions are adequately implementing the AML/CFT requirements

Whilst investigations, indictments and convictions of money laundering offences are taking place and overall results have positively increased, there is evidence that the implementation of the ML offence could be further strengthened. This would involve taking additional measures to address the structural and capacity deficiencies in the law enforcement and judicial process and setting out clear priorities in criminal policy instruments in respect of the necessity to adequately investigate and prosecute ML offences, with a focus on serious, organised and transnational crime and major proceed-generated offences.

Romania has improved its ability to freeze, seize and confiscate property, and the introduction of provisions on extended confiscation and related implementing measures, if consistently implemented, will undoubtedly reinforce the confiscation regime. The system has clearly started to achieve effective outcomes, notably as regards the application of provisional measures and the amounts of assets frozen and seized.

The institutional arrangements of the National Office for the Prevention and Countering of Money Laundering, the Romanian financial intelligence unit (FIU), clearly need revising and several additional efforts and changes are required to ensure that the FIU can fully and effectively perform its core functions.

As regards requirements related to the physical cross border transportation of currency, the effectiveness of the whole system raises serious concerns which should be addressed as a matter of priority. There have been no changes, though previously recommended, to the legal framework in respect of the powers of competent authorities in this field, and the limited results achieved by authorities, both in terms of detection and sanctioning are surprising.

Further efforts are also required to ensure that the general AML/CFT coordination mechanism in place is effectively reviewing the Romanian AML/CFT system and its effectiveness on a regular basis, that the changes to be made to the legal and institutional framework, the AML/CFT strategy and related policies are adequately identified and address the risks and vulnerabilities of the system, and that co-operation or coordination mechanisms at the operational level are being used effectively.

18. A new FT offence is in force (Law no. 187 from 24 October 2012, in force from 1st of February 2014).

19. Since the 1st of February 2014, a new Criminal Code and Criminal Procedure Code are in force, representing a substantial modernisation of the Romanian legal framework.



Estonia²⁰

Estonia has taken several important steps to improve compliance with the FATF Recommendations and has registered progress in several areas since the 3rd round evaluation. Several pieces of legislation were amended and new legislative instruments and guidance were issued to address deficiencies identified in the 3rd round evaluation.

In 2012, Estonia started conducting a national risk assessment, which at the time of the evaluation was still underway. Institutional risk assessments, which are carried out on a regular basis by the Financial Intelligence Unit (FIU) and the Financial Supervision Authority (FSA), indicate that the highest ML/FT risk derives from business conducted with customers from certain neighbouring countries. Certain financial institutions and DNFBPs, especially payment services (including alternative payment services) and traders in precious metals, are particularly vulnerable to ML/FT. The widespread use of IT in Estonia increases vulnerability to the ML/FT risk within the financial sector. The most common predicate offences are drug trafficking, fraud and tax-related offences. The authorities consider the risk of FT to be low.

The money laundering offence in Estonia is broad, largely covering all the elements of the Vienna and Palermo Conventions. The authorities have been effective in securing ML convictions for self-laundering, third party laundering and stand-alone ML. Some issues remain within the judiciary regarding the level of proof required to establish the underlying predicate criminality.

The financing of terrorism offence was amended since the third round to address certain deficiencies. However, further amendments will still be required to ensure that the offence is fully aligned with the Terrorist Financing Convention. In particular, the collection of funds to be used by an individual terrorist for any purpose other than terrorist purposes does not appear to be covered. Additionally, not all the acts which constitute an offence under the UN treaties annexed to the TF Convention are fully covered under the FT offence. Since the existing legislative framework has not been tested in practice it is difficult to assess the effectiveness of the system.

The authorities have been effective in confiscating and seizing property in ML and drug-related cases, although the volume of confiscated property seems low in some cases. The legal framework governing

confiscation and provisional measures is still missing certain technical elements, such as confiscation of corresponding value to laundered property and instrumentalities in some cases. The authorities should apply confiscation and seizure measures to other serious proceeds-generating crimes on a more regular basis.

Estonia has implemented the UN Security Council Resolutions mainly through EU legislation. As a result, the requirement to apply freezing measures without delay is not met. Estonia has not issued a domestic list to apply freezing measures to EU internals and there are still no clear publicly-known procedures for un-freezing funds and assets in a timely manner. While guidance and communication to the financial and non-financial sector are adequate, supervision is insufficient.

The Estonian FIU is a structurally independent unit within the Police and Border Guard Board and has sufficient human and technical resources to conduct its functions properly. It has ample powers to request and obtain additional information both from other authorities and reporting entities. Guidance has been provided to reporting entities on the manner of reporting. On the whole, the FIU appears to be functioning effectively and efficiently.

Overall progress has been made to strengthen the preventive AML/CFT system. The Money Laundering and Terrorist Financing Prevention Act (MLTFPA) introduces the concept of the risk-based approach and includes, inter alia, provisions catering for simplified and enhanced customer due diligence (CDD) measures. CDD, record-keeping and reporting requirements are all broadly in line with the FATF Recommendations. Some weaknesses in the identification of beneficial owners by certain financial institutions were identified. The reporting level by financial institutions appears to be adequate. The legal framework for monitoring complex, unusual large transactions and transactions with persons from or in countries which do not or insufficiently apply the FATF Recommendations is still deficient.

The AML/CFT supervisory framework is broadly sound, especially with respect to the supervision of financial institutions subject to FSA supervision. The authorities have used their powers to stop criminals from owning or controlling financial institutions. The FIU, which supervises financial institutions not subject to the Core Principles, needs to be strengthened further. In particular, supervisory staff at the FIU needs to be increased.

The sanctioning regime for AML/CFT breaches needs to be revised as it still does not provide for the whole range of sanctions required under the FATF Recommendations. In practice, the sanctions imposed by the FSA and the FIU are very low.

The preventive measures applicable to DNFBPs are largely in place. Overall, DNFBPs appear to be aware of

20. Estonia's on-site visit took place from 10 to 16 November 2013.

their obligations. However, implementation of preventive measures varies across the sector. The weakest element in the system, insofar as awareness of preventive measures is concerned, appears to be real estate intermediaries. It is encouraging that Estonian attorneys seem to take their reporting obligation more seriously than in most countries. Supervision of DNFBPs needs to be improved, especially in terms of the number of onsite visits conducted and sanctions imposed.

Cooperation and coordination between competent authorities on a domestic level appears to be conducted in an effective manner. The government committee set up for the purpose of coordination of AML/CFT policies in Estonia has produced tangible results.

The Estonian mutual legal assistance framework allows the judicial authorities to give sufficient assistance in money laundering and terrorism financing cases. The legal provisions regulating the mutual legal assistance appear to be effectively applied in practice by Estonian authorities. The application of dual criminality may negatively impact Estonia's ability to provide assistance due to shortcomings identified in respect of the scope of the TF offence.

No significant progress has been made in order to address the deficiencies relating to the transparency of legal persons identified in the 3rd round assessment. Accessibility to company information online has however been greatly improved.

The Estonian authorities have significantly improved the legal framework regulating non-profit organisations (NPOs). As a result of an assessment carried out by the FIU, NPOs were included under the scope of the MLTFPA and are now subject to preventive measures.



Azerbaijan²¹

Azerbaijan's strategic position is attractive for criminals and organised crime groups, this being strengthened by the existing transportation infrastructure. The main risks presented by the location of the country are connected above all with drug trafficking (mostly originating from Afghanistan with the destination in Europe or Russia) and human smuggling (where Azerbaijan figures both as a transit country and the country of origin). The most common predicate offences for money laundering are theft, fraud, tax evasion, embezzlement, drug and weapons production and trafficking, smuggling and corruption. The most common predicate offences, based on the structure of the disclosures received by law enforcement agencies from the Financial

Monitoring Service (FMS), are tax evasion, counting for more than 75%, followed by corruption (almost 10%), embezzlement, fraud, drug crimes and cybercrime.

Although Azerbaijan has taken steps to address the recommendations made in the 3rd round report related to the criminalisation of money laundering and the financing of terrorism, deficiencies remain. Acquisition, possession or use of property is criminalised only with respect to "significant amounts", provided that the purposive element of "concealing or disguising the illicit origin of the funds or other property" is satisfied. The law does not provide explicitly that the criminal intent, knowledge or purpose can be inferred from objective factual circumstances. With regard to the financing of terrorism, the Criminal Code does not provide a definition of individual terrorist or terrorist organisation, nor does it refer to the Terrorist Financing Law for such definitions. Criminal liability for money laundering and the financing of terrorism has not been extended to legal persons. This has an impact in limiting prosecutions for money laundering and the financing of terrorism and also in the provision of mutual legal assistance.

The criminalisation of money laundering has not been effectively applied. There is a low number of convictions for money laundering and no cases of stand-alone and autonomous money laundering.

Confiscation of proceeds and instrumentalities is now mandatory when a conviction has been secured for a proceeds-generating crime and confiscation is available for all predicate offences to money laundering. However, property can only be taken from third parties when they knew or ought to have known that it had been obtained by criminal means, regardless of whether they obtained it for value or not. There is a lack of clarity on whether confiscation of indirect proceeds and corresponding value are routinely made. Also, the effectiveness of confiscation in predicate offences to ML was not demonstrated to the evaluators.

The Financial Monitoring Service (FMS) has been established as the national centre to gather, analyse and submit financial information to relevant law enforcement agencies. The FMS appears to be well resourced and operating effectively. However, the authority of the FMS to disseminate reports is limited to the General Prosecutor's Office (GPO) and the Ministry of National Security. There is a lack of safeguards for removing the FMS' management from office and this could generate vulnerabilities for the system towards risks of undue influence or interference.

The AML/CFT Law prescribes obligations for reporting entities to apply preventive measures, including customer due diligence and identification of politically exposed persons. Although financial institutions appeared to have a good understanding of the requirements, they still establish business relationships

21. Azerbaijan's on-site visit took place from 17 to 21 February 2014.

in circumstances where a foreign legal person who is a beneficial owner is not identified.

Reporting requirements have been introduced and reports are being received by the FMS. However no suspicious transaction reports have been submitted by DNFBPs and only one by a non-banking financial institution. This brings the effectiveness of the regime in the non-banking sectors into question.

Sanctions available for infringements of the AML/CFT preventive regime are not effective, proportionate or dissuasive. Very few sanctions had been applied in practice, with no sanctions at all being applied to senior management.

There is inadequate AML/CFT supervisory over the operations of post offices. Other supervisors are in

the process of adopting risk-based supervision.

The AML/CFT Law contains an exemption for small businesses from implementing an internal control system. This provides an exemption from a number of controls for smaller businesses. This exemption could increase the vulnerability of small businesses to the risk of being used for the purposes of money laundering and the financing of terrorism.

There is no requirement for information on beneficial ownership to be collected or made available by state authorities. The registration system does not provide adequate access to up-to-date information on beneficial ownership in a timely manner. Barriers are in place which makes it difficult for financial institutions to request ownership information from state registers of legal persons.

FOURTH ROUND FOLLOW-UP REPORTS

Plenary meetings	
44th meeting	<ul style="list-style-type: none"> ▶ Andorra (Regular follow-up) ▶ Malta (Regular follow-up, interim report) ▶ Albania (Regular follow-up, interim report) ▶ Slovakia (Regular follow-up, interim report) ▶ Czech Republic (expedited follow-up)
45th meeting	<ul style="list-style-type: none"> ▶ Latvia (Regular follow-up) ▶ Georgia (Regular follow-up, interim report) ▶ Albania (Regular follow-up, interim report) ▶ Slovakia (Regular follow-up, interim report) ▶ San Marino (Regular follow-up, interim report) ▶ Czech Republic (expedited follow-up)
46th meeting	<ul style="list-style-type: none"> ▶ Albania (Regular follow-up report) ▶ Slovakia (Regular follow-up) ▶ Israel (expedited follow-up) ▶ Republic of Moldova (Regular follow-up) ▶ Malta (Regular follow-up, interim report)



Regular follow-up report of Andorra

The 4th round mutual evaluation report was adopted in April 2011. The Andorran authorities presented an interim follow-up report in 2014. As highlighted in that report, the main risk faced by the Principality of Andorra concerns the use of the financial system to launder the proceeds of offences perpetrated abroad. Terrorism financing in the Principality of Andorra is said to pose a very low risk.

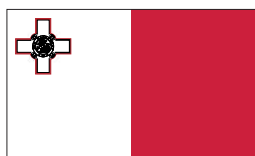
Pursuant to the February 2013 FATF Guidance on National Money Laundering and Terrorist Financing Risk Assessment, Andorra has started work on a National Risk Assessment, which will allow the money laundering and terrorism financing risks faced by the country to be evaluated in more detail and for possible systemic vulnerabilities to be detected.

Andorra has adopted all relevant provisions of the 3rd European AML/CFT Directive in its legal system.

The transposition was validated by the European Commission at the end of 2013.

In addition to the legislation passed as a consequence of the Monetary Agreement, the Principality of Andorra also succeeded in implementing various legislative initiatives related to MONEYVAL's findings and recommendations in the 4th mutual evaluation report of Andorra.

The Plenary decided that Andorra should report back by April 2015, when they were expected to be in a position to apply for exit from regular follow-up as it will be one year before their next onsite visit.



Regular follow-up report of Malta (interim report)

Malta's 4th round report was adopted in March 2012. At the 44th plenary the progress achieved by the Maltese authorities in respect of the key and core Recommendations rated PC in the 4th round MER was analysed. The Committee agreed that progress appeared to have been made on effective implementation of the suspicious transaction reporting regime and reporting transactions related to financing of terrorism, but on the technical shortcomings only draft bills were reported.

Following the plenary discussion, Malta was invited to provide an interim progress report in December 2014, to be satisfied that progress to remedy the deficiencies was on track.

At the 46th Plenary, the follow-up report on Malta emphasised the steps taken in respect of the core and key Recommendations rated PC in the 4th round MER. In particular, the number of convictions for ML cases had increased during 2014, along with the number of suspicious transaction reports received by the FIU. A major initiative was reported regarding a new bill which will amend both AML legislation and the Criminal Code and should become law in early 2015.

Following the Plenary discussion, Malta was invited to seek removal from regular follow-up in April 2015 or shortly thereafter.



Regular follow-up report of Albania (interim report)

Albania's evaluation under the 4th round was conducted by the International Monetary Fund on behalf of MONEYVAL and the report was adopted in April 2011. In line with MONEYVAL's procedures, Albania was expected to be in a position to meet the criteria for exiting regular follow-up by April 2014. The authorities submitted several reports to that effect in 2014.

At the 45th plenary, Albania was considered to have made real progress and taken positive action to remedy the most significant deficiencies, including in respect of certain aspects of effectiveness. However, further substantive and contextual information was still required on a number of aspects, before the plenary could be in a position to firmly conclude that Albania has achieved a level of compliance equivalent to largely compliant (LC) for some Recommendations. It was agreed to maintain Albania on the regular follow-up process and they were asked to report back in December 2014.

At the 46th plenary the progress achieved by the Albanian authorities in respect of the core and key Recommendations rated PC in the 4th round MER was analysed. The Committee agreed that since the onsite visit in November 2010, Albania has made a real progress and had taken positive action to remedy significant deficiencies. However, Albania's follow-up report did not substantiate that Albania has achieved a sufficient level of improvement in all the core and key recommendations.

MONEYVAL decided that Albania should be given additional time in order to fully demonstrate that it has taken action to improve its level of compliance on all core and key recommendations.

The Plenary encouraged Albania to continue efforts aimed at addressing the remaining deficiencies and decided that it should report back to the 48th Plenary, in September 2015. Exit from this process should be achieved by the end of 2015 at the latest.



Regular follow-up report of Slovakia (interim report)

Slovakia's 4th round report was adopted in September 2011. At the 46th MONEYVAL Plenary it was reported that Slovakia had taken some steps to remedy the identified deficiencies in criminalization of ML and TF and in relation to confiscation; however several significant technical deficiencies still remain in the draft revised texts of the Criminal Code.

With regard to the financial aspects, technical deficiencies identified had not been addressed as the authorities are awaiting the final text of the European Union's 4th Directive before amending the AML Law. With the aim of raising the effectiveness of implementation of ML requirements by the reporting entities, further awareness-raising had been conducted. New organisational changes within the Financial Market Supervision Division of the National Bank of Slovakia were reported.

The Plenary agreed that Slovakia should submit a further follow-up report at the 48th Plenary meeting in September 2015 and encouraged the country to seek removal from the follow-up process by December 2015.



Regular follow-up of Latvia

Latvia's 4th round report was adopted in July 2012. At the 45th plenary, Latvia reported for the first time in the follow-up process, 2 years after the adoption of its report. Some progress has been achieved on law enforcement and financial issues but in order to seek removal from regular follow-up in 2015, shortcomings on freezing terrorist assets need addressing.



Regular follow-up of Georgia

Georgia's 4th round report was adopted in July 2012. The first regular follow-up report by Georgia was considered at the 45th plenary 2 years after the adoption of its report. Progress appears to have been achieved by the Georgian authorities in the criminalisation of terrorist financing, which positively impacts on some other Recommendations. Terrorist assets have been frozen under UNSCR 1267, though further amendments are awaited for full compliance with the international requirements on freezing terrorist assets.

On CDD measures, only one of the technical deficiencies appears to have been fully addressed. For others, draft amendments to the AML/CFT Law and other relevant acts were reported.

Given that a number of deficiencies remain outstanding on core and key Recommendations, Georgia was asked to report back to the 47th plenary. Normally Georgia should be in a position to seek exit from follow-up in 2015.



Regular follow-up report of the Czech Republic

The Czech Republic's 4th round report was adopted in April 2011. At the 44th and 45th plenary meetings, the Plenary examined the reports presented by the Czech Republic under expedited follow-up procedures. At the 44th plenary meeting their application to exit follow-up was unsuccessful.

At the 45th plenary, it was reported that, with regard to the criminalisation and the scope of ML and TF, there had been some minor legislative amendments and the Palermo Convention had been ratified.

Criminalisation of money laundering has been extended to legal persons. There had also been an improvement in the number of custodial sentences for ML offences as well as an increase in the level of seizures and final confiscations. However, there had been no substantive changes to the ML offence in the Criminal Code.

The Plenary decided that the Czech Republic should report back in April 2015, with a view to considering whether the progress made would be sufficient to exit regular follow-up.



Regular follow-up - interim report of San Marino

The 4th round report was adopted in September 2011. At the 45th plenary, San Marino reported that they had taken steps to deal with the deficiencies and that progress was being made regarding the implementation of the MONEYVAL recommendations. However they indicated that they would need further time before being able to apply for removal from the follow-up process.

San Marino provided information to delegations on the measures it had taken since its first follow-up report, including amendments to the Criminal Code and Criminal Procedure Code, introducing self-laundering and strengthening sanctions. Other laws and decrees have introduced specific procedures and time frames for extradition, criminalised FT and introduced specific related procedures, and introduced an integrity code of conduct for officials and ethics code for the judiciary. More recently, San Marino had adopted a new law on corporate liability.

The Plenary agreed that the examination of San Marino's follow-up report and request for removal from regular follow-up will take place in April 2015.



Regular follow-up interim report of Israel

The Israel 4th round report was adopted in December 2013 and Israel was asked to report back in December 2014 on an interim basis to assess progress on the implementation of measures in respect of DNFBP. Their first full progress report is expected in December 2015.

The 46th Plenary acknowledged the progress made by Israel on issues in respect of which they were asked to report again to the 46th plenary, and encouraged them to continue their efforts to address remaining deficiencies.



Regular Follow-up report of Republic of Moldova

The Republic of Moldova's 4th round report was adopted in December 2012. The Republic of Moldova's presented its first follow-up report to the 46th plenary. It was reported that that only one of the key and core recommendations rated PC or NC in the 4th round report was sufficiently addressed at this time.

The Plenary considered that Republic of Moldova was making satisfactory progress but needed further time before it could be considered for removal from the regular follow-up process. The Republic of Moldova was requested to provide a further progress report at the 49th plenary in December 2015, when they should normally be applying to exit regular follow-up.

Special assessment on the effectiveness of customer due diligence measures in the banking sector in Cyprus



Background information on the special assessment in Cyprus – 44th and 45th plenary meetings

At the 43rd Plenary, on 10 December 2013, the Plenary adopted the first report on Cyprus's progress in respect of the implementation of the recommendations in the report 'Special Assessment of the Effectiveness of Customer Due Diligence Measures in the Banking Sector in Cyprus' dated 24 April 2013 (the Special Assessment Report). At the time, while it was acknowledged that in the period since the special assessment the focus of the CBC's efforts had been on strengthening the financial system in Cyprus, it was clear that much work still needed to be done to ensure that the recommendations made by the special assessment team were implemented. The plenary therefore determined that Cyprus was to provide an interim report at the 44th Plenary and a fuller report at the 45th Plenary.

The interim report was presented and adopted at the 44th Plenary on 31 March 2014. The Plenary, after having considered the analysis of the Secretariat, determined that sufficient progress had been made by the authorities in the period since the 43rd Plenary to ensure that the banks had implemented the recommendations made in the special assessment report. It was reiterated that Cyprus should provide a fuller report on the progress made at the 45th plenary. In particular, Cyprus was requested to provide information on the findings of the onsite inspections which were due to be carried out by the Central Bank of Cyprus (CBC) and provide further updates on the ongoing developments within the CBC, the Cyprus Securities and Exchange Commission (CySEC), the Cypriot Bar Association (CBA), the Institute of Certified Public Accountants of Cyprus (ICPAC) and the Company Registry.

As mentioned in the interim report, in March 2014 the CBC conducted an information gathering exercise to confirm whether the recommendations made in the Special Assessment Report had been implemented by banks. This information, together with information obtained from annual reports and risk-assessment

reports submitted by all banks on 28 February 2014 (as required by the CBC Directive), was analysed by the CBC to understand the ML/FT risk inherent in each bank and assess the internal controls in place to mitigate and control the risks. This analysis also served as a basis for establishing the institutional risk profile of each bank. The Secretariat was informed that this process has now been completed. The outcome of the analysis confirmed the expectations of the CBC and did not give rise to any particular areas of concern which required a significant alteration to the CBC's supervisory priorities.

Reference was also made by the CBC to the development of a supervisory risk assessment methodology, which among other things, is intended to assist the CBC in articulating specific AML/CFT supervisory strategies adapted to institutional risk profiles. Based on this methodology, the CBC's priority is to conduct a number of comprehensive onsite examinations over a period of time. In total, the CBC intends to conduct comprehensive onsite examinations at eleven banks in 2014.

Since the 44th plenary, the CBC completed comprehensive examinations at five banks and a further examination of one bank is in the process of being finalised. During these examinations the CBC utilised the onsite tools developed with the assistance of the IMF. Five of the banks that were subject to the examination had been visited by the team which conducted the special assessment. While it was noted that measures to strengthen and improve AML/CFT programmes had been implemented, some weaknesses were identified. The CBC is still in the process of assessing the seriousness of these findings internally and a determination on whether sanctions are to be imposed has not been taken yet.

Pending a comprehensive examination, in June 2014 the CBC conducted a short focused visit (1 to 2 days each) at nine banks. These visits were carried out according to a methodology which was formulated specifically for this exercise with the purpose of ascertaining whether the recommendations of the Special Assessment Report were being implemented. The banks visited by the special assessment team were all included in the list. Some of the banks visited in June are expected to receive a comprehensive examination in 2014. Overall, the

banks were found to have been implementing the recommendations made in the Special Assessment Report. Weaknesses were identified in some areas and guidance for improvement was given to the banks concerned. No sanctions were imposed since the purpose of these visits was mainly to exercise oversight over the implementation of the recommendations.

The fifteen banks (out of a total of thirty two banks in Cyprus) which were selected by the CBC for closer scrutiny (either by receiving a comprehensive examination or a focused visit) together comprised over 85% in total assets and 68% in deposits of the entire banking sector. The selection was made on the basis of the risk-based off-site tool recently implemented by the CBC.

Further developments were reported in relation to the setting up a register of 'blacklisted' third party introducers. The questionnaire and score-card (referred to in the interim report) developed by the CBC and the Association of Cypriot Banks (ACB) to assist banks in assessing the suitability of third party introducers before the establishment and in the course of a relationship were completed. These were distributed to all banks by the ACB at the end of May 2014 and by the CBC in July 2014. The CBC requested all banks to reassess existing relationships with third party introducers in accordance with the criteria set out in score-card. The process is expected to be finalised by the end of November 2014.

After the 44th plenary, training seminars continued to be held in Cyprus focussing on the findings and recommendations made in the Special Assessment Report and the Deloitte report. On 19 May 2014, the CBC in cooperation with the Cyprus Institute of Financial Services organised a seminar with a particular focus on the treatment of politically exposed persons and tax crime as a predicate offence for ML purposes, as well as enhanced due diligence for high risk customers, transaction monitoring and risk indicators. The seminar also included a practical component on the application of CDD measures. The seminar was mainly attended by compliance departments of banks. Officers from business and internal audit units also attended.

The Cypriot authorities also reported various developments regarding the ongoing restructuring process within the CBC, the ICPAC, the CBA the CySEC and the Company Registry. The ICPAC, the CBA and the CySEC continued developing and implementing their supervisory programmes with respect to Administrative Service Providers (ASPs) and lawyers and accountants providing administrative services.

Cyprus has been requested to provide a report to the 48th Plenary in September 2015 on further progress made in relation to the Special Assessment.

Compliance enhancing procedures (CEPs)

CEPs STRUCTURE

MONEYVAL's Compliance Enhancing Procedures ensure that countries take steps to meet the international standards and follow MONEYVAL recommendations within an appropriate time frame.

The Rules of procedure in respect of CEPs changed at the end of 2013. For ease of comprehension the current CEPs steps and the previous graduated CEPs are reproduced beneath.

In 2014 the graduated process was as follows:

Steps in CEPs process²²

- ▶ **Step 1:** MONEYVAL inviting the Secretary General of the Council of Europe to send a letter to the relevant Minister(s) of the State or territory concerned, drawing his/her/their attention to non-compliance with the reference documents and the necessary corrective measures to be taken;
- ▶ **Step 2:** Arranging a high-level mission to the non-complying State or territory to meet relevant Ministers and senior officials to reinforce this message;
- ▶ **Step 3:** In the context of the application of the 2012 FATF Recommendation 19 by MONEYVAL States and territories, issuing a formal public statement to the effect that a State or territory insufficiently complied with the reference documents and inviting the members of the global AML/CFT network to take into account the risks posed by the non-complying State or territory.
- ▶ **Step 4:** Referring the matter for possible consideration under the FATF's International Co-operation Review Group (ICRG) process, if this meets the nomination criteria set out under the ICRG procedures.

i) A letter from the MONEYVAL Chair to the head of delegation drawing attention to the non-compliance with the reference documents. The letter is copied to the plenary meeting.

ii) A letter from the MONEYVAL Chair to the Secretary General drawing his attention to the non-compliance by a MONEYVAL participating State. The letter is copied to the head of delegation concerned.

iii) A letter from the Secretary General of the Council of Europe to the relevant government minister drawing attention to non-compliance with the reference documents.

iv) A high level mission to the country concerned, to reinforce this message from step iii).

v) A formal public statement drawing attention to the State's failure to comply with MONEYVAL's reference documents.

The CEPs process can be applied flexibly according to need. Countries may be placed in the CEPs process as a result of plenary discussions on mutual evaluation reports²³, progress reports, as a result of horizontal reviews of overall progress at the end of an evaluation round, or for other reasons.

Throughout the application of these steps, the country concerned is required to report to the plenary according to the calendar set, detailing the steps taken to achieve compliance, which, in certain cases, may include action plans endorsed at government level. If the plenary is satisfied with progress, the application of CEPs steps can be terminated.

The steps in the Compliance Enhancing Procedures prior to the decisions taken at the 43rd plenary were as follows:

22. The CEPs' structure was simplified in the latest amendments of the Rules of Procedure agreed in the 43rd plenary meeting (9 13 December) and appears on the MONEYVAL website.

23. Compliance Enhancing Procedures can be applied in tandem with the follow up procedures described above.

CEPS REPORTS CONSIDERED IN 2014

Plenary meeting	
44th meeting	► Lithuania (step ii of previous steps maintained) ► Bosnia and Herzegovina (step iv of previous steps)
45th meeting	► Lithuania (step ii of previous steps maintained) ► Bosnia and Herzegovina (step 3 of current CEPs)
46th meeting	► Bosnia and Herzegovina (step 3 of current CEPs)

The findings of the reports are indicated below:



Lithuania

Upon adoption of the MER of Lithuania at its 40th plenary meeting (3 - 7 December 2012), MONEYVAL concluded that, overall, there had been a lack of progress since the 3rd round. It was decided that Lithuania should report under regular follow-up in an expedited manner (by April 2014) and that, in addition, compliance enhancing procedures would be applied, as additional pressure measures, at step (ii).

Lithuania reported back under MONEYVAL's Rules of Procedure in April 2014, providing updated information on measures taken to address the identified deficiencies. The information provided served also as a basis for the Secretariat's analysis for the purpose of the review of progress under the compliance enhancing procedures²⁴. MONEYVAL concluded at that Plenary that Lithuania had taken a number of essential measures to address the issues of concern.

The second compliance report of Lithuania was discussed and adopted at the 45th MONEYVAL Plenary, focussing particularly on progress related to the core recommendations²⁵.

Lithuania gave an overview of progress achieved, notably the amendments made to the Criminal Code and the money laundering offence, the improvements to the structure of the FIU, and the adoption of the law on amendments to the AML/CFT law in April 2014 through which the reporting system had been changed in line with the recommendations of the adopted MER.

24. [http://www.coe.int/t/dghl/monitoring/moneyval/Evaluations/Compliance/MONEYVAL\(2014\)11_LTH_1CEPs.pdf](http://www.coe.int/t/dghl/monitoring/moneyval/Evaluations/Compliance/MONEYVAL(2014)11_LTH_1CEPs.pdf)

25. [http://www.coe.int/t/dghl/monitoring/moneyval/Evaluations/Compliance/MONEYVAL\(2014\)19_Lithuania_CEP\(2nd\).pdf](http://www.coe.int/t/dghl/monitoring/moneyval/Evaluations/Compliance/MONEYVAL(2014)19_Lithuania_CEP(2nd).pdf)

The Plenary acknowledged the progress made but concluded that some of the deficiencies identified could not be considered as being fully addressed. It was thus decided that Lithuania be given until April 2015, to pursue the implementation of the corrective measures so as to be in a position to demonstrate that all identified deficiencies scrutinised under the CEPs procedures have been adequately addressed, including effectiveness issues. No additional steps in the Compliance Procedures were proposed.

Considering that, pursuant to the 4th round processes, Lithuania was expected to demonstrate progress at an adequate level on the majority of recommendations in order to request exiting follow-up procedures in December 2015, it was also decided to invite it to provide a comprehensive interim report on measures taken to implement all core and key recommendations, at the 47th plenary in 2015. Lithuania is expected to request exiting the regular follow-up process within 3 years from adoption of the mutual evaluation report (i.e. by December 2015) or shortly after.



Bosnia and Herzegovina

In view of significant concerns about the extent of progress and speed of progress overall to rectify deficiencies identified in the 3rd round mutual evaluation report, the 35th plenary placed Bosnia and Herzegovina under step (i) of CEPs, which required a non-complying member to provide a report or regular reports on its progress in implementing the reference documents.

As satisfactory progress had not been demonstrated by the 43rd plenary it was agreed that a high-level mission should be undertaken. The high-level mission to Bosnia and Herzegovina was carried out from 24 to 26 February 2014 by: Jan Kleijssen, Director Information Society and Action against Crime; Dr Anton Bartolo, Chairman of MONEYVAL; and John Ringguth, Executive Secretary of MONEYVAL. The objective of the mission was to convey to the authorities a clear message on the importance of urgent adoption of the amendments to the AML/CFT Law and to the Criminal Code.

At its 44th plenary meeting it was agreed that as no progress had still been achieved on the necessary legislative amendments that Bosnia and Herzegovina should be moved to step (iv) of CEPs (public statement). It was agreed that the issuing of the public statement would be deferred until 1 June 2014, in order to give Bosnia and Herzegovina sufficient time to adopt the relevant legislation and bring it into force.

On 1 June 2014 MONEYVAL issued a public statement under its Compliance Enhancing Procedures as the required legislative amendments to meet MONEYVAL recommendations had not been enacted within the agreed deadlines. The AML/CFT (preventive) Law was subsequently adopted on 6 June 2014 and came into force on 25 June 2014. However, the amendments to the Criminal Code were not adopted and the public statement remained in place at the end of 2014. At the 45th plenary it was agreed that, unusually, the 46th plenary should be advised of key findings from the 4th round onsite visit, scheduled for November 2014 to assist the 46th plenary in its decision-making on a

possible reference to the FATF by MONEYVAL under the new step 4.

At the 46th MONEYVAL meeting in December 2014, the Executive Secretary informed the Plenary about the preliminary findings from the onsite visit (18 to 29 November 2014). In the light of this the plenary decided to maintain Bosnia and Herzegovina at step 3 but underlined that real progress was required on the Criminal Code amendment (especially Financing of Terrorism) by the 47th plenary if Bosnia and Herzegovina is to avoid being referred to the FATF ICRG process.

The amended public statement is reproduced beneath:

**COMMITTEE OF EXPERTS ON THE EVALUATION OF ANTI-MONEY
LAUNDERING MEASURES AND THE FINANCING OF TERRORISM
(MONEYVAL)**

**Public statement under Step 3 of MONEYVAL's Compliance
Enhancing Procedures in respect of Bosnia and Herzegovina**

12 December 2014

The Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) has been concerned since December 2010 with deficiencies in the anti-money laundering/combating the financing of terrorism (AML/CFT) regime in Bosnia and Herzegovina.

At its 35th plenary meeting (between 11-14 April 2011) in Strasbourg, MONEYVAL invited Bosnia and Herzegovina to develop a clear action plan in response to MONEYVAL's third round mutual evaluation report with realistic timescales for remedying the major deficiencies identified. Additionally, MONEYVAL emphasised that, in order to show a firm political commitment, the agreed action plan should be approved at the Government level. At the 37th plenary meeting (13-16 December 2011) MONEYVAL noted that the Council of Ministers of Bosnia and Herzegovina had considered and adopted the action plan on 10 October 2011. MONEYVAL, at its 44th plenary meeting (31 March to 4 April 2014), noted that the majority of the objectives of the action plan had still not been fully addressed, since necessary amendments to remedy important deficiencies in the Anti-Money Laundering and Counter Financing of Terrorism Law had not been adopted and important amendments to the Criminal Code had been rejected. As a consequence of this MONEYVAL issued a public statement on 1 June 2014.

Although the amendments to the Anti-Money Laundering and Counter Financing of Terrorism Law were adopted and came into force on 25 June 2014, the by-laws need also to be rapidly issued and brought into effect. The amendments to the Criminal Code have still not been adopted. MONEYVAL urges Bosnia and Herzegovina to immediately and meaningfully address its AML/CFT deficiencies, in particular by adopting necessary amendments to its Criminal Code.

MONEYVAL continues to call on States and territories evaluated by MONEYVAL and other countries to advise their financial institutions to pay special attention by applying enhanced due diligence measures to transactions with persons and financial institutions from or in Bosnia and Herzegovina in order to address the money laundering and financing of terrorism risks.

A graduated series of steps have been applied since December 2010, culminating in February 2014 with a high level mission, under step (iv) of the Rules of Procedure in force at that time, to reinforce MONEYVAL's concerns about Bosnia and Herzegovina's non-compliance with its reference documents.

Identified important deficiencies as a result of the process regarding the state of compliance on all NC and PC ratings in the 3rd round mutual evaluation report (“the NC/PC process”)

Background

Following MONEYVAL’s decision to examine the state of progress on all NC and PC ratings in those countries that had more than 30 NC or PC ratings in their third round mutual evaluation report, the Plenary agreed at its 34th meeting in December 2010, that in the case of 6 countries with identified important deficiencies, but below the threshold for which CEPs would be applied, the Chairman would write to the countries concerned drawing attention to the deficiencies and inviting their authorities to take further remedial action without instituting Compliance Enhancing Procedures. 2 countries remained in the process from 2013.

Jurisdictions under consideration in 2014

Jurisdictions Concerned	Progress in 2014
Republic of Moldova	Removed from process
Ukraine	Removed from process



**Republic
of Moldova**

In 2013, the Parliament of the Republic of Moldova adopted a law amending the Contravention Code, which established a sanctioning regime for non-compliance with the AML/CFT Law. Although the 43rd plenary agreed that the Moldovan authorities had met the minimum level required for a sanctioning regime for AML/CFT breaches, there remained reservations about the proportionality and dissuasiveness of the financial sanctions available for legal persons (especially banks). Therefore the Plenary decided to continue to monitor the situation, and required the Moldovan authorities to report back to the 44th Plenary on whether or not amendments to the Contravention Code were in force, in which case the Republic of Moldova would then exit this process. The Republic of Moldova was also invited to report in December 2014 with statistics showing the number and level of sanctions applied.

At the 44th plenary meeting, the Committee was informed that the new provisions of the Contravention Code entered into force and effect on 7th February 2014 by publication in the Official Gazette.

Considering all this information, the plenary decided to remove Republic of Moldova from the NC/PC process and concluded that the review of the 3rd round deficiencies was terminated.



Ukraine

Ukraine's progress in respect of Recommendation 3 (confiscation) was examined in December 2013. The Plenary had decided that the NC/PC process would only be formally terminated upon notification by the authorities of the entry into force of the law amending the Criminal Code and the Code of Criminal Procedure which aimed at addressing these deficiencies. It was also decided that Ukraine's compliance with Recommendation 3 and the deficiencies identified in this process in relation to the confiscation framework

would be re-examined during Ukraine's evaluation under the 4th round, which was scheduled to take place in May 2014.

The notification received from Ukraine about the entrance into force of the act on 16th of December 2013 led to the confirmation by the Chair in 2014 of the termination of the monitoring under the NC/PC process.

The May 2014 onsite visit could not go ahead. Subsequently, MONEYVAL decided that Ukraine will be one of the early countries evaluated in the 5th round and that it could forego the 4th round. Meanwhile, Ukraine was invited and agreed to present a third progress report in September 2015, which will cover the outstanding issues on Confiscation.

Voluntary tax compliance programmes and AML/CFT requirements

A voluntary tax compliance programme refers to any programme that is designed to facilitate legalisation of a taxpayer's situation in respect of funds or other assets that were previously unreported or incorrectly reported. Countries may introduce VTC programmes for a variety of purposes including: raising tax revenue; increasing tax honesty and compliance; and/or facilitating asset repatriation for the purpose of economic policies, especially when the country is in an economic crisis. Such programmes come in a variety of forms and may involve voluntary disclosure mechanisms, tax amnesty incentives and/or asset repatriation. In some cases, VTC programmes may be introduced as a political reaction to the immediate economic or fiscal situation of the country.

In 2007, MONEYVAL had already taken action through the application of Compliance Enhancing Procedures in a situation where a VTC programme adopted by a MONEYVAL member raised serious concerns as regards the effective application of AML/CFT measures.

In October 2012, the Financial Action Task Force published a Best Practices report on Managing the Anti-Money Laundering and Counter-Terrorist Financing Policy Implications of Voluntary Tax Compliance Programmes. This report recognised the potential for VTC programmes to be abused by criminals for the purpose of moving funds and it notes that the level of potential money laundering and terrorist financing risk varies greatly, depending on the characteristics of the particular VTC programme being implemented.

Taking these developments into account, the 43rd Plenary adopted procedures related to the implementation of Voluntary Tax Compliance programmes and AML/CFT requirements by States and territories evaluated by MONEYVAL. MONEYVAL will consider these issues in respect of these States and territories when they arise. At its 46th Plenary meeting, MONEYVAL revised its VTC procedures²⁶.

In 2014, four States with such programmes were under consideration.

Voluntary Tax compliance programmes considered in 2014

- | | |
|--------------|--------------|
| 44th plenary | ▶ Albania |
| | ▶ Hungary |
| | ▶ Malta |
| 45th plenary | ▶ Hungary |
| | ▶ Malta |
| 46th plenary | ▶ Malta |
| | ▶ San Marino |



Albania

In May 2013, Albania adopted legislation amending a 2011 Law on capital legalisation and fiscal amnesty in respect of a portion of tax and custom duties debts, and which extended the application of this legislation to 31 December 2013. Albania had only provided information to the MONEYVAL Secretariat about this VTC program in December 2013, in response to a request for information from the Executive Secretary, a few days before the termination of the programme.

The analysis of the VTC programme raised a number of questions and issues in respect of its overall compliance with the four FATF basic principles, and more broadly as regards Albania's consideration of MONEYVAL's procedures related to the implementation of VTC programmes and AML/CFT requirements. The VTC programme had been terminated at the time when the matter was brought to the attention of the Plenary for discussion. Thus MONEYVAL was no longer in the situation envisaged by its procedures, which would have enabled it to make recommendations for corrective action to be taken by Albania in order to bring the programme in line with the basic

26. See full text at : [http://www.coe.int/t/dghl/monitoring/moneyval/Activities/MONEYVAL\(2014\)45_VTC%20procedures%20ENG.pdf](http://www.coe.int/t/dghl/monitoring/moneyval/Activities/MONEYVAL(2014)45_VTC%20procedures%20ENG.pdf)

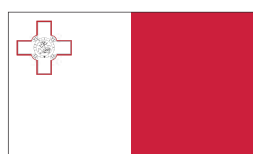
principles. The implementation of the programme was not extended beyond 2013, the Plenary decided to end the monitoring while noting that the delay with which the information regarding the existence of the VTC programme has been provided has frustrated the application of the relevant procedures. The revision of the procedures, which took place in 2014, has taken into account and introduced specific provisions aimed at preventing such situations.



Hungary

The proposed VTC programme of Hungary was already considered by the 43rd plenary in 2013.

At the 44th plenary Hungary provided information on the measures undertaken to implement MONEYVAL's recommendations, and the work underway for the preparation of draft guidance by the Central Bank of Hungary (CBH Guidance) to assist credit institutions in complying with their AML/CFT obligations in the implementation of the VTC programme. At the 45th plenary, Hungary reported on the functioning of the VTC programme, including the number of accounts opened under the VTC programme, the amounts deposited, STRs received by the FIU and the findings of onsite visits at banks by the Central Bank to ensure the proper implementation of the VTC programme. As the scheme had concluded, it was agreed that the Secretariat would not continue monitoring the Hungarian VTC programme under MONEYVAL's VTC Procedures.



Malta

Malta's proposed Voluntary Tax Compliance Scheme was first discussed at the 44th plenary. The Maltese

authorities had prepared a draft Investment Registration Scheme Regulations under Malta's External Transactions Law. It was considered that the Scheme complied with the four FATF principles, as also set out in MONEYVAL's VTC Procedures. At the 45th plenary, it was reported that the scheme had come into effect. The MONEYVAL Secretariat analysed the relevant legislation and guidelines and it was confirmed that the Maltese VTC programme remained in full compliance with the four basic principles. At the 46th Plenary it was reported that the scheme had concluded but that it was too early to fully analyse the results of the scheme. It was agreed that a full report on the outcome of the Scheme would be considered at the 47th plenary in 2015.



San Marino

San Marino adopted on 19 September 2014 legislation which contained elements of a VTC scheme through the legalization of taxpayers' situation in relation to unreported or incorrectly reported incomes, which came into force on 24 September 2014. This scheme was in force until 15 December 2014.

The 46th Plenary reviewed the analysis of the scheme and the information provided by the Sammarinese authorities under MONEYVAL's VTC procedures. It has concluded that the VTC programme was consistent with the four basic principles set out in the procedures and did not appear to have any negative impact on the implementation of AML/CTF measures in San Marino. Therefore, no further action has been taken under these procedures.

Typologies work and other research reports

STRUCTURE OF TYPOLOGIES AND RESEARCH WORK

Another important function of MONEYVAL is to identify new and emerging money laundering and terrorist financing techniques and trends, to assess the level of these threats and report on the findings. Each year, MONEYVAL undertakes typologies research to better understand the money laundering and terrorist financing environment in the European region and to provide decision-makers and operational experts with up-to-date information so that they may develop sound policies and strategies to combat these threats.

REPORTS CONSIDERED IN 2014

Projects in 2014

Laundering the proceeds of organised crime
Strengthening Financial Integrity through Financial Inclusion

LAUNDERING THE PROCEEDS OF ORGANISED CRIME

In October 2013, a first meeting was held in Strasbourg to consider typologies in respect of Laundering the Proceeds of Organised Crime. In May 2014 two meetings were held in San Marino to consider aspects of this project. The first meeting brought prosecutors and judges from Europe and the United States together to explore the reasons for the apparent absence of ML convictions of third parties who launder on behalf of organised crime. Apart from providing a substantial contribution to the final typologies report, the seminar was helpful in raising awareness of how more success can be achieved in this area. Prosecutors present recognised the continuing need to challenge the courts with more third party ML cases based on circumstantial evidence. The second meeting was a project core-group workshop which took place immediately after the seminar with prosecutors and judges. The

core-group members discussed the emerging findings from the Prosecutors meeting and mapped out the steps for production of the draft report for presentation to the December 2014 MONEYVAL Plenary.

The draft report was presented to the 46th plenary meeting. It was agreed that more time was needed for delegations to fully consider the detailed report. It was agreed that the report should be recirculated to all delegations for further comments and the report will be presented to the 47th Plenary for adoption.

STRENGTHENING FINANCIAL INTEGRITY THROUGH FINANCIAL INCLUSION²⁷



In 2014 MONEYVAL conducted a survey of the extent to which financial inclusion is taken into account by its member States and territories and how financial inclusion inter-relates with anti-money laundering and counter financing of terrorism (AML/CFT) policies and financial products. The report produced establishes the extent to which financial inclusion is currently taken into account by MONEYVAL States and territories.

27. http://www.coe.int/t/dghl/monitoring/moneyval/Publications/Financial%20Inclusion%20Report_EN.pdf

It was notable that there was a high level of financial inclusion in those financial centres which derived a significant portion of their GDP from financial services, as a significant number of the working population are involved in the financial services industry and there is a high degree of awareness of financial products. Overall, EU Member States demonstrated a reasonably high level of financial inclusion and the implementation of the *Directive on the Comparability of Fees Related to Payment Accounts, Payment Account Switching and Access to Payment Accounts with Basic Features* should help to further improve the level of financial inclusion. For other States, inconsistencies in data made it difficult to form an opinion on the overall level of financial inclusion, although there were clear indications of a need to improve and develop policies and procedures.

The report identified financial illiteracy, lack of experience of financial products, lack of confidence in financial institutions and credit ratings as potential barriers to improving the level of financial inclusion, and States and territories need to consider whether these barriers exist in their jurisdictions and, if so, design strategies to counter them.

To counter these barriers and to improve financial inclusion, the report identified a number of initiatives that are either being considered or have been successfully implemented including: education and awareness raising; development of basic financial products; private sector initiatives in developing basic financial products; use of the Post Office network in rural communities; relaxation of AML/CFT requirements for low-risk customers; and consumer protection and complaints procedures.

The report noted that those jurisdictions which are not financial centres that had actively promoted financial

inclusion policies, particularly education, awareness-raising and the introduction of basic financial products, have achieved a significantly higher level of financial inclusion than neighbouring States.

The report concluded that financial inclusion policies and initiatives constitute an important aspect of the fight to counter money laundering and terrorist financing. MONEYVAL States and territories were encouraged to actively consider developing financial inclusion policies and initiatives and, in particular, to include consideration of financial inclusion in their national risk assessments.

This will not be a one-off exercise in MONEYVAL. Financial inclusion potentially impacts on two areas which underpin work in the Council of Europe: the promotion of human rights (in this case, arguably, the right to financial services); and the protection of the rule of law by the prevention of greater use of informal or underground banking and money transfer networks. It was considered, therefore, that MONEYVAL, as an organ of the Council of Europe, should pay more attention to this issue. While the social and political importance of financial inclusion policies are clear, the real impact of wider financial inclusion policies on AML/CFT prevention and detection is presently less clear. It was therefore agreed that similar surveys should be conducted by MONEYVAL on a biennial basis to try to monitor more accurately both the developing levels of financial inclusion in MONEYVAL States and territories over time, and to analyse the impact which this may be having on AML/CFT compliance in those MONEYVAL States and territories with hitherto lower levels of access to the financial system within their populations.



Other important activities and initiatives in 2014

In addition to its normal evaluation cycles, progress and follow-up reports and other peer pressure assessment mechanisms, MONEYVAL engages in many other important activities, including those listed below.

KEY PARTNERSHIPS

As previously noted, MONEYVAL is a key partner in the global network of interdependent AML/CFT assessment bodies.



The Financial Action Task Force

The FATF continues to be MONEYVAL's primary international partner and collaborator. The Financial Action Task Force is an inter-governmental body established in 1989 and designed to set standards and promote effective implementation of anti-money laundering and terrorist financing measures. The FATF is therefore a policy-making body which works to generate the necessary political will to bring about national legislative and regulatory reforms. It operates in combination with FATF-style regional bodies, among which MONEYVAL is recognised as a leading member.

As an Associate Member of the FATF since 2006, MONEYVAL contributes to the policy-making work of FATF. The Chair, the Vice-Chair and the Executive Secretary regularly attend and actively contribute in FATF working groups and plenary meetings, together with delegates from MONEYVAL countries and territories who participate under the MONEYVAL flag. Thus, MONEYVAL States and territories have real opportunities of inputting into the FATF's global AML/CFT policy-making.

Considerable MONEYVAL Secretariat resources are applied to following the work of each of the main FATF working groups, and in attendance at inter-organisational meetings – particularly the International Co-operation Review Group (ICRG) and the Evaluations and Compliance Group (ECG), which deals with issues involving interpretation of the global standards and the development of the global AML/CFT Methodology.

In 2014, MONEYVAL attended three FATF Plenaries, an FATF Data Protection and AML/CFT Experts Seminar in Brussels, and an FATF training for the new evaluation round organised in Moscow.

In December the MONEYVAL Plenary welcomed Mr Roger Wilkins AO, President of the FATF, who made a very thoughtful intervention including very complimentary remarks about the work of MONEYVAL (appendix V).

MONEYVAL has mutual observer status with other Associate Members of FATF and co-operates with them on a number of levels. The full list of associate members appears at appendix VI.

The revision of FATF's Recommendations was completed in 2012 and the revised FATF Recommendations were published in February 2012. Following this revision, the FATF updated its Methodology for Assessing Compliance with the FATF 40 Recommendations and FATF 9 Special Recommendations; the updated methodology was adopted and published in February 2013.²⁸ FATF commenced work on evaluations under the revised Recommendations at the end of 2013.

Participation by MONEYVAL Secretariat in FATF evaluations under the 2012 Recommendations	
Belgium	Evaluator
Spain	Reviewer
Italy	Reviewer

MONEYVAL input into the first FATF reports in the new round should ensure that the first MONEYVAL reports using the new Methodology are consistent with the early "jurisprudence" of FATF. Ms Livia Stoica Becht of the MONEYVAL Secretariat participated as an evaluator in the FATF evaluation of Belgium (and also with a view to the preparation of a parallel assessment of Belgium by the Conference of the Parties to CETS 198). The onsite visit took place from 30 June to 15 July 2014. The FATF report will be considered at the FATF plenary in February 2015. Participation in the evaluation also gave a valuable insight into the procedures adopted for the new round of evaluations, which are significantly different from those in previous evaluation rounds.

A new form of quality and consistency review has been introduced as part of the FATF mutual evaluation process including an external element. The main functions of the reviewers are to ensure MERs are of an acceptable level of quality and consistency, and to assist the assessment team by reviewing and providing timely input on the scoping note and the draft MER and Executive Summary including:

- ▶ commenting on the assessors' proposals for the scope of the onsite;
- ▶ commenting on whether there has been a correct interpretation of the FATF Standards and application of the Methodology (including the assessment of risks, integration of the findings on technical compliance and effectiveness, and

areas where the analysis and conclusions are identified as being clearly deficient);

- ▶ Checking whether the description and analysis supports the conclusions (including ratings), and whether, based on these findings, sensible priority recommendations for improvement are made;
- ▶ Where applicable, highlighting potential inconsistencies with earlier decisions adopted by the FATF on technical compliance and effectiveness issues; and
- ▶ Checking that the substance of the report is generally coherent and comprehensible.

Mr John Ringguth, the Executive Secretary of MONEYVAL, acted as a reviewer of the first FATF evaluation report in the new round of evaluations (Spain), which was adopted by the FATF plenary in October 2014. Mr Ringguth was also invited to act as a reviewer on the evaluation report of Italy, which is the first evaluation to be conducted by the IMF in the new round, and which will be considered by the FATF plenary in June 2015. Mr Ringguth provided detailed comments in November 2014 on the team's scoping note for the assessment.

International Co-operation Review Group & Europe/Eurasia Regional Review Group

In 2009, the G20 called on the FATF to identify jurisdictions which threatened the global financial system. Countries can be nominated directly or are considered automatically if their evaluation reports have a number of low ratings in important core and key Recommendations. All European jurisdictions identified for review by the International Co-operation Review Group (ICRG) are referred to the Europe/Eurasia Regional Review group (ERRG). The ERRG which is co-chaired by the MONEYVAL chairman, Dr. Bartolo, in turn analyses the factual situations and reports from the region to the ICRG. Finally, the ICRG decides whether a full targeted review is required and final decisions are taken on this by the FATF Plenary. The ICRG process is intended to complement the follow-up procedures of the regional bodies. In 2014, Albania was the only MONEYVAL member State subject to consideration by the ERRG and the ICRG under the FATF's on-going AML/CFT compliance process²⁹.

28. The adopted methodology is available here.

29. Under this process - *Improving Global AML/CFT Compliance: On-going Process* - the FATF identifies in a public document jurisdictions with strategic AML/CFT deficiencies that have provided a high-level political commitment to address the deficiencies through implementation of an action plan developed with the FATF. Progress and the implementation of their action plans is closely monitored by the FATF and the two FATF public documents are issued three times a year.

MONEYVAL State members considered by the ICRG/ERRG in 2014

Albania

Since June 2012, when Albania made a high-level political commitment to work with the FATF and MONEYVAL to address its strategic AML/CFT deficiencies, Albania has made significant progress to improve its AML/CFT regime. Albania has substantially addressed its action plan at a technical level, including by: establishing adequate customer due diligence provisions; establishing an adequate legal framework for identifying, tracing and freezing terrorist assets; and enhancing the framework for international co-operation. A decision was taken at the October 2014 FATF Plenary meeting that Albania should be subject to a short onsite visit with a view to exiting this process.

In January 2015, the EERG conducted an onsite visit to confirm that the process of implementing the required reforms and actions is underway to address deficiencies previously identified by the FATF in June 2012. A member of the MONEYVAL Secretariat participated and contributed to this mission.³⁰

The International Monetary Fund and the World Bank

Since 11 September 2001, the role of the *international financial institutions* (IFIs) in AML/CFT has expanded. The clear engagement of the IFIs with the FATF and MONEYVAL was based on the decisions of their Boards after the events of 11 September 2001 that AML/CFT issues should be routine parts of all their much larger financial sector assessments in their member States.

MONEYVAL and the FATF negotiated with the IFIs in 2003–2004 “burden sharing” agreements, under which the IMF or World Bank³¹ could conduct a small number of MONEYVAL or FATF evaluations in a given evaluation round, and present the report for adoption at MONEYVAL and FATF Plenaries. In 2013, the IMF led the MONEYVAL onsite evaluation to Liechtenstein, with a MONEYVAL Secretariat member as part of the team covering law enforcement issues. This report was adopted at the 44th MONEYVAL plenary in 2014.

MONEYVAL benefits from this burden-sharing as the IFIs can also accept recent MONEYVAL reports (prepared by MONEYVAL alone) as the AML/CFT components of their own wider financial sector assessments in other MONEYVAL countries.

In 2014, representatives from both the IMF and the World Bank actively participated in MONEYVAL plenary meetings. In particular, at the 46th plenary meeting, a representative of the World Bank gave a presentation to the Plenary on the subject of “de-risking”, a process under which banks have recently adopted more stringent financial crime-related policies to reduce their exposure to potential money laundering, terrorist financing, corruption and sanctions risks. Such an approach can cause banks not to provide services at all to particular high risk categories of customers and products. MONEYVAL is currently assessing the incidence of this phenomenon in its states and

territories. A representative of the World Bank also participated as a delegate in MONEYVAL’s evaluator training seminar in November 2014.

As noted above, Mr John Ringguth, the Executive Secretary of MONEYVAL, is reviewing the evaluation report of Italy, which is being conducted by the IMF.



The European Union

The EU has been actively involved in MONEYVAL since its inception. In fact, the EU encouraged its creation. It is represented in MONEYVAL through the European Commission and the Council of the European Union. As a distinctly European monitoring mechanism, MONEYVAL

has always had the European Union Directives as part of its mandate. Currently, MONEYVAL additionally evaluates all its jurisdictions – whether EU members or not³² – on those parts of the 3rd AML/CFT EU Directive³³ that depart from the FATF standards. This assessment is published with each report that MONEYVAL produces, though without ratings. This is unique to MONEYVAL. Older members of the EU – evaluated by FATF – are not assessed on the EU Directives through a peer review process, as the FATF only evaluates against global standards. It is now possible for Council of Europe member States not evaluated by MONEYVAL to apply for an evaluation by MONEYVAL in respect of the standards in the 3rd EU AML/CFT Directive. MONEYVAL would anticipate assessing the upcoming 4th EU AML/CFT Directive on the same basis.

Representatives from the EU regularly attend the MONEYVAL plenary meetings and have provided the following updates.

30. Albania has subsequently been removed from the ICRG process.

31. In practice only the IMF has undertaken MONEYVAL countries, so far.

32. Currently, 12 MONEYVAL States are EU members.

33. Directive 2005/60/EC.

At the 46th Plenary, a representative of the European Commission briefly presented to the Plenary the EU framework for the implementation of the UN sanctions regime and the related jurisprudence of the Court of Justice of the European Union (CJEU). It was emphasised that the EU is fully committed to the FATF standards and the UN Resolutions and that the developing line of jurisprudence of the CJEU to ensure a balance between the fight against terrorism and the protection of the right of defence. It was underlined that the view of the Court is that any decision which affects a person individually must be taken on a sufficiently solid factual basis. It was explained that the implementation of the UN requirements is conducted through reports provided by the member-states. It was emphasised that EU Courts accept that the implementation of UN listings can and should occur without delay. The Court also recognises that the statement of reasons can be provided to the listed person after the decision to list has been made. Thus, the EU continues expeditiously to implement all UN listings as required by Chapter VII of the UN Charter. However, in order for the Court to verify facts, the EU authorities must present sufficient information to substantiate the listing. The Court provides a degree of flexibility on the nature and extent of the information that may be required.



United Nations

The United Nations' global AML/CFT standards are embodied in the FATF standards. The United Nations Office on Drugs and Crime and Counter-Terrorism Committee Executive Directorate (CTED) send representatives to MONEYVAL.

MONEYVAL has successfully collaborated on several occasions with CTED on its separate assessments of UN Security Council Resolution 1373 on terrorist financing in MONEYVAL countries.

The revised 2012 FATF standards, on which MONEYVAL will evaluate in 2015 include proliferation financing. During the 45th Plenary, Dr Jonathan Brewer, representing the Panel of Experts of UNSCR 1929(2010), made a presentation regarding relevant UN Resolutions on Iran. Aspects covered included requirements under the Resolutions, the role of the Sanctions Committee and the Panel of Experts as well as the various types of financial sanctions. Related issues covering effective implementation of the UN Resolutions were also presented. The state of implementation of the UN requirements is monitored through reports provided by the member-states, which are very helpful for the Panel to understand the pattern of activities, state of implementation of resolutions and attempts by Iran to circumvent the resolutions.



The Organisation for Security and Co-operation in Europe

Representatives from the OSCE have attended MONEYVAL plenaries during 2014 and provided updates on their current initiatives.

Egmont Group

The Egmont Group was established in 1995 as an international forum bringing together financial intelligence units³⁴ in order to improve and systemise AML/CFT co-operation, particularly at intelligence level. The work of the FIU is an integral part of the FATF standards, and MONEYVAL evaluations. MONEYVAL has observer status and has actively participated in Egmont Group meetings and contributed to training of FIU staff.

Mutual collaboration by MONEYVAL with Egmont enriches the evaluators' and the secretariat's understanding of the working methods of FIUs. The Egmont Group was instrumental in pressing for FIU standards to be covered in an international legal instrument and contributed actively to the negotiation of the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism. MONEYVAL's law enforcement scientific expert, Mr Boudewijn Verhelst, was the Chair of the Egmont Group from 2010 to 2013.

In June 2014, Mr Michael Stellini from the MONEYVAL Secretariat attended the Egmont group's plenary meeting in Peru.

In August 2014 MONEYVAL hosted an Egmont Group training course in Strasbourg. The objective of the course was to expand FIUs' capacities to conduct strategic analysis and was intended for delegates who are or will be involved in strategic analysis within their respective FIUs. The course was attended by 27 delegates of whom 24 came from MONEYVAL States and territories.

The Eurasian Group on combating money laundering and financing of terrorism

The Eurasian group on combating money laundering and financing of terrorism (EAG) is a FATF-style regional body bringing together Belarus, India, Kazakhstan, China, Kyrgyzstan, Russia, Tajikistan, Turkmenistan and Uzbekistan. 14 more States and 18 international and regional organisations have observer status within the EAG. Representatives from the EAG regularly attend MONEYVAL plenary meetings and the 3rd round

34. The receiving units for suspicious transaction reports from the private sector.

evaluation of the Russian Federation was conducted jointly with the FATF and EAG.

In June 2014 Mr Dmitry Kostin from the MONEYVAL Secretariat attended an EAG plenary meeting in Moscow, and participated in the EAG's Working Group on Mutual Evaluations and Legal Issues. This included consultations on the application of the risk-based approach to new payment methods.

In November 2014 Mr Nicola Muccioli (San Marino), as a Bureau member, represented MONEYVAL at the 10th anniversary plenary meeting of the EAG. During the plenary, Mr Muccioli made a speech on behalf of the Chairman and Secretariat of MONEYVAL congratulating the EAG on its achievements and underlining the strong cooperation between the two bodies.

PARTICIPATION IN OTHER FORUMS

AML & Financial Crime Conference

Mr John Ringguth, Executive Secretary of MONEYVAL, spoke at the 19th Annual International AML & Financial Crime Conference, held in Hollywood, Florida on March 17-19, 2014. Mr Ringguth took part in a panel discussion "Staying on Top of Global Regulatory Trends". This important AML forum is the only international multi-industry AML gathering in the world, hosting nearly 1,200 AML compliance and other financial crime prevention executives from large and small financial institutions, insurance companies, securities firms, money services businesses, government bodies and law enforcement. It provides a unique platform for AML/CFT assessment bodies to share their experience with practitioners globally with a view to enhancing compliance with AML/CFT standards.

Data Protection and AML/CFT Experts Seminar

Mrs Livia Stoica Becht participated in a Data Protection and AML/CFT Experts Seminar which was held in Brussels on 24 March 2014. The seminar was organised by the Financial Action Task Force (FATF), in coordination with the European Commission, and a number of data protection, AML/CFT and private sector experts participated. The aim of the seminar was to map commonalities, exchange information, including on existing good practices, and to foster a dialogue between all relevant experts at the national, supranational and international level.

Conference on Investments of Organised Crime in the EU

Mr Daniel Ticau of the MONEYVAL Secretariat attended a conference on Investments of Organised Crime in

the EU which was held in Brussels on 24 March 2014. The conference was aimed at increasing the awareness of EU stakeholders on the scale and negative impact of organised crime investments on the European economy. The conference sought to provide evidence, measures and cases of organised crime investments and examples of best practices for preventing, better tracing and tackling such investments.

Ukraine Forum on Asset Recovery

Confiscation and Asset recovery is central to law enforcement AML/CFT standards. Mr John Ringguth, Executive Secretary of MONEYVAL, represented the Council of Europe at the Ukraine Forum on Asset Recovery which was held in London on 29-30 April. The event was organised jointly by the Governments of the United States and United Kingdom with the objective of delivering the maximum practical impact through international cooperation for the purpose of the recovery of stolen assets to the people of Ukraine. Mr Ringguth took the opportunity to emphasise the importance of Council of Europe States signing and ratifying the 2005 Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism (Warsaw Convention) in order to better facilitate recovery of assets alleged to be stolen from Ukraine.

INTERPOL Expert Working Group on the Identification, Location and Seizure of Assets

Mr Daniel Ticau of the MONEYVAL Secretariat attended the first meeting of the INTERPOL Expert Working Group on the Identification, Location and Seizure of Assets, which was held on 14 and 15 May 2014 in Rome. The meeting addressed key legal and operational issues that have emerged in the field of criminal asset tracing and recovery. The working group was attended by representatives of operational networks and international organisations involved in asset recovery.

Council of Europe Conventions Information Seminar

Ms Astghik Karamanukyan of the MONEYVAL Secretariat attended a Council of Europe Conventions Information Seminar which was held in Israel on 7-8 July 2014. During the seminar, Ms Karamanukyan gave presentations on CETS no.141 and CETS no. 198.

International Conference on "Terrorism and Organised Crime"

Mr Boudewijn Verhelst, Scientific Expert, represented MONEYVAL at the International Conference

on “Terrorism and Organised Crime” which was held in Malaga on 25-26 September 2014. The conference was arranged by the European Committee on Crime Problems (CDPC) and the Committee of Experts on Terrorism (CODEXTER). The conference aimed to draw attention to and, where possible shed new light on, the links between terrorism and other forms of serious organised crime. At the conference Mr Verhelst presented a brief summary of some of the findings from MONEYVAL reports related to the countering of the financing of terrorism and explained the actions that MONEYVAL was taking in response to the threat from IS.

European Investment Bank

Mr John Ringguth, Executive Secretary of MONEYVAL, participated in the European Investment Bank, Compliance Summit in Luxembourg on 24-25 September 2014. Mr Ringguth spoke on the theme “Raising Compliance Awareness and Achieving Effective AML/CFT outcomes”. In his address he explained the role of MONEYVAL in the global network and the challenges that countries will face in demonstrating effectiveness in the forthcoming round of evaluations. He highlighted the particular challenges for supervisors in a risk based approach, the challenges to improve information on the beneficial owners of legal persons and arrangements, and the negative consequences of wholesale “de-risking” by larger financial institutions.

TRAINING AND AWARENESS-RAISING

Evaluator training

In March 2014, four members of the MONEYVAL Secretariat, and four scientific experts attended a training seminar on the 2012 FATF Recommendations. The seminar was held in Moscow and was hosted by the Russian Federation. The training was conducted by members of the FATF Secretariat, the IMF and Michael

Stellini from the MONEYVAL Secretariat. The aim of the seminar was not only to train future evaluators but also to prepare representatives from FSRBs to conduct their own training seminars.

Subsequently, MONEYVAL held a successful evaluator training seminar from 3-7 November 2014 in Strasbourg. The seminar was attended by 28 experts from 21 countries and territories evaluated by MONEYVAL, as well as a delegate from the World Bank.

The purpose of the seminar was to prepare future evaluators in MONEYVAL’s 5th round of mutual evaluations. Participating trainers included Mr John Ringguth, Mr Boudewijn Verhelst (MONEYVAL scientific expert, Belgium), Mr Yehuda Shaffer (Israel) and Mr Richard Walker (UK Crown Dependency of Guernsey). The assistance of all these experts was greatly appreciated by all the participants.

Introduction to the FATF Immediate Outcomes

The new round of evaluations, which MONEYVAL starts in 2015, focuses even more directly on effective implementation. Technical issues will primarily be covered in an annex to the mutual evaluation report.

The 2013 Methodology for assessing compliance with the FATF Recommendations has introduced a separate effectiveness methodology comprising 11 Immediate Outcomes which are necessary for a fully performing system. This represents a significant development and a number of presentations were made in the 45th and 46th plenaries covering 8 out of the 11 immediate outcomes.

Each Immediate Outcome was introduced by a member of the MONEYVAL Secretariat who gave a brief outline of what is required and, where appropriate also provided a summary of the main relevant deficiencies in effectiveness identified in MONEYVAL’s 4th round of evaluations. The appropriate Scientific Expert then gave a brief intervention on the challenges that they foresee countries facing in the new round when



seeking to demonstrate effectiveness to the assessors. Two countries also prepared interventions: one on the information that they would provide in advance of the onsite visit to demonstrate effectiveness in their jurisdiction; and the other on how they would seek to demonstrate effectiveness in their jurisdiction during the onsite visit. Each of these exercises stimulated lively debates in the plenary meetings. The remaining Immediate Outcomes will be covered at the 47th plenary in 2015.

Training for MONEYVAL 5th round assessed countries

As there are some significant changes from the 4th round procedures the MONEYVAL Secretariat are conducting a two day country training seminar for each evaluated country one year in advance of the onsite visit. The seminar addresses all the main stakeholders in the public and private sectors and in particular those people who will be involved in preparing the materials to be submitted by the country and who will be interviewed onsite.

In 2014 preparation for the 5th round assessment visits were made to Armenia (in June) and Serbia (in September). This initiative will continue in 2015.

Israel: National Risk Assessment and the FATF Recommendations

Mr John Baker from the MONEYVAL Secretariat participated in a seminar in Jerusalem, Israel on 8-9 June 2014 on National Risk Assessments and the FATF Recommendations. The aim of the seminar was to raise awareness of the FATF requirements and to assist Israel in commencing its National Risk Assessment in compliance with the revised FATF Recommendations. The seminar was attended by representatives of the Israel Money-laundering Prevention Authority, Ministry of Justice, Attorney General's Office, Security Service and Central Bank of Israel as well as representatives from financial institutions and designated non-financial businesses and professions (DNFBPs).

The Conference of the Parties to CETS no. 198

The 2005 Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism (or Warsaw Convention³⁵), which came into force on 1 May 2008, builds on the success of the 1990 Convention on Laundering, Search, Seizure and Confiscation of the

Proceeds from Crime (or Strasbourg Convention³⁶). It is the first comprehensive anti-money laundering treaty covering prevention, repression and international co-operation in anti-money laundering and confiscation. More specifically, this instrument:

- ▶ provides States with enhanced possibilities to prosecute money laundering more effectively;
- ▶ equips States Parties with further confiscation tools to deprive offenders of criminal proceeds;
- ▶ provides important investigative powers, including measures to access banking information for domestic investigations and for the purposes of international co-operation;
- ▶ covers preventive measures, and the roles and responsibilities of financial intelligence units and the principles for international co-operation between financial intelligence units;
- ▶ applies all its provisions to financing of terrorism;
- ▶ covers the principles on which judicial international co-operation should operate between States Parties.

The Convention provides for a monitoring mechanism through a Conference of the Parties to ensure that its provisions are being effectively implemented. It came into force on 1 May 2008 and counts to date 13 signatories, including the European Union, and 25 State Parties. In 2011, Mrs Eva Rossidou-Papakyriacou (Cyprus) was elected to be the first Chair of the COP and was re-elected in 2013 for a term of two years. In June 2013, the COP elected Mr Branislav Bohacik as Vice-President for a term of two years. In October 2014, the COP elected the following Bureau members for a term of one year:

Bureau of the Conference of the Parties

- ▶ Mrs Eva ROSSIDOU-PAPAKYRIACOU, President (Cyprus)
- ▶ Mr Branislav BOHACIK, Vice-President (Slovak Republic)
- ▶ Mr Vitalii BEREGIVSKYI, Member (Ukraine)
- ▶ Ms Donatella FRENDODIMECH, Member (Malta)
- ▶ Mr Sorin TANASE, Member (Romania)

Mr Paolo Costanzo (Italy) has been appointed as scientific expert to the COP since 2011.

The monitoring procedure under the Convention is particularly careful not to duplicate the work of MONEYVAL or of the FATF; it therefore focuses on those parts of the Convention that add value to the current global standards. The assessment is undertaken by

35. The Warsaw Convention is numbered 198 in the Council of Europe's treaty system (CETS). Its full text can be found here.

36. The Strasbourg Convention is numbered 141 in the Council of Europe's former *European Treaty System* (ETS). Its full text can be found here.

three rapporteurs (on legal aspects, FIU related issues and international co-operation) in conjunction with the Secretariat and is based on the replies of the authorities to a detailed questionnaire. Where necessary, MONEYVAL and FATF reports are also drawn upon.

MONEYVAL's Executive Secretary is also the Executive Secretary to the COP, due to the relevance and inter-connection of the COP's mandate to the work of MONEYVAL. Similarly, MONEYVAL's secretariat staff also provides full support to the COP.

In 2012, the COP and MONEYVAL agreed to pilot new procedures whereby the COP could benefit from MONEYVAL's processes. Under these procedures, whenever possible, questions by the Secretariat on the implementation of the Convention's requirements would be raised during MONEYVAL onsite visits so that this information can be integrated into COP reports. The evaluations carried out in this way have proved to be successful and the results are encouraging both for MONEYVAL, the COP and the countries evaluated. This procedure was applied in 2014 for the evaluations carried out by MONEYVAL in Montenegro and Bosnia and Herzegovina. Notably, in addition to the added value brought to COP and MONEYVAL reports, conducting the two processes in parallel has minimised the duplication of effort by the country.

A similar collaborative arrangement has been agreed with the FATF in order to raise issues on the implementation of Convention requirements during FATF's onsite visits to States which have ratified CETS 198. A Secretariat member of the COP has thus joined the FATF evaluation team during the FATF onsite visit to Belgium in June 2014. The COP and the FATF have agreed that following this evaluation visit, the two mechanisms will take stock of the experience and decide whether the scope and process for this co-operation should be detailed either in the respective rules of procedure of each monitoring body or otherwise through an exchange of letters. Such collaboration responds to current concerns expressed by member States of the Council of Europe about the need to strengthen co-ordination and co-operation of monitoring bodies wherever possible.

At its 6th meeting (29 September – 1st October 2014), the COP adopted the evaluation reports on Moldova, Malta and Montenegro, as well as the first follow-up report on Romania. It decided that the next Parties to be assessed in 2015 will be Armenia, Belgium and Bosnia and Herzegovina. The next meeting of the COP was scheduled to take place in November 2015.

Moreover, further to the revision of the FATF recommendations and their possible consequences for CETS No. 198, the COP decided that a minimalist revision of this instrument should be launched. More specifically an amendment to the categories of offences contained in the Appendix to the Convention shall be initiated

under the "fast-track procedure" provided under Article 54 paragraph 6 of the Convention, in order to align it with the list of categories of predicate offences designated by the 2012 FATF Recommendations. The Committee of Ministers agreed in October 2014 to amend the Appendix in accordance with the proposal made by Cyprus. The appendix to the Convention was amended to include tax crimes (related to both direct and indirect taxes) and clarified that the reference to smuggling includes smuggling in relation to customs and excise duties and taxes. The adoption of the amendment was notified on 24 October 2014 to the member States of the Council of Europe, to non-member States which have participated in the elaboration of the Convention, to the European Union and to any State having been invited to accede to the Convention.

PARTICIPATION IN FATF POLICY-MAKING

In 2014, following consultation with the MONEYVAL States and territories, comprehensive comments were submitted on FATF's Draft Guidance on Transparency and Beneficial Ownership in advance of FATF's June plenary meeting. Following this consultation the FATF issued its Guidance on Transparency and Beneficial Ownership on 21 October 2014. In October 2014, FATF started a new research project on Transparency of beneficial ownership and a number of MONEYVAL States and territories have contributed to this project, and the Vice-chairman, Daniel Thelesklaf (Liechtenstein) has joined the project team.

IMPLEMENTATION OF SANCTIONS REGARDING PERSONS DESIGNATED AS AFFILIATED TO IS

At its 45th plenary meeting it was reaffirmed that the fight against financing of terrorism was one of the primary missions of MONEYVAL. The MONEYVAL Chairman condemned in the strongest terms the acts perpetrated by IS. On behalf of MONEYVAL, the Chairman expressed his deepest condolences to the United Kingdom and the United States for the brutal murders of David Haines, James Foley and Steven Sotloff; a minute's silence was held in their memory. MONEYVAL States and territories were requested to implement the financial sanctions provided for in UNSCR 2170(2014) and EU Regulation No. 914/2014, regarding persons designated as affiliated to IS and to report to the 46th plenary on steps taken.

A report was presented at the 46th plenary on actions taken by MONEYVAL States and territories on the implementation of financial sanctions provided for in UNSCR 2170(2014) and EU Regulation No. 914/2014, regarding persons. 30 out of 33 States and territories reported on comprehensive steps taken. It was noted that the FATF had undertaken a short-term typologies

project on this issue and delegations were encouraged to contribute to the FATF project. States and territories have now been asked to provide information on nominations they have made for UN designations and assurance that their financial sanctions systems can catch ransom payments.

HUMAN RESOURCES

MONEYVAL's 2014 permanent staff remained in place throughout 2014 and comprised: 1 experienced A4 (the Executive Secretary); 4 experienced A2/A3s (one post, one position and one CDD contract limited to five years, and one temporary contract which covered the whole year in respect of a former secondee); 3 assistants (2 at B3 and 1 at B2). Additionally during the year MONEYVAL benefited from 2 other temporary contracts at B grade for administrators (both of which terminated during or at the end of 2014). These contracts were funded out of Voluntary Contributions.

The Secretary General has agreed for several years that MONEYVAL should additionally be supported by secondees. In 2014, MONEYVAL benefited from the secondments of Mr Dmitry Kostin (Russian Federation) until July, Mr Fatih Onder (Turkey) until June, and Dr Michael Stellini (Malta) and Mr Daniel Ticau (Romania) for the whole year. Ms Astghik Karamanukyan (Armenia) and Mr Andrey Frolov (Russian Federation) joined the Secretariat in April

and September respectively. The authorities of the officials concerned are warmly thanked for their contributions. Other secondee vacancies have continuously remained unfilled in 2014. As at the end of the year, because of further departures and staff moves, MONEYVAL is seeking to recruit 5 new secondees. One experienced A2 has recently retired (February 2015).

The current Executive Secretary, who has been responsible for the MONEYVAL secretariat since 1 January 2003, will retire in 2015.

Thus for the sustainability of MONEYVAL it is paramount that more permanent staff with the necessary profiles and expertise are recruited to the Secretariat.



Conclusions

MONEYVAL's work to fight money laundering and terrorist financing continues to be central to the work of the Council of Europe.

The emergence of IS in 2014 underlined once again the importance of its mission on financing of terrorism.

MONEYVAL's work on AML is also central to the protection of the Rule of Law in Council of Europe states (and other States and territories covered by MONEYVAL). This is because effective anti-money laundering measures take the profit out of crime and disrupt organised criminality.

MONEYVAL has once again this year demonstrated that it is an important and indeed irreplaceable partner in the global network of AML/CFT assessment bodies. Its work is highly regarded and its products, given its small staff, are remarkable, and bring great credit to the Council of Europe.

MONEYVAL is going through a period of transition so far as its secretariat is concerned. It is now urgently necessary for the MONEYVAL secretariat to be reinforced with more permanent staff, with the necessary skills and expertise to carry this work forward.

Appendices

Appendix I - Address by H.M. Queen Máxima of the Netherlands, UN Secretary-General's Special Advocate for Inclusive Finance for Development

Address by H.M. Queen Máxima of the Netherlands, UN Secretary-General's Special Advocate for Inclusive Finance for Development, to the Plenary Meeting of the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism, Strasbourg, 17 September 2014

Mr Chairman, Mr Secretary General, ladies and gentlemen,

I am delighted to be here. The fact that I have been given the opportunity to address you today represents the growing appreciation of how the realms of financial inclusion and the work of monitoring bodies such as MONEYVAL complement each other. Indeed, it seems that if done well, our interests align perfectly.

As the UN Secretary-General's Special Advocate for Inclusive Finance for Development, I have seen how your work is key to addressing the issue of financial inclusion and by extension, equitable growth and development. The substance of your deliberations and actions through MONEYVAL has far reaching consequences. At the United Nations, issues like these are being discussed as part of the global development agenda that will come into effect exactly a year from now.

Allow me first to introduce the concept of financial inclusion, and how it intersects with your important work on combating money laundering and terrorist financing.

At present 2.5 billion adults – that's half the adults in the world – do without even the most basic financial services that you and I rely on every day. No bank account. No safe way to save money. No safe way to make payments, no insurance. No credit beyond what they can borrow from a loan shark. Even for mature economies, ensuring that socially vulnerable categories of the population and small business owners get access to mainstream financial services, is a real challenge. Millions of SME's in developed markets lack the

financing they need to grow. Without access to financial services and without adequate financial literacy, small business owners use inefficient tools and are forced to cut back on growth, innovation and efficiency. Consequently, entrepreneurship and employment both suffer and economic development stagnates.

And there is even more at stake here. Supporting financial inclusion means also bringing financial transactions under the scrutiny of the authorities. When people are encouraged to transact through the formal financial system, risks of illicit activity - like money laundering and the financing of terrorism - are being reduced.

The challenges in each of your countries will be different. But I think we can agree that financial exclusion entails significant negative consequences. Not only for individual households and businesses, but for the stability, integrity and transparency of the wider financial system and for our security.

Financial inclusion, the promotion of financial integrity and the prevention of criminal cash flows go hand in hand. This is, provided that we strike the right balance between security measures and accessibility of formal financial services.

There has been a growing awareness that implementation of strict, inflexible standards can inadvertently prevent households and businesses from accessing or using formal financial services. It can also discourage providers from delivering these services to all customers because of the significant costs it imposes on them. As a consequence vast numbers of people are relegated to informal solutions where transactions cannot be traced and suspicious patterns are not identified. This leaves us all worse off.

And this not only here. In this increasingly connected world more than 215 million people live outside their country of birth. There is a huge demand for payments

and remittances worldwide. According to the World Bank, global remittances are estimated at \$580 billion this year. We know that a well-functioning payment and remittance system plays a critical role in enhancing financial inclusion and poverty reduction. For millions of families in countries like for example the Philippines, you are talking about survival. However there is a global trend to clamp down on remittance providers citing concerns in the field of money-laundering and the financing of terrorism.

There are, no doubt, real concerns to be addressed here. But we should at the same time, be careful not to drive these substantial flows into the informal sector, shielding them from scrutiny. Again, achieving a balance will be the challenge.

The issue is: is it effective to confront all households and all businesses with uniform, inflexible identification and verification requirements that many of them cannot meet? Should customers who conduct limited transactions meet the same requirements as customers who conduct large transactions?

The ability to combat financial crime is of utmost importance. But we must find the means to continue to do so in an effective manner. And also *proportionate* to the risks involved, so that financial inclusion and transparency goals are not impeded.

I am very happy that the Financial Action Task Force has shown great vision by officially recognizing that financial inclusion, anti-money laundering and combating the financing of terrorism are mutually supportive. Put differently, measures that enable more citizens to use formal financial services will increase the reach and effectiveness of AML/CFT regimes.

Following on from this recognition, FATF has released guidance and recommendations making it easier for policy makers to pursue financial inclusion goals while combatting organized crime and preventing criminal cash flows.

These are built on a “risk-based approach”. Each of your markets is different and this approach gives policy makers the flexibility to move away from ‘one size fits all’. It gives them the freedom to tailor their regime to their specific national context and to respond to the relevant risks that have been identified. This has paved the way for flexibility on customer due diligence requirements in lower risk situations.

All of this is happening against a backdrop of innovation in products and services, such as mobile banking. FATF has provided clarity by issuing guidance on the use of mobile payments, internet-based money transfer and agents. This gives regulators and providers new opportunities to safely draw in large numbers of people and transactions into the formal financial system.

One of the most significant breakthroughs has been the introduction of the measurement of effectiveness into the new FATF assessment methodology. Also, for the first time, it includes financial inclusion policies as factors that assessors may consider in evaluations. This should prove to be a powerful incentive for policy makers to check how and if that balance is struck.

I think you will agree that a range of tools and approaches now exist to ensure that the work of combating money laundering and terrorist financing and the promotion of financial inclusion are mutually reinforcing. A significant challenge now is for policy makers to translate the new guidance to their domestic situations. Your support in helping bring this about in your jurisdictions will be vital.

Knowledge sharing and joint learning through monitoring bodies such as MONEYVAL are crucial in creating a more secure world in which equitable economic growth engages everyone!

I wish you all the best in your discussions over the next few days.

Appendix II – Response to H.M. Queen Máxima of the Netherlands by John Ringguth, Executive Secretary of MONEYVAL

Your Majesty, Mr President, ladies and gentlemen.

May I too join the President in thanking your Majesty for sharing with us your unique global perspective on the financial inclusion issue as our jurisdictions engage more directly with this issue.

MONEYVAL decided to first conduct a survey of the extent to which the issue is currently taken into account in MONEYVAL states and territories. We have had a good response to our questionnaire, and our report has been circulated to you all.

The first point. MONEYVAL is not an homogenous group of States and territories. Its jurisdictions are very diverse, ranging from international financial centres to countries with emerging economies. Consequently we received very diverse replies from the 32³⁷ jurisdictions which responded.

It was therefore not possible to draw one overall conclusion. But it was clear that those jurisdictions which had actively promoted the development of basic low-cost financial products, as well as developing programmes of financial awareness, had achieved a higher degree of financial inclusion than some of their neighbours.

A number of respondents considered financial inclusion to be a strategic priority. In practice this is largely driven by social concerns, rather than AML/CFT concerns. Those that have developed financial inclusion policies consider that these have benefited the jurisdiction as a whole, the AML/CFT regime included.

Our report has identified a number of positive measures that have been adopted by states and territories to improve financial inclusion. Overall the most effective measures appeared to be in education and awareness raising (particularly at the level of schools and universities and through Internet packages) and through the development of basic financial products, including free or low-cost bank accounts with basic and essential services. It was encouraging that at least one of our jurisdictions with very high levels of access to financial services is also creating basic customer accounts for the lower risk customers. It was also notable that there are a number of private sector initiatives being taken to develop basic financial products. Several countries report the use of pre-paid cards as a means of both reducing the amount of cash in the economy and providing greater access to basic financial products.

The barriers to financial inclusion, to which Your Majesty has referred, were also identified from the replies in several countries. These included financial illiteracy, lack of experience of formal financial systems, concerns over the complexity of financial products, lack of confidence in financial institutions following the banking crisis, and the problems arising with credit rating agencies for persons who lack a financial track record.

Other initiatives included promoting the use of post offices in remote areas for the provision of basic remittance services, as well as for the payment of utility bills and receipt of social benefits and pensions. This, I think, underlines Your Majesty's important message that a balance between security and financial inclusion can be struck using the risk based approach. One size does not fit all. And it does need to be recognised that not all money remitters are high risk.

The replies to the questionnaire showed that many countries are still in the process of developing their national risk assessments. While it is increasingly understood that financial inclusion policies should be a part of a country's strategy for mitigating AML CFT risks, the extent to which financial inclusion is included in risk 3 assessments was not always clear. We expect that this MONEYVAL survey, by raising awareness of this issue, should, of itself, spur more countries to address the issue also in their AML/CFT national risk assessments.

So, to conclude, as financial exclusion is clearly an obstacle to an efficient AML/CFT regime, we propose that we continue to analyse the development of our states and territories in this area. The Council of Europe is, of course, a human rights based organisation. While the right to open a basic payment account is not, as yet, a universally recognised human right, access to financial services is increasingly being recognised, in the modern world, as an important basic right, particularly in the EU, where work is proceeding on a Directive to ensure that the right to open a bank payment account is not denied within Europe. Therefore we propose that similar surveys are conducted by MONEYVAL on a biannual basis to monitor both the developing levels of financial inclusion in MONEYVAL jurisdictions and to try, if this is possible, to measure more precisely the impact this is having on AML/CFT regimes.

Thank you.

John Ringguth
Executive Secretary



37. One country responded after the report had been finalised and the report will be amended to reflect this before final publication.

Appendix III – List of the 22 States and jurisdictions subject to evaluation by MONEYVAL in 2014 and 2 states visited in advance of their 5th round assessment.

	ERRG	MER	3rd Progress Report	4th Follow-up ³⁸	CEPs	NC/PC	Onsite evaluation visit	5th Round Training	VTC	No Action
Albania	x			x					x	
Andorra				x						
Armenia								x		
Azerbaijan		x					x			
Bosnia & Herzegovina					x		x			
Bulgaria										x
Croatia										x
Cyprus				x						
Czech Republic				x						
Estonia		x								
Georgia				x						
Holy See										x
Hungary									x	
Israel				x						
Latvia				x						
Liechtenstein		x								
Lithuania				x	x					
Malta				x					x	
Monaco										x
Montenegro							x			
Poland										x
Republic of Moldova				x		x				
Romania		x								
Russian Federation			x							
San Marino				x					x	
Serbia								x		
Slovak Republic				x						
Slovenia										x
“the former Yugoslav Republic of Macedonia”		x								
UK Crown Dependency of Guernsey							x			
UK Crown Dependency of Jersey										x
UK Crown Dependency of the Isle of Man										x
Ukraine										x
Total	1	5	1	12	2	1	4	2	4	9

States and territories subject to active MONEYVAL monitoring in 2014	22
States and territories receiving onsite 5th round training in 2014	2
States and territories not subject to active MONEYVAL monitoring in 2014	9
Total	33

38. This includes follow up to the Special Assessment on Cyprus

Appendix IV – List of 2003 40+9 FATF Recommendations

R.1	Money laundering offence
R.2	Criminalisation of Money laundering
R.3	Confiscation, freezing and seizing of proceeds of crime
R.4	Financial institution secrecy laws
R.5	Customer due diligence
R.6	Politically exposed persons
R.7	Correspondent banking
R.8	New technologies
R.9	Third parties and introduced business
R.10	Record keeping
R.11	Monitoring of transactions and relationships
R.12	Customer due diligence and record-keeping
R.13	Reporting of suspicious transactions
R.14	Tipping-off and confidentiality
R.15	Internal controls and foreign branches and subsidiaries
R.16	Suspicious transaction reporting
R.17	Sanctions
R.18	Shell banks
R.19	Higher-risk countries
R.20	Other designated non-financial businesses and professions
R.21	Higher-risk countries
R.22	Internal controls and foreign branches and subsidiaries
R.23	Regulation and supervision of financial institutions
R.24	Regulation and supervision of DNFBPs
R.25	Guidance and feedback
R.26	Financial intelligence units
R.27	Responsibilities of law enforcement and investigative authorities
R.28	Powers of law enforcement and investigative authorities
R.29	Powers of supervisors
R.30	Resources of Competent Authorities
R.31	National co-operation and coordination
R.32	Statistics
R.33	Transparency and beneficial ownership of legal persons
R.34	Transparency and beneficial ownership of legal arrangements
R.35	International instruments
R.36	Mutual legal assistance
R.37	Extradition
R.38	Mutual legal assistance: freezing and confiscation
R.39	Extradition
R.40	Other forms of international co-operation
SR I	Implement UN instruments
SR II	Terrorist financing offence
SR III	Freezing and confiscating terrorist assets
SR IV	Reporting of suspicious transactions
SR V	International co-operation
SR VI	Money or value transfer services
SR VII	Wire transfers
SR VIII	Non-profit organisations
SR IX	Cash couriers

Appendix V – Summary of speech by Mr Roger Wilkins, President of the FATF



In an intervention to MONEYVAL, the Council of Europe's anti-money laundering and countering the financing of terrorism (AML/CFT) body, at its 46th plenary meeting, Mr Roger Wilkins AO, President of the FATF, recalled that FATF and MONEYVAL, together with their member States and territories, all contribute through their work in this area to the integrity of the overall global financial system.

Mr Wilkins congratulated MONEYVAL on its outstanding work and stated that MONEYVAL has a formidable reputation for "top-notch" evaluations.

During his intervention he underlined that technology is the biggest challenge that the new economy is facing.

He considered that the globalisation of the financial system could not be understood without recognizing the ever-growing role that technology plays in it. He also stated that, given its paramount importance, both FATF and MONEYVAL, along with all their constituent States and territories should actively use technology to implement their AML/CFT procedures and to raise their standards.

The FATF President also stressed the importance of global cooperation, in order to understand better issues that can undermine AML/CFT efforts, including so-called "regulatory arbitrage".

Mr Wilkins also emphasised the great importance of getting national risk assessments right. These are necessary if countries are to construct sound foundations for national AML/CFT strategies and policies to prevent money laundering - rather than simply to solve the problems that successful laundering creates.

He also underlined the importance of closer partnerships with the private sector and the need for more exchange of information between the public and private sectors on AML/CFT issues. He encouraged the Plenary to seek new ways of achieving such dialogues in their jurisdictions.

He concluded his intervention by re-affirming his appreciation of MONEYVAL's very valuable work. He looked forward to listening to some of the discussions in plenary and talking with delegates informally during his visit.

Appendix VI – List of FATF-style regional bodies

Asia/Pacific Group on Money Laundering (APG)	
Caribbean Financial Action Task Force (CFATF)	
Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL)	
Eurasian Group (EAG)	
Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG)	
Financial Action Task Force of Latin America (GAFILAT)	
Inter-Governmental Action Group against Money Laundering in West Africa (GIABA)	
Middle East and North Africa Financial Action Task Force (MENAFATF)	

The Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) is a monitoring body of the Council of Europe entrusted with the task of assessing compliance with the principal international standards to counter money laundering and the financing of terrorism and the effectiveness of their implementation, as well as with the task of making recommendations to national authorities in respect of necessary improvements to their systems.

For more information on MONEYVAL, please visit our website:
www.coe.int/moneyval

www.coe.int

The Council of Europe is the continent's leading human rights organisation. It comprises 47 member states, 28 of which are members of the European Union. All Council of Europe member states have signed up to the European Convention on Human Rights, a treaty designed to protect human rights, democracy and the rule of law. The European Court of Human Rights oversees the implementation of the Convention in the member states.