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MONEYVAL(2012)22

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

39th PLENARY MEETING

Strasbourg, 2 - 6 July 2012

MEETING REPORT

Memorandum

Prepared by the MONEYVAL Secretariat

EXECUTIVE SUMMARY

During the 39th plenary meeting, held in Strasbourg from 2-6 July 2012, the MONEYVAL Committee:

- Adopted the 3rd round Mutual Evaluation Report of the Holy See (including Vatican City State).
- Adopted the Mutual Evaluation Report on the 4th assessment visit of Georgia (IMF led evaluation).
- Adopted the Mutual Evaluation Report on the 4th assessment visit of Latvia.
- Heard and discussed the 4th round expedited follow-up report on the Czech Republic.
- Heard and discussed the 4th round interim follow-up report on Hungary.
- Examined under Step (i) of the Compliance Enhancing Procedures (CEPs) the report of Bosnia and Herzegovina and decided to retain Step (i) until the next plenary meeting.
- Examined under Step (ii) of the Compliance Enhancing Procedures (CEPs) the report of Albania and maintained Step (ii) until the first plenary in 2013.
- Examined measures taken by countries on identified important deficiencies as a result of the process regarding the state of compliance on all NC and PC rating in the 3rd round in respect of Azerbaijan and Croatia. Azerbaijan was removed from the review process and Croatia was requested to report at the next plenary meeting.
- Heard and discussed the statistics template for the 4th round follow-up reports.
- Had an exchange of views on ways to conduct National Risk Assessments.
- Heard an update on the status of work on typologies in MONEYVAL and in other forums.
- Heard information from the European Commission on the development of the 4th AML Directive and an update of AML/CFT initiatives in other forums.
- Heard and discussed the collaboration with the monitoring mechanism of the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism (CETS 198).
- Took note of the forthcoming MONEYVAL/EAG Workshop.

SUMMARY ACCOUNT OF THE MONEYVAL PROCEEDINGS

Items 1, 2 and 3 - Opening of the Plenary Meeting, adoption of the agenda and information from the Chairman

1. The Chairman, Mr Vladimir NECHAEV (Russian Federation), opened the meeting and drew attention to the intense media interest in the Holy See/Vatican City State report and the publication of accurate information based on parts of the confidential MONEYVAL draft report. The Chairman informed the plenary of the statement made at the last FATF plenary by the then FATF president, Giancarlo del Bufalo, expressing his concern about the clear breach of confidence in respect of the MONEYVAL report on the Holy See. The FATF President had also reminded everyone of the need to take great care to protect the integrity of MONEYVAL's processes and, indeed, the integrity of the processes of the whole global network of assessment bodies. Mr Vladimir NECHAEV, as Chairman of MONEYVAL, as one of the evaluators in the HS/VCS evaluation and as vice-president of FATF, had made a statement strongly deploring the leak of confidential parts of this draft report, particularly after the MONEYVAL Secretariat has so clearly protectively marked the documents, and emphasised the importance of protecting the confidentiality of the evaluation process.
2. The Chairman informed the plenary that, in the light of the damaging breach of confidentiality, stricter security measures were in place for the plenary.
3. The Committee adopted the agenda as it appears in Appendix I. The list of participants appears at Appendix II.

3.1 Chairman's correspondence

4. The Chairman informed the plenary on the exchange of letters he had with countries taking measures 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 reports and with countries under the compliance enhancing procedures that were going to be discussed during the plenary week.

3.2 Annual Report to the Committee of Ministers - results

5. The Chairman informed the plenary about the encouraging reaction of the Committee of Ministers of the Council of Europe in relation to the first annual report of MONEYVAL presented before them by the Chairman and Executive Secretary of MONEYVAL. He highlighted the fact that the delegations of the Committee of Ministers had praised MONEYVAL for its good work and activity and had underlined how important this Committee was for the Council of Europe.

Item 4 - Information from the Secretariat

4.1 Agenda of evaluations and meetings for 2012 and 2013

6. The Secretariat informed the plenary on the programme and activities for the rest of the year. In 2012 on-site visits are being carried out according to the 2012 schedule, with visits to Bulgaria, Monaco and Croatia fixed for the second half of the year. In the December Plenary, which will be the 15th anniversary plenary, there will be two mutual evaluation reports discussed, Moldova and Lithuania, three 3rd round progress reports, Serbia, Ukraine and Armenia and the 4th assessment visit follow-up report of Hungary.
7. It was also noted that the 2013 schedule is subject to changes to the evaluations of Romania (now April 2013) and the Russian Federation (the onsite is postponed until November 2013).

4.2 Participation in FATF meetings

8. This item of the agenda was moved to Friday for the discussion.

4.3 Participation in other forums

9. The Secretariat informed the plenary of its participation in the meeting of the European Association of Accountants earlier in the year. The meeting, as part of outreach to the private sector, enabled a dialogue between MONEYVAL (as a monitoring body) with one major DNFBP.
10. The Executive Secretary informed the plenary of a first regional workshop, organized under the auspices of the Eastern partnership on good governance and the fight against corruption, where an analysis on typologies on laundering the proceeds of corruption in transition economies will be conducted. This meeting was organised in the margins of the MONEYVAL plenary meeting and the project will be developed in the coming months.

Items 5 and 6 - Discussion on the draft 4th round Mutual Evaluation Report on Georgia (IMF led evaluation)

11. The Vice-Chairman, Mr Anton Bartolo, took the chair for the discussion of the mutual evaluation report on Georgia, in cooperation with the International Monetary Fund (IMF). Mr Emmanuel Mathias, representative of the IMF, thanked MONEYVAL for their logistical support, the Georgian authorities for their hospitality and for having accepted to be evaluated by the IMF, Mr Alexandru Codescu, from the Romanian National Office for the Prevention and Control of Money Laundering, who participated on behalf of MONEYVAL to assess compliance with the 3rd EU Directive, and the World Bank for the internal review of the draft report.
12. The on-site evaluation mission was conducted from 28 November to 13 December 2011. The evaluation team underlined that the AML/CFT measures had significantly improved since 2008 as regards the incrimination of ML, the effective use of confiscation and temporary measures as well as international cooperation. However, it also pointed to the unduly narrowed incrimination of TF, the lack of effectiveness of the ML incrimination and corporate liability mechanisms (given specific risks associated with corporate entities), the lack of effectiveness of the FIU in its core functions (given the low number of cases initiated), issues connected with off-shore and foreign beneficial owners not identified properly as well as lack of effectiveness of CDD measures overall and insufficiencies in the list of DNFBPs subjected to the AML/CFT law and in the supervision over DNFBPs. Mr Codescu pointed to significant progress accomplished since the last evaluation but such areas as tipping-off and reliance on third parties (for CDD measures) were among the areas which still needed improvement.
13. The Georgian authorities assured MONEYVAL of their high political commitment to improving the AML/CFT mechanisms. They referred to the adoption of more than 200 legal acts/amendments since the last evaluation and to a series of improvements, including after the on-site visits. They expressed their disappointment with the results of the evaluation. There remained major disagreements as regards the rating of 12 FATF Recommendations.
14. The Vice-Chairman proceeded with the discussions on the draft report. The intervener countries were: Republic of Moldova (legal aspects), Republic of Serbia (law enforcement aspects) and Slovak Republic (financial aspects).
15. There were further discussions regarding the language used in respect of relevant AML/CFT risks, particularly in the General Information on Georgia and in other parts of the draft report and draft Executive Summary. Necessary editorial changes were approved for incorporation into the final adopted report.

Important issues raised

16. **The effectiveness of provisions on sanctions and liability of legal persons (R.2):** various delegations supported the idea that since Georgia complied with all 5 criteria, the lack of effectiveness alone did not justify a downgrading to PC. The plenary agreed with this and the rating was upgraded to LC.
17. **Sanctions (R.17):** various delegations supported that, although the number of sanctions applied was low in a particular sector, most of the criteria in this recommendation were met and the rating should be upgraded to LC. The rating was discussed and the plenary agreed to upgrade it from PC to LC.
18. **Circumstances in which a country can be rated as regards R.34 (trusts and legal arrangements):** when discussing this item, delegations objected to the relevance of arguments such as “the country has a continental law tradition” or “it has not ratified the Hague Convention on the Law Applicable to Trusts and on their Recognition” to determine the applicability of R.34 to a country (and thus a rating). France, for instance, has a continental law tradition and had not ratified the said Convention, but the legal situation of fiduciaries had led to the applicability of R.34. Armenia and FATF pointed to the fact that a better argument might be whether or not the legal arrangements concerned foresee a transfer of property between the settlor and the trustee since trusts normally imply such a transfer. The plenary finally agreed that the arrangements identified by the evaluators in article 734 of the Civil Code were of a different nature and the rating was thus changed from NC to NA.
19. **Reporting suspicious transactions related to terrorist financing (SR.IV):** the rating was discussed and the plenary agreed that some of the underlying justification for the rating was more relevant in the context of R.12 and R.16, as it was leading in relation to SR.IV to an undue emphasis on problems connected with DNFBPs. It was decided that following the necessary textual amendments, SR.IV would be upgraded from PC to LC.
20. The plenary also discussed other issues, including whether in the context of SR.VI, internet casinos qualify as money transfer services (the plenary agreed with the evaluators and decided that the methodology clearly states that this is the case for any entity offering such services). The plenary did not reach a consensus on changing other ratings, such as R.11, R.26 and SR.II, which thus remained as proposed by the evaluators, subject to some editing.

Decisions taken

21. According to the revised Rules of Procedure, the plenary adopted the draft report with the above amendments to ratings R.2, R.17, R.34 and SR.IV and the executive summary. As noted above, other further editorial changes were approved. Pursuant to Rule 48 of the revised Rules of Procedure, Georgia was placed in the regular follow up process. This process requires the country to provide, no later than two years after the adoption of the report (i.e. July 2014), information on the actions it has taken to address the factors/deficiencies underlying any of the 40+9 Recommendations that are rated PC or NC.

Item 7 - Information on AML/CFT initiatives in MONEYVAL countries (tour de table)

22. This issue was not covered in the plenary and delegations were invited to present their updates and actions in written form to the Secretariat.

Item 8 - Discussion of the 4th round expedited follow-up report on the Czech Republic

23. The 4th round Mutual Evaluation Report on Czech Republic was adopted in April 2011. The country had been placed into expedited follow-up on the basis of Rule 49 of the revised Rules of Procedure.
24. The MONEYVAL Secretariat presented its current analysis of the follow-up report of Czech Republic in respect of all FATF Recommendations that were rated PC or NC in the 4th

round mutual evaluation report, including those Recommendations where there had been some substantial progress and also those where work was still required. Overall, the Czech authorities have introduced a number of important legislative changes as well as taking certain other initiatives to improve the AML/CFT regime. There remain, however, a number of deficiencies that have yet to be addressed.

25. The plenary also heard a report on the recent developments in the AML/CFT system from the Czech Republic delegation and it was agreed to update the follow-up report to reflect some additional information provided by the Czech authorities.
26. The Czech Republic proposed reporting back in December 2013 and 3 countries (Romania, Lithuania and Poland) supported its proposal.

Decision taken

27. Considering that Czech Republic had not sought removal from the follow-up process and the progress that had been made, the plenary supported the proposal made by the Czech Republic to report back in December 2013. The Chairman will send a letter to the head of Czech Republic delegation to set out the main actions expected to be taken by the authorities during the intervening period.

Item 9 - Report of Bosnia and Herzegovina under Step (i) of the Compliance Enhancing Procedures and discussion of any next steps

28. Bosnia and Herzegovina was placed under Step (i) of the Compliance Enhancing Procedures by the decision of the 33rd plenary. At the previous plenary it was noted that the short term issues in the Action Plan, on which steps are required, were due to be completed by 10 April 2012. The Committee agreed to retain step (i) until the 39th plenary in July 2012 and to ask the authorities to present a detailed report on progress at that meeting.
29. The MONEYVAL Secretariat presented to the plenary the analysis of the current situation and the action taken to date by the Bosnia and Herzegovina authorities in the CEPs process in respect of short term objectives.

Decisions taken

30. The Committee has agreed that overall the Bosnian authorities appear to have broadly addressed the short term objectives, although it should be noted that the deadline for addressing them was April 2012 and not all of the recommendations were remedied. In particular, a number of awareness raising and training initiatives have been undertaken and are continuing throughout 2012 and revised guidance is being produced. Furthermore, amendments to legislation are under consideration.
31. The Committee also stated that the authorities should report back under step (i) in advance of the 40th plenary in December 2012 on short term objectives that are not yet addressed as well as on medium term objectives in the Action Plan.

Item 10 - Report from Albania under Step (ii) of the Compliance Enhancing Procedures and discussion of any next steps

32. By the decision of the 33rd plenary, Albania was placed in compliance enhancing procedures at Step (i) which was applied in respect of those countries that had more than 30 NC or PC ratings in their third round mutual evaluation report.
33. At the 37th plenary, the Committee concluded that overall, one year after the implementation of Compliance Enhancing Procedures, Albania had not demonstrated sufficient action to resolve in a timely manner the important deficiencies identified in September 2010 in respect of R.5, SR.II and SR.VIII. Considering the remaining concerns, it had decided to apply Step (ii) in the procedures, which involves a letter from the MONEYVAL Chairman to the Secretary General of the CoE, and Albania was requested to report back on progress made before the 38th plenary.

34. At the 38th plenary, the Committee took into consideration that the Secretariat still needed to carry out a comprehensive analysis of the legislation provided and, taking into account that Albania is under the ICRG process, the Committee decided to retain Step (ii) until the next plenary and to ask Albania to report back in July during the 39th plenary.
35. During the 39th plenary meeting, the Secretariat presented its analysis of the progress made and highlighted the remaining issues of concern. It was concluded that significant progress appears to have been achieved by Albania as regards the implementation of corrective measures in respect of R.5 and SR. II. From a desk review it appeared that the adoption of the new amendments to the AML/CFT Law and the amendments brought to the Criminal Code, place Albania in compliance with the FATF standards in respect of the above mentioned recommendations. However, it could not be concluded that Albania had taken sufficient action to address the deficiencies identified in September 2010 in respect of SR.VIII.

Decision taken

36. Pursuant the information provided to the Secretariat, the plenary took note of the progress made by Albania and invited the authorities to report back under Step (ii) at the 41st plenary meeting on the progress made in respect of the remaining objectives.

Item 11 - Further discussion of measures taken by Azerbaijan 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 and next steps

37. The Secretariat introduced the analysis of the current situation in Azerbaijan in respect of identified important deficiencies related to R.2, R.3 and SR.II and noted that steps had been taken by Azerbaijan to address these important deficiencies by introducing amendments to the Criminal Code. Although, the Secretariat noted several deficiencies that still need to be addressed by the Azerbaijani authorities in respect of criminal liability of legal persons and confiscation regime.

Decision taken

38. The plenary supported the proposal made by some delegations to remove Azerbaijan from the NC/PC process and to invite the Azerbaijani authorities to inform the Committee in December 2012 on the developments in respect of criminal liability and confiscation regime during the discussion of the tour de table.

Item 12 - Further discussion of measures taken by Croatia 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 and next steps

39. The Secretariat introduced the analysis of the current situation in Croatia in respect of identified important deficiencies related to SR.III. The Secretariat found that Croatia was still missing provisions in order to fully implement SR.III, especially when it comes to the criteria that deal with the delisting of persons or organisations and unfreezing of assets. A draft government decision was under preparation to address this issue.

Decision taken

40. The plenary supported the proposal made by the bureau to maintain Croatia in the NC/PC process and to invite the Croatian authorities to inform the Committee in December 2012 on the developments in respect of SR.III.

Item 13 - Information from the European Union

13.1 European Commission

41. The European Commission informed the plenary that, in light of the recent adoption of revised international standards and of the Commission's own review process, on 7 November 2012 a Commission proposal for the amendment of the Third AML Directive is due to be published. A conference is scheduled to be held in Brussels on 23 November 2012 for discussions related to the revised Directive. MONEYVAL was invited to participate in this conference.

13.2 Secretariat General of the Council of the European Union

42. The Secretariat General of the Council of the European Union informed the plenary that the Conclusions of the 5th round of mutual evaluation dedicated to “financial crimes and financial investigations” will be discussed in September; these should be publically available in October 2012 and should go to the Council of the European Union in December 2012.
43. The Implementation Report of the Counter Terrorism Coordinator is due for October 2012 and further detailed information about it will be provided at the next MONEYVAL plenary.

Item 14 - EU Member States' common understanding on the procedure for the recognition of third countries equivalence

44. The European Commission informed the plenary that a few changes have been introduced into the Member States Common Understanding on the Procedure and Criteria for the Recognition of Third's Country Equivalence and these are going to be posted on the website of the EC.

Item 15 - Information on AML/CFT initiatives in other forums

15.1 IMF

45. The IMF informed the MONEYVAL plenary about several ongoing projects of technical assistance with MONEYVAL countries (Armenia, Azerbaijan and Ukraine).
46. The IMF also informed the plenary that preliminary national risk assessment projects were being developed with certain MONEYVAL countries (Albania, Bulgaria, Croatia, “the former Yugoslav Republic of Macedonia”, Poland, Romania and Serbia). Preliminary reports and findings will be discussed in the context of a seminar in Italy (Syracuse) in September 2012.

15.2 World Bank

47. The World Bank informed the plenary that the World Bank/UNODC mentorship in Central Asia had finished on 1st May 2012.
48. With regard to technical assistance, the World Bank briefly provided information about the support for developing a NRA in Serbia within the MOLI project. The first workshop had already taken place and a second is scheduled to take place in October. Seven other MONEYVAL countries had requested different types of assistance related to NRA.
49. Regarding projects, the World Bank mentioned:
- Editing of the book “Using Asset Disclosure for Identifying Politically Exposed Persons” developed by WB specialists.
 - The completion of the joint Egmont Group – World Bank Study on FIU's Power to Postpone Suspicious Transaction. The study is going to be presented and formally adopted during the 20th Egmont Group meeting in Saint Petersburg.
50. With regard to the future plans the World Bank mentioned the participation on the Joint training EAG/MONEYVAL related to international standards in September and the intention to organise regional training for the FIUs on strategic analysis. A training seminar is scheduled to be hosted next spring in Kazakhstan.

15.3 EBRD

51. Apologised.

15.4 GIFCS

52. Apologised.

15.5 OSCE

53. Apologised.

15.6 Council of Europe Development Bank

54. Apologised.

15.7 Eurasian Group on Combating Money Laundering and Terrorist Financing (EAG)

55. EAG notified the plenary that a new Working Group on Counteraction of Financing of Drug Business, Crime and Terrorism was established by the decision of the EAG 16th Plenary meeting.

56. An e-learning Course "FATF Recommendations" designed for self-training of employees of organisations (both public and the private sector) involved in the field of combating money laundering and the financing of terrorism were presented at the 16th Plenary. It is available for public use on the EAG website.

57. EAG informed the plenary that, for the second part of this year, the major scheduled events are:

- MONEYVAL/EAG Joint practice workshop on implementation of the new FATF Recommendations – Strasbourg, September 2012.
- Workshop on exchange of experience in NRA – India, November 2012.
- The 17th EAG Plenary meeting – India, November 2012.
- Workshop on exchange of experience in AML/CFT strategic planning – China, December 2012.

15.8 FATF

58. FATF informed the plenary about the new mandate for 2012-2020, issued by the Ministers and representatives of the FATF Members.

59. The plenary was informed about the FATF 4th round of evaluations. A desk-based technical assessment, conducted by FATF/FSRB secretariats, prior to the on-site visit is being considered. The emphasis of the on-site visit would thus be on effectiveness. It was anticipated that this approach would limit the impact on resources.

60. A brief summary of the outcomes from the last plenary meeting of FATF held in Rome, 20-22 June 2012, was made. The plenary was informed about:

- The fact that three reports will be issued, outlining new methods and trends in money laundering and terrorist financing in: Operational Issues – Financial investigations Guidance, Specific Risk Factors in Laundering the Proceeds of Corruption and Illicit Tobacco Trade.
- Five new typology projects, related to counterfeiting, terrorist financing in West Africa, lawyers, diamonds trade and Hawala.
- A mapping exercise, related to tax fraud as a predicate offence for money laundering.

- The first meeting of Global Network Coordination Group, which goal is achieving greater consistency in the evaluations that will be carried out by the FATF and the FSRBs.
61. It was also noted that Norway now held the presidency of the FATF and Russian Federation, represented by Vladimir Nechaev, the vice presidency.

15.9 United Nations Counter-Terrorism Executive Directorate (CTED)

62. CTED informed the plenary about the adoption of the Report of Albania, on the steps that it had taken to implement resolutions 1373 (2001), in March and about an upcoming visit to the Russian Federation in October conducted by CTC and CTED.
63. An expert meeting in Amsterdam will be organised with regard to national freezing mechanisms based on United Nations Security Council Resolutions.

Item 16 - The Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the proceeds from Crime and on the Financing of Terrorism (CETS No. 198)

64. The Executive Secretary informed on the outcomes of the 4th meeting of the Conference of the Parties, held in Strasbourg between 12 and 14 June 2012, where a new Bureau was elected, according to the Rules of Procedure of the Conference of the Parties.
65. The 2nd evaluation report, on Romania, was adopted after a full debate on the issues of the convention that add value to the international standards. The report is published on the COP website.
66. A tour de table was held on the nature of the reservations and declarations that States have made to the Convention and the Chair invited countries to consider withdrawing a number of them.
67. An analysis regarding the possible consequences of the revised FATF Recommendations for the Convention was presented. The Secretariat of the Conference of the Parties agreed to explore the process for initiating the “fast track” amendment procedure in respect of the list of designated categories of predicate offences. It was agreed that the Secretariat would conduct a light touch review of the need for further amendments to the Convention.
68. The plenary was informed about discussions, within the COP, as regards the possibility of taking advantage of the existing monitoring mechanisms for clarifying issues in replies to COP questionnaires during MONEYVAL and possibly FATF onsite visits. There was an acceptance in the COP for making such approach.

Decision taken

69. The MONEYVAL plenary decided to collaborate with the proposal of the COP and pilot this initiative to take advantage of the MONEYVAL mechanism, where possible. The Executive Secretary of the COP will pursue with the FATF the possibility of a similar approach when they re-commence evaluations in 2013.

Items 17 and 18 - Discussion on the draft 3rd round Mutual Evaluation Report on the Holy See (including Vatican City State)

70. The Vice-Chairman, Mr Anton Bartolo, took the chair for the discussion of the mutual evaluation report on the Holy See. Mr John Ringguth, Executive Secretary to MONEYVAL, introduced the evaluation team who had worked intensively on this first assessment of the HS/VCS since the previous summer: Professor William Gilmore (MONEYVAL scientific expert and legal evaluator); Mr Andrew Strijker (MONEYVAL scientific expert and financial evaluator); Mr Philipp Roeser, Liechtenstein (financial evaluator); Mr Boudewijn Verhelst (MONEYVAL scientific expert and law enforcement evaluator) and Mr Vladimir Nechaev (Chair of MONEYVAL and law enforcement evaluator).

71. The Executive Secretary briefly outlined details of the on-site visit and thanked the HS/VCS authorities for the very high level of co-operation and support given to the team.
72. The Executive Secretary recalled that the Holy See had volunteered for this evaluation. He stressed that the evaluation is neither an investigation into past or present allegations of money laundering and financing of terrorism nor an audit of any particular financial institution even though the evaluators had assessed intensively implementation of the FATF standards in the Institute for the Works of Religion (IOR). This assessment was based on interviews with IOR management and employees, analysis of internal procedures and other documents requested by the team. An unusually broad range of documents had been made available to the evaluators.
73. The Executive Secretary also highlighted the unique governmental and constitutional structure of the HS/VCS, which had entailed an extensive exercise by the team to establish precisely which bodies within the Vatican performed operations which would bring them within the FATF Methodology's definition of 'financial institutions'. Two bodies qualified: the IOR and the Administration of the Patrimony of the Apostolic See (APSA). Also, unlike any other States assessed by MONEYVAL, a 'Public Monopoly' regime is in place and therefore no market economy exists. This had consequences for R.33.
74. Overall, the evaluators considered that the HS/VCS has come a long way in a very short period of time and that many of the building blocks of an AML/CFT regime were now formally in place. There is an enabling legal structure to address the core preventative standards and to investigate and prosecute ML/FT and freeze, seize and confiscate proceeds; but effectiveness has still to be demonstrated.
75. The Executive Secretary pointed out two critical issues that remained as work in progress: the review of IOR's client base, which the examiners consider should be underpinned by a statutory provision clearly describing the types of natural and legal persons who are eligible to maintain IOR accounts; and supervision of the IOR by the FIA, which had not yet taken place and which requires the prior strengthening of the relevant legislative base. The evaluators considered that more work needed to be done both to clarify the FIA's supervisory powers and to start inspections rapidly, including sample testing.
76. Mr John Baker then explained the major changes that had been made to the report as a result of the final pre-meeting on Monday 2 July, which had been circulated, although it was noted that these changes did not affect the ratings.
77. The evaluators then presented an overview of their sectoral findings, and joined the Secretariat in expressing their appreciation of the support received from the HS/VCS in this process.
78. The HS/VCS Head of delegation, Monsignor Balestrero, Under Secretary of State for Relations with States, thanked the MONEYVAL Secretariat and the evaluation team for their hard work over the last months and for the valuable comments made in this process. The HS/VCS considered it an honour to be evaluated by such an experienced and highly professional team. Msgr. Balestrero also thanked the reviewers, the scientific experts, the intervener States and the State Delegations present in the Plenary. He affirmed that the battle waged by the HS/VCS against money laundering and financing of terrorism, as stated by His Holiness Pope Benedict XVI, is a moral commitment. Nonetheless he noted that the commitment is only meaningful if it is accompanied by technical compliance and effective implementation (as had also been stressed by the Cardinal Secretary of State, Cardinal Bertone). Msgr. Balestrero indicated that work is ongoing on numerous issues: the HS/VCS had applied to join the Egmont Group; the HS/VCS is in the process of adopting inspection regulations; the HS/VCS is considering the ratification of other crime-fighting conventions; and shortly they will complete their national risk assessment.

79. The Chairman proceeded with a discussion of the draft report. The three intervener countries were: Romania (legal aspects), Cyprus (financial aspects) and Poland (law enforcement aspects).

Issues arising

80. **Secrecy laws (R.4):** there was a discussion on the rating for this recommendation raised by Poland, which considered PC was not justified. The evaluator explained that this was a borderline decision and was willing for the plenary to decide. After discussion and intervention from several delegations including Armenia, Cyprus, Lithuania, Malta, Monaco, Montenegro and Romania, the plenary raised the rating to LC.
81. **Third parties and introducers (R.9):** the ad hoc scientific expert (Mr Ian Matthews) asked whether, in order to evaluate this as non-applicable, one of the criteria considered by the evaluators was the existence of an explicit prohibition in the law, as in the Albanian evaluation. The evaluator did not find such an explicit reference to this in the law but remained of the view that this was the appropriate rating. The point was not pressed further by the ad hoc scientific expert.
82. **DNFBPs (R.16):** the Russian delegation asked for clarifications on measures in place, or to be adopted, in order to encourage the DNFBPs to implement the relevant provisions. The Vatican delegation clarified that, according to internal law, these professions are not established in the HS/VCS. In the opinion of the evaluators the framework had still to be implemented and they were not aware of any plans for further developments.
83. **Criminalise terrorist financing (SR.II):** the Azerbaijan delegation highlighted deficiencies in SR.II in relation to the non-coverage of offences in the treaties annexed to the TF Convention and requested a new bullet point due to the absence of liability of legal persons. The evaluator was not persuaded that this was necessary because the amended law introduced a form of administrative liability. In relation to the ratification of annexed treaties, the evaluator noted that this was mentioned in the bullet points. The FATF representative agreed with the evaluator and asked for further clarification from the HS/VCS on financing of terrorism for legitimate purposes. The HS/VCS affirmed that its legislation was broadly in line with the UN conventions to which it was not yet party. None-the-less the HS/VCS affirmed its commitment to incorporate explicitly all the crimes addressed in the annex to the UN TF convention and to deal with the issue of financing of terrorism for legitimate purpose in the coming months.

Decisions taken

84. As a result of the discussions, the plenary decided to amend the report to reflect the clarifications raised by delegations and to modify the rating of R.4, which was upgraded from PC to LC.
85. The plenary adopted the draft report and the executive summary, subject to the amendments and consequential amendments required to the draft report and executive summary arising from the discussion.
86. Pursuant to the Rules of Procedure applicable to 3rd round evaluations, the HS/VCS should submit a first 3rd round progress report in one year's time, at the 42nd plenary meeting in September 2013.

Items 19 and 20 - Discussion on the draft 4th round Mutual Evaluation Report on Latvia

87. The Plenary examined the draft 4th round evaluation report on Latvia. The Secretariat introduced the evaluation team, explained the proposed changes to the report and highlighted the issues raised by the review group and scientific experts which have not been accepted by the evaluators during the pre-meeting with the Latvian authorities and which require plenary resolution. The Secretariat briefly outlined details of the on-site visit, conducted from 8 to 14 May 2011.

88. San Marino constituted the Ad-Hoc group. The intervener countries were: Russian Federation (legal aspects), Liechtenstein (law enforcement aspects) and Montenegro (financial aspects).
89. The Chairman proceeded with the discussion on the draft report, with the interventions of delegations from Albania, Estonia, Georgia, Liechtenstein, Lithuania, Poland, Romania, Russian Federation, San Marino, Slovakia, FATF, IMF and World Bank. Based on the outcome of the discussions, the following recommendations and issues were considered.

Important issues arising

90. **Criminalising money laundering (R.1):** the absence of the criminalisation of “preparation” for the commission of basic ML was considered by the plenary. Delegations expressed the opinion that it is not covered by the FATF standard which provides for “conspiracy” or “association” under essential criterion 1.7. The bullet point associated to this issue was deleted from the rating box. The rating was not changed (LC).
91. **Customer Due Diligence (R.5):** delegations proposed to delete the referral to the fictitious names, numbered or coded accounts and the comment in relation to bearer shares. Additional information in respect of “merchants” was required. The modifications were made accordingly throughout the report. The rating remained unchanged (PC).
92. **Correspondent banking (R.7):** the delegations proposed the effectiveness bullet point to be deleted as having more relevance for Recommendation 25. The bullet point was deleted and the rating up-graded from LC to C.
93. **Guidelines and feedback (R.25):** the delegations required the deletion of the bullet-point related to case-by-case feed-back. The plenary agreed by consensus. The bullet point was deleted. No influence on the rating (LC).
94. **Suspicious transaction reporting (R.26):** delegations raised the issue related to the lack of proper knowledge on the real number of STRs received by the Latvian FIU (which impact effectiveness) and the shortcomings related to guidance on the manner of reporting STRs. Downgrading the rating for R26 from LC to PC was proposed. The plenary didn't support the downgrading. The issue of FIUs' access to additional information was also discussed. The bullet-point related to this matter was redrafted accordingly. Ratings remained the same (LC).
95. **Powers of supervisors (R.29):** the deletion of the referral to money collecting services was proposed by delegations as not being included in the standard. The referral was deleted. No influence on the rating box. Rating remained the same (LC).
96. **Criminalising the financing of terrorism and associated money laundering (SR.II):** the absence of the “willful” element in the criminalisation of TF under the Latvian legislation was discussed by the plenary. It was considered that the Latvian legislation goes beyond the standard in this respect therefore even if the assessors' analysis was correct, there is no reason for a bullet-point. The plenary decided to delete the “willful” bullet point from the rating box. Also, the wording under the effectiveness bullet point was debated. The assessors and the Secretariat provided new wording to the Plenary which approved it by consensus. Due to those modifications the plenary decided to up-grade the rating from PC to LC.

Decisions taken

97. As a result of the discussion, the Plenary decided to amend the draft report and the summary to reflect the clarifications raised by delegations and the amendments set out in the room document and modified the rating of R.7 (upgraded from LC to C) and SR.II (upgraded from PC to LC).
98. The Plenary adopted the executive summary and the 4th round assessment visit report on Latvia, with the agreed amendments and subject to consequential editorial changes. The

executive summary and report as adopted are subject to automatic publication in accordance with the revised Rules of Procedure.

99. Pursuant to Rule 48 of the revised Rules of Procedure, Latvia was placed in the regular follow-up process. This process requires the country to provide, no later than two years after the adoption of the report (i.e. July 2014), information on the actions it has taken to address the factors/deficiencies underlying any of the 40+9 Recommendations that are rated PC or NC.

Item 21 - Template and statistics for 4th round follow up reports

100. A discussion was held on the revised statistics template for 4th round follow-up reports.
101. A proposed template for statistics was submitted for discussion at the 38th plenary meeting (MONEYVAL38(2012)INF-20). Following a discussion it was agreed that delegations would submit suggestions for recommendation and improvement. It was reported that a revised template had now been completed which had incorporated many of the comments from delegations.
102. It was pointed out that for the 4th assessment visit reports a much greater emphasis has been placed on effectiveness. This is reflected in the follow-up report where statistical data is required to demonstrate ongoing effectiveness in implementation of the FATF Recommendations. By the time of the plenary meeting, two detailed follow-up reports had been received (from Slovenia at the 38th Plenary and from the Czech Republic at the 39th plenary). In both cases a statistics template was completed using the original template and proved invaluable for the preparation of the Secretariat's written assessment.
103. A number of modifications to the template were highlighted:
- It was recognised that all countries establish a framework for collection of data to measure performance of agencies and assess levels of risk. Such data collection may reflect local requirements rather than copy the format of the statistics template. The revised template now reflects this and, in a number of cases, allows for the substitution of domestic data collection formats rather than rigidly adhering to the requirements of the template where compatible statistics are available.
 - It was also appreciated that the implementation of a national framework for collection of data may take time and that comparative data for earlier years may not be available.
 - Guidance notes are now set out in each section, clarifying the type of data required.
104. Questions were raised about the methodology for calculating the Estimated Economic Cost of the Reported Criminal Offences. It was agreed that additional research would be carried out by the Secretariat and a further report would be submitted to the plenary at its 40th meeting in December 2012. It was agreed that the revised report would be submitted for completion by Hungary to support their follow-up report which would be considered in December 2012.

Item 22 - Information on the 4th round follow-up report on Hungary

105. The mutual evaluation report of Hungary had been adopted at the 33rd plenary meeting in October 2010. Pursuant to rule 48 of the revised Rules of Procedure, Hungary was placed in regular follow-up requiring the country to report back on progress for identified deficiencies after two years.
106. The Hungarian authorities submitted an information paper. Hungary had made significant progress in addressing the identified deficiencies but did not consider that they were in a position to apply to come out of regular follow-up.
107. It was agreed that Hungary would submit a full follow-up to the 40th plenary meeting in December 2012, at which time they anticipated that they would be in a position to apply to come out of regular follow-up.

Item 23 - Exchange of views on ways to conduct national risk assessments

108. Bulgaria, Montenegro, Serbia and Ukraine responded to the invitation by the MONEYVAL Secretariat to provide contributions on the subject of national risk assessment on the scheduled exchange of views.
109. Bulgaria informed the plenary about the regular quarterly and annual risk assessments based on a methodology updated in 2011, carried out by the FID (Bulgarian FIU – part of the State Agency for National Security) and about the planned national risk assessment as one of the elements of the National Strategy for Countering the Money Laundering 2011-2015.
110. Montenegro informed the plenary that an AML/CFT risk management system has been started. It was emphasised that a Strategy for prevention of terrorism, money laundering and terrorist financing for the period of 2010-2014 was adopted and a National Commission was formed for implementation of this strategy. A new Methodology for the National Risk Assessments in the area of prevention of money laundering and terrorist financing, prepared by the experts of the World Bank, will be implemented by October 2012.
111. Serbia informed the plenary about the MOLI-Serbia Project and the Initial Workshop on National Risk Assessment which took place in January 2012 in Belgrade. This initial workshop had been jointly organised by the Council of Europe and the World Bank and in cooperation with the Administration for the Prevention of Money Laundering of the Republic of Serbia. Serbia also introduced the concept of national risk assessment which was developed within this project based on the World Bank Methodology.
112. Ukraine informed the plenary about its experience in this field, the elements involved and the methods used.
113. The World Bank presented a view about the NRA. Taken into consideration the number of countries which have requested assistance for conducting NRA, the limited resources available and the different methodologies (IMF, FATF etc.) the World Bank proposed to the plenary to consider the possibility of a more organised and coordinated method for providing assistance to countries.
114. The International Monetary Fund presented the main features of the Fund's NRA Methodology.
115. FATF informed the plenary about the current status of its Guidance on how to conduct a NRA, which will be finished in October 2012 and presented to MONEYVAL on the next plenary meeting in December.

Item 24 - Parliamentary Assembly of the Council of Europe Recommendation 1997 (2012) - "The need to combat match-fixing"

116. The Executive Secretary to MONEYVAL informed the plenary that a letter will be prepared and signed by the Chairman to the Parliamentary Assembly of the Council of Europe expressing MONEYVAL's position on the issue of the need to combat match-fixing.

Item 25 - Typologies work

25.1 The use of internet gambling for ML and TF purposes

117. This issue will be discussed in a future plenary.

25.2 and 25.3 Trade based money laundering in cash intensive economies – update – and postponement of financial transactions and the monitoring of bank accounts – update

118. The plenary was informed that the questionnaires have been distributed and the Secretariat and project leaders have started their analysis.

119. A core group meeting in Warsaw has been postponed until October 2012. The composition of the core groups has been established and as soon as the draft reports will be ready they shall be disseminated to the core group members for further analysis, comments and other contributions. It is expected that at least one of the typology projects will be presented for consideration at the plenary meeting in December 2012.

Item 26 - Information on typologies and projects in other forums

120. Russian Federation informed the plenary about the proposal made in the typologies working group of the last FATF plenary meeting in Rome, requesting the contribution of MONEYVAL and its members, for identification of the flow of illicit proceeds from Afghan drug trafficking through the international financial system. The FATF informed that this subject will be featured in a discussion in the October meeting.
121. The EAG Secretariat informed that during the 16th EAG plenary, the working group on typologies discussed the preliminary outcomes of the following on-going researches for 2012: ML through securities market (led by India), EAG member states' FIUs co-operation for the purpose of preventing terrorist activities of organisations acting in the Eurasian region and not listed in the international documents (led by the Russian Federation), ML and TF with use of physical cash and bearer instruments (led by Belarus), misuse of non profit organisations for ML (led by Kazakhstan), ML and TF vulnerabilities of transactions with intangible assets, particularly intellectual property (led by Ukraine), preliminary report on Research on migration rules in Eurasian region in respect of ML and FT risk assessment (led by Russia). The EAG Secretariat informed that specific proposals on topics for typology researches in 2013 will be provided at the next working group meeting in November 2012.

Item 27 - Information on MONEYVAL/EAG workshop

122. The MONEYVAL Secretariat informed the participants of the plenary on the forthcoming joint MONEYVAL/EAG workshop, which will be held in Strasbourg on 19-21 September 2012. The Secretariat also noted that the draft agenda and the invitation letter for this workshop will be sent to countries shortly.
123. The Secretariat underlined that MONEYVAL is planning to finance the participation of two delegates from each of its countries, although countries are able to nominate one more participant on its expenses. The goal of this workshop is to raise awareness among the participants on the new FATF Recommendations, as well as to better understand the revised Financial Action Task Force (FATF) 40 Recommendations and the changes required in the domestic AML/CFT framework arising from the revisions to the FATF Recommendations. The workshop is intended to be interactive and participants are strongly encouraged to be active.

Item 28 - Ad Hoc Review Group of Experts for the next plenary meeting

124. The Ad-Hoc Review Group of Experts for the next plenary meeting will be constituted by "the former Yugoslav Republic of Macedonia" for the 4th round mutual evaluation report on Moldova and Albania for the 4th round mutual evaluation report on Lithuania.
125. The intervening countries for Moldova will be: on legal aspects – Azerbaijan, on law enforcement – Andorra, on financial aspects – Estonia.
126. The intervening countries for Lithuania will be: on legal aspects – Croatia, on law enforcement – Czech Republic, on financial aspects – Georgia.

Item 29 - Rapporteurs for December 2012

127. The Rapporteur country for the next plenary will be the Holy See for the Serbia second 3rd round progress report, Hungary for the Ukraine second 3rd round progress report and Israel for the Armenia second 3rd round progress report.

Item 30 - Future representation in FATF meetings

128. The Secretariat will be represented in the forthcoming Working Group on Evaluation and Implementation (WGEI) meeting in Paris, from 4 to 7 September, and called MONEYVAL delegations for expressions of interest in attending it.

Item 31 - Financing and staffing

129. The Executive Secretary formally welcomed two new members of the MONEYVAL Secretariat that have recently joined the Secretariat: Daniel Ticau from Romania and Fatih Onder from Turkey.

Item 32 - Miscellaneous

130. The Executive Secretary informed the plenary that in 2013, there will be a training program for assessors.

Appendix I – Agenda (MONEYVAL-PLEN39(2012)OJ2)

Day 1: Monday 2 July 2012 / 1er jour: Lundi 2 juillet 2012

Morning 9h30 / matin 9h30

- 1. Opening of the Plenary Meeting at 9h30 / Ouverture de la réunion plénière à 9h30**
- 2. Adoption of Agenda / Adoption de l'ordre du jour**
- 3. Information from the Chairman / Informations du Président**
 - 3.1 Chairman's correspondence / Correspondance du Président**
 - 3.2 Annual Report to the Committee of Ministers - results / Rapport annuel au Comité des Ministres – résultats**
- 4. Information from the Secretariat / Informations du Secrétariat**
 - 4.1 Agenda of evaluations and meetings for 2012 and 2013/ Calendrier des évaluations et réunions en 2012 et 2013**
 - 4.2 Participation in FATF meetings / Participation aux réunions du GAFI**
 - 4.3 Participation in other forums / Participation à d'autres réunions**
- 5. Discussion on the draft 4th round Mutual Evaluation Report on Georgia (in cooperation with the IMF) / Discussion du projet de rapport de 4^e cycle d'évaluation mutuelle sur la Géorgie (en coopération avec le FMI)**

Afternoon 14h30 / après-midi 14h30

- 6. Continuation of the discussion on the draft 4th round Mutual Evaluation Report on Georgia / Poursuite de la discussion du projet de rapport de 4^e cycle d'évaluation mutuelle sur la Géorgie**
- 7. Information on AML/CFT initiatives in MONEYVAL countries (tour de table) / Informations sur les initiatives LAB/CFT dans les pays membres de MONEYVAL (tour de table)**

[Bureau Meeting at the close of the afternoon's business / Réunion du Bureau à la clôture de la session de l'après-midi]

Day 2: Tuesday 3 July 2012 / 2e jour: Mardi 3 juillet 2012

Morning 9h30 / matin 9h30

- 8. Discussion of the 4th round expedited follow-up report on the Czech Republic / Discussion du rapport de suivi accéléré de 4^e cycle de la République tchèque**
- 9. Report of Bosnia and Herzegovina under Step (i) of the Compliance Enhancing Procedures and discussion of any next steps / Rapport de la Bosnie-Herzégovine au titre de l'étape (i) des procédures de conformité renforcée et suites à donner**

- 10. Report from Albania under Step (ii) of the Compliance Enhancing Procedures and discussion of any next steps / Rapport de l'Albanie au titre de l'étape (ii) des procédures de conformité renforcée et suite à donner**

Afternoon 14h30 / après-midi 14h30

- 11. Further discussion of measures taken by Azerbaijan 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 and next steps / Discussion sur les mesures prises par l'Azerbaïdjan sur les lacunes importantes identifiées dans le cadre du processus concernant l'état de conformité relatif aux notations NC et PC du rapport d'évaluation de 3e cycle et suite à donner**
- 12. Further discussion of measures taken by Croatia 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 and next steps / Discussion sur les mesures prises par la Croatie sur les lacunes importantes identifiées dans le cadre du processus concernant l'état de conformité relatif aux notations NC et PC du rapport d'évaluation de 3e cycle et suite à donner**
- 13. Information from the European Union / Informations de la part de l'Union Européenne**
- 13.1 European Commission / Commission européenne**
 - 13.2 Secretariat General of the Council of the European Union / Secrétariat Général du Conseil de l'Union européenne**
- 14. EU Member States' common understanding on the procedure for the recognition of third countries equivalence / Mémorandum commun des Etats membres de l'UE sur la procédure de reconnaissance de l'équivalence des pays tiers**
- 15. Information on AML/CFT initiatives in other forums / Informations sur les initiatives LAB/CFT dans d'autres institutions**
- 15.1 IMF / FMI**
 - 15.2 World Bank / Banque Mondiale**
 - 15.3 EBRD / BERD**
 - 15.4 GIFCS / GSCFI**
 - 15.5 OSCE**
 - 15.6 Council of Europe Development Bank / Banque de développement du Conseil de l'Europe**
 - 15.7 Eurasian Group on Combating Money Laundering and Terrorist Financing (EAG) / Groupe Eurasie sur le blanchiment de capitaux et le financement du terrorisme (EAG)**
 - 15.8 FATF / GAFI**
- 16. The Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the proceeds from Crime and on the Financing of Terrorism (CETS No. 198) / Informations sur la Convention du Conseil de l'Europe relative au blanchiment, au dépistage, à la saisie et à la confiscation des produits du crime et au financement du terrorisme (STCE no.198)**

Day 3: Wednesday 4 July 2012 / 3e jour: Mercredi 4 juillet 2012

Morning 9h30 / matin 9h30

- 17. Discussion on the draft 3rd round Mutual Evaluation Report on the Holy See /**
Discussion du projet de rapport de 3^e cycle sur le Saint-Siège

Afternoon 14h30 / après-midi 14h30

- 18. Continuation of the discussion on the draft 3rd round Mutual Evaluation Report on the Holy See /**
Poursuite de la discussion du projet de rapport de 3^e cycle d'évaluation mutuelle sur le Saint-Siège

Day 4: Thursday 5 July 2012 / 4e jour: Jeudi 5 juillet 2012

Morning 9h30 / matin 9h30

- 19. Discussion on the draft 4th round Mutual Evaluation Report on Latvia /**
Discussion du projet de rapport de 4^e cycle d'évaluation mutuelle sur la Lettonie

Afternoon 14h30 / après-midi 14h30

- 20. Continuation of the discussion on the draft 4th round Mutual Evaluation Report on Latvia /**
Poursuite de la discussion du projet de rapport de 4^e cycle d'évaluation mutuelle sur la Lettonie
- 21. Template and statistics for 4th round follow up reports /**
Format des rapports de progrès de 4e cycle et statistiques

Day 5: Friday 6 July 2012 / 5e jour: Vendredi 6 juillet 2012

Morning 9h30 / matin 9h30

- 22. Information on the 4th round follow-up report on Hungary /**
Informations sur le rapport de suivi de 4^e cycle de l'Hongrie
- 23. Exchange of views on ways to conduct national risk assessments /**
Echange de vues sur la façon de mener des évaluations du risque
- 24. Parliamentary Assembly of the Council of Europe Recommendation 1997 (2012) -**
*"The need to combat match-fixing" / Recommandation 1997 (2012) de l'Assemblée
Parlementaire du Conseil de l'Europe – « La nécessité de combattre le trucage de matchs »*
- 25. Typologies work /**
Travaux sur les typologies
- 25.1 The use of internet gambling for ML and TF purposes /**
L'utilisation des jeux en ligne aux fins du BC et FT

25.2 Trade based money laundering in cash intensive economies – update / Le blanchiment d'argent fondé sur les transactions commerciales dans les économies fortement axées sur les paiements en espèces – mise à jour

25.3 Postponement of financial transactions and the monitoring of bank accounts – update / Le report des transactions financières et la surveillance des comptes bancaires – mise à jour

26. Information on typologies and projects in other forums/ Information sur d'autres projets sur les typologies dans d'autres organisations

27. Information on MONEYVAL/EAG workshop / Informations sur le séminaire MONEYVAL/EAG

Afternoon 14h30 / après-midi 14h30

28. Ad Hoc Review Group of Experts for the next plenary meeting / Groupe Ad Hoc d'experts pour la prochaine réunion plénière

29. Rapporteurs for December 2012 / Rapporteurs pour décembre 2012

30. Future representation in FATF meetings / Représentations futures dans les réunions du GAFI

31. Financing and staffing / Financement et questions de personnel

32. Miscellaneous / Divers

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