

# Azerbaijan

## Fifth Round Mutual Evaluation Report

### Executive Summary

1. This report provides a summary of the anti-money laundering and combating financing of terrorism (AML/CFT) measures in place in the Republic of Azerbaijan as at the date of the onsite visit (1 – 15 March 2023). It analyses the level of compliance with the FATF 40 Recommendations and the level of effectiveness of Azerbaijan's AML/CFT system and provides recommendations on how the system could be strengthened.

### Key Findings

- a) The authorities of Azerbaijan base their understanding of ML/TF risk on the findings of the National Risk Assessment (NRA) 2022, according to which domestic corruption, tax related crimes, smuggling and drugs trafficking are the main ML predicate offences. Azerbaijan would benefit from more comprehensive analysis into some ML and TF risks in order to substantiate the authorities' understanding. At a policy level, domestic cooperation between the authorities appears to be adequate and has yielded positive results in terms of legislation changes and adoption of national action plans derived from the findings of the NRA. The effectiveness of these measures beyond legislation changes is less evidenced. Given that the authorities perceive immovable property to be the main ML scheme in corruption matters, there remains a lack of suitable measures to fully mitigate the risks.
- b) The investigative authorities have access to financial intelligence and other information which they use to a certain extent to establish evidence and trace the proceeds of crime linked to ML, TF and predicate offences. The financial intelligence is often gathered directly by the law enforcement agencies (LEA) from the private sector. It is evident that the conversion rate from intelligence obtained through suspicious transactions reports (STRs) and other reports into case investigations and ultimately prosecutions is insufficient. Most STRs are received from banks and the contribution from some of the higher risk sectors remains limited. Whilst the Financial Monitoring Service (FMS) maintain that the quality of STRs is improving, this remains insufficient, and this fact is reflected in the number of investigations being initiated from FMS disseminations. Further FMS work to improve their analytical capacity and capabilities as well as promote the use of financial intelligence in investigations is required. It is evident that the LEAs do not fully understand how the FMS can be a useful tool in their investigations. The duties of the FMS and LEAs would benefit

from increased domestic cooperation at an operational level, including sufficient feedback mechanisms.

- c) Azerbaijan has dedicated LEAs competent to identify and investigate ML offence. The overall number of ML investigations increased in the last year, and deficiencies identified in relation to lack of parallel financial investigations, strict interpretation of ML offence and limited use of circumstantial evidence are being gradually addressed by the authorities. Some ML cases related to crimes posing high ML threat have been investigated and prosecuted, but the results are not fully consistent with the risk profile of the country. Most of the prosecutions and convictions achieved pertain to self-laundering and legal persons have not been investigated so far for ML.
- d) Confiscation is pursued as policy objective to some extent. Authorities confiscated some commendable amount of criminal proceeds. No parallel financial investigations have been conducted so far and authorities are focused on the establishment of the damage caused by the offence, rather than tracing assets. There are some measures in place enabling management of seized and confiscated property, such as storing goods. Sanctions (fines) applied in case of false or undeclared cash do not seem to be entirely proportionate, dissuasive, and effective.
- e) Azerbaijan has secured seven TF convictions, which is in line with the risk profile of the country to some extent. The overall effectiveness is impacted by the deficiencies in the TF risk understanding. A variety of intelligence sources are used to trigger TF investigations. The systematic approach to investigate the financial aspects in terrorism cases was not fully documented and may constitute an area for improvement. There is no national counter-terrorism strategy. However, the authorities adopted some policy documents where TF investigations have been integrated.
- f) Azerbaijan has recently adopted new legislation which ensures the implementation of UNSCRs 1267 and 1373 and its successor resolutions without delay. No individuals or entities that warrant designation to the UN sanctions under 1267/1989 or 1988 have been identified by the country. Azerbaijan has designated individuals pursuant to UNSCR 1373 and one foreign request for designation is under consideration. The country has applied freezing measures pursuant to 1373 and no instances were identified that would require freezing of assets pursuant to UNSCR 1267 or upon foreign request. The targeted financial sanctions (TFS) measures taken by the Azerbaijani authorities are partially consistent with the overall TF risk profile. The communication of designations by the authorities is quite limited and does not foresee a pro-active approach from the authorities in case of changes in the lists. Azerbaijan has conducted a risk assessment of the Non-Profit Organisations (NPO) sector to identify a subset of NPOs at risk of TF abuse shortly before the on-site visit. The authorities are still in process of considering the results of the NPO risk assessment in order to apply measures that are focused and in line with the risk-based approach to ensure that the legitimate NPO activities are not disrupted or discouraged.
- g) Proliferation financing (PF) -related UNSCRs are implemented by Azerbaijan through the recently adopted new law, which foresees the implementation of the UNSCRs without delay. The authorities have not yet tested the system in practice, therefore no assets related to PF were frozen. Before the adoption of the TFS Law the country relied on alternative measures

oriented to monitor all transactions related to high-risk jurisdictions, including Iran and DPRK. The reporting entities' (REs) understanding of freezing obligations on PF, remains rather limited in all the sectors. Some outreach has been provided to REs by the authorities. Supervisory authorities have never considered PF issues as part of their supervision and only recently started considering the implementation of the measures for monitoring and ensuring compliance by RE with the PF related TFS.

- h) FIs reflected their risk understanding, informed by the Azerbaijan's NRA but not limited only to that, within their own internal risk management procedures and by allocating the necessary resources to mitigate risks. The designated non-financial business and professions (DNFBPs) are less focused on risk scenarios which is also reflected in the low level of reporting suspicious activities. The customer due diligence (CDD) measures performed are generally sound and risk based, with some exceptions (smaller non-banking financial institutions (FIs) such as life insurance companies, leasing companies, non-banking credit institutions (NBCI) and exchange offices) which displayed lesser awareness. Banks perform a series of checks and gather information on shareholders and management of their clients and sometimes go further to identify the ultimate natural person who holds control. The effectiveness of managing domestic politically exposed persons (PEPs) is negatively impacted by deficient legislation.
- i) The Central Bank of Azerbaijan (CBA) applies basic "*fit and proper*" entry checks both for qualified owners, and persons who can significantly influence the decision-making process. Market entry checks do not always cover beneficial owners (BOs), while the identification of potential association with criminals is not checked. For the DNFBPs, limitations are noted on STS supervised entities. Effective "*fit and proper*" tests are applied to notaries, lawyers and auditors by their respective supervisors.
- j) The understanding of ML risks varies amongst supervisors. The CBA and the Bar Association demonstrated a better understanding of ML risks which is displayed to a lesser degree, by the State Tax Service (STS), and Chamber of Auditors. The risk-based approach (RBA) in supervision did not prove its effectiveness. Notwithstanding the fact that the real estate sector is weighted as bearing higher ML risk, during the period under review there was no supervision for the sector. The overall sanctioning regime is an area for improvement.
- k) Detailed information on the ways of creating the various types of companies is publicly available in Azerbaijan. No legal arrangements are recognised. Authorities' understanding of risk is mostly based on the NRA which includes a dedicated section on legal persons, with the limited liability companies (LLCs) being the most vulnerable. Azerbaijan implements certain measures to prevent the use of legal persons and arrangements for ML/TF purposes, such as the registration and authorisation system.
- l) Azerbaijan does not have a BO Register and there is no requirement for the legal entities themselves to gather and retain their BOs information. Authorities have easy access to basic information kept by the STS, which is generally accurate and updated. To obtain BO information the authorities mainly appeal to banks. The quality of BO information is impacted by deficiencies identified at the REs level. Although the sanctions are not fully proportionate and dissuasive, they appear to have a positive impact on the level of compliance with the registration requirements.

m) Azerbaijan has a sound legal framework to provide international cooperation in relation to ML, associated predicate offences and TF. Mutual legal assistance is provided in a constructive and timely manner to a large extent despite the unavailability of a case management system and prioritisation mechanism applicable to all competent authorities. Authorities seek mutual legal assistance (MLA) to pursue ML and predicate offenses investigations. International cooperation on tracing, seizing, and confiscating assets moved abroad is very limited, but authorities are making efforts to overcome this deficiency. The General Prosecutor's Office (GPO) demonstrated the effectiveness of informal cooperation, nevertheless it is hard to conclude the same for the other LEAs due to the limited information provided. The FMS does not entirely effectively seek assistance given risk and context of the country. No international cooperation has been performed by the supervisors in relation to AML/CFT matters. Azerbaijan provides basic and beneficial ownership information on legal persons and legal arrangements to foreign partners.

### Risks and General Situation

2. Azerbaijan is a transcontinental country located at the boundary of Eastern Europe and Western Asia. It is a part of the South Caucasus region, and is bounded by the Caspian Sea to the east, Russia to the north, Georgia to the northwest, Armenia and Türkiye to the west, and Iran to the south. The banking sector is the most significant across the financial industry, holding 95% of the total assets.

3. The geographical location of the country impacts the risks related to drugs smuggling and higher risk jurisdictions. Azerbaijan is internationally recognised as a transit country as part of the Transcaucasian drug transport route. The authorities have identified domestic corruption, tax related crimes and drugs smuggling as the highest ML risk areas. In addition, the TF risk level was assessed as medium-high in the NRA, mostly emanating from ethnic and religious threats.

4. The conclusions of the NRA appear reasonable and were known to the authorities. Some areas merit further analysis to substantiate ML related risk understanding at a national level, such as use of cash in the economy, misuse of real estate, legal persons and organised crime. A NPO TF risk assessment has been conducted by the authorities.

### Overall Level of Compliance and Effectiveness

5. The effectiveness of the Azerbaijani AML/CFT system is uneven. The NRA conclusions are reasonable, giving grounds for a satisfactory general understanding across most authorities of the main ML risks. The competent authorities were aware of the findings of the NRA, although when delving deeper, some conclusions appeared to be contradictory or insufficiently explored. The outcomes achieved in relation to ML and TF investigations and prosecutions, confiscation of proceeds of crime and targeted financial sanctions are moderate. More satisfactory outcomes have been achieved in the area of international cooperation. To achieve full effectiveness in the use of financial intelligence and other information, the transparency of legal persons, and the application of the preventive measures, major improvements are needed. The supervision over the FI and DNFBPs was achieved to a negligible extent.

6. In technical terms, Azerbaijan has achieved a commendable level of compliance for all FATF's six main Recommendations<sup>1</sup> and has a robust legal framework in relation to the preventive measures applied by FIs and DNFBPs. However, technical improvements are needed with regards to supervision, sanctions and transparency of legal persons.

*Assessment of risk, coordination, and policy setting (Chapter 2; IO.1, R.1, 2, 33 & 34)*

7. Azerbaijan has undertaken a considerable amount of work to identify the ML/TF risks to which it is exposed and the authorities were able to articulate the NRA 2022 findings to a satisfactory level. In some aspects the understanding lacked depth and there is room for more comprehensive analysis to substantiate the understanding of ML risks (drugs smuggling, Hawala, use of cash, legal persons and virtual assets (Vas)). Similarly, in TF risk understanding, there is scope for formal analysis of links with organised crime, drug trafficking and the misuse of legal persons in the context of Azerbaijan. Real estate is considered to be a main method of ML, particularly in corruption matters, yet supervision measures for the real estate agents (such as outreach) are not sufficient. Some positive legislation changes have been recently made in relation to this, however, the effectiveness is yet to be evidenced. The ability for criminals to utilise undocumented immovable property in ML schemes remains a concern.

8. Azerbaijan's Coordination Council has a range of expertise which is beneficial for its responsibilities in conducting the AML/CFT/CPF national risk assessments, preparing action plans and drafting laws as well as the formation of domestic cooperation mechanisms amongst the competent authorities. At the policy level, there appears to be an adequate level of coordination, however at the operational level, the AML/CFT regime would benefit from greater cooperation. Azerbaijan has adopted three National Action Plans as a result of the NRAs, which demonstrates political commitment to address the ML/TF risks and vulnerabilities identified. On a technical level there have been positive results yielded, however, there is a lack of implementation of effective actions beyond legislative changes in some instances.

*Financial intelligence, ML investigations, prosecutions and confiscation (Chapter 3; IO.6, 7, 8; R.1, 3, 4, 29-32)*

*Use of Financial Intelligence*

9. The LEAs gather their own financial intelligence during independent investigations on predicate crimes. This intelligence is gathered directly from the private sector or by accessing various databases but mostly in investigations for the predicate offences and rarely in ML cases. LEAs' use of the FMS to obtain financial intelligence, support investigations and trace proceeds is limited. The main causes for this is: (i) the low quality STRs received from a small number of sectors; (ii) varying LEA appetite to investigate FMS derived analysis and provide feedback; (iii) the LEA's preference to obtain financial intelligence directly from the private sector, which hints that they do not consider FMS analysis as adding value to the raw financial intelligence already available; and (iv) the limited understanding amongst the LEAs of how the FMS functions can be useful to their investigations.

10. STRs from reporting entities has increased over recent years, particularly from banks which is partially in line with the Azerbaijan's risk and materiality profile. The contribution from some other higher risk sectors is still limited. The FMS reports that STR quality has improved, however, the data doesn't support this conclusion.

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<sup>1</sup> R.3, R.5, R.6, R.10, R.11, R.20

11. Strategic analysis has seen some improvements over recent years, and the dedicated division within the FMS is positive. Further work is necessary to provide strategic input to LEA, REs and the FMS itself to gear their actions into more effective repressive and preventive systems. Feedback is lacking in both operational and strategic analysis which is inhibiting the usefulness of the FMS products for the operational needs of the competent authorities.

*Investigation and prosecution of ML*

12. Azerbaijan has a sound legal system and dedicated LEAs competent to identify and investigate ML offences. It was observed that various sources of information have been used to identify and investigate ML, but the FMS disseminations were mainly used for the investigation of predicate crimes. The authorities did not conduct parallel financial investigations, and it was observed that their interpretation of ML offence was strict while objective factual circumstances were used only in a limited number of cases. There have been some ML cases related to the crimes posing a high ML threat, but overall outcomes do not consistently align with the country's risk profile. The majority of ML prosecutions and convictions pertain to self-laundering with no legal persons facing charges. Nevertheless, authorities are making efforts to enhance effectiveness notably through the initiation of pre-investigations for stand-alone ML. All imprisonment sanctions in ML cases are proportionate, effective and dissuasive, yet fines are minimal and not proportionate to the nature and protected value of ML. Azerbaijan has some measures in place in instances when it is not possible to secure ML conviction, such as pursuing predicate offences.

*Confiscation*

13. There is no overarching policy document in Azerbaijan dealing with the confiscation of proceeds of crime, instrumentalities, and property of equivalent value. Nevertheless, the authorities have taken a number of progressive steps to develop its domestic legislative provisions, in order to make crime unprofitable. Azerbaijan prioritises the payment of victims, who have suffered damages as a result of criminality. Authorities confiscated some commendable amount of criminal proceeds nevertheless only in limited number of cases. Except for the SSS, there was no understanding by the LEAs of the need for parallel financial investigations. In addition, no guidance or methodology was provided or cited during the assessment in relation to parallel financial investigations, but some training has been delivered. The number of cases and the amount of recovered property is significant, and authorities explained that it is due to the application of principle of restitution of assets by offenders in order not to face criminal charges. The application of fines as opposed to amount of falsely or undeclared cash shows that the sanctioning system is not proportionate, dissuasive and effective.

*Terrorist and proliferation financing (Chapter 4; IO.9, 10, 11; R. 1, 4, 5-8, 30, 31 & 39.)*

14. Terrorism and TF risk in Azerbaijan is rated as medium-high. No terrorist organisations were identified to be operational or willing to act in Azerbaijan, but more than 1.500 Azerbaijani citizens joined illegal armed groups in the territory of Syria and Iraq. Authorities successfully secured a number of TF prosecutions and convictions which is to some extent in line with the risk profile of the country. Offenders were prosecuted and convicted for various types of TF activities including the provision, raising and transfer of funds aimed to support different terrorism related activities. The Security State Service (SSS) is the main LEA in charge of identification and investigation of TF offence. Effective cooperation was observed between the SSS and other authorities in TF cases. Azerbaijan adopted some policy documents dealing with preventive and disruptive measures against religious radicalism and terrorist activities and TF investigations are to some extent integrated into those documents.



15. Azerbaijan implements TF and PF TFS without delay based on a newly adopted TFS law. TF related freezing measures have been applied based on UNSCR 1373. The designation mechanism appears to be functional with 20 designations made by the SSS according to UNSCR 1373. One foreign request for designation was considered at the time of the on-site visit which demonstrates country's capacity to designate. Authorities approved the NPO risk assessment shortly before the on-site visit but still needs to establish the measures to be taken by the authorities to address the vulnerabilities. Only NPOs which were seeking to increase their level of understanding on risk of TF exposure reached out to the Guidance provided on the website of FMS, others were not aware of such publication.

16. Turning to PF, before the new TFS Law was adopted, Azerbaijan relied on an alternative mechanism, namely on the requirement that the reporting entities postpone the execution of transactions and submit reports to the FMS on all natural and legal persons from high-risk jurisdictions, including Iran and DPRK. The most material sectors were applying automatic screening using specialised software solutions which perform the checks of the lists of designated persons and entities, including PF TFS. The supervisory authorities did not have any experience in ensuring and monitoring compliance with the PF TFS, being at the initial stage of elaboration and adoption of supervision procedures.

*Preventive measures (Chapter 5; IO.4; R.9–23)*

17. FIs have a reasonable level of ML/TF risk understanding. At the time of the onsite visit, FIs were aware of the NRAs outcome, and they have implemented a series of measures in order to manage ML/TF risk and to identify products which are most exposed of being used for ML/TF purposes.

18. The DNFBP sector in Azerbaijan has limited scope as the casinos are prohibited, the DPMS are not obliged entities, and the real estate agents were de facto excluded from the AML/CFT system (see Chapter 1). There were no virtual assets service providers (VASPs) registered at the time of the on-site visit. The ML/TF risk understanding varies with the legal professions and international accountancy firms having a stronger knowledge on the risks.

19. Mitigation measures and due diligence measures by FIs are generally sound for the entire customer base they manage, banks being the ones with a wide set of measures put in place when opening a business relationship. Difficulties have been noted in fully identifying and verifying the BO, conclusion that was also yielded in the course of the supervisor's controls. There are still some limitations with respect to PEPs as domestic PEPs have been introduced in the AML/CFT legislation shortly before the assessment.

20. STR reporting is concentrated mainly in the banking sector which is partially in line with the country risk and materiality. Other financial sectors account for a negligible number of STRs. The level of reporting from the DNFBP sector is low. Outside of the banking sector and MVTS operators, no specific focus is given to scenarios for detecting and reporting TF. The quality of the STRs is an area for improvement.

21. All FIs have an internal control framework based on programmes and systems to ensure compliance with AML/CFT due diligence obligations. For DNFBPs, the internal control function is generally less sophisticated.

*Supervision (Chapter 6; IO.3; R.14, R.26–28, 34, 35)*

22. The general process for licensing FIs requires the submission of relevant documentation from the applicant, including the completed "fit and proper" questionnaire. This documentation is reviewed

by the CBA Licensing Division, with the final decision taken by the high-level board of directors. The information received during the application review process is verified by the CBA through public data and is not always subject of verification through other reliable and independent sources. In some cases, the CBA cooperated with foreign competent authorities and did perform verifications. In practice, market entry checks do not always cover BOs, while the identification of criminals' associates is not carried out.

23. While the LEA appeared to be aware of the AML/CFT risks related to the non-registered parallel FIs, the CBA does not consider it a preoccupation. There were no instances where a LEA informed the CBA about cases of identified un-licensed financial institutions.

24. The STS is responsible for registration of realtors, persons providing legal advice and persons providing accounting and tax advisory services, displaying a good system of gathering and verifying basic information but limited effectiveness when it comes to BO. The Chamber of Auditors, the Ministry of Justice and the Bar Association are responsible for the assessments of fitness and propriety of the rest of the DNFBPs which is generally sound.

25. The CBA has a good understanding of the sectors that it supervises and initiated sectorial risk assessments, along with the work on the NRA. Its understanding of risk may be limited by shortcomings identified under IO.1. The STS understanding of ML/TF risk in their sector is moderate while the Ministry of Justice (MoJ) and Chamber of Auditors consider the ML/TF risks connected with the sectors under their supervision as low. The Bar Association has a strong understanding of risks derived from the sector representatives (lawyers) and the services they provide.

26. In its supervisory activities, the CBA first assesses the risks connected to individual FIs, which leads to a risk level being attributed to each, followed by a supervision strategy which informs an inspection plan. The effectiveness of the risk-based supervision is impacted by the lack of human resources. The STS applied a form of a general risk-based supervision which includes some AML/CFT specific aspects. The rest of the DNFBPs supervision is not risk based.

27. The sanctioning regime in place cannot be considered as effective, proportionate and dissuasive partially due to technical shortcomings. Where shortcomings are identified during the on-site visits, the CBA often opts for action plans instead of sanctions.

*Transparency and beneficial ownership (Chapter 7; IO.5; R.24, 25)*

28. Information on the creation and types of legal person is publicly available, and the STS publishes on its website information regarding the documents which must be provided upon registration. Trusts cannot be established under the law of Azerbaijan. Whilst residents of Azerbaijan could be operating as trustees for foreign trusts, this scenario was never identified by the supervisors and the private sector. There are no trusts using services of FIs in Azerbaijan.

29. The authorities have a moderate understanding of ML risk based on the conclusions of the NRA which includes a section dedicated to the possible misuse of legal persons. The NRA assesses the ML vulnerability of the LLCs as the most prominent and presents some typologies but does not go beyond this by *i.a* identifying the business sectors at greatest risk or analysing the vulnerabilities of other types of legal persons. Nevertheless, the STS' understanding of risk is enhanced by their own data.

30. The risk mitigation measures include registration and authorisation system run by the STS. The legal entities identified as high risk are registered in a risk module and subject to various types of tax control measures (onsite and extraordinary inspections, supervision, monitoring, etc.).



31. Direct ownership information (on the first level of legal owners of a legal person) is kept and can be obtained from the STS register with regard to: (i) partnerships; (ii) limited partnerships; (iii) LLCs; and (iv) original founders of NPOs. The Register contains information regarding: the name of the company, the type of company (LLC, LSC...), main type of activity, tax ID, date of issuing the tax ID, address, name and ID number of the manager, his/her address and date of birth, and information on company's bank accounts.

32. To obtain BO information the authorities have at their disposal three avenues: i) the REs, mainly the banks for any legal person holding an account, the ii) FMS for foreign legal persons, iii) to the company itself in case of JSCs. Although there is no separate register of bank accounts in Azerbaijan, this information is attached under the company's file kept by the STS. Therefore, in case of need, the LEA can obtain this information from the STS. Nevertheless, in practice, there is little evidence that the LEAs systematically make use of this option when searching for financial intelligence and BO information.

33. STS did impose fines for late submission of the required information. While this is a positive step in enhancing the quality, accuracy and actuality of basic information this remains limited to the taxpayers subject to inspections.

*International cooperation (Chapter 8; IO.2; R.36–40)*

34. Azerbaijan has two central authorities, the MoJ and the GPO, responsible for receiving and further disseminating incoming requests to LEAs for execution. MLA is provided in a constructive and timely manner to a large extent. Nevertheless, there is not a case management system and prioritisation mechanism applicable to all competent authorities. The primary basis for rejecting MLA requests is the principle of dual criminality which hinders effective cooperation. Authorities seek MLA to pursue ML and predicate offenses investigations. There were no MLA requests sent in relation to TF offences, due to the difficulties relating to seeking information from conflict zones, and the sensitive nature of TF exchanges of information. International cooperation on tracing, seizing, and confiscating assets moved abroad is very limited, but authorities are making efforts to overcome this deficiency. Other forms of international cooperation are effectively used by the GPO, while the same cannot be concluded for LEAs and the FMS. Provision of basic and BO information is affected by the deficiencies identified under IO.5.

## Priority Actions

### **Azerbaijan should**

#### *Supervision and preventive measures*

##### a) Strengthen supervision of FIs and DNFBPs by:

- ✓ Enhancing the risk-based supervision in place for FI, including through improved and up-dated procedures and increased human and material resources dedicated for AML/CFT supervision;
- ✓ Applying a risk-based approach for AML/CFT supervision for all DNFBPs (including real estate agents) and carry out risk-based off-site and on-site inspections;
- ✓ Enhancing the efforts to identify and prevent unlicensed activity and be given appropriate powers to sanction those acting without a licence or authorisation;

- b) Strengthen enforcement and sanctioning powers for breaches of professional AML/CFT obligations by:
- ✓ Addressing the technical deficiencies related to the sanctioning regime;
  - ✓ Ensuring that supervisory authorities have powers to impose and enforce pecuniary and other penalties for breaches of AML/CFT obligations;
- c) Implement mitigation measures relating to real estate. These measures should aim to:
- ✓ Provide effective outreach and supervision to the relevant sectors (real estate agents, notaries and banks);
  - ✓ Conduct further analysis of real estate in ML schemes in Azerbaijan and evidence the effectiveness of the mitigation measures implemented;
  - ✓ Implement further measures to mitigate the ability to convert illicit funds into immovable property outside of official registration.
- d) Substantially improve transaction monitoring and STR reporting by REs providing thematic guides and outreach on sector specific risks indicators, typologies and red flags indicators which should include prominent offences in Azerbaijan.
- e) Take measures to enhance REs effectiveness in applying the necessary identification and verification measures in case of PEPs and BOs.

#### *Risk understanding*

- f) Take measures to ensure a better and more equal level of understanding of its identified ML and TF risks and vulnerabilities across all competent authorities. This should include conducting further analysis and assessment of the following areas relating to both ML and TF:
- ✓ Legal persons;
  - ✓ Informal economy and financial services (Hawala);
  - ✓ Organised crime;
  - ✓ Virtual assets and VASPs providing services into Azerbaijan.

#### *Tackling ML and confiscation*

- g) Develop the culture of sharing information, intelligence, feedback and analysis in an appropriate manner and in appropriate cases between FMS and the LEAs and vice versa, to increase the FMS' capacity and capability to provide meaningful analysis to be converted into ML and TF cases by the LEAs.
- h) Ensure that the judiciary and LEAs interpretations and understanding of the ML offence are aligned with the international standards including by: (i) developing and disseminating formal guidelines drawing on international and domestic good practices; (ii) continue to promote evolving jurisprudence on ML cases in line with the current criminalisation of ML and international standards; and (iii) holding regular trainings.
- i) Ensure that parallel financial investigations are systematically conducted in all proceeds generating crimes, including TF. Guidance and supporting training programs for all competent authorities should be developed in that sense.

- j) Authorities should develop policy documents such as action plans and objectives set for LEAs to undertake measures to trace and seize proceeds when investigating proceeds generating crimes.

*International cooperation*

- k) LEAs and the GPO should establish as policy objective seeking MLAs proactively in ML, associated predicate and TF cases, with the focus on tracing, seizing, and confiscating assets moved abroad.
- l) Azerbaijan should not make dual criminality a condition when rendering MLA at least for requests which do not involve coercive measures, in accordance with the FATF Methodology

*TF, TFS and NPOs*

- m) Azerbaijan should adopt a general and unified counter terrorism financing strategy targeting specific risks and identifying and developing typologies observed.
- n) Without prejudice to the NPOs legitimate activities and careful to avoid unintended consequences of the application of the FATF standards and/or misapplication of R8, Azerbaijan should use the results of the NPO risk assessment to establish focused and proportionate supervisory measures to NPOs at risk of TF abuse in line with the risk-based approach.
- o) Further enhance its legal and institutional framework for the PF-TFS monitoring through i) the designation of a supervisory authority with full supervisory powers including on-site inspections and application of sanctions, and ii) providing the respective authority with necessary financial and human resources and proper training to perform its duties.

*Transparency of legal persons*

- p) Extend efforts to comprehensively identify, assess and understand the risks related with legal persons by enriching its analysis with information available at STS and LEA. The STS should enhance their knowledge on AML/CFT risks and take more proactive measures to ensure the accuracy of the company register, including by:
- ✓ performing a vulnerability assessment on the population of registered commercial companies,
  - ✓ random checks to identify shell companies, companies with nominee (straw men) shareholders and managers, and
  - ✓ applying effective remedial measures.

## Effectiveness & Technical Compliance Ratings

### *Effectiveness Ratings<sup>2</sup>*


<b>IO.1 - Risk, policy and coordination</b>	<b>IO.2 - International cooperation</b>	<b>IO.3 - Supervision</b>	<b>IO.4 - Preventive measures</b>	<b>IO.5 - Legal persons and arrangements</b>	<b>IO.6 - Financial intelligence</b>
Moderate	Substantial	Low	Moderate	Moderate	Moderate
<b>IO.7 - ML investigation &amp; prosecution</b>	<b>IO.8 - Confiscation</b>	<b>IO.9 - TF investigation &amp; prosecution</b>	<b>IO.10 - TF preventive measures &amp; financial sanctions</b>	<b>IO.11 - PF financial sanctions</b>	
Moderate	Moderate	Substantial	Moderate	Moderate	

*Technical Compliance Ratings<sup>3</sup>*

R.1 - assessing risk & applying risk-based approach	R.2 - national cooperation and coordination	R.3 - money laundering offence	R.4 - confiscation & provisional measures	R.5 - terrorist financing offence	R.6 - targeted financial sanctions – terrorism & terrorist financing
LC	C	LC	LC	LC	LC
R.7- targeted financial sanctions - proliferation	R.8 -non-profit organisations	R.9 - financial institution secrecy laws	R.10 - Customer due diligence	R.11 - Record keeping	R.12 - Politically exposed persons
LC	PC	LC	LC	C	C
R.13 - Correspondent banking	R.14 - Money or value transfer services	R.15 - New technologies	R.16 - Wire transfers	R.17 - Reliance on third parties	R.18 - Internal controls and foreign branches and subsidiaries
C	PC	PC	PC	C	LC
R.19 - Higher-risk countries	R.20 - Reporting of suspicious transactions	R.21 - Tipping-off and confidentiality	R.22 - DNFBPs: Customer due diligence	R.23 - DNFBPs: Other measures	R.24 - Transparency & BO of legal persons
LC	C	LC	LC	LC	PC
R.25 - Transparency & BO of legal arrangements	R.26 - Regulation and supervision of financial institutions	R.27 - Powers of supervision	R.28 - Regulation and supervision of DNFBPs	R.29 - Financial intelligence units	R.30 - Responsibilities of law enforcement and investigative authorities
LC	PC	PC	PC	C	LC
R.31 - Powers of law enforcement and investigative authorities	R.32 - Cash couriers	R.33 - Statistics	R.34 - Guidance and feedback	R.35 - Sanctions	R.36 - International instruments
LC	LC	PC	PC	NC	LC
R.37 - Mutual legal assistance	R.38 - Mutual legal assistance: freezing and confiscation	R.39 - Extradition	R.40 - Other forms of international cooperation		
LC	LC	LC	LC		

<sup>3</sup> Technical compliance ratings can be either a C – compliant, LC – largely compliant, PC – partially compliant or NC – noncompliant.

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