



# Anti-money laundering and counter-terrorist financing measures

# Azerbaijan

## 1st Enhanced Follow-up Report & Technical Compliance Re-Rating

December 2025

Follow-up report



**The Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism - MONEYVAL** is a permanent monitoring body of the Council of Europe entrusted with the task of assessing compliance with the principal international standards to counter money laundering and the financing of terrorism and the effectiveness of their implementation, as well as with the task of making recommendations to national authorities in respect of necessary improvements to their systems. Through a dynamic process of mutual evaluations, peer review and regular follow-up of its reports, MONEYVAL aims to improve the capacities of national authorities to fight money laundering and the financing of terrorism more effectively.

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The 1st Enhanced Follow-up Report and Technical Compliance Re-Rating on Azerbaijan was adopted by the MONEYVAL Committee through written procedure (10 November 2025).

## *Azerbaijan: 1st Enhanced Follow-up Report*

### **I. INTRODUCTION**

1. The 5th round mutual evaluation report<sup>1</sup> (MER) of Azerbaijan was adopted in December 2023 (2023 MER). Given the results of the MER, Azerbaijan was placed in enhanced follow-up.<sup>2</sup> This report analyses the progress of Azerbaijan in addressing the technical compliance (TC) deficiencies identified in its MER and, where requested to do so by the country. Re-ratings are given where sufficient progress has been made. Overall, the expectation is that countries will have addressed most, if not all, TC deficiencies by the end of the third year from the adoption of their MER.<sup>3</sup>

2. The assessment of the request of Azerbaijan for technical compliance re-ratings and the preparation of this report were undertaken by the following Rapporteur team (together with the MONEYVAL Secretariat):

- Estonia
- British Overseas Territory of Gibraltar

3. Section III of this report summarises the progress made by Azerbaijan in improving technical compliance. Section V sets out the conclusion and a table showing which Recommendations have been re-rated.

4. In line with MONEYVAL's Rules of Procedure, the follow-up process is desk-based – using information provided by the authorities, including revised legislation. It does not address what progress a country has made to improve the effectiveness of changes introduced by the country.

### **II. BACKGROUND, RISK AND CONTEXT**

5. According to authorities, there have been no changes in coordination arrangements and competent authorities. In July 2025, Casinos were introduced within Azerbaijan's AML/CFT Law. According to authorities no entity has yet applied, registered, or commenced casino operations in Azerbaijan.

6. With respect to legislative changes, several significant changes have been made since adoption of the 2023 MER to address the deficiencies identified in previous mutual evaluation, including:

- In relation to Recommendation (R.) 8, terrorist financing (TF) risk assessment of non-profit organisation (NPOs) has been conducted by Working Group of state authorities and the final report has been submitted to the Coordination Council on 24 December 2024 (2024). In addition, the Financial Monitoring Service (FMS) conducted a risk assessment of NPOs and developed a risk matrix on the basis of statistics collected from various authorities concerning the year of 2023 (2025).
- In relation to R.14, on 14 July 2023, the *Law on Payment Services and Payment Systems* (LPSPS) and, on 17 January 2024, the *Regulation on the Organisation of Work with Payment Agents* introduced a regulatory framework for agents providing money or value transfer services

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1. Mutual evaluation report available at <https://www.coe.int/en/web/moneyval/jurisdictions/azerbaijan>.

2. Regular follow-up is the default monitoring mechanism for all countries. Enhanced follow-up involves a more intensive process of follow-up.

3. Azerbaijan's submission of the country report for this FUR preceded a Plenary decision to amend the Rules of Procedure for the 5th Round of Mutual Evaluations. Therefore, the 2013 version of the Methodology applies to this technical compliance re-rating exercise.

(MVTs). In 2024, the Central Bank of Azerbaijan (CBA) amended its supervisory department regulations to include the identification of unlicensed MVTs activities and referral of such cases to the relevant authorities.

- In relation to R.16, amendments to the *Regulation on Customer Due Diligence Measures During Wire Transfers* were adopted by the *Decision of the Board of Directors of the Central Bank of Azerbaijan* on 24 December 2024, introducing additional requirements for customer due diligence in cases of electronic fund transfers, as well as for the transmission of information in the wire transfer chain and business relations between financial institutions (FIs).
- In relation to R.24, on 11 April 2025, amendments to the *Law on the Legalisation of the Property Acquired through Crime and Financing of Terrorism (AML/CFT Law)* and the *Law on State Registration and State Registry of Legal Persons (LSRSRLP)* introduced obligations to submit and maintain updated beneficial ownership (BO) information and empowered authorities to collect and cross-check such data, in line with R.24. In 2023–2024, the FMS conducted an assessment of ML/TF risks related to the misuse of commercial legal entities, covering the period 2015–2021.
- In relation to R.26, the *Law of the Republic of Azerbaijan on Amendments to the Law of the Republic of Azerbaijan on Non-Bank Credit Institutions* dated 6 July 2023 has been adopted. With new provisions, prohibition on criminals from owning a qualified holding is regulated. Additionally, CBA approved the new *Corporate Governance Standards in Banks* on 28 August 2023 in order to implement the Basel Principle 26. Furthermore, the *Methodology for Assessing Sectoral Risks of Money Laundering, Terrorism Financing, Proliferation and Proliferation Financing in Relation to Financial Institutions* was amended on 24 January 2025 to regulate supervision of leasing companies and define specific characteristics of the financial groups shall be taken into account.
- In relation to R.33, on 30 April 2023, the *Decision of Coordination Council* has been adopted. With this decision, statistical table samples have been approved, and competent authorities must submit data annually to the Coordination Council by 30 April.
- In relation to, R.34 the Ministry of Justice (MoJ), State Tax Service (STS) and Bar Association (BA), have published additional guidance to assist obliged entities in applying national AML/CFT measures, and in particular, in detecting and reporting suspicious transactions.

### III. OVERVIEW OF PROGRESS TO IMPROVE TECHNICAL COMPLIANCE

7. This section summarises the progress made by Azerbaijan to improve its technical compliance by addressing the technical compliance deficiencies identified in the MER for which the authorities have requested a re-rating (R.8, R.14, R.16, R.24, R.26, R.33 and R.34).

8. For the rest of the Recommendations rated as partially compliant (PC) (R.27 and R.28), and non-compliant (NC) (R.35), the authorities did not request a re-rating.

9. This report takes into consideration only relevant laws, regulations or other anti-money laundering and combating financing of terrorism (AML/CFT) measures that are in force and effect at the time that Azerbaijan submitted its country reporting template – at least six months before the follow-up report (FUR) is due to be considered by MONEYVAL.<sup>4</sup>

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4. This rule may be relaxed in the exceptional case where legislation is not yet in force at the six-month deadline, but the text will not change and will be in force by the time of the plenary. In other words, the legislation has been enacted, but it is

#### IV. PROGRESS TO ADDRESS TECHNICAL COMPLIANCE DEFICIENCIES IDENTIFIED IN THE MER AND SUBSEQUENT FURS

10. Azerbaijan has made progress to address the TC deficiencies identified in the MER. As a result of this progress, Azerbaijan has been re-rated on R.8, R.14, R.16, R.24, R.26, R.33 and R.34.

11. Annex A provides a description of the country’s compliance with each Recommendation that is reassessed, set out by criterion, with all criteria covered. Annex B provides the consolidated list of remaining deficiencies of the re-assessed Recommendations.

#### V. CONCLUSION

12. Overall, in light of the progress made by Azerbaijan since its MER was adopted, its technical compliance with the Financial Action Task Force (FATF) Recommendations has been re-rated as follows.

**Table 1. Technical compliance with re-ratings, November 2025**

R.1 LC (MER)	R.2 C (MER)	R.3 LC (MER)	R.4 LC (MER)	R.5 LC (MER)
R.6 LC (MER)	R.7 LC (MER)	R.8 <b>LC (FUR1 2025)</b> <del>PC (MER)</del>	R.9 LC (MER)	R.10 LC (MER)
R.11 C (MER)	R.12 C (MER)	R.13 C (MER)	R.14 <b>LC (FUR1 2025)</b> <del>PC (MER)</del>	R.15 PC (MER)
R.16 <b>LC (FUR1 2025)</b> <del>PC (MER)</del>	R.17 C (MER)	R.18 LC (MER)	R.19 LC (MER)	R.20 C (MER)
R.21 LC (MER)	R.22 LC (MER)	R.23 LC (MER)	R.24 <b>LC (FUR1 2025)</b> <del>PC (MER)</del>	R.25 LC (MER)
R.26 <b>LC (FUR1 2025)</b> <del>PC (MER)</del>	R.27 PC (MER)	R.28 PC (MER)	R.29 C (MER)	R.30 LC (MER)
R.31 LC (MER)	R.32 LC (MER)	R.33 <b>C (FUR1 2025)</b> <del>PC (MER)</del>	R.34 <b>LC (FUR1 2025)</b> <del>PC (MER)</del>	R.35 NC (MER)
R.36 LC (MER)	R.37 LC (MER)	R.38 LC (MER)	R.39 LC (MER)	R.40 LC (MER)

Note: There are four possible levels of technical compliance: compliant (C), largely compliant (LC), partially compliant (PC), and non-compliant (NC).

13. Azerbaijan will remain in enhanced follow-up and will continue to report back to MONEYVAL on progress to strengthen its implementation of AML/CFT measures. In line with Rule 23 of the Rules of Procedures for the 5th Round of Mutual Evaluations, Azerbaijan is expected to report back in one year’s time.

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awaiting the expiry of an implementation or transitional period before it is enforceable. In all other cases the procedural deadlines should be strictly followed to ensure that experts have sufficient time to do their analysis.

## Annex A: Reassessed Recommendations

### Recommendation 8 – Non-profit organisations

	Year	Rating and subsequent re-rating
MER	2023	PC
FUR1	2025	↑ LC (upgrade requested)

1. In its 2023 MER, Azerbaijan was rated PC with R.8. Following deficiencies were identified: i) no individual non-profit organisation (NPO) nor category of NPOs were identified at risk of being potentially misused for TF purposes (c.8.1(a)); ii) no measures were proposed for addressing the identified vulnerabilities (c.8.1(c)); iii) there were no policies in place to promote integrity and public confidence in the administration and management of NPOs (c.8.2(a)); iv) no specific data was provided on outreach and educational programmes to raise and deepen awareness among NPOs and the donor community about the potential vulnerabilities of NPOs to TF abuse and TF risks, and the measures that NPOs can take to protect themselves against such abuse (c.8.2(b)); v) Azerbaijani authorities did not work with NPOs to develop and refine best practices to address TF risk and vulnerabilities and thus protect them from TF abuse (c.8.2(c)); vi) Azerbaijan applied a one-size-fits-all approach to supervise the NPO sector (c.8.3); vii) no monitoring of risk-based measures applied to NPOs at risk of TF abuse (c.8.4(a)); viii) available sanctions could not be considered effective, proportionate and dissuasive. No other sanctions were available regarding the risk-based measures foreseen under subparagraph 6(b) of INR.8 (c.8.4(b)); ix) no information was provided whether apart from the FMS other competent authorities that possessed data concerning NPOs could also share this information (c.8.5(a)).

#### 2. Criterion 8.1 –

(a) In December 2024, with the submission of the final report to the Coordination Council, Azerbaijani authorities, specifically Working Group (WG) (established in June 2023, comprising representatives from FMS, SCRA and MoJ) concluded sectoral risk assessment of the NPO sector (initiated during the period of MER) which identified a subset of NPOs that fall within the FATF definition and are at risk of TF abuse (*“Report on the TF risk assessment of NPOs”*). Two-tier approach was used to identify individual NPOs being at risk of potential misuse for TF purposes. As a first step, a WG conducted a TF risk assessment of all 3 777 registered NGOs. This assessment identified a subgroup of NPOs falling within FATF definition: 650 NGOs and 1017 religious organisations. As a next step, the TF risk classification was established, which was based mainly on inherent risk factors, drawn from the financial reports of NPOs submitted to the respective supervisory authorities (the MoJ for NGOs and the SCRA for religious organisations), characteristics and activities of these NPOs and risk mitigation measures (obtained from administrative and supervisory sources). As a result, the majority of NPOs were determined low risk, others were moderate, four NPOs at medium-high risk category, while six religious organisations were outlined to be determined at medium-high risk.

(b) The NPO risk assessment identifies the nature of TF threats to NPOs. The *Report on the TF risk assessment of NPOs* carried out by WG members (representatives from the FMS, SCRA and MoJ) has a dedicated chapter on TF threat to NPOs, which considers different sources of information, i.e., quantitative and qualitative data. Moreover, the risk assessment also analyses how terrorist actors abuse NPOs.

- (c) The NPO risk assessment evaluates the adequacy of laws and regulations, including governmental measures regarding all NPOs. *Report on the TF risk assessment of NPOs* includes recommended measures, addressing the identified vulnerabilities. Supervisors have now NPO *risk matrix* which is used for identifying new risks. National Action Plan (AP) for 2023–2025 on *Combating the Legalization of Criminally Obtained Property and the Financing of Terrorism*," includes measures to eliminate identified risks in the financing of terrorism for non-governmental and religious organisations. The AP includes several measures to improve the effectiveness of laws, policy measures, and the efficiency of the sectoral and individual good practices in the NPOs.
- (d) Pursuant to item 10 of the Ordinance No. 404 establishes a requirement for supervisors, i.e., the Ministry of Justice, to carry out the sectoral risk assessment on an annual basis.
3. **Criterion 8.2** – Azerbaijani legislation differentiates two categories of NPOs: non-governmental organisations (NGOs) and religious organisations. According to Article 1 of the Law on NGOs, the NGOs include public unions and foundations.
- (a) Azerbaijani legislation promotes accountability of NPOs through several measures. According to Article 1 of the Law "On Grant" religious organisations and NGOs, branches, and representative offices of foreign NGOs cannot receive assistance in the form of financial resources and (or) in any other material without a grant agreement (decision), except for the support provided by public authorities and donations specified in the Law "On Freedom of Religious Faith" and "On NGOs". Pursuant to Article 4 of the Law "On Grant", grant agreements (decisions) shall be introduced to the central executive authority (Ministry of Justice (MoJ)) for registration and approval of the rules on registering grant agreements. It is prohibited to conduct bank and any other transactions on grants that are not registered. The MoJ and State Committee on Religious Associations (SCRA) developed separately the Standards of Conduct for NGOs and religious organisations in the field of combating TF, which incorporates principles such as integrity, accountability, transparency, compliance and public confidence in the administration and management of NPOs. The Standards of Conduct for NGOs include that NPO's basic financial information, governance structure, activities, and partnerships should be open and accessible to the public, with efforts made to inform the public about its work, as well as the origin and use of its resources. In addition, internal financial reports must be prepared regularly and submitted to the governing body.
- (b) The *Report on the TF risk assessment of NPOs* acknowledges that outreach on TF has been provided by the MoJ, by its Academy of Justice, and by the SCRA. The NPO risk assessment recommends holding trainings at least once a year. Annually, FMS, MoJ and State Committee on Religious Association approves training programme and organise trainings based on this plan. Since the adoption of the MER of Azerbaijan, the MoJ has provided a number of training programmes aimed at enhancing the capacity of NGOs on an almost monthly basis. In particular, six training sessions were provided which covered approximately 400 NPOs representatives. Moreover, the SCRA organised a total of 10 trainings attended by nearly 600 representatives of religious organisations, however these did not cover all the NPOs falling within FATF definition. The Cabinet of Ministers have established a list of existing donors to enhance cooperation with them but it includes only national bodies. MoJ and SCRA developed an informational booklet for making donors aware of TF risks originating from misuse of their funds which was then provided to them through official websites.

(c) Azerbaijani authorities work with NPOs to develop and refine best practices to address TF risk and vulnerabilities and thus protect them from TF abuse. The FMS jointly with the NPOs developed the “*Criteria (indicators) of suspiciousness to be taken into account by non-profit organisations when accepting donations*”. In the process of drafting of this document, the FMS held meetings in 2023 with NPOs for better understanding of their activities. Moreover, representatives from the FMS delivered presentations in interactive trainings organised by SCRA or MoJ for NPOs. Those trainings had a great role in gathering information and defining the inherent indicators and preventive measures for NPOs.

(d) There is no direct obligation for the NPOs to open a bank account. Nevertheless, according to Article 24.1-4 of the Law “On NGOs”, donated funds are accepted by transfer to the bank accounts of NGOs and branches or representative offices of foreign NGOs. Such NPOs whose core purpose is charity may accept donations of up to 200 manats (approximately 100 euros (EUR)) in cash. There are no such requirements for religious organisations/communities. However, according to the Law “on Freedom of Religious Faith” religious organisations can apply for and accept voluntary donations, which are provided in cash, via bank, mail, plastic card, electronic payment systems or the Internet.

4. **Criterion 8.3** – Azerbaijan applies risk-based approach to supervise NPOs. Supervisory authorities apply the *Methodology on risk-based supervisory measures for non-profit organisations*, which includes the risk matrix with differed criteria to evaluate the risk levels of NPOs (info is gathered from the MoJ, the State Tax Service (STS), and the Ministry of Finance. The individual weights given to different criteria (e.g., financial turnover of the organisation is considered) are combined into a final risk score, which places each NPO into one of three risk categories: low, moderate, or high. Supervision is carried out according to the plan or spontaneously (e.g., in case of suspicion) considering the risk scores given to NPOs. The supervisors consider also the information provided in annual reports submitted by NPOs (amendments made in July 2024 to Cabinet of Ministers Decision No. 201 require all NPOs, including branches or representative offices of foreign NPOs operating in the Republic of Azerbaijan, to submit a detailed annual financial report on grants and donations and their use).

5. **Criterion 8.4** –

(a) The MoJ exercises supervisory functions over associations, foundations, and foreign NPOs, while the SCRA retains its mandate to oversee religious organisations (AML/CFT Law, Article 16; Presidential Decree No. 781-VIQ). Azerbaijan has established a risk-based supervisory framework for NPOs, while also ensuring the application of risk-based measures adapted to the specific risk level of each NPO. The *Methodology on risk-based supervisory measures for non-profit organisations* includes different actions for different risk level.

(b) Azerbaijan has the ability to apply effective, proportionate and dissuasive sanctions for violations of the requirements applicable to NPOs to a large extent. Supervisory authorities are empowered to impose administrative or other sanctions as provided by the Code of Administrative Offences. In case of violation of receiving grants (Article 432) the administrative fines are applied depending on the gravity of violation between 1 000 and 5 000 manats (approximately EUR 550 – EUR 2 800) for officials and between 5 000 and 15 000 manats (approximately EUR 2 800 – EUR 8 300) for legal persons. For failure to include information on donations in the financial reports (Article 465) the administrative fines are applied between 1 500 and 3 000 manats (approximately EUR 830 – EUR 1 700) for officials and between 5 000 and 8 000 manats (approximately EUR 2 800 – EUR 4 450) for legal persons. For violation of

legislation on NPOs regarding carrying out unregistered activities the administrative fines are applied between 1 000 and 2 000 manats (approximately EUR 550 - EUR 1 100) for officials and between 2 500 and 3000 (approximately EUR 1 400 – EUR 1 700) for legal persons.

In addition, other sanctions (criminal and non-criminal) are available against legal entities that violate legal requirements. Under Article 99-4 of the Criminal Code (CC), a legal entity can be fined from 75 000 manats (approximately EUR 38 000) to 200 000 manats (approximately EUR 101 000), depending on the seriousness of the offence, or liquidated for offences such as money laundering (Article 193-1 of the CC), terrorist financing (Article 214-1 of the CC). Moreover, if the liquidation process is applied, the legal entity is also fined for 200 000 manats (approximately EUR 101 000) (Article 99-8.3 of CC). According to Article 31.3 of the Law on Non-Governmental Organisations and Article 59.2.3 of the Civil Code, the Ministry of Justice (MoJ) may suspend an NPO's activity for up to one year if it fails to correct administrative violations. MoJ can request the court to liquidate the organisation in case of repetitive violations (Article 31.4 of the Civil Code). The liquidation of the legal entity can only be imposed by courts which might have some impact on effectiveness.

#### 6. **Criterion 8.5 –**

- (a) Regular cooperation is encountered regarding the activities of NGOs and religious organisations among the FMS, the Ministry of Justice, the SCRA, and the SSS. The FMS regularly shares the information submitted by obliged entities, inclusively containing bank account transactions and flow of funds to these organisations provided by foreign sources (Regulation on Submitting Information to the FMS). Article 20 of AML/CFT Law provides general framework for domestic cooperation among competent authorities. The WG, is one channel for sharing the information concerning NPOs among competent authorities. This exchange is supported by practical examples. Moreover, according to the Decision of the Cabinet of Ministers No. 201, the Ministry of Finance is requested to submit information on the amount of donations received by non-governmental organisations, on branches and representative offices of non-governmental organisations of foreign countries and on the person who donated, to the MoJ on annual basis.
- (b) The Security State Services (SSS) is responsible for conducting investigations of terrorism and TF offences, being enabled to get all relevant information (administrative, financial, and others) concerning terrorism, TF, and other related investigations. Thus, the SSS has adequate investigative expertise and capability to examine NPOs suspected of being related to TF.
- (c) According to Article 8.2 of the Law on State Registration, the MoJ is the central register for NGOs. Thus, the authorities have full access to the administration and financial information of NGOs. According to Article 12 of the Law on Freedom of Religious Faith, all religious organisations are registered with the SCRA and included into the state register of religious organisations. Moreover, LEAs can obtain financial information concerning NGOs directly from obliged entities during the course of an investigation.
- (d) There are multiple approaches in place in Azerbaijan that ensure prompt notification of relevant authorities when there is a suspicion that the NPO is abused for TF or involved in a way as foreseen by criterion. The FMS receives from obliged entities (e.g., from NPOs themselves) information concerning the situations that cause suspicions or reasonable grounds for suspicions that funds or other property are related to TF (AML/CFT Law, Article 7.2.1). Information resulted from processing suspicious transactions is shared continuously with the

SSS, as law enforcement authority responsible for investigations of terrorism and TF offences (AML/CFT Law, Article 14.10).

7. **Criterion 8.6** – Azerbaijan relies on existing legal framework on international co-operation and information exchange. According to Article 22 of the AML/CFT Law competent authorities should cooperate and exchange information with their foreign counterparts for the purpose of monitoring, supervision, analysis, inquire and investigation of ML/TF or predicate offences. The SSS is the primary authority that receives international requests regarding terrorism, TF, and related crimes. The FMS has a point of contact for dealing with requests received through Egmont Secure Web. When a request is received, it is sent to the senior officials for appointing responsible officers to oversee the execution of the request. The FMS follows the same internal procedure to execute international requests related to NPOs as regards any foreign request received by FMS. Similarly, if the SSS receives requests regarding NPOs from their counterparts, similar confidential procedures are deployed to handle cases and take relevant measures.

### **Weighting and Conclusion**

8. Azerbaijan has taken steps to ensure its compliance with R.8. However, some minor shortcomings remain: (i) outreach activities did not cover all the NPOs falling within FATF definition (c.8.2(b)); and (ii) sanctions are largely effective, proportionate and dissuasive (c.8.4(b)). In overall, the remaining deficiencies are minor and therefore **R.8 is re-rated LC**.

#### Recommendation 14 – Money or value transfer services

	Year	Rating and subsequent re-rating
MER	2023	PC
FUR1	2025	↑ LC (upgrade requested)

1. In its 2023 MER Azerbaijan was rated PC with R14. Following deficiencies were identified: (i) there was no information on action taken to identify potential un-licensed money or value transfer services (MVTs) (c.14.2); and (ii) the provisions prohibiting the existence of agents were not provided (c.14.4 and 14.5).

2. **Criterion 14.1** – MVTs can be provided by banks and local branches of foreign banks, the national postal operator, payment institutions (PI) and electronic money institutions (EMI) (LPSPS, Article 3.3). While non-bank credit institutions (NBCI) are also listed as payment service providers, their services are limited to opening payment accounts for the purpose of granting loans and issuing credit cards, which does not fall under FATF definition of MVTs. The Law on Banks (Article 1(0.8), Article 38), the Law on Postal Services (Article 12 (2.1), and the LPSPS (Article 48.1) require all money or value transfers providers, which can only be legal persons, to be licensed before providing any MVT services. All banks in Azerbaijan are licenced for MVTs. The MVTs providers are supervised by the Central Bank of Azerbaijan (CBA).

3. **Criterion 14.2** – Pursuant to Article 398 of the Code of Administrative Infringements and Article 192 of the CC, financial activities carried out without a licence are sanctioned. The CBA can revoke a licence if unauthorised activities are identified (Article 16.1.10) of the Law on Banks, LPSPS Article 54.1.4, Law on Postal Services, Article 13.4.5.3).

4. The CBA’s supervisory departments are responsible for identifying unlicensed activities and referring cases to the relevant authorities. In line with recent regulatory amendments, designated staff conducts daily monitoring of media, social networks, and other online sources. The CBA may order the immediate cessation of advertising or promoting unlicensed activities/services, publish related information on its website and in the media, and refer cases to competent authorities for further action (Law on Central Bank, Article 51.3). Since the regulatory amendments were introduced, one instance of unauthorised MVT activities was identified and promptly reported by the CBA to the State Tax Service, leading to the liquidation of the company.

5. **Criterion 14.3** – All MVTs providers are obliged entities under the AML/CFT Law (Article 1.1.7. and Article 1.1.8.) and are therefore subject to monitoring for AML/CFT compliance.

6. **Criterion 14.4** – Agents of MVTs providers must be registered with the CBA to be able to commence their activities (LPSPS, Article 9.3). MVTs providers using agents are required to submit a written application to the CBA, including the agreement with the agent, and must notify the CBA of any subsequent changes (LPSPS, Article 9.2 and 9.11). The agent is entered to a payment agents register by the CBA, available online (LPSPS, Article 65). Only FIs specified in Article 9.1 of the LPSPS (banks, payment institutions, and electronic money institutions) are permitted to engage agents for MVTs. There is no explicit prohibition on the national postal operator to engage agents, which leaves uncertainty about whether postal operators might engage agents outside the regulated framework.

7. **Criterion 14.5** – MVTs providers are required to include agents in their AML/CFT internal control programmes and to monitor their compliance with the obligations arising from those programmes (Regulation on the Organisation of Work with Payment Agents, Article 3.2).

#### Weighting and Conclusion

8. Most criteria are met. Following minor deficiency remains: There is no explicit prohibition on the national postal operator to engage agents (c.14.4). Consequently, **R.14 is re-rated as LC**.

*Recommendation 16 – Wire transfers*

	<b>Year</b>	<b>Rating and subsequent re-rating</b>
<b>MER</b>	2023	PC
<b>FUR1</b>	2025	↑ LC (upgrade requested)

1. In its 2023 MER, Azerbaijan was rated PC with R.16 due to following deficiencies identified: (i) there was no specific provisions covering several individual cross border wire transfers from a single originator bundled in a batch file for transmission to beneficiaries, and that the batch file should contain required and accurate originator information, and full beneficiary information, that is fully traceable within the beneficiary country (c.16.2); (ii) it was not clear if FIs are required to verify the information pertaining to its customer where there is a suspicion of ML/TF (c.16.4); (iii) it was not clear if the intermediary also retains the obtained information with the transfer (information received on the payer and the payee that accompanies a transfer of funds) and if the obtained information is for cross border wire transfers or for domestic wire transfers (c.16.9); (iv) there were no provisions covering the lack of required beneficiary information (16.12); (v) it was not clear if the verification includes taking reasonable measures, which may include ex post monitoring or real-time monitoring where feasible, to identify cross-border wire transfers that lack required originator information or required beneficiary information (16.13); (vi) there were no requirement to have policies or procedures for determining (a) when to execute, reject, or suspend a transfer lacking originator or beneficiary information and (b) revise all business relationships (16.15); (vii) there were no provisions binding MVTs to comply with the relevant requirements of R.16 (c.16.6); and (viii) there were no specific provisions covering a MVTs provider controlling both the ordering and the beneficiary side to take account of all the information from both sides to determine whether a suspicious transaction report (STR) has to be filed or to file an STR in any country affected by the suspicious wire transfer, making the relevant transaction information available to the financial intelligence unit (FIU) (c.16.7).

2. **Criterion 16.1** – Cross border wire transfer services can be provided by banks, local branches of foreign banks, the national postal operator, PIs and EMIs. The Article 1.23 of AML/CFT Law defines a wire transfer. FIs are required to identify the customer and the beneficial owner before carrying out occasional transactions that are wire transfers regardless of the amount, using reliable and independent sources. Cross border wire transfers must always be accompanied by accurate information regarding both (a) the originator and (b) the beneficiary such as: (i) name (including individual’s full name and TIN (if available or relevant), and for legal entities, the name, organisational-legal form, and TIN (if registered); (ii) account number, payment card number (PAN) or another unique identifier where such information is used to process the transaction or which permits the traceability of transactions (iii) the originators’ date and place of birth, personal identification number, address, or national identity number) pursuant to paragraph 3.1 of Article 3 of CBA Wire transfers regulation.

3. **Criterion 16.2** – Pursuant to Articles 4 (2.1 – 2.5), 4(3) and 4(4.1) of the AML/CFT Law before a business relationships/wire transfers are carried FIs are required to identify the customer and the beneficial owner and conduct all other CDD measures. The CBA Wire transfers regulation provides a definition for batch payments (paragraph 2.1.8 of Article 2) and obliges ordering FI to include the same information as wire transfers (paragraph 3.1 of Article 3) on that is fully traceable within the beneficiary country.

4. **Criterion 16.3** – Although there are no *de minimis* threshold requirements for cross border wire transfers, when the FIs cannot perform CDD measures for the parties of the transactions or has doubts about the veracity of the information provided the business relationship will not be established or continued and the transaction will not be carried out Article 4 (2.4). (13), (14) and (17) of the AML/CFT Law. The provisions of the AML/CFT Law covers also situations when there are ML/TF suspicions (Article 4 (2.4)).
5. **Criterion 16.4** – Although there are no *de minimis* threshold requirements for cross border wire transfers, when the FIs cannot perform CDD measures for the parties of the transactions or has doubts about the veracity of the information provided, the business relationship will not be established or continued and the transaction will not be carried out (Article 4 (14) of the AML/CFT Law). The CBA Wire Transfers Regulation (paragraphs 3.2, 5.2, 7.4 require ordering FIs to verify originator information, beneficiary institutions to verify beneficiary information, and institutions controlling both sides of a transfer to verify both. These obligations apply to all domestic and cross-border wire transfers, irrespective of any suspicion of ML/TF.
6. **Criterion 16.5 and 16.6** – The AML/CFT Law has no express provisions covering exclusively domestic wire transfers. Information accompanying domestic wire transfers are the same as for cross border wire transfers (Article 4 (2.3) of the AML/CFT Law). However, the CBA wire transfers regulation (Articles 2 (1.4) and (1.5) provides definitions for cross border and domestic transfers and requires obtaining information of the originator and beneficiary as well as requirements for the ordering FI to make available additional information within three business days of receiving the request either from the beneficiary FI or from appropriate competent authorities. There are provisions covering the right of law enforcement authorities to compel immediate production of such information (Article 3 of the CBA wire transfer regulation).
7. **Criterion 16.7** – All the required information for the originator and beneficiary are collected and kept for at least 5 years (Article 6 of the new AML/CFT Law).
8. **Criterion 16.8** – According to provisions of Article 4 (13.3) and (14) of the AML/CFT Law if a FI is not able to identify and verify the information of the customers and beneficial owner cannot establish a business relationship/execute a wire transfer.
9. **Criterion 16.9** – The intermediary FI is required to obtain all originator and beneficiary information that accompanies a wire transfer (paragraph 4.1 of Article 4 of Wire transfers CBA Regulation) and transmit this information in its entirety to the next financial institution, ensuring that the information accompanying a wire transfer is retained with it.
10. **Criterion 16.10** – Intermediary FIs are required to keep records for 5 years (paragraph 4.2 of Article 4 of Wire transfers CBA Regulation and Article 6 of the AML/CFT Law) where technical limitations prevent the required originator or beneficiary information accompanying a cross-border wire transfer from remaining with a related domestic wire transfer.
11. **Criterion 16.11** – Intermediary FIs are required to take measures to identify wire transfers that lack the required information for transmission (paragraph 4.3 of Article 4 of Wire transfers CBA Regulation). This information includes data specified in Article 3.1 on both originator and beneficiary (Article 4.1 of the Wire transfers CBA Regulation) as required transferrable information. However, it is not clear what these measures are or whether they should be reasonable.
12. **Criterion 16.12** – Intermediary FIs are required to have a risk-based policies and procedures for determining (a) when reject or suspend a transfer lacking required information and (b) what

follow-up action to take, up to and including reassessing business relationships with the relevant FI. This provision does not permit the execution of transfers lacking required information, providing stronger safeguards.

13. **Criterion 16.13** – Beneficiary FIs are required to verify the information accompanying the transfer from the originator and to take reasonable measures to identify wire transfers lacking required information, such as real-time or, where not feasible, post-event monitoring within 5 (five) business days after the transaction. (Article 5.3 CBA wire transfers Regulation).

14. **Criterion 16.14** – Regardless any threshold, the beneficiary FI of the payer should verify the accuracy of the information on the payee on the basis of documents, data or information obtained from a reliable and independent source before carrying any fund transfer. The verified information must be kept for at least 5 years (Article 6 of the AML/CFT Law).

15. **Criterion 16.15** – Beneficiary FIs are required to have risk-based policies and procedures (a) when to reject or suspend a transfer lacking information and (b) what follow-up action to take, up to and including reassessing its business relationship with the relevant FI (paragraph 5.4 of the Article 5 of the CBA wire transfers regulation). FIs are not permitted to execute transfers lacking the required information (see c.16.12).

16. **Criterion 16.16** – According to amended “*Regulation on customer due diligence measures during wire transfers*” paragraph 2.1.1 of the Regulation, payment institutions (except for payment institutions that exclusively provide intermediary services for the execution of payment transactions and (or) account information services), electronic money institutions, and local branches of foreign payment institutions are covered by the definition of a financial institution meaning that this definition covers all FIs that provide MVTs service and obligations under the “*Regulation on customer due diligence measures during wire transfers*” apply to them as well. According to paragraph 3.2 of the “*Regulation on the organisation of work with payment agents*”, the institution should include the agents it engages in its internal control program outlined in Article 10 of the Law of the Republic of Azerbaijan ‘on Prevention of the legalisation of criminally obtained property and the financing of terrorism’ and monitor compliance of the agents with the actions arising from the program. Furthermore, paragraph 1.2 of the Regulation provides that the institution is fully responsible for the activities performed by its agents on relevant services as per the Law. The same legal obligation is established in Article 9.1 of the Law “On Payment Services and Payment Systems,” which states that the payment service provider shall be kept fully responsible for payment services related activities of payment agents they engage. In other words, FIs that engage agents take the full responsibility of agents to apply obligations.

17. At the same time, under Article 9.1 of the *Law on Payment Services and Payment Systems* and paragraph 1.2 of the *Regulation on the Organisation of Work with Payment Agents*, financial institutions may engage agents only within the territory of the Republic of Azerbaijan to provide the services stipulated therein. The involvement of foreign payment agents is not permitted, and operating through unregistered or foreign agents results in administrative liability under Article 439-2.1.1 of the Code of Administrative Offences.

18. Therefore, financial institutions are not authorised to operate through agents abroad, and all agents operate domestically under the full responsibility and AML/CFT obligations of the financial institution. Consequently, the application of AML/CFT requirements “in whatever country they operate” does not arise in practice.

19. **Criterion 16.17** –

- (a) Paragraph 7.4 of Article 7 of the CBA Wire Transfers Regulation obliges FIs controlling both sides of a transfer to consider all available information, and
- (b) where suspicion arises, FIs are obliged to file STRs, with particular emphasis on cross-border transfers (i.e. transactions carried out outside the country). This explicit focus reflects the heightened ML/TF risks in such cases and ensures compliance with both domestic and affected foreign jurisdictions' legislation.

20. **Criterion 16.18** – FIs conducting wire transfers are subject to obligations set down by Law on Targeted Financial Sanctions/TFS, Article 5 (1). Thus, FIs take freezing actions and comply with prohibitions from conducting transactions with designated persons and entities.

**Weighting and Conclusion**

21. Most criteria are met. The following minor shortcoming remains: It is not clear what are the measures to identify wire transfers that lack the required information for transmission (c.16.11). For these reasons, **R.16 is re-rated as LC.**

*Recommendation 24 – Transparency and beneficial ownership of legal persons*

	<b>Year</b>	<b>Rating and subsequent re-rating</b>
<b>MER</b>	2023	PC
<b>FUR1</b>	2025	↑ LC (upgrade requested)

1. In its 2023 MER, Azerbaijan was rated PC with R.24. Following deficiencies were identified: (i) No comprehensive risk assessment (c.24.2); (ii) No legal requirement to record basic regulating powers (c.24.3); (iii) No requirement to maintain information set out in 24.3 neither to maintain a register of shareholders (c.24.4); (iv) Not all elements were subject to regular update and there were no mechanism for detecting discrepancies (c. 24.5); (v) BO information could not be determined in all instances (c.24.6); (vi) BO information was not updated in all instances (c.24.7); No cooperation between companies and competent authorities to determine BO (c.24.8); (vi) No requirement to convert or immobilise bearer shares issued prior to 2015 (c.24.11); (vii) No requirement for licencing of nominee shareholders and directors or the obligation to maintain information on nominees (c.24.12); (viii) Available sanctions were not fully proportionate or dissuasive (c. 24.13); and (ix) No mechanism to monitor the quality of assistance received from foreign counterparts (c. 24.15).

**2. Criterion 24.1 –**

(a) *Types, forms and basic features of legal persons* – The Civil Code details different types, forms and features of the legal persons, commercial and non-commercial, that can be established in the country. Types of commercial legal persons that can be created are business partnership and societies (Civil Code, Article 64-68), general partnership (Civil Code, Article 69-81), limited partnership (Civil Code, Article 82-86), limited liability company (Civil Code, Article 87-96), subsidiary liability company (Civil Code, Article 97), open or closed joint stock company (JSC) (Civil Code, Article 98-108) and cooperatives (Civil Code, Article 109-113). Non-commercial legal entities that can be established in Azerbaijan are public unions (Civil Code, Article 114), foundations (Civil Code, Article 115-116) and unions of legal entities (Civil Code, Article 117-119). Information on the types, forms, and basic features of legal persons and the manner of their creation are publicly available.

(b) *Processes for creation of legal persons and obtaining information* – All legal persons must be registered into the State Registry (Civil Code, Article 48.1) including representative offices and branches of foreign legal entities (Law on the State Registration and State Registry of Legal Persons -LSRSRLP, Article 4.1). Provisions of the Civil Code include the process for the creating of all legal entities. Applications for the registration of legal entities should be submitted to the relevant authorities: Ministry of Justice in relation to non-commercial institutions and the STS in relation to commercial institutions and public legal entities. Information on whether a legal person has or has not received state registration shall be available upon request. The STS is the competent authority to maintain the register of legal persons both commercial and non-commercial. A company acquires legal personality on the date of entry in the registry. Information on the process of creation of different legal entities is publicly available at [www.taxes.gov.az](http://www.taxes.gov.az). The obtaining and recording of beneficial ownership is discussed under c.24.6.

3. **Criterion 24.2** – Azerbaijan conducted general analysis of ML risks associated with legal persons in the National Risk Assessment (NRA) and a stand-alone risk assessment of commercial legal entities produced by a cross-agency team, using internationally recognised methodology and formal analysis of multiple data sets. The authorities also conducted stand-alone analysis of TF risks covering NPOs,

including public unions and foundations (see also c.8.1). However, the analysis did not cover ML risks of NPOs. Comprehensive analysis of risks associated with unions of legal entities is not included in conducted risk assessments of legal persons. Threats and vulnerabilities of Limited Liability Companies (LLCs) and other types of legal persons have been identified, and the country has identified the business sectors at greatest risk (construction and provision of goods and services). However, comprehensive analysis into the risks posed by the misuse of legal persons in relation to organised crime and drugs smuggling is lacking in order to substantiate understanding in higher risk areas identified in MER (IO.1).

4. **Criterion 24.3** – All legal entities should be registered in the company registry maintained by the STS (Presidential Decree on Implementing LRSRLP, Article 2.4.2.). The Registry incorporates data on company name, proof of incorporation, legal form and status, the address of the registered company, basic regulating powers (included to charter (articles of association) of the company), as well as list of directors (LRSRLP, Articles 5.4.1, 12.1, 13.1, 13.3-1, 14.1 and 14.2; and, Civil Code, Article 47.2). These requirements apply across commercial and non-commercial legal entities (Civil Code, Article 43.5 and Article 48).

5. Information from the STS register is publicly available (including online) with some limitations. For instance, some charter information contains personal data, including on basic regulating powers, and are not made public. A separate e-portal is functional under the STS and FMS authority for monitoring participants and other persons participating in monitoring to have access to the information regarding shares of the authorised capital and owners of securities (Regulations on providing information about the founders (participants) of commercial legal entities to monitoring participants adopted by the decision of Cabinet of Ministers dated October 10, 2018).

6. **Criterion 24.4** – The legal person must register information mentioned in 24.3 and keep it up to date. All legal entities are required to provide this basic information to the state register (LRSRLP, Article 14.1), including the details on shareholders or members and on number of their respective shares, as well as category of shares (including the nature of the associated voting rights) (LRSRLP Article 14.2 and 14.2.2). While this does not equate to an explicit requirement to maintain a shareholder register by the legal entities, it indirectly obliges companies to collect and retain such information in order to fulfil their registration duties. The register of shareholders of the joint-stock company shall be maintained by the central depository - National Depository Centre (Civil Code, Article 106-2.1).

7. **Criterion 24.5** – Changes need to be notified/registered with the state register no later than within 15 days from the date of change (9.2). Changes made to the “constituent documents” (the charter of the legal entity) of legal entities and branches or representative offices of foreign legal entities, as well as each subsequent change in the facts, registered in the state register in relation to legal entities, enter into force only after the state registration (LRSRLP, Article 9.3). Constituent document is considered to be the charter of the legal entity containing the legal persons’ name, location, the procedure for managing its activity, as well as the procedure for its cancellation (Civil Code Article 47.1). At the same time there are no verification tools for detecting discrepancies to ensure that the information referred to in criteria 24.3 and 24.4 is accurate and updated on a timely basis.

8. **Criterion 24.6** – There is a BO registry in Azerbaijan held by state registry and legal entities are explicitly required to hold or take reasonable measures to obtain up-to date information on their beneficial owners (AML/CFT Law, Article 6.6; LRSRLP, Article 4.2-2 and 4.2-3). Specifically, at the

time of registration, all legal entities are obliged to submit BO information to the state register, which the STS then transfers to the financial monitoring body for verification (LSRSRLP, Article 14.1.6-1 and Article 14-1).

9. The authorities can determine BO using information collected by monitoring entities. Legal persons are not required to open a bank account, but when they do, they are subject to CDD measures undertaken by the banks (see R.10) but there is no legal requirement for legal persons to have an ongoing customer relationship with monitoring entities. Information collected by monitoring entities who are obliged to verify the identification data of their customers and beneficial owners using reliable, independent sources are used in order to determine BO (AML/CFT Law, Article 9.2).

10. **Criterion 24.7** – The analysis of R.10.7 and 10.10 and R.22 apply.

11. **Criterion 24.8** – Every legal person must obtain retain and submit accurate and updated information on its beneficial owners and keep the supporting documents (LSRSRLP, Article 4.2-2 and 4.2-3). This information is filed with the STS at incorporation and whenever it changes; the STS maintains a central electronic BO registry and forwards each filing to the financial monitoring body within five working days for verification (LSRSRLP Article 14-1). The FMS ensures verification of the transmitted BO information for all legal persons using the data in the state register, as well as open sources (LSRSRLP, Article 14-1.2). In case of suspicion of the FMS regarding the accuracy of BO information, on the basis of the FMS' request to the STS to this effect, legal persons are required to provide supporting documents for the registered BO information to the STS within three days upon the latter's request. If the FMS determines the BO differs from what is on the register, it informs STS, which amends the entry and notifies the company through its secure e-cabinet. Beyond this, there is no explicit obligation for legal persons to co-operate, nor is there a requirement for them to have designated person(s) in the country for ensuring co-operation with competent authorities.

12. **Criterion 24.9** – While there is no requirement for legal persons themselves, administrators or liquidators to retain the relevant information, there are other measures in place with regard to record-keeping.

13. The records of the state registry are maintained for 75 years after a legal person ceases to exist according to the Article 8 of the "Rules for maintaining, using and protecting the state registry of legal persons" 13 April 2005 Ordinance No. 70 of the Cabinet of Ministers of the Republic of Azerbaijan. Furthermore, obliged persons shall maintain, for at least five (5) years, all information and documents on transactions, both domestic and cross-border from the date of completion of the transaction (AML\CFT Law, Article 6.1). This includes account files and business correspondence and documents obtained through CDD measures including the results of any analysis undertaken (AML/CFT Law, Article 6.2). The period provided may be extended by a decision of the FMS or supervisory.

14. **Criterion 24.10** – The FIU can obtain BO information from the obliged entities in a timely manner (AML/CFT Law, Article 14.2) Supervisory authorities are empowered to have access to such information (AML/CFT Law Article 6.5). Law enforcement agencies (LEAs) may request and collect BO data from any company during the course of the investigation (see. R.31). In case BO data are not submitted voluntarily, court order may be requested.

15. **Criterion 24.11** – Authorities advised that it is not possible to effectively issue bearer shares because all shareholders of companies need to be included in the registration application that it is required for the incorporation of companies (Civil Code, Article 997-2). Moreover, any changes in shareholding following incorporation are to be registered with the Registry (LSRSRLP, Article 5 and 9). Nevertheless, before 15 July 2015 bearer form of investment security could have been issued by

JSC and there is no requirement to convert or immobilise them except in cases where bearer share holder transfers his share through the stock exchange or market intermediaries. Despite the fact that before 2015 bearer shares could exist, the National Depository Centre (NDC) has conducted an investigation to verify that all JSC dematerialised their shares and registered them with NDC and confirmed that no bearer shares were issued nor are in circulation.

**16. Criterion 24.12** – Nominee shares and nominee directors are not explicitly prohibited under Azerbaijani law. Only nominal holders of securities as defined under foreign depository or foreign investment company that exercises rights confirmed by securities based on an agreement or power of attorney and instructions and for the benefit of an investor (Law on Security Market, Article 27) are required to register within the NCD and must disclose the name of the beneficiary to the NCD or the supervisory authorities. The authorities contend that the legal system does not foresee company services such as nominee directors or shareholders for other types of legal persons, however this interpretation is not demonstrated. For the foreign depository or investment company to open a “nominal depot” account and hold securities for the nominators’ name in the NDC, they have to request the NDC to open such an account. Without the NDC’s permission, entities cannot exercise nominee shares. Moreover, the nominal holder (shareholder) shall provide information on the identification of the investors (nominators) of the nominal holder upon the NDC’s request within five business days (Article 6.3 of the Rules on Nominee Accounts). Under AML/CFT law, the NDC and investment companies are reporting entities, and they have to identify nominators and their beneficial owners as per the beneficial ownership identification requirements.

**17. Criterion 24.13** – Submitting false basic information during the registration of legal entities, representative office, or branch of a foreign legal entity or during subsequent changes to such information is subject to fines 700 manats (EUR 390) for natural person and 7 000 manats (EUR 3 900) for legal person (Code of Administrative Offences, Article 403). In case when information on the changes in registration data of legal person is not provided, fines can be imposed to natural person from 1 000 to 2 000 manats (EUR 560 to EUR 1 100), and to legal entities from 2 500 to 3 000 manats (EUR 1 400 to EUR 1 700) (Code of Administrative Offences, Article 405). Sanctions available for a breach of the duty to identify and verify the identity of customers and BOs, by an obliged entity, its management board member or an employee are fines from 2 000 to 4 000 manats (EUR 1 100 to EUR 2 200) for a natural person and from 20 000 to 30 000 manats (EUR 11 100 to EUR 16 700) for a legal person for each customer and each transaction (Code of Administrative Offences, Article 598.1.1). The available fines do not appear to be fully proportionate nor dissuasive.

**18. Criterion 24.14** – State authorities are empowered to cooperate in order to exchange basic and BO information. The FMS, supervisory authorities can conduct exchange of basic and BO information with foreign competent authorities (AML/CFT Law, Article 22). This article covers all types of information and documents of which the AT considers the exchanging of information of shareholders to be included. LEAs can obtain BO information under their investigative powers (see R.31.1) which can be exchanged with foreign counterparts.

**19. Criterion 24.15** – Azerbaijan monitors the quality of assistance they receive from other countries in response to requests for basic and BO information or the country’s requests to locate beneficial owners of legal persons who may be located outside the country. In addition, there is a general provision that requires the FMS to check the quality and usability of the information requested and received from foreign FIUs (FMS Internal Rules for Considering Suspicious Information and Requests, Article 5.2.4). The authorities maintain the data on number of enquiries sent to and responses received from foreign counterparts by the FMS and CBA as well as data on responses received that enables the

authorities to evaluate the assistance received (or identify foreign partners that fail to respond) have been provided.

### **Weighting and Conclusion**

19. The following deficiencies remain: (i) there is no comprehensive analysis on the risks posed by the misuse of legal persons in relation to organised crime and drugs smuggling to substantiate understanding in higher risk areas identified in MER (c.24.2); (ii) there are no verification tools for detecting discrepancies to ensure that the information referred to in criteria 24.3 and 24.4 is accurate and updated on a timely basis (c. 24.5); (iii) there is no explicit obligation for legal persons to co-operate, nor is there a requirement for them to have designated person(s) in the country for ensuring co-operation with competent authorities (c.24.8); (iv) nominee shares and nominee directors are not explicitly prohibited under Azerbaijani law, and only a limited mechanism exists to prevent their misuse (c.24.12), and, (v) the range of available sanctions is not fully proportionate or dissuasive (c. 24.13). Overall, these deficiencies are weighted as minor shortcomings considering the context and materiality. Hence, **R.24 is re-rated as LC.**

*Recommendation 26 – Regulation and supervision of financial institutions*

	<b>Year</b>	<b>Rating and subsequent re-rating</b>
<b>MER</b>	2023	PC
<b>FUR1</b>	2025	↑ LC (upgrade requested)

1. In its 2023 MER, Azerbaijan was rated PC with R.26. Following deficiencies were identified: (i) there were limitations in the fit and proper requirements as it referred to a criminal conspiracy rather than to “associates” (c.26.3); (ii) shortcomings were found concerning Basel Committee Principles 5, 11, and 26 (c.26.4(a)); (iii) there was no further information on the mode of supervision of leasing companies (c.26.4(b)); (iv) there was no explicit reference to an assessment of ML/TF risks by supervisors on the basis of policies, procedures, internal controls of supervised entities (c.26.5(a)); (v) the legislation did not address the need to consider the characteristics of FIs and any discretion allowed by the Azerbaijani framework to the use of risk-based approach by FIs (c.26.5(c); and (vi) there was no requirement for supervisors to review the assessment of the ML/TF risk profile of FIs when there are major events or developments in the management and operations of the FI or group (c.26.6).

2. **Criterion 26.1** – The AML/CFT law designates the competent authorities for FIs’ AML/CFT supervision. Bank and non-bank credit institutions, leasing companies, insurers (including re-insurers and non-life insurers) and insurance intermediaries, securities firms and collective investment schemes, exchange offices and the postal service in its money transfer capacity are under the supervision of the Central Bank of Azerbaijan (Article 16.1.1 of the AML/CFT Law).

3. **Criterion 26.2** – Article 3.1 of the Law on Banks states that ‘banks and non-bank credit institutions may exercise banking activities in the territory of the Republic of Azerbaijan on the basis of a special permit (license), issued by the financial markets supervisory authority.’ Credit unions must also be licensed as prescribed by ‘Regulations on issue of a banking license to credit unions’ issued by the then Financial Markets Supervisory Authority of the Republic of Azerbaijan, Resolution № 15, 7 July 2017. Licensing requirement is equally imposed by the Laws on Securities Market (Article 30) and Insurance Activity (Article 7). The Law on Currency Regulation imposes a licensing requirement on exchange offices in its Article 13.1.1. The licencing regime includes documents certifying the physical presence of the FIs. Turning to shell banks, Azerbaijan was rated “Compliant” with the previous Recommendation 18, the assessors noting that *“even though there is no direct prohibition not to establish shell banks, it can clearly be seen that the comprehensive process established by the Azerbaijani authorities prevent the creation of shell banks on the territory of Azerbaijan”*. The current AT agrees with this statement.

4. **Criterion 26.3** – The AML/CFT Law establishes a general requirement for all supervisors to prevent criminals and their associates from the market entry. Pursuant to Article 17.1 and 17.2 of the AML/CFT Law criminals shall not hold a significant or controlling ownership interest, be a beneficial owner, or hold a management function in the FIs. Article 17.3 of the AML/CFT Law establishes a similar requirement in relation to associates, however this obligation has a limitation, i.e., it refers to a criminal conspiracy.

5. Supervisors are required on on-going basis monitor changes in the ownership and management structure (AML/CFT Law, Article 17.4). Some additional measures to prevent criminal and their associates from entering the market can be seen in sectoral legislation.

6. *Banks* – Law on Banks contains relevant provisions in Article 1.019 both for qualified holding owners, set at 10 or more percent of share capital or shares with voting rights, or entitling to influence significantly decision making of the legal entity. The statement in the sectoral law about the influence on decision making is alluding to controlling interest. To this effect, the CBA is entitled to seek information from financial, tax and law enforcement bodies. The concept of fit and properness is referred to in the Law on Banks, Article 10.1. Fitness and properness are defined in Article 1.0.18 of the Law on Banks as encompassing the notion of ‘civil impeccability’ which is further defined in Article 1.019 as exhibiting, *inter-alia*, absence of criminal conviction. Financial, tax and law enforcement bodies are obliged as per Article 72 to submit required information on financial status and professional activities of owners of qualifying holdings or whether they had criminal convictions in the past. Fitness and properness is also applicable in the case of officers of banks, which include members of the Supervisory and Management Boards, as per Article 10.1 of the Law on Banks.

7. *Non-bank credit institutions* – Article 8.3 of the Law on the non-bank credit institutions prohibits those persons convicted of ‘intentional crimes’ from assuming the position of an administrator. Furthermore, Article 12.1.2.2 provides grounds for refusal of a licence if officers, qualifying holding owners or beneficiary owners fail to meet civil impeccability requirements. Civil impeccability requirements are defined in Article 1.0.9 which refers to requirements under Article 17 of the Law on Combating the Legalisation of Criminally Obtained Property and Financing of Terrorism, which ensures preventing criminals or their associates from holding (or being the beneficial owner of) a significant or controlling interest or holding a management function in a FI.

8. *Insurance Activities* – the relevant law of 25 December 2007 No. 519-IIIQ as subsequently amended provides in Article 19.1.2 that natural persons as the founders or shareholders of insurance entities must have ‘civil perfection, in case of the desire to acquire prevailing share interest or majority control’ whilst in Article 19.2.2 it is provided that legal entities as founders or shareholders must have ‘civil perfection of top officials of the executive authority of local legal entities’.

9. *Securities* – the relevant law provides, as quoted, in Article 1.0.026 that those holding 10% or more of the share capital or being able to influence decisions taken by a legal person, the head of the corporate activity (no indication as to the precise definition is provided) of the obliged entity and members of the supervisory council or management body of an investment company, stock exchange, clearing house and central depository, must be free from criminal liability, conviction and past criminal conviction.

10. *Exchange bureaux* – the extract from the Currency Regulation Law quoted requires in Article 13.1.2.7 a reference from the relevant executive authority on the absence of economic crime convictions by the applicant for a licence to be included in the documents submitted in support of the application.

11. **Criterion 26.4 –**

(a) *For core principles institutions*: Compliance with Core Principles 1, 2, 3, 4, 5, 9, 11, 13, 25, 26 and 29 of the Basel Committee on Banking Supervision was evaluated as part of the NRA exercise. The conclusion drawn in the NRA is that the country's AML/CFT legislation largely complies with requirements of the Basic Principles of the Basel Committee, but some shortcomings were found. Since the publication of the NRA, authorities have addressed the shortcoming identified.

Articles 45 and 46 of the Law on Banks relate to CP27 and CP10 respectively whilst Article 13 and Article 14.1.11 of the Law on Banks appear to address the requirements of CP3 and CP12 respectively. Article 14.1.11 of the Law on Banks addresses consolidated supervision insofar as

foreign banks' subsidiaries or foreign holding company. CP26 is addressed through the implementation of the CBS' updated Standards on Corporate Governance. The Standards are applicable under Article 34.4 of the Law on Banks. Regarding CP11, whilst Azerbaijan laws do not provide specific provisions to comply with this principle, it is not required given that the CBS is the sole supervisory authority for Banks and non-Bank Institutions. Lastly, shortcomings to CP5 are addressed by Article 8.2.2 of the Law on Banks, in addition to the implementation of Decision No. 06/7 in January 2024 regarding the documents to be submitted for the issuance of licences.

- (b) *For all other financial institutions:* non-bank credit institutions are governed by the Law on non-bank credit institutions № 933-IIIQ. NBCI are licensed and their operations are governed by a number of provisions included in the said law. Credit unions are also licensed as per Law № 876-IQ which includes various supervisory provisions. Leasing companies' activities mentioned in the Civil Code and as per the country are regulated by the CBA. In January 2025, the Central Bank extended its Methodology for assessing sectoral risks, and its Inspection Manual to leasing companies.

Exchange offices' activities are regulated by the Law on Currency Regulation which provides for supervision of the exchange offices with the law. The activity of the Post Office is regulated by the Law on Postal Service which lists the permissible financial services that the PO may carry out and the licensing and regulation of these services. Additionally, Regulations on issue of a license to the national operator of postal communication and permits to its branches and post offices for supply of financial services and on prudential regulation of its operations.

The AML/CFT Law assigns the supervision of the above activities to the CBA. Article 6.6 provides for annual evaluation of ML/TF risks as well as supervisory inspections on financial institutions under the CBA's supervision.

12. **Criterion 26.5** – The AML/CFT Law (Article 16.4) imposes an obligation on supervisors to conduct inspections commensurate with the risks identified as well as at a national and a sectoral level. The frequency and intensity of inspections with respect to financial groups take into account their specific characteristics, although it is not clarified which characteristics.

- (a) Regulation and Supervision is based on a risk-based approach, taking into account the business models, risk assessment, internal controls and risk management systems, capital, profitability, and other risk factors (Article 49, Law on the Central Bank). Furthermore, the factors and documentation required is set out in S.2.3 of the Methodology for assessing sectoral risks.
- (b) Article 16.4 of the AML/CFT Law requires supervisors to consider “risks existing at the sectoral and national levels”.
- (c) As per (a) above a number of factors (characteristics) are considered when determining the frequency and intensity of supervision of FIs. However, these do not extend to financial groups.

Article 16.4 of the AML/CFT Law provides that supervisory authorities shall carry out supervisory inspections in accordance with the established procedure, as well as the risks existing at the sectoral and national levels, in accordance with the law and that the frequency and intensity of inspections in relation to financial groups (holdings) shall be determined taking into account the specific “characteristics” of these financial groups (holdings). However, the “characteristics” is not defined in the law as standard requires (“characteristics” should in

particular include diversity and number of financial institution and the degree of discretion allowed to them under risk-based approach.

13. **Criterion 26.6** – No requirement for supervisors to review the assessment of the ML/TF risk profile of FIs when there are major events or developments in the management and operations of the financial institution or group.

#### **Weighting and Conclusion**

14. Azerbaijan has implemented most of the requirements of R.26, however the following shortcomings remain: (i) limitations in the legal provisions relating to the prevention of criminal associates (c.26.3); (ii) legal provisions do not define the characteristics required to be taken into consideration concerning group supervision (c.26.5 (c)); and (iii) legal provisions regarding the frequency of supervision is prescribed as annual, and do not provide for assessments when there are major events or developments (c.26.6). **R.26 is re-rated LC.**

### Recommendation 33 – Statistics

	Year	Rating and subsequent re-rating
<b>MER</b>	2023	PC
<b>FUR1</b>	2025	↑C (upgrade requested)

1. In its 2023 MER, Azerbaijan was rated PC with R.26. Following deficiencies were identified: (i) statistical data on ML/TF investigations, prosecutions and convictions was not maintained in a comprehensive manner (c.33.1(b)); (ii) statistical data on property frozen; seized and confiscated is not maintained in a comprehensive manner (c.33.1(c)); and (ii) statistical data on mutual legal assistances (MLAs) and on other forms of international cooperation was not maintained in a comprehensive manner (c.33.1(d)).

#### 2. **Criterion 33.1 –**

- (a) STRs, received and disseminated: While comprehensive statistical data was already maintained in practice during ME, the requirement was formally established through the Coordination Council’s Decision of December 2023 (Decision), which approved the statistical table samples including detailed data. Under this Decision, authorities must submit the data annually to the Coordination Council by 30 April, and the information for 2023 and 2024 has already been collected and submitted.
- (b) ML/FT investigations, prosecutions and convictions: pursuant to item 21.8 of Article 21 of the AML/CFT Law for that purpose of conducting a NRA, the General Prosecutor’s Office (GPO) collects and maintains statistical information from courts and criminal investigative bodies. With the adoption of the abovementioned decision, detailed statistical tables for ML/TF data collection were introduced, requiring authorities to submit the information annually to the Coordination Council by 30 April. As a result, the statistical data on ML/TF are now maintained in a more comprehensive manner.
- (c) Property frozen; seized and confiscated: Azerbaijan collects and maintains statistical data on property frozen/seized and confiscated in a comprehensive manner, as enforced by the aforementioned tables of the Decision.
- (d) Statistical data on MLAs and on other forms of international cooperation contains information on the type of predicate offences, on requests for assistance received and made, on the requesting and requested countries and the status of the request. The Decision also enabled, this information to be maintained in a comprehensive manner.

#### **Weighting and Conclusion**

The table samples are good basis for gathering information in a comprehensive manner and the authorities implemented it into their daily working process. **R. 33 is re-rated C.**

### Recommendation 34 – Guidance and feedback

	Year	Rating and subsequent re-rating
MER	2023	PC
FUR1	2025	↑ LC (upgrade requested)

1. In its 2023 MER, Azerbaijan was rated PC with R.26. Following deficiencies were identified: (i) guidance and outreach to DNFBPs was limited; (ii) no guidance for banks and notaries as gatekeepers of real estate sector; (iii) no sector specific guidelines in relation to the higher risk areas (corruption, tax related crimes, drug smuggling, real estate activity, organised crime, use of cash etc); (iv) guidelines for the real estate agents were not comprehensive; (v) VA and VASP guidelines were not in the country and sector context; (vi) guidance relating to free trade zones did not include TF; (vii) no sector specific guidance for reporting suspicious transactions for other FIs (except banks) and DNFBPs; (ix) no comprehensive guidelines relating to the identification and reporting of TF; and (x) Giving feedback on STRs was not systematic throughout the assessment period.

#### 2. Criterion 34.1 –

##### *Guidelines*

3. Azerbaijan has approved 'Rules on the implementation of customer Due Diligence and Verification Measures when Introducing New Technologies, the Identification of Risk Factors and Attribution of Customer Profiles to Risk' (February 2023). These rules set out the requirements for customer compliance measures at different levels, including simplified and enhanced customer compliance measures, therefore mitigating the deficiency identified in the previous MER.

4. The FMS has published a methodology of BO identification which also mitigates the deficiency identified in the previous MER. The methodology defines and provides examples of three levels of BO identification: (1) individuals who own the legal entity; (2) natural persons exercising control over a legal entity in another form; and (3) natural persons exercising management of the legal entity. It also includes the procedure for determining the BO of a legal entity registered abroad and of non-commercial legal entities. In a separate document, guidance has also been published on the identification of shell companies which is a positive.

5. There has been some guidance provided by the CBA to the FIs (see IO.3).

The following guidance has been issued by the STS in November 2023:

- On the Monitoring of Clients and Their Transactions in Terms of ML/FT Risks by Persons Providing Accounting and Tax Services;
- On Monitoring Clients and Their Transactions in Terms of ML/FT Risks by Legal Advice Service Providers; and
- On monitoring the clients and their transactions in terms of ML/FT risks by real estate providers.

6. On the requirements established for real estate agents, and independent persons providing legal, accounting, and tax consultancy services within the framework of Anti-Money Laundering and Combating the Financing of Terrorism which covers all aspects and legal provisions within the AML/CFT Law including suspicious activity risk indicators.

7. In July 2025, Casinos were introduced within Azerbaijan's AML/CFT Law. Whilst no guidance has yet been issued for this sector, no entity has yet applied, registered, or commenced casino operations in Azerbaijan.

8. Furthermore, the STS published a Methodology for Institutional Risk Assessment in the Field of Anti-Money Laundering and Combating the Financing of Terrorism for all obliged entities (April 2024).

9. The MoJ published a Methodology on compliance with the requirements of the AML/CFT Law (December 2023). This guidance was developed by notaries for disclosing and preventing AML/CFT legal violations in relation to the purchase and sale of immovable property, as well as with the aim of improving the quality of work in the field of explaining the procedure for exchanging information with the financial monitoring body. This is supplemented by additional guidance on Internal Control Programs (February 2024) which clearly include property related business relationships and transactions, and guidance on high-risk indicators

10. The MoJ and the BA have also issued sector specific guidance:

- Methodology on institutional risk assessment held by the notaries in combatting the legalisation of property and financing of terrorism (June 2024),
- Internal control program applied by a notary on activity against the legalisation of criminally obtained property and financing of terrorism (February 2024),
- Internal Control Rules for combating the legalisation of criminally acquired property and the financing of terrorism by law firms, lawyers working in law firms and individually (September 2023), and
- Methodology for those providing legal services for ensuring a unified approach in the investigation of large-volume cash transactions (December 2023).

11. Positively, there are typologies available in relation to some higher risk aspects on the FMS website, such as embezzlement, drugs trafficking and organised crime.

12. The authorities have developed a document which is available via the FMS website regarding VAs and VASPs. The document provides an in-depth description of the concept and how they are related to the FATF standards. However, the document lacks both country and relevant sector specific context. Specifically, the title II of this Methodology has been tailored to the specific risks related to the financial sector of the Azerbaijan Republic and highlights how excessive VA usage could affect the country's economic performance.

13. The methodological guidance produced by the FMS on ML vulnerabilities of free trade zones offers more country context and relevant indicators relating to financial institutions, unusual business activity, trade-based ML, shell companies, and TF. Guidance on the application of targeted financial sanctions have also been published on the FMS website.

14. In relation to guidance in assisting financial institutions and DNFBPs in detecting and reporting STRs, the competent authorities have produced a methodological tool for reporting suspicious transactions by banks and a separate one for credit institutions. The bank document covers all expected elements including the process of monitoring, detection and reporting of suspicious transactions as well as preparing the STR and common weaknesses identified in bank STRs. The FMS also published "Rules for the submission of information and documents by obligors and audit services" (April 2023). These rules provide information on suspicious activity indicators for ML and TF, obliged

reporting e.g. cash transactions exceeding 20 000 manats, and extensive guidance on the data required to be submitted.

#### *Feedback*

15. To improve disclosing institutions ability to detect and report suspicious transactions, Azerbaijan has introduced Article 19 of the AML/CFT Law which states that feedback in relation to: (1) the acknowledgement and receipt of the information and documents; (2) a summary of further steps taken as a result of the analysis; and (3) the quality and usefulness of the information and documents submitted, is provided to the obliged persons on transactions that are to be monitored by the financial monitoring organ. The FMS 'Rules for Feedback' stipulates the frequency and method in which the feedback should be provided.

#### **Weighting and Conclusion**

16. Azerbaijan has largely implemented the requirement to establish guidelines and provide feedback, with an exception. VA and VASP guidelines have not been updated and remain too generic and do not address country or sector specific factors. **R.34 is re-rated as LC.**

## Annex B: Summary of Technical Compliance – Deficiencies underlying the ratings

Recommendations	Rating	Factor(s) underlying the rating <sup>5</sup>
8. Non-profit organisations	PC (MER) <b>LC (FUR1 2025)</b>	<ul style="list-style-type: none"> <li>• Outreach activities do not cover all NPOs (c.8.2(b) - FUR1 2025).</li> <li>• Available sanctions are only largely effective, proportionate and dissuasive (c.8.4(b)).</li> </ul>
14. Money or value transfer services	PC (MER) <b>LC (FUR1 2025)</b>	<ul style="list-style-type: none"> <li>• There is no explicit prohibition on the national postal operator to engage agents (c.14.4 - FUR1 2025).</li> </ul>
16. Wire transfers	PC (MER) <b>LC (FUR1 2025)</b>	<ul style="list-style-type: none"> <li>• It is not clear what are the measures to identify wire transfers that lack the required information for transmission (c.16.11).</li> </ul>
24. Transparency and beneficial ownership of legal persons	PC (MER) <b>LC (FUR1 2025)</b>	<ul style="list-style-type: none"> <li>• There is no comprehensive analysis into the risks posed by the misuse of legal persons in relation to organised crime and drugs smuggling (c.24.2).</li> <li>• There are no verification tools for detecting discrepancies to ensure that the information referred to in c.24.3 and c.24.4 is accurate and updated on a timely basis (c.24.5).</li> <li>• There is no explicit obligation for legal persons to co-operate, nor is there a requirement for them to have designated person(s) in the country for ensuring co-operation with competent authorities (c.24.8).</li> <li>• Nominee shares and nominee directors are not explicitly prohibited under Azerbaijani law, and only a limited mechanism exists to prevent their misuse (c.24.12 - FUR1 2025).</li> <li>• The range of available sanctions is not fully proportionate or dissuasive (c. 24.13).</li> </ul>
26. Regulation and supervision of financial institutions	PC (MER) <b>LC (FUR1 2025)</b>	<ul style="list-style-type: none"> <li>• Limitations (as it refers to a criminal conspiracy rather than to “associates”) in the legal provisions relating to the prevention of criminal associates (c.26.3).</li> <li>• Legal provisions do not define the characteristics required to be taken into consideration concerning group supervision (c.26.5(c)).</li> <li>• Legal provisions regarding the frequency of supervision does not provide for assessments when there are major events or developments (c.26.6).</li> </ul>
33. Statistics	PC (MER) <b>C (FUR1 2025)</b>	
34. Guidance and feedback	PC (MER) <b>LC (FUR1 2025)</b>	<ul style="list-style-type: none"> <li>• Lack of guidelines in relation to VAs and VASPs as these have not been updated, namely they remain too generic and do not address country or sector specific factors.</li> </ul>

5. Deficiencies listed are those identified in the MER unless marked as having been identified in a subsequent FUR.

## GLOSSARY OF ACRONYMS

AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
AML/CFT Law	Law on the Legalization of the Property Acquired through Crime and Financing of Terrorism
BA	Bar Association
BO	Beneficial owner/Beneficial ownership
CBA	Central Bank of Azerbaijan
CDD	Customer due diligence
DNFBP	Designated non-financial businesses and professions
FATF	Financial Action Task Force
FI	Financial institution
FMS	Financial Monitoring Service
IAIS	International Association of Insurance Supervisors
CP	Core principles
JSC	Joint Stock Company
LEAs	Law Enforcement Authorities
LLC	Limited Liability Company
LPSPS	Law on Payment Services and Payment Systems
LSRSRLP	Law on State Registration and State Registry of Legal Persons
MER	Mutual evaluation report
ML	Money laundering
MLA	Mutual Legal Assistance
MOU	Memorandum of Understanding
MoJ	Ministry of Justice
MVTS	Money or value transfer services
NAP	National Action Plan
NCD	National Central Depository
NPO	Non-profit organisation
NRA	National risk assessment
OEs	Obligated entities
GPO	General Prosecutor's Office
SCRA	State Committee on Religious Associations
SSS	Security State Service
STR	Suspicious transaction report
STS	State Tax Service
TCSP	Trust and Company Service Provider
TF	TF
TFS	Targeted financial sanctions

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**December 2025**

**Anti-money laundering and counter-terrorist financing measures -  
Azerbaijan**

**1st Enhanced Follow-up Report &  
Technical Compliance Re-Rating**

This report analyses Azerbaijan's progress in addressing the technical compliance deficiencies identified in the December 2023 assessment of their measures to combat money laundering and terrorist financing and in subsequent follow-up reports.

Follow-up report