Comparative analysis of FATF countries' practical compliance and effectiveness with FATF Recommendation 1 and Immediate Outcome 1 (ML/TF NRA)

Information Sharing Roundtable Discussion:
Assessing Money Laundering and Terrorist Financing Risks

Bristol Hotel Amman | Amman, Jordan

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18 August 2016

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Norway (TC1: PC – IO1: Moderate): NRA process

- Few government agencies were fully engaged in the process, which has resulted in challenges concerning the acceptance of the findings of the NRA. As a result, this was not a comprehensive ML/TF risk assessment and it is limited in its usefulness as a firm basis for setting a national AML/CFT policy and setting risk mitigation priorities.

- The NRA was based on a limited range of data sources and the private sector was only peripherally consulted.

- The NRA was principally based on STR data from a 2011 trend report, though some other STR data was used, but overall the data does not adequately consider thematic and sectoral issues.

- The NRA does not consider (directly or by cross-reference to previous threat assessments) the types and trends with proceeds generating predicate offences and the volumes of proceeds of crime from various predicate offences (domestic and foreign).

Norway: NRA Process

- The NRA is not clear on its assumptions regarding the nature of ML threats, although interviews with agencies involved in the production of the NRA indicated that the crime situation in Norway is well known to authorities.

- The NRA does not set out information or findings in relation to the nature of threats, the sources of proceeds of crime and the nature, extent and actors intending to conduct ML in Norway or with the involvement of Norwegian natural or legal persons. Finally, there is limited assessment of the relative importance and level of the ML/TF risks or threats.

- The assessment of vulnerabilities in the NRA is more detailed. It takes a robust and critical view of a number of the weaknesses regarding the policies, the operation of the institutional framework, political level support and prioritization of AML measures. Despite the frank articulations of these vulnerabilities, a challenge in the findings on vulnerabilities arises from the lack of comprehensive consideration of ML threats, which leaves the findings on vulnerabilities relatively general and rather focused on issues of technical compliance.

- While LEAs have assessed the criminal threats in Norway, these are mainly focused on predicate crimes and not on ML risk. As a result, authorities do not possess a sufficient understanding of ML risks and AML priorities of LEAs are driven by their understanding of risks associated with predicate offences.

Norway: Post NRA

- Current AML activities are not sufficiently being carried out on the basis of ML risk

- The mechanisms to share ML/TF risk information with reporting entities are insufficient.

- The allocation of resources is not linked to ML/TF risks, other than for operational CFT activities.

- Exemptions from AML/CFT requirements are permitted, and simplified measures may be permitted but this is not based on an assessment of risk, and the preconditions regarding risk have not been demonstrated.

- Supervisors do not ensure that financial institutions and DNFBPs are implementing their obligations to assess and mitigate their risks

Spain (TC1: C – IO1: Substantive)

- Spain has a high level of understanding of its ML/TF risks which is informed by a wide variety of good quality risk assessments from several sources, although these have not been brought together in a single national risk assessment (which is not a deficiency).

- The conclusions of Spain's various risk assessments are in general reasonable and internally consistent, well-supported by the specific information assessed, and largely accord with the assessment team's analysis of the risks

- The national AML/CFT strategy actively responds to the risks identified.

- The banking sector has the best understanding of the risks and implements a sound risk-based approach. However, the understanding of risk and implementation of risk-based measures is variable in other sectors.

- There is also some variability in how well Spain uses the risk assessment to address priorities and policies.

- The system has resulted in some mitigation of ML and TF risks.

Australia (TC1: PC – IO1: Substantial): NRA Process

- Some key risks remain unaddressed and the authorities are focused more on predicate crime rather than ML. TF risk is well understood and actions are being taken to mitigate it, particularly by disrupting domestic terrorist activities.

- More attention needs to be paid to understanding foreign predicate risks, and vulnerabilities that impact its AML/CTF system.

Australia: Post NRA

- Australia does not have a developed national policy setting out what the overall AML/CTF system is meant to achieve, or how its success should be monitored or measured, making it challenging to determine how well the ML/TF risks are being addressed.

- Mitigation policies have not been taken to mitigate high risks identified in the NTA related to certain entities and services.

- AML/CTF policies need to better address ML risks associated with foreign predicate offending the abuse of legal persons and arrangements, and laundering in the real estate sector, particularly through bringing all DNFBPs within the AML/CTF regime.

- More current information about ML/TF risks also needs to be communicated to the private sector.

- Exemptions from requirements for reporting entities and the application of enhanced or simplified measures are not based primarily on the results of the NTA, NRA or other efforts to assess ML/TF risks.

Belgium (TC1: LC – IO1 Substantive)

- There is no overall, integrated approach that adequately ranks ML/TF risks in order to ensure the organisation and consistent planning of AML/CFT activities and policies;

- Supervisors and self-regulatory bodies (SRBs) have not incorporated the main ML/TF risks into their inspection policies;

- Incomplete dissemination of the non-confidential results of the risk assessments to financial institutions and DNFBPs slows down their being taken into account in their internal procedures.

- Situations in which exemptions from AML/CFT obligations are allowed, and in which simplified measures can be applied, are not based on assessments showing low or lower risk..

Italy (TC1: LC – IO1 Substantive)

- The authorities have largely succeeded in identifying, assessing, and understanding the ML and TF risks. A risk-based approach (RBA) has been applied to varying degrees, and a nationally coordinated AML/CFT strategy informed by NRA is being developed but it is not yet fully informed by the ML/TF risks in the NRA.

- There are some concerns about risk based supervision's limitations in capturing comprehensive data relevant to the most significant inherent risk in the financial sector, such as data related to exposure to PEPs.

- The authorities have shared the results of the NRA with FIs and DNFBPs which as a result are generally aware of the main ML risks and to a lesser extent TF risks. The financial sector, in general, and the banks, in particular, has a good understanding of the ML risks in Italy. The understanding of ML/TF risks within the DNFBP sectors is very mixed, but, overall, is clearly not as sound as within the financial sector.

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Tunisia (TC1: PC – IO1 Moderate)

- The most serious threats (proceeds of corruption, terrorist financing and smuggling, and currency trafficking) have been identified and understood by the Tunisian authorities but the analysis of the weaknesses and vulnerabilities of the AML/CFT system in the context of an NRA has yet to be finalized.

- A number of deficiencies are noted:

  - The overall analysis is not completed and the absence to date of an AML/CFT policy and national strategy impedes comprehensive understanding of the risks.

  - An authority has been designated to coordinate the national risk assessment but the overall analysis of the latter is not up to date.

  - The mechanisms for providing information on risk assessment results to different sectors are not clearly defined and applied.

  - The risk-based approach is not widespread and is not based on any enhancement or a lessening of preventive measures defined in accordance with the gravity or triviality of the risks identified.

Serbia (TC1: PC – IO1 Moderate)

- Serbia understands some of its ML/FT risks.

- It is not apparent that all available sources of information have been used consistently in order to assess and understand threats from all relevant perspectives so as to allow the magnitude and significance of overall criminal activity, as well as criminal activity that may not have been detected and foreseeable trends, to fully be taken into consideration.

- The evaluation team disagrees with the conclusion reached in the NRA that the risk of FT is low or low to moderate

Other Lessons Learned:

- Not inclusive process (results also in lack of ownership)
- Defensive approach
- Formalistic approach (may result in not credible results)
  - Looking only at comprehensiveness of legal framework
  - Risk classification by "default" without taking into account specific features
- Insufficient Information (gives an incomplete picture):
  - Assessment based only on quantitative data
    - Assessment based on limited types of data
  - Assessment based only on qualitative data (without validation)

Q&A and Thanks

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