

## HM Treasury Advisory Notice: Money Laundering and Terrorist Financing controls in higher risk jurisdictions

### Requirement to apply Enhanced Due Diligence for higher risk jurisdictions

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (*MLRs 2017*) require the UK regulated sector to apply enhanced customer due diligence to high-risk countries.

- *MLR 2017 Regulation 33 (1) (b)* states that regulated businesses (“relevant persons”) must apply enhanced customer due diligence measures and enhanced ongoing monitoring in any business relationship or transaction with a person established in a high-risk third country. For these purposes, *Regulation 33 (3)* states that a high-risk third country is one identified by the European Commission in delegated acts adopted under Article 9.2 of the Fourth Money Laundering Directive. These delegated acts are set out in [Delegated Regulation 2016/1675](#).
- *MLR 2017 Regulation (33) (6) (c)* requires that relevant persons must take into account “geographical risk factors” when assessing risk and the extent of measures which should be taken to manage and mitigate that risk. These risk factors are stated as including whether a country is identified by a credible source, including reports published by the Financial Action Task Force (FATF), as not implementing requirements to counter money laundering and terrorist financing that are consistent with FATF recommendations.

As the international anti-money laundering and counter-terrorist financing (AML/CTF) standard-setter, FATF regularly publishes statements that identify high-risk countries based on assessments of their AML/CTF regimes. In line with Regulation (33) (6) (c) HM Treasury would like to draw the regulated sectors attention to the latest publication by FATF on high risk jurisdictions.

## FATF public statement

On 22 February 2019 FATF published two statements identifying jurisdictions with strategic deficiencies in their AML/CTF regimes. These statements can be found in Annex A and Annex B.

In response to the latest FATF statements, HM Treasury advises firms to consider the following:

<b>HM Treasury Advice:</b>	Consider as high risk and <b>apply counter measures and enhanced due diligence measures</b> in accordance with the risks	Consider as high risk and <b>apply enhanced due diligence measures</b> in accordance with the risks	Take appropriate actions to minimise the associated risks, which <b>may include enhanced due diligence</b> measures in high risk situations
<b>Jurisdictions:</b>	DPRK*	Iran*	The Bahamas Botswana Cambodia Ethiopia Ghana Pakistan Serbia Sri Lanka Syria* Trinidad and Tobago Tunisia* Yemen*

\*These jurisdictions are subject to financial sanctions measures at the time of publication of this notice which require firms to take additional measures. Details can be found here:

<https://www.gov.uk/government/collections/financial-sanctions-regime-specific-consolidated-lists-and-releases>

## Background Information

1. This advice replaces all previous advisory notices issued by HM Treasury on this subject.
2. The Financial Action Task Force is an inter-governmental body established by the G7 in 1989 and today includes as members 36 jurisdictions and two regional organisations (the European Commission and the Gulf Co-operation Council).
3. The Government's strategy is to use financial tools to deter crime and terrorism; detect it when it happens; and disrupt those responsible and hold them to account for their actions. The FATF is central to the UK's international objectives within this strategy.
4. The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 require firms to put in place policies and procedures in order to prevent activities related to money laundering and terrorist financing. Regulated businesses are also required to apply enhanced customer due diligence and enhanced ongoing monitoring on a risk-sensitive basis in certain defined situations and in "any other situation, which by its nature can present a higher risk of money laundering or terrorist financing".
5. The Financial Conduct Authority requires firms to take reasonable care to establish and maintain systems and controls for countering the risk that the firm might be used to further financial crime.
6. Other restrictive measures are applicable in the UK in respect of some of the jurisdictions listed in the content of this Advisory. More information can be found here: <https://www.gov.uk/government/collections/financial-sanctions-regime-specific-consolidated-lists-and-releases>.
7. For further information about what the Treasury is doing to combat financial crime, and how to subscribe to financial crime alerts, visit: <https://www.gov.uk/government/policy-teams/anti-money-laundering-and-counter-financing-of-terrorism>

## Annex A

*Paris, France, 22 February 2019* – The Financial Action Task Force (FATF) is the global standard-setting body for anti-money laundering and combating the financing of terrorism (AML/CFT). In order to protect the international financial system from money laundering and financing of terrorism (ML/FT) risks and to encourage greater compliance with the AML/CFT standards, the FATF identifies jurisdictions that have strategic deficiencies and works with them to address those deficiencies that pose a risk to the international financial system.

*Jurisdiction subject to a FATF call on its members and other jurisdictions to apply counter-measures to protect the international financial system from the ongoing and substantial money laundering and financing of terrorism (ML/FT) risks.*

### Democratic People's Republic of Korea (DPRK)

The FATF remains concerned by the DPRK's failure to address the significant deficiencies in its anti-money laundering and combating the financing of terrorism (AML/CFT) regime and the serious threats they pose to the integrity of the international financial system. The FATF urges the DPRK to immediately and meaningfully address its AML/CFT deficiencies. Further, the FATF has serious concerns with the threat posed by the DPRK's illicit activities related to the proliferation of weapons of mass destruction (WMDs) and its financing.

The FATF reaffirms its 25 February 2011 call on its members and urges all jurisdictions to advise their financial institutions to give special attention to business relationships and transactions with the DPRK, including DPRK companies, financial institutions, and those acting on their behalf. In addition to enhanced scrutiny, the FATF further calls on its members and urges all jurisdictions to apply effective counter-measures, and targeted financial sanctions in accordance with applicable United Nations Security Council Resolutions, to protect their financial sectors from money laundering, financing of terrorism and WMD proliferation financing (ML/FT/PF) risks emanating from the DPRK. Jurisdictions should take necessary measures to close existing branches, subsidiaries and representative offices of DPRK banks within their territories and terminate correspondent relationships with DPRK banks, where required by relevant UNSC resolutions.

*Jurisdiction subject to a FATF call on its members and other jurisdictions to apply enhanced due diligence measures proportionate to the risks arising from the jurisdiction.*

### Iran

In June 2016, the FATF welcomed Iran's high-level political commitment to address its strategic AML/CFT deficiencies, and its decision to seek technical assistance in the implementation of the Action Plan. Given that Iran provided that political commitment and the relevant steps it has taken, the FATF decided in October 2018 to continue the suspension of counter-measures.

In November 2017, Iran established a cash declaration regime. In August 2018, Iran has enacted amendments to its Counter-Terrorist Financing Act and in January 2019, Iran has also enacted amendments to its Anti-Money Laundering Act. The FATF recognises the progress of these legislative efforts. The bills to ratify the Palermo and Terrorist Financing Conventions have passed Parliament, but are not yet in force. As with any country, the FATF can only consider fully enacted legislation. Once the remaining legislation comes fully into force, the FATF will review this alongside the enacted legislation to determine whether the measures contained therein address Iran's Action Plan, in line with the FATF standards.

Iran's action plan expired in January 2018. In February 2019, the FATF noted that there are still items not completed and Iran should fully address: (1) adequately criminalising terrorist financing, including by removing the exemption for designated groups "attempting to end foreign occupation, colonialism and racism"; (2) identifying and freezing terrorist assets in line with the relevant United Nations Security Council resolutions; (3) ensuring an adequate and enforceable customer due diligence regime; (4) ensuring the full operational independence of the Financial Intelligence Unit and clarifying that the submission of STRs for attempted TF-related transactions are covered under Iran's legal framework; (5) demonstrating how authorities are identifying and sanctioning unlicensed money/value transfer service providers; (6) ratifying and implementing the Palermo and TF Conventions and clarifying the capability to provide mutual legal assistance; and (7) ensuring that financial institutions verify that wire transfers contain complete originator and beneficiary information.

The FATF decided at its meeting this week to continue the suspension of counter-measures. While welcoming the passage of the Anti-Money Laundering Act, the FATF expresses its disappointment that the Action Plan remains outstanding and expects Iran to proceed swiftly in the reform path to ensure that it addresses all of the remaining items by completing and implementing the necessary AML/CFT reforms.

If by June 2019, Iran does not enact the remaining legislation in line with FATF Standards, then the FATF will require increased supervisory examination for branches and subsidiaries of financial institutions based in Iran. The FATF also expects Iran to continue to progress with enabling regulations and other amendments.

Iran will remain on the FATF Public Statement until the full Action Plan has been completed. Until Iran implements the measures required to address the deficiencies identified with respect to countering terrorism-financing in the Action Plan, the FATF will remain concerned with the terrorist financing risk emanating from Iran and the threat this poses to the international financial system. The FATF, therefore, calls on its members and urges all jurisdictions to continue to advise their financial institutions to apply enhanced due diligence with respect to business relationships and transactions with natural and legal persons from Iran, consistent with FATF Recommendation 19, including: (1) obtaining information on the reasons for intended transactions; and (2) conducting enhanced monitoring of business relationships, by increasing the number and timing of controls applied, and selecting patterns of transactions that need further examination.

## **Annex B**

*Paris, France, 22 February 2019* – As part of its ongoing review of compliance with the AML/CFT standards, the FATF identifies the following jurisdictions that have strategic AML/CFT deficiencies for which they have developed an action plan with the FATF. While the situations differ among each jurisdiction, each jurisdiction has provided a written high-level political commitment to address the identified deficiencies. The FATF welcomes these commitments.

A number of jurisdictions have not yet been reviewed by the FATF. The FATF continues to identify additional jurisdictions, on an ongoing basis, that pose a risk to the international financial system.

The FATF and the FATF-style regional bodies (FSRBs) will continue to work with the jurisdictions noted below and to report on the progress made in addressing the identified deficiencies. The FATF calls on these jurisdictions to complete the implementation of action plans expeditiously and within the proposed timeframes. The FATF will closely monitor the implementation of these action plans and encourages its members to consider the information presented below.

### **The Bahamas**

Since October 2018, when The Bahamas made a high-level political commitment to work with the FATF and CFATF to strengthen the effectiveness of its AML/CFT regime and address any related technical deficiencies, The Bahamas has taken steps towards improving its AML/CFT regime, including by enacting the Beneficial Ownership Law and issuing Codes of Practice for lawyers, accountants, and the real estate sector. The Bahamas should continue to work on implementing its action plan to address its strategic deficiencies, including by: (1) developing and implementing a comprehensive electronic case management system for international cooperation; (2) demonstrating risk-based supervision of non-bank financial institutions; (3) ensuring the timely access to adequate, accurate and current basic and beneficial ownership information; (4) increasing the quality of the FIU's products to assist LEAs in the pursuance of ML/TF investigations, specifically complex ML/TF and stand-alone ML investigations; (5) demonstrating that authorities are investigating and prosecuting all types of money laundering, including complex ML cases, stand-alone money laundering, and cases involving proceeds of foreign offences; (6) demonstrating that confiscation proceedings are initiated and concluded for all types of ML cases; and (7) addressing gaps in the TF and PF TFS frameworks and demonstrating implementation.

### **Botswana**

Since October 2018, when Botswana made a high-level political commitment to work with the FATF and ESAAMLG to strengthen the effectiveness of its AML/CFT regime and address any related technical deficiencies, Botswana has taken steps towards improving its AML/CFT regime, including by commencing online STR filing by some types of reporting entities. Botswana should continue to work on implementing its action plan to address its strategic deficiencies, including by: (1) assessing the risks associated with legal

persons, legal arrangements, and NPOs, and developing and implementing a risk-based comprehensive national AML/CFT strategy; (2) developing and implementing risk-based AML/CFT supervisory manuals; (3) improving its analysis and dissemination of financial intelligence by the FIU, and enhancing the use of financial intelligence among the relevant law enforcement agencies; (4) developing and implementing CFT strategy, and ensuring the TF investigation capacity of the law enforcement agencies; (5) ensuring the implementation without delay of targeted financial sanctions measures related to terrorist financing and proliferation financing, and (6) applying a risk-based approach to monitoring non-profit organisations.

### **Cambodia**

In February 2019, Cambodia made a high-level political commitment to work with the FATF and APG to strengthen the effectiveness of its AML/CFT regime and address any related technical deficiencies. Cambodia will work to implement its action plan to accomplish these objectives, including by: (1) providing a broad legal basis for MLA and conducting relevant training to LEAs; (2) implementing risk-based supervision for real estate and casinos; (3) implementing the risk-based supervision to banks, including through prompt, proportionate and dissuasive enforcement actions, as appropriate; (4) amending the AML/CFT Law to address the remaining technical compliance deficiencies; (5) conducting sector-specific outreach to casinos, real-estate and MVTs providers; (6) increasing its FIU resources; enhancing its analysis of STRs; and increasing disseminations to LEAs; (7) increasing domestic coordination and cooperation to enhance ML investigations; (8) demonstrating an increase in ML investigations and prosecutions; and providing targeted proceeds of crime confiscation training to all LEAs; (9) demonstrating an increase in the freezing and confiscation of criminal proceeds, instrumentalities, and property of equivalent value; (10) establishing the legal framework to implement UN sanctions related to PF TFS, demonstrating that implementation is occurring and enhancing the understanding of sanctions evasion.

### **Ethiopia**

Since February 2017, when Ethiopia made a high-level political commitment to work with the FATF and ESAAMLG to strengthen its effectiveness and address any related technical deficiencies, Ethiopia has taken steps towards improving its AML/CFT regime, including by commencing outreach to FIs and DNFBPs on its draft targeted financial sanctions obligations related to proliferation financing. Ethiopia should continue to work on implementing its action plan to address its strategic deficiencies, including by establishing and implementing proliferation financing-related targeted financial sanctions.

### **Ghana**

Since October 2018, when Ghana made a high-level political commitment to work with the FATF and GIABA to strengthen the effectiveness of its AML/CFT regime, Ghana has taken steps towards improving its AML/CFT regime, including by raising awareness on risk-based supervision in the financial sector and developing templates to collect and maintain statistics on TF investigations. Ghana should continue to work on implementing its action plan to address its strategic deficiencies, including by: (1) developing and

implementing a comprehensive national AML/CFT Policy based on the risks identified in the NRA, including measures to mitigate ML/TF risks associated with the legal persons; (2) improving risk-based supervision, by enhancing the capacity of the regulators and the awareness of the private sector; (3) ensuring the timely access to adequate, accurate and current basic and beneficial ownership information; (4) ensuring the focused actions of the FIU in accordance with the risks identified by the NRA, and adequate resource allocation to the FIU; (5) ensuring adequate and effective investigation and prosecution of TF; and (6) applying a risk-based approach for monitoring non-profit organisations.

## **Pakistan**

Since June 2018, when Pakistan made a high-level political commitment to work with the FATF and APG to strengthen its AML/CFT regime and to address its strategic counter-terrorist financing-related deficiencies, Pakistan has taken steps towards improving its AML/CFT regime, including by operationalising the integrated database for its currency declaration regime. Pakistan has revised its TF risk assessment; however, it does not demonstrate a proper understanding of the TF risks posed by Da'esh, AQ, JuD, FiF, LeT, JeM, HQN, and persons affiliated with the Taliban. Pakistan should continue to work on implementing its action plan to address its strategic deficiencies, including by: (1) adequately demonstrating its proper understanding of the TF risks posed by the terrorist groups above, and conducting supervision on a risk-sensitive basis; (2) demonstrating that remedial actions and sanctions are applied in cases of AML/CFT violations, and that these actions have an effect on AML/CFT compliance by financial institutions; (3) demonstrating that competent authorities are cooperating and taking action to identify and take enforcement action against illegal money or value transfer services (MVTs); (4) demonstrating that authorities are identifying cash couriers and enforcing controls on illicit movement of currency and understanding the risk of cash couriers being used for TF; (5) improving inter-agency coordination including between provincial and federal authorities on combating TF risks; (6) demonstrating that law enforcement agencies (LEAs) are identifying and investigating the widest range of TF activity and that TF investigations and prosecutions target designated persons and entities, and persons and entities acting on behalf or at the direction of the designated persons or entities; (7) demonstrating that TF prosecutions result in effective, proportionate and dissuasive sanctions and enhancing the capacity and support for prosecutors and the judiciary; and (8) demonstrating effective implementation of targeted financial sanctions (supported by a comprehensive legal obligation) against all 1267 and 1373 designated terrorists and those acting for or on their behalf, including preventing the raising and moving of funds, identifying and freezing assets (movable and immovable), and prohibiting access to funds and financial services; (9) demonstrating enforcement against TFS violations including administrative and criminal penalties and provincial and federal authorities cooperating on enforcement cases; (10) demonstrating that facilities and services owned or controlled by designated person are deprived of their resources and the usage of the resources. Given the limited progress on action plan items due in January 2019, the FATF urges Pakistan to swiftly complete its action plan, particularly those with timelines of May 2019.

## **Serbia**

Since February 2018, Serbia made a high-level political commitment to work with the FATF and MONEYVAL to strengthen the effectiveness of its AML/CFT regime and address any related technical deficiencies. The FATF has made the initial determination that Serbia has completed its action plan and warrants an on-site assessment to verify that the implementation of Serbia's AML/CFT reforms has begun and is being sustained, and that the necessary political commitment remains in place to sustain implementation in the future. Specifically, Serbia has made the following key reforms: (1) updating its NRA to developing a better understanding of key risks; (2) subjecting lawyers, notaries, and casinos to supervision; implementing risk-based AML/CFT supervision, and increasing supervisory staff resources commensurate with sectoral risks; (3) implementing measures related to CDD, politically exposed persons, and wire transfers in line with the FATF Standards; (4) establishing an effective mechanism for ensuring timely access to beneficial ownership information regarding legal persons, and a framework to ensure that such information is accurate, and current; (5) ensuring adequate and effective investigation and prosecution of third-party and stand-alone ML; (6) ensuring the implementation without delay of targeted financial sanctions measures related to terrorist financing and taking proportionate measures for non-profit organisations in line with a risk-based approach; and (7) demonstrating initial implementation without delay of targeted financial sanctions related to proliferation financing.

## **Sri Lanka**

Since November 2017, when Sri Lanka made a high-level political commitment to work with the FATF and APG to strengthen the effectiveness of its AML/CFT regime and address any related technical deficiencies. The FATF has made the initial determination that Sri Lanka has completed its action plan and warrants an on-site assessment to verify that the implementation of Sri Lanka's AML/CFT reforms has begun and is being sustained, and that the necessary political commitment remains in place to sustain implementation in the future. Specifically, Sri Lanka has made the following key reforms: (1) enacting amendments to the MACMA to ensure that mutual legal assistance may be provided on the basis of reciprocity; (2) issuing the CDD Rule for DNFBPs, issuing any necessary guidance, and ensuring implementation of this Rule has begun, by way of supervisory actions; (3) enhancing risk-based supervision and outreach to FIs, and high risk DNFBPs, including through prompt and dissuasive enforcement actions and sanctions, as appropriate; (4) providing case studies and statistics to demonstrate that competent authorities can obtain beneficial ownership information in relation to legal persons in a timely manner; (5) issuing a revised Trust Ordinance and demonstrating that implementation has begun; and (6) establishing a TFS regime to implement the relevant UNSCRs related to Iran, demonstrating that implementation has begun, and demonstrating that implementation has begun on the UN Regulation related to the DPRK.

## **Syria**

Since February 2010, when Syria made a high-level political commitment to work with the FATF and MENAFATF to address its strategic AML/CFT deficiencies, Syria has made progress to improve its AML/CFT regime. In June 2014, the FATF determined that Syria had substantially addressed its action plan at a technical level, including by criminalising

terrorist financing and establishing procedures for freezing terrorist assets. While the FATF determined that Syria has completed its agreed action plan, due to the security situation, the FATF has been unable to conduct an on-site visit to confirm whether the process of implementing the required reforms and actions has begun and is being sustained. The FATF will continue to monitor the situation, and will conduct an on-site visit at the earliest possible date.

### **Trinidad and Tobago**

Since November 2017, when Trinidad and Tobago made a high-level political commitment to work with the FATF and CFATF to strengthen the effectiveness of its AML/CFT regime and address any related technical deficiencies, Trinidad and Tobago has taken steps towards improving its AML/CFT regime, including by enacting additional criminal justice reforms which will speed up consideration of ML cases in courts. Trinidad and Tobago should continue to work on implementing its action plan to address its strategic deficiencies, including by: (1) adopting and implementing the remaining measures to further enhance international cooperation; (2) addressing issues related to transparency and beneficial ownership; (3) completing the legislative efforts to enhance the processing of ML charges before the courts; and (4) implementing measures to monitor NPOs on the basis of risk.

### **Tunisia**

Since November 2017, when Tunisia made a high-level political commitment to work with the FATF and MENAFATF to strengthen the effectiveness of its AML/CFT regime and address any related technical deficiencies, Tunisia has taken steps towards improving its AML/CFT regime, including by beginning direct supervision of high-risk DNFBPs and enacting decrees to establish the National Registry of Companies and a decree for its proliferation finance-related targeted financial sanctions regime. The FATF has not yet fully reviewed these due to their very recent nature. Tunisia should continue to work on implementing its action plan to address its strategic deficiencies, including by: (1) fully integrating the DNFBPs, particularly lawyers, accountants and notaries, into its AML/CFT regime; (2) maintaining comprehensive and updated commercial registries and ensuring the effective collection of accurate and up-to-date beneficial ownership information is available for law enforcement; (3) demonstrating that its terrorism-related TFS regime is fully functional, especially amongst the DNFBPs, and that it is appropriately monitoring the association sector; and (4) ensuring an adequate proliferation finance-related targeted financial sanctions regime and its implementation.

### **Yemen**

Since February 2010, when Yemen made a high-level political commitment to work with the FATF and MENAFATF to address its strategic AML/CFT deficiencies, Yemen has made progress to improve its AML/CFT regime. In June 2014, the FATF determined that Yemen had substantially addressed its action plan at a technical level, including by: (1) adequately criminalising money laundering and terrorist financing; (2) establishing procedures to identify and freeze terrorist assets; (3) improving its customer due diligence and suspicious transaction reporting requirements; (4) issuing guidance; (5) developing the

monitoring and supervisory capacity of the financial sector supervisory authorities and the financial intelligence unit; and (6) establishing a fully operational and effectively functioning financial intelligence unit. While the FATF determined that Yemen has completed its agreed action plan, due to the security situation, the FATF has been unable to conduct an on-site visit to confirm whether the process of implementing the required reforms and actions has begun and is being sustained. The FATF will continue to monitor the situation, and conduct an on-site visit at the earliest possible date.