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**Bureau for International Narcotics and Law  
Enforcement Affairs**

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Strategy Report**

**Volume II**

**Money Laundering and Financial Crimes**

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## **Money Laundering and Financial Crimes**

## Introduction

The *2017 International Narcotics Control Strategy Report, Money Laundering and Financial Crimes*, highlights the most significant steps countries and jurisdictions categorized as “Major Money Laundering Countries” have taken to improve their anti-money laundering (AML) regimes. The legislatively mandated annual report provides a snapshot of the AML legal infrastructure of each country or jurisdiction and its capacity to share information and cooperate in international investigations. The narrative for each jurisdiction also provides a link to the most recent mutual evaluation performed by or on behalf of the Financial Action Task Force (FATF) or the FATF-style regional body to which the country or jurisdiction belongs, which will allow those interested readers to find additional detailed information on the country’s AML capacity and the effectiveness of its programs.

In addition, the report details United States government efforts to provide technical assistance and training. In 2016, U.S. government personnel drew upon their expertise to build capacity with counterpart countries across the globe, sharing their experience and knowledge to enhance global rule of law and U.S. security interests. Working independently and with other donor countries and organizations, U.S. experts and partners provided training programs, mentoring, and support for supervisory, law enforcement, prosecutorial, customs, and financial intelligence unit personnel as well as private sector entities. These efforts are building capacity in jurisdictions that are lacking, strengthening compliance with international standards, and contributing to an increase in investigations, prosecutions, and convictions.

As in past years, money laundering continues to be a serious global threat. As transnational criminal organizations, terrorist groups, and other bad actors increasingly draw upon new technologies and criminal techniques to fund their illegal activities and generate and launder their considerable proceeds, the challenges faced by the financial, law enforcement, supervisory, legal, and intelligence communities are exacerbated. Jurisdictions flooded with illicit funds remain vulnerable to the breakdown of the rule of law, the corruption of public officials, and destabilization of their economies.

As political stability, democracy, and free markets depend on solvent, stable, and honest financial, commercial, and trade systems, the continued development of effective AML regimes consistent with international standards is vital. The Department of State’s Bureau of International Narcotics and Law Enforcement Affairs looks forward to continuing to work with our U.S. and international partners in furthering this important agenda, promoting compliance with international norms and strengthening capacities globally to combat money laundering.

## Legislative Basis and Methodology for the INCSR

The Money Laundering and Financial Crimes volume of the Department of State's International Narcotics Control Strategy Report (INCSR) has been prepared in accordance with section 489 of the Foreign Assistance Act of 1961, as amended (the "FAA," 22 U.S.C. § 2291).<sup>1</sup>

The FAA requires a report on the extent to which each country or entity that received assistance under chapter 8 of Part I of the Foreign Assistance Act in the past two fiscal years has "met the goals and objectives of the United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances" ("1988 UN Drug Convention") (FAA § 489(a)(1)(A)).

Although the 1988 UN Drug Convention does not contain a list of goals and objectives, it does set forth a number of obligations the parties agree to undertake. Generally speaking, it requires the parties to take legal measures to outlaw and punish all forms of illicit drug production, trafficking, and drug money laundering; to control chemicals that can be used to process illicit drugs; and to cooperate in international efforts to these ends. The statute lists action by foreign countries on the following issues as relevant to evaluating performance under the 1988 UN Drug Convention: illicit cultivation, production, distribution, sale, transport and financing, money laundering, asset seizure, extradition, mutual legal assistance, law enforcement and transit cooperation, precursor chemical control, and demand reduction.

In addition to identifying countries as major sources of precursor chemicals used in the production of illicit narcotics, the INCSR is mandated to identify "major money laundering countries" (FAA §489(a)(3)(C)). The INCSR also is required to report findings on each country's adoption of laws and regulations to prevent narcotics-related money laundering (FAA §489(a)(7)(C)). This report is the section of the INCSR that reports on country efforts related to money laundering and financial crimes.

A major money laundering country is defined by statute as one "whose financial institutions engage in currency transactions involving significant amounts of proceeds from international narcotics trafficking" (FAA § 481(e)(7)). Given that money laundering activity has moved beyond traditional financial institutions to other non-financial businesses and professions and alternative money value transfer systems, the report includes all countries and other jurisdictions whose financial institutions and/or non-financial businesses and professions or other value transfer systems engage in transactions involving significant amounts of drug-related proceeds. In making that determination, the Department has used the best information it has available, including by relying upon a country/jurisdiction's inclusion in INCSR Vol. 1. The following countries/jurisdictions have been identified this year:

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<sup>1</sup> The 2017 report on Money Laundering and Financial Crimes is a legislatively mandated section of the U.S. Department of State's annual International Narcotics Control Strategy Report. This 2017 report on Money Laundering and Financial Crimes is based upon the contributions of numerous U.S. Government agencies and international sources. Specifically, the U.S. Treasury Department's Office of Terrorist Financing and Financial Crimes, which has unique strategic and tactical perspective on international anti-money laundering developments. Many other agencies also provided information on international training as well as technical and other assistance, including the following: Department of Homeland Security's Homeland Security Investigations and Customs and Border Protection; Department of Justice's Money Laundering and Asset Recovery Section, Criminal Division, National Security Division, Office of International Affairs, Drug Enforcement Administration, Federal Bureau of Investigation, and Office for Overseas Prosecutorial Development, Assistance, and Training; and, Treasury's Financial Crimes Enforcement Network, Internal Revenue Service, Office of the Comptroller of the Currency, and Office of Technical Assistance. Also providing information on training and technical assistance is the independent Board of Governors of the Federal Reserve System.



**Major Money Laundering Countries in 2016:**

**Afghanistan, Albania, Algeria, Antigua and Barbuda, Argentina, Aruba, Azerbaijan, Bahamas, Barbados, Belize, Benin, Bolivia, Bosnia and Herzegovina, Brazil, British Virgin Islands, Burma, Cabo Verde, Cambodia, Canada, Cayman Islands, China, Colombia, Costa Rica, Cuba, Curacao, Dominica, Dominican Republic, Ecuador, Egypt, El Salvador, Georgia, Ghana, Grenada, Guatemala, Guinea-Bissau, Guyana, Haiti, Honduras, Hong Kong, India, Indonesia, Iran, Iraq, Italy, Jamaica, Kazakhstan, Kenya, Kyrgyz Republic, Laos, Lebanon, Liberia, Malaysia, Mexico, Morocco, Netherlands, Nicaragua, Nigeria, North Korea, Pakistan, Panama, Paraguay, Peru, Philippines, Portugal, Russia, Senegal, Serbia, Sint Maarten, South Africa, Spain, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Tajikistan, Tanzania, Thailand, Timor-Leste, Trinidad and Tobago, Turkey, Turkmenistan, Ukraine, United Arab Emirates, United Kingdom, Uruguay, Uzbekistan, Venezuela, and Vietnam.**

## **Bilateral Training Activities**

### **Board of Governors of the Federal Reserve System (FRB)**

Internationally, during 2016, the FRB conducted training and provided technical assistance to banking supervisors on AML topics during two seminars: one in Mexico City, Mexico and one in Atlanta, Georgia. Countries participating in these FRB initiatives were Aruba, Bahamas, Bolivia, Chile, Costa Rica, Czech Republic, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Hong Kong, India, Jamaica, Kosovo, Mexico, Mongolia, Nicaragua, Panama, South Africa, Suriname, Trinidad and Tobago, Turkey, Turks & Caicos Islands, and Venezuela.

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## Department of Homeland Security

### Immigration and Customs Enforcement (ICE)

In 2016, ICE provided financial investigations training to over 300 foreign law enforcement officers; regulatory, intelligence, and administrative personnel; and judicial authorities from more than eight nations. Employing broad experience and expertise in conducting international financial investigations, ICE designed the training to provide the attendees with the critical skills necessary to successfully identify and investigate financial crimes.

#### **Cross-Border Financial Investigations Training Program (CBFIT)**

ICE's CBFIT program provides specialized training, technical assistance, and best practices related to cross-border financial investigations to foreign law enforcement personnel, judicial authorities, and intelligence and administrative agencies.

The U.S. DOS provided ICE with funds to manage and implement the CBFIT program and to enhance the ability of foreign law enforcement personnel to deter terrorists and terrorist groups. CBFIT further provides foreign partners with the capability to implement international standards. During Fiscal Year (FY) 2016, the ICE Special Operations Unit conducted CBFIT training events for Egypt, India, Jordan, Morocco, Oman, Panama, Paraguay, and the Philippines.

#### **Cross-Border Financial Investigations Advisor (CBFIA)**

ICE Special Agents are deployed for extended periods of time to foreign posts to serve as resident CBFIA's. The advisors work in support of the ICE Attaché with appropriate host nation agencies (customs/border authorities, investigators, prosecutors, financial investigations units, etc.) to organize and conduct financial investigations training seminars at locations within each host nation. During FY 2016, ICE deployed three subject matter experts to serve as advisors under the CBFIA program in Panama, Paraguay, and the Philippines.

#### **Trade Transparency Units (TTU)**

The TTU, housed within the ICE National Targeting Center, continues to provide critical exchange of trade data with numerous countries. The TTU established information sharing agreements with 14 countries to facilitate the identification of transnational criminal organizations utilizing TBML schemes to repatriate proceeds generated from multiple illegal activities, including drug and human smuggling, customs fraud, and intellectual property rights violations, among others. The TTU methodology, which provides U.S. law enforcement and international partners with subject matter expertise, training, and investigative tools to combat TBML and third-party money launderers, has been internationally recognized as a best practice to address TBML.

ICE continues to expand the network of operational TTUs, which now includes Argentina, Australia, Chile, Colombia, Dominican Republic, Ecuador, France (cost and market impact review sharing), Guatemala, Mexico, Panama, Paraguay, Peru, Philippines, and Uruguay.

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## Department of Justice

### Drug Enforcement Administration (DEA)

The DEA's Office of Global Enforcement/Financial Operations (FO) provides guidance to DEA's domestic and foreign offices, as well as international law enforcement agencies, on issues relating to all aspects of financial investigations. FO works in conjunction with DEA offices, foreign counterparts, and other agencies to effectively identify the financial infrastructure supporting drug trafficking organizations and provide its financial expertise to fully dismantle and disrupt all aspects of these criminal organizations. Additionally, FO facilitates cooperation between countries, resulting in the identification and prosecution of drug money laundering organizations as well as the seizure of assets and the denial of revenue. FO regularly briefs and educates United States diplomats, foreign government officials, and military and law enforcement counterparts regarding the latest trends in money laundering, narco-terrorism financing, international banking, offshore corporations, international wire transfers of funds, and financial investigations.

FO conducts international training for foreign counterparts to share strategic ideas and promote effective techniques in financial investigations. During 2016, FO conducted Money Laundering Seminars for Argentinian and Chilean prosecutors and investigators in Buenos Aires, Argentina and Santiago, Chile respectively. In addition, FO, in conjunction with the Department of State, participated in a money laundering technical exchange working group with Cuban officials in Havana, Cuba; traveled to Beijing, China to meet with federal law enforcement counterparts to discuss financial investigations and OFAC sanctions; participated in a proceeds of crime working group with law enforcement officials in Wellington, New Zealand and Canberra, Australia; met with government officials in Singapore and Hong Kong, China regarding money laundering issues involving the banking industry; participated in a Regional Target Workshop in Mexico City, Mexico; as well as met with Chinese Ministry of Public Security officials in Beijing, China and the Public Security Bureau in Guangzhou and Shenzhen, China in support of ongoing bilateral investigations with the Narcotics Control Bureau.

### Federal Bureau of Investigation (FBI)

The FBI, through a number of agreements with the DOS and other agencies, provided training and/or technical assistance to law enforcement personnel in Africa, Eurasia, Philippines, Greece, and Turkey during Fiscal Year 2016.

All training and technical assistance programs were designed to enhance host country law enforcement capacity to investigate and prosecute money laundering and terrorism financing crimes.

In September 2016, the Hellenic National Police (HNP) received the Advanced Organized Crime/Anti-Narcotics training program in Athens, Greece. There were 29 HNP attendees. FBI

specifically designed this curriculum to increase the HNP's ability to employ best practices in complex long-term investigations using novel techniques and various equipment and technical tools. The objectives of the program were to develop the skills and knowledge of the HNP in the following areas: investigating organized crime enterprises; understanding regional and international law enforcement cooperation; money laundering; asset tracking; countering terrorist financial networks; countering proliferation of weapons of mass destruction (WMD); emerging transatlantic security challenges; intelligence response to terrorist networks, extremism, and radicalism; implementation techniques; and electronic and physical surveillance in complex organized crime and anti-narcotics investigations.

In coordination with DOS Bureau for Counterterrorism, the FBI created and provided 28 Turkish National Police (TNP) with a Financial Crimes Investigation Course to establish a baseline standard for financial crime investigations. The objectives of the course were to provide the TNP with awareness of open source information, international standards for financial investigations and prosecution, and better understanding of the legal process for obtaining financial information in the United States. The course focused on financial intelligence, working with prosecutors, money laundering, digital currency, countering proliferation of WMD, and other applicable areas. Case studies were used to demonstrate the process of successful financial investigations. The goal was to enhance Turkey's capacity to counter financial crimes associated with illicit trafficking, terrorism, transnational criminal organizations, and WMD proliferation.

In 2016, the Department of Defense also facilitated the training of law enforcement personnel through a number of training initiatives. In September 2016, at the request of United States Africa Command, the FBI provided a four-day course in Terrorism Financing and Asset Forfeiture to 30 Togo law enforcement officers in Lome, Togo. FBI provided lectures in terrorism financing, money laundering statutes and policy and AML preventative measures, asset forfeiture, financial intelligence, and other applicable focus areas. The course was designed to provide the participants with a foundational understanding of money laundering and the use of asset forfeiture in investigations. The major objectives of the training included identifying terrorism financing methods, how to disrupt and dismantle criminal enterprises supporting terrorist organizations, how to deter/stop terrorist threats, and developing intelligence through the financial/forfeiture organization.

### **Office of Overseas Prosecutorial Development, Assistance and Training; the Money Laundering and Asset Recovery Section; and the National Security Division (OPDAT, MLARS, and NSD)**

In 2016, OPDAT provided training and technical assistance to AML counterparts overseas by drawing upon the expertise within the DOJ, including MLARS, NSD, and U.S. Attorney's Offices. MLARS provided additional financial investigations training using DOS funds.

### **Africa**

In East Africa, OPDAT organized a regional program for prosecutors and FIU analysts from Djibouti, Ethiopia, Kenya, Tanzania, and Uganda to address shortcomings to successful prosecutions of money laundering. In the Horn of Africa, OPDAT brought together law enforcement officials from Ethiopia, Kenya, Tanzania, and Uganda to improve working relationships and cooperation to investigate and prosecute money laundering cases. OPDAT conducted a West Africa regional AML workshop for 40 prosecutors, investigative judges, and investigators from Cote d'Ivoire, Senegal, Nigeria, Ghana, Benin, and Burkina Faso. MLARS also provided financial investigations training to FIU personnel, investigators, and prosecutors in Morocco, in cooperation with the OPDAT resident legal advisor, and in Oman.

### **Asia and the Pacific**

OPDAT Philippines conducted six AML programs for approximately 230 Philippines officials. OPDAT Indonesia conducted three AML programs for approximately 160 Indonesian officials. OPDAT Bangladesh conducted four financial investigation programs for approximately 67 Bangladesh officials. OPDAT Pakistan conducted two workshops for Pakistani counterparts on financial investigations and AML.

### **Near East**

OPDAT Algiers, DOJ's NSD, and the U.S. Treasury's Office of Terrorist Financing and Financial Crimes provided technical assistance to Algeria. Based on assistance from OPDAT, the Kuwait Financial Intelligence Unit successfully referred seven cases to the Public Prosecutor's Office, two of which resulted in successful prosecutions. OPDAT's program in the United Arab Emirates (UAE) provided guidance to 40 judges, prosecutors, and police on exercising the forfeiture provisions of UAE's AML laws.

### **Western Hemisphere**

OPDAT helped Honduras develop an AML regime compliant with international standards. OPDAT Mexico provided specialized training for members of federal and state AML units. Since its inception in May 2016, OPDAT Guatemala has worked with the host nation on building capacity in extraditions, mutual legal assistance, asset forfeiture, and money laundering matters. These trainings have been offered by OPDAT, MLARS, and Department of State/Office of the Legal Adviser. In El Salvador, OPDAT provided technical assistance to money laundering and asset forfeiture units. OPDAT Panama supported AML reforms and provided mentoring and capacity building to judges, prosecutors, and investigators.

## Department of State

The DOS Bureau of International Narcotics and Law Enforcement Affairs (INL) Office of Anti-Crime Programs helps strengthen criminal justice systems and the abilities of law enforcement agencies around the world. Through its international programs, as well as in coordination with other INL offices, other DOS bureaus, U.S. government agencies, and multilateral organizations, the INL Office of Anti-Crime Programs addresses a broad cross-section of law enforcement and criminal justice areas.

Supported by and in coordination with our DOS and other U.S. agency partners, INL and the Bureau for Counterterrorism work collectively to provide a variety of programs worldwide. This integrated approach includes assistance with drafting legislation and regulations, developing FIUs, and training law enforcement, the judiciary, and financial sector regulators. INL also provided federal agencies funding to conduct multi-agency financial crime training assessments, develop specialized AML training in specific jurisdictions, and conduct regional training and technical assistance programs, including assistance to the International Law Enforcement Academies. INL continues to support programs incorporating intermittent or full-time mentors at selected overseas locations.

In 2016, INL provided support to the UN Global Programme against Money Laundering (GPML). In addition to sponsoring AML technical assistance workshops and conducting short-term training courses, GPML's mentoring program provides advisors on a long-term basis to specific countries or regions, including Central and South Africa, Central Asia and the Mekong Delta. GPML mentors have focused on establishing and providing support and assistance to regional asset recovery networks in South and West Africa, the Asia Pacific region, and South America.

INL continues to provide significant financial and substantive support for various AML bodies around the globe. In addition to sharing mandatory membership dues to the FATF and the APG with the U.S. Department of the Treasury (Treasury) and DOJ, INL is a financial and/or participative supporter of the FATF-style regional bodies' secretariats and training programs.

INL also supports the capacity building efforts by the Organization of American States Secretariat on Multidimensional Security (OAS SMS) Inter-American Drug Abuse Control Commission Experts Group to Control Money Laundering through program design, sustained engagement, and funding. In conjunction with the OAS SMS and DOJ, the INL AML/CFT Unit worked with Caribbean jurisdictions throughout 2016 to establish an asset recovery inter-agency network (ARIN) to enhance regional and international cooperation in forfeiting illicit assets. In November 2016, ARIN-CARIB was established, bringing the Caribbean region into the global ARIN movement.

INL supports additional bilateral and multilateral efforts, including those focusing on DNFBPs and remittances. In July 2016, the INL AML/CFT Unit, in conjunction with the DOS Economics Bureau and the FBI, held a TBML workshop focusing on diamonds and elements of the diamond trade that can aid law enforcement. The DOS, in conjunction with DHS and Treasury, has supported the establishment and development of eight TTUs in the Americas.

## **Department of the Treasury**

### **Internal Revenue Service, Criminal Investigations (IRS-CI)**

For calendar year 2016, the Internal Revenue Service, Criminal Investigation (IRS-CI) continued to provide training and technical assistance to international law enforcement officers in detecting tax, money laundering, and terrorist financing crimes, and preventing public corruption. With funding provided by the U.S. DOS and other sources, IRS-CI delivered training through agency and multi-agency technical assistance programs.

#### **International Law Enforcement Academy (ILEA) Training**

IRS-CI participated in training at the ILEAs located in Bangkok, Thailand; Budapest, Hungary; Gaborone, Botswana; and San Salvador, El Salvador. Programs included Financial Investigative Techniques (FIT) training, Financial Investigation for Fraud and Public Corruption, and support for the Law Enforcement Leadership Development courses.

During 2016, IRS-CI participated in training programs at the ILEAs for participants from Albania, Argentina, Bahamas, Barbados, Belize, Bosnia and Herzegovina, Bolivia, Botswana, Bulgaria, Brazil, Chile, Colombia, Costa Rica, Dominica, Dominican Republic, El Salvador, Ecuador, Grenada, Guatemala, Guyana, Haiti, Honduras, Hungary, Jamaica, Kazakhstan, Kenya, Kosovo, Kyrgyzstan, Lesotho, Macedonia, Mexico, Moldova, Montenegro, Namibia, Paraguay, Peru, Romania, Rwanda, Serbia, Seychelles, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Tobago, Turkey, Trinidad, Ukraine, and Uruguay.

#### **Financial Investigative Techniques Training (FIT)**

In 2016, IRS-CI conducted FIT courses funded by the DOS and DOJ at the ILEAs and bilaterally. Fifteen courses were conducted for nearly 500 participants in Botswana, Brazil, El Salvador, Honduras, Hungary, Mexico, Palau, Philippines, and Thailand.

IRS-CI conducted one-week FIT courses, funded by INL, as follows: in Sao Paulo, Brazil for thirty participants from Brazil; in Curitiba, Brazil for 29 Brazilian participants; and two courses, attended by 50 participants, in Bogota, Colombia.

An additional 33 participants from Palau attended FIT training in Koror, Palau, funded by the Joint Interagency Task Force West, Department of Defense.

With funding provided by DOJ-OPDAT, IRS-CI conducted FIT training in Los Cobanos, El Salvador for 32 participants from El Salvador and Guatemala, and in Mexico City, Mexico for 22 Mexican attendees.



IRS-CI conducted two, one-week FIT courses in Tegucigalpa, Honduras. Sixty-four participants from Honduras attended the training, funded by the DOS and DOJ-OPDAT.

IRS-CI also conducted FIT training in Manilla, Philippines. Thirty-four participants attended the course that was funded by the DOS, Bureau of Counterterrorism (DOS-CT).

### **Other Training Initiatives**

In February 2016, IRS-CI conducted a two-day Financial Crimes (Short Course) in Gaborone, Botswana. Forty participants from Botswana attended the course that was funded by the DOS and the Botswana Unified Revenue Service.

Funded by DOS-CT, IRS-CI conducted Fraud and Public Corruption training in Manilla, Philippines for thirty participants.

Another Fraud and Public Corruption course, funded by INL, was conducted for 44 participants in Bangkok, Thailand.

Finally, the Korean National Tax Service funded a one-week Fraud and Public Corruption course in Seoul, Korea for thirty-nine participants.

### **Office of the Comptroller of the Currency (OCC)**

The U.S. Department of Treasury's OCC charters, regulates and supervises all national banks and federal savings associations in the U.S. Its goal is to ensure these institutions operate in a safe and sound manner and comply with all consumer protection and AML laws and implementing regulations. In 2016, the OCC sponsored several initiatives to provide AML training to foreign banking supervisors. These initiatives include its annual AML/CFT School, which is designed specifically for foreign banking supervisors to increase their knowledge of money laundering and terrorism financing typologies and improve their ability to examine and enforce compliance with national laws. The 2016 AML/CFT School was attended by foreign supervisors from Canada, China, Dubai, Hong Kong, India, Jordan, Latvia, Malawi, Netherlands, Pakistan, Philippines, South Africa, South Korea, and Turkey. In addition, in November 2016, the OCC taught the AML/CFT school for the Association of Supervisors of Banks of the Americas in Panama City, Panama. The AML School in Panama was attended by foreign supervisors from El Salvador, Haiti, Honduras, Nicaragua, Panama, Paraguay, and Uruguay. In addition to organizing and conducting schools, OCC officials also met individually, both in the United States and overseas, with representatives from foreign law enforcement authorities, financial intelligence units, and AML supervisory agencies to discuss the U.S. AML regime, the agencies' risk-based approach to AML supervision, examination techniques and procedures, and enforcement actions.

The OCC continued its industry outreach efforts to the international banking community during 2016 by participating with other federal banking agencies in regulator panels at the Florida International Bankers Association and the Association of Certified Anti-Money Laundering

Specialists' 15th Annual International Anti-Money Laundering and Financial Crimes Conference. The focus of the regulator panels was keeping pace with global regulatory changes.

In 2016, the OCC also participated in the Correspondent Banking Coordination Group Oversight Committee, a new committee established by the Financial Stability Board. OCC continued its participation in a series of FATF working group and plenary meetings as well as the Basel Committee on Banking Supervision Anti-Money Laundering Expert Group. In addition, OCC participated in a significant number of international working groups/public-private dialogues in 2016 with participants from Central America, the Caribbean, Mexico, China, the UK, and the Persian Gulf region. On an ad hoc basis, OCC meets with delegations from various countries to discuss the U.S. AML regime and its approach to conducting supervisory examinations.

## **Office of Technical Assistance (OTA)**

Each of OTA's teams – Revenue Policy and Administration, Budget and Financial Accountability, Government Debt and Infrastructure Finance, Banking and Financial Services, and Economic Crimes (ECT) – focuses on particular areas to establish strong financial sectors and sound public financial management in developing and transition countries. OTA follows a number of guiding principles to complement its holistic approach to technical assistance and supports self-reliance by equipping countries with the knowledge and skills required to reduce dependence on international aid and achieve sustainability. OTA is selective and only works with those governments that are committed to reform – reform that counterparts design and own – and to applying U.S. assistance effectively. OTA works side-by-side with counterparts through ongoing mentoring and on-the-job training, which is accomplished through co-location at a relevant government agency. OTA's activities are funded by a direct appropriation from the U.S. Congress as well as transfers from other U.S. agencies, notably the U.S. State Department and the U.S. Agency for International Development.

The mission of the ECT, in particular, is to provide technical assistance to help foreign governments develop and implement internationally compliant AML/CFT regimes. In this context, the ECT also addresses other financial and predicate crimes, including corruption and organized crime. To ensure successful outcomes, ECT engagements are predicated on express requests from foreign government counterparts. The ECT responds to such a request with an on-site assessment, which considers the jurisdiction's non-compliance with international standards and the corresponding needs for technical assistance, as well as the willingness by the counterparts to engage in an active partnership with the ECT to address those deficiencies.

An ECT engagement, tailored to the specific conditions of the jurisdiction, may involve placement of a resident advisor and/or utilization of intermittent advisors under the coordination of a team lead. The scope of ECT technical assistance is broad and can include awareness-raising aimed at a range of AML/CFT stakeholders; improvements to a legal framework, to include legislation, regulations, and formal guidance; and improvement of the technical competence of stakeholders. The range of on-the-job and classroom training provided by the ECT is equally broad and includes, among other topics, supervisory techniques for relevant regulatory areas; analytic and financial investigative techniques; cross-border currency

movement and TBML; asset seizure, forfeiture, and management; and the use of interagency financial crimes working groups.

In 2016, following these principles and methods, the ECT delivered technical assistance in Argentina, Belize, Burma, Cabo Verde, Costa Rica, Dominica, El Salvador, Grenada, Guatemala, Iraq, Jamaica, Liberia, Paraguay, Peru, and Trinidad and Tobago.

## Comparative Table Key

The comparative table that follows the Glossary of Terms below identifies the broad range of actions, effective as of December 31, 2016, that jurisdictions have, or have not, taken to combat drug money laundering. This reference table provides a comparison of elements that include legislative activity and other identifying characteristics that can have a relationship to a jurisdiction's money laundering vulnerability. With the exception of number 3, all items should be answered "Y" (yes) or "N" (no). **For those questions relating to legislative or regulatory issues, "Y" is meant to indicate that legislation has been enacted to address the captioned items. It does not imply full compliance with international standards.** All answers indicating deficiencies within the country's/jurisdiction's AML regime should be explained in the report narrative, as should any responses that differ from last year's answers.

### Glossary of Terms

- 1. "Criminalized Drug Money Laundering": The jurisdiction has enacted laws criminalizing the offense of money laundering related to the drug trade.
- 2. "Know-Your-Customer Provisions": By law or regulation, the government requires banks and/or other covered entities to adopt and implement Know-Your-Customer/Customer Due Diligence programs for their customers or clientele.
- 3. "Report Suspicious Transactions": By law or regulation, banks and/or other covered entities are required to report suspicious or unusual transactions to designated authorities. On the Comparative Table the letter "Y" signifies mandatory reporting; "V" signifies reporting is not required but rather is voluntary or optional; "N" signifies no reporting regime. (STRs)
- 4. "Maintain Records over Time": By law or regulation, banks and/or other covered entities are required to keep records, especially of large or unusual transactions, for a specified period of time, e.g., five years.
- 5. "Cross-Border Transportation of Currency": By law or regulation, the jurisdiction has established a declaration or disclosure system for persons transiting the jurisdiction's borders, either inbound or outbound, and carrying currency or monetary instruments above a specified threshold.
- 6. "Financial Intelligence Unit": The jurisdiction has established an operative central, national agency responsible for receiving (and, as permitted, requesting), analyzing, and disseminating to the competent authorities disclosures of financial information in order to counter drug money laundering. An asterisk (\*) reflects those jurisdictions whose FIUs are not members of the Egmont Group of FIUs.
- 7. "International Law Enforcement Cooperation": No known legal impediments to international cooperation exist in current law. Jurisdiction cooperates with authorized investigations involving or initiated by third party jurisdictions, including sharing of records or other financial data, upon request.
- 8. "System for Identifying and Forfeiting Assets": The jurisdiction has established a legally authorized system for the tracing, freezing, seizure, and forfeiture of assets identified as relating to or generated by drug money laundering activities.

- 9. “Arrangements for Asset Sharing”: By law, regulation, or bilateral agreement, the jurisdiction permits sharing of seized assets with foreign jurisdictions that assisted in the conduct of the underlying investigation. No known legal impediments to sharing assets with other jurisdictions exist in current law.
- 10. “Information Exchange Agreements with Non-U.S. Governments”: The country/jurisdiction has in place treaties, memoranda of understanding, or other agreements with other governments to share information related to drug-related money laundering.
- 11. “States Party to 1988 UN Drug Convention”: States party to the 1988 United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, or a territorial entity to which the application of the Convention has been extended by a party to the Convention.
- 12. “States Party to the UN Convention against Transnational Organized Crime”: States party to the United Nations Convention against Transnational Organized Crime (UNTOC), or a territorial entity to which the application of the Convention has been extended by a party to the Convention.
- 13. “States Party to the UN Convention against Corruption”: States party to the United Nations Convention against Corruption (UNCAC), or a territorial entity to which the application of the Convention has been extended by a party to the Convention.
- 14. “Financial Institutions Transact in Proceeds From International Drug Trafficking That Significantly Affects the U.S.”: The jurisdiction’s financial institutions engage in currency transactions involving international narcotics trafficking proceeds that include significant amounts of U.S. currency; currency derived from illegal sales in the U.S.; or illegal drug sales that otherwise significantly affect the U.S.

## Comparative Table

“Y” is meant to indicate that legislation has been enacted to address the captioned items. It does not imply full compliance with international standards. Please see the individual country reports for information on any deficiencies in the adopted laws/regulations.

Actions by Governments	Criminalized Drug Money Laundering	Know-Your-Customer Provisions	Report Suspicious Transactions (YVN)	Maintain Records Over Time	Cross-Border Transportation of Currency	Financial Intelligence Unit (*)	Intl Law Enforcement Cooperation	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Information exchange agreements with non-U.S. govts	States Party to 1988 UN Drug Convention	States Party to UNTOC	States Party to UNCAC	Financial Institutions transact in proceeds from international drug trafficking that significantly affects the U.S.
<b>Govt/Jurisdiction</b>														
<b>Afghanistan</b>	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y
<b>Albania</b>	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
<b>Algeria</b>	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
<b>Antigua and Barbuda</b>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
<b>Argentina</b>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
<b>Aruba<sup>2</sup></b>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N
<b>Azerbaijan</b>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
<b>Bahamas</b>	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	Y
<b>Barbados</b>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
<b>Belize</b>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
<b>Benin</b>	Y	Y	Y	Y	Y	Y*	Y	Y	N	Y	Y	Y	Y	N
<b>Bolivia</b>	Y	Y	Y	Y	Y	Y	N	Y	N	Y	Y	Y	Y	N

<sup>2</sup> The Netherlands extended its application of the 1988 UN Drug Convention to Aruba, Curacao, and Sint Maarten and the UN Convention against Transnational Organized Crime to Aruba.

Actions by Governments	Criminalized Drug Money Laundering	Know-Your-Customer Provisions	Report Suspicious Transactions (YPN)	Maintain Records Over Time	Cross-Border Transportation of Currency	Financial Intelligence Unit (*)	Intl Law Enforcement Cooperation	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Information exchange agreements with non-U.S. govts	States Party to 1988 UN Drug Convention	States Party to UNTOC	States Party to UNCAC	Financial Institutions transact in proceeds from international drug trafficking that significantly affects the U.S.
	Govt/Jurisdiction													
Bosnia & Herzegovina	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
Brazil	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
British Virgin Islands <sup>3</sup>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Burma	Y	Y	Y	Y	Y	Y*	Y	Y	N	Y	Y	Y	Y	N
Cabo Verde	Y	Y	Y	Y	Y	Y*	Y	Y	N	Y	Y	Y	Y	N
Cambodia	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
Canada	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Cayman Islands <sup>3</sup>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N
China	Y	Y	Y	Y	Y	Y*	N	Y	N	Y	Y	Y	Y	N
Colombia	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Costa Rica	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y
Cuba	Y	Y	Y	Y	Y	Y*	Y	Y	N	N/A	Y	Y	Y	N
Curacao <sup>2</sup>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N	N
Dominica	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
Dominican Republic	Y	Y	Y	Y	Y	Y*	Y	Y	Y	Y	Y	Y	Y	Y
Ecuador	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Egypt	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N

<sup>3</sup> The UK extended its application of the 1988 UN Drug Convention to British Virgin Islands and Cayman Islands. The UNCAC has been extended to British Virgin Islands. The UNTOC has been extended to British Virgin Islands and Cayman Islands.

Actions by Governments	Criminalized Drug Money Laundering	Know-Your-Customer Provisions	Report Suspicious Transactions (YPN)	Maintain Records Over Time	Cross-Border Transportation of Currency	Financial Intelligence Unit (*)	Int'l Law Enforcement Cooperation	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Information exchange agreements with non-U.S. govts	States Party to 1988 UN Drug Convention	States Party to UNTOC	States Party to UNCAC	Financial Institutions transact in proceeds from international drug trafficking that significantly affects the U.S.
	Govt/Jurisdiction													
<b>El Salvador</b>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
<b>Georgia</b>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
<b>Ghana</b>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
<b>Grenada</b>	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
<b>Guatemala</b>	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y
<b>Guinea-Bissau</b>	Y	Y	Y	Y	N	Y*	Y	Y	Y	Y	Y	Y	Y	N
<b>Guyana</b>	Y	Y	Y	Y	Y	Y*	Y	Y	N	Y	Y	Y	Y	Y
<b>Haiti</b>	Y	Y	Y	Y	N	Y*	Y	Y	Y	Y	Y	Y	Y	N
<b>Honduras</b>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
<b>Hong Kong<sup>4</sup></b>	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	N
<b>India</b>	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
<b>Indonesia</b>	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
<b>Iran</b>	Y	Y	Y	Y	Y	Y*	N	N	N	N/A	Y	N	Y	N/A
<b>Iraq</b>	Y	Y	Y	Y	Y	Y*	Y	Y	N	Y	Y	Y	Y	N
<b>Italy</b>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
<b>Jamaica</b>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
<b>Kazakhstan</b>	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
<b>Kenya</b>	Y	Y	Y	Y	Y	Y*	Y	Y	Y	Y	Y	Y	Y	Y
<b>Korea, Dem. People's Rep.</b>	Y	N/A	N/A	N/A	N/A	N/A	N	N/A	N/A	N	Y	N	N	N

<sup>4</sup> The People's Republic of China extended the 1988 UN Drug Convention, the UNTOC, and the UNCAC to the special administrative region of Hong Kong.



Actions by Governments	Criminalized Drug Money Laundering	Know-Your-Customer Provisions	Report Suspicious Transactions (YPN)	Maintain Records Over Time	Cross-Border Transportation of Currency	Financial Intelligence Unit (*)	Intl Law Enforcement Cooperation	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Information exchange agreements with non-U.S. govts	States Party to 1988 UN Drug Convention	States Party to UNTOC	States Party to UNCAC	Financial Institutions transact in proceeds from international drug trafficking that significantly affects the U.S.
	Govt/Jurisdiction													
<b>Kyrgyz Republic</b>	Y	Y	Y	Y	Y	Y	Y	N	N	Y	Y	Y	Y	N
<b>Laos</b>	Y	Y	Y	N	Y	Y*	Y	N	N	Y	Y	Y	Y	N
<b>Lebanon</b>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
<b>Liberia</b>	Y	Y	Y	Y	Y	Y*	Y	Y	N	Y	Y	Y	Y	N
<b>Malaysia</b>	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
<b>Mexico</b>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
<b>Morocco</b>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
<b>Netherlands</b>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
<b>Nicaragua</b>	Y	Y	Y	Y	Y	Y*	Y	Y	N	Y	Y	Y	Y	N
<b>Nigeria</b>	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y
<b>Pakistan</b>	Y	Y	Y	Y	Y	Y*	Y	N	N	Y	Y	Y	Y	Y
<b>Panama</b>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
<b>Paraguay</b>	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y
<b>Peru</b>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
<b>Philippines</b>	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y
<b>Portugal</b>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
<b>Russia</b>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
<b>St. Kitts and Nevis</b>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
<b>St. Lucia</b>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
<b>St. Vincent and the Grenadines</b>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N
<b>Senegal</b>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N

Actions by Governments	Criminalized Drug Money Laundering	Know-Your-Customer Provisions	Report Suspicious Transactions (YPN)	Maintain Records Over Time	Cross-Border Transportation of Currency	Financial Intelligence Unit (*)	Int'l Law Enforcement Cooperation	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Information exchange agreements with non-U.S. govts	States Party to 1988 UN Drug Convention	States Party to UNTOC	States Party to UNCAC	Financial Institutions transact in proceeds from international drug trafficking that significantly affects the U.S.
	Govt/Jurisdiction													
<b>Serbia</b>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
<b>Sint Maarten<sup>2</sup></b>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N
<b>South Africa</b>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
<b>Spain</b>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
<b>Suriname</b>	Y	Y	Y	Y	Y	Y*	Y	Y	Y	Y	Y	Y	N	N
<b>Tajikistan</b>	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
<b>Tanzania</b>	Y	Y	Y	Y	N	Y	Y	Y	N	Y	Y	Y	Y	N
<b>Thailand</b>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
<b>Timor-Leste</b>	Y	Y	Y	Y	Y	Y*	Y	Y	N	Y	Y	Y	Y	N
<b>Trinidad and Tobago</b>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
<b>Turkey</b>	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
<b>Turkmenistan</b>	Y	Y	Y	Y	Y	Y*	Y	Y	N	Y	Y	Y	Y	N
<b>Ukraine</b>	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
<b>United Arab Emirates</b>	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
<b>United Kingdom</b>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
<b>Uruguay</b>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
<b>Uzbekistan</b>	Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N
<b>Venezuela</b>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
<b>Vietnam</b>	Y	Y	Y	Y	Y	Y*	Y	Y	N	Y	Y	Y	Y	Y

\* FIU is not a member of the Egmont Group of FIUs

## **Countries/Jurisdictions of Primary Concern**

## Afghanistan

### OVERVIEW

Terrorist and insurgent financing, money laundering, bulk cash smuggling, abuse of informal value transfer systems, and other illicit activities financing criminal activity continue to threaten Afghanistan's security and development. Afghanistan remains the world's largest opium producer and exporter. Corruption remains a major obstacle to the nation's progress. The National Unity Government (GNU) has enacted laws and regulations to combat financial crimes, but faces a significant challenge in implementing and enforcing the law.

### VULNERABILITIES AND EXPECTED TYPOLOGIES

The narcotics industry, corruption, and fraud are major sources of illicit revenue. Afghanistan has a small banking sector but large enforcement and regulatory challenges, even though most of its banks strive to adhere to international standards. Traditional payment systems, particularly hawala networks, provide a significant range of financial and non-financial business services in local, regional, and international markets. Some Afghan business consortiums that control both hawaladars and banks allow criminal elements to manipulate domestic and international financial networks to administer and launder illicit funds.

### KEY AML LAWS AND REGULATIONS

In 2014, Afghanistan enacted a comprehensive AML law, which was amended in March 2015 via presidential decree. Significant provisions include an adequate legal basis to criminalize money laundering; KYC and STR provisions; establishment of an operationally independent FIU; and the authority to confiscate funds or property derived from criminal activity, to dispose of such property, and to hold the proceeds of criminal profits in an asset recovery/sharing fund. In June 2015, Afghanistan issued Fit and Proper Regulations to ensure financial institutions are well managed and persons who own or control them are competent and meet certain criteria. In May 2015, Afghanistan issued Cash Courier Regulations establishing a cross-border currency reporting requirement. Amendments to that regulation that came into force in March 2016 ensure that seizure or restraint of funds is authorized where there is a suspicion of money laundering.

Although Afghanistan's Law on Extradition of the Accused, Convicted Individuals, and Legal Cooperation allows for extradition based upon multilateral arrangements such as the 1988 UN Drug Convention, Article 28 of the Afghan Constitution requires reciprocal agreements between Afghanistan and the requesting country. The United States does not have an extradition treaty with Afghanistan and cannot reciprocate under the multilateral treaties.

Afghanistan is a member of the APG, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.apgml.org/members-and-observers/members/member-documents.aspx?m=69810087-f8c2-47b2-b027-63ad5f6470c1>

### AML DEFICIENCIES

Afghanistan should ensure market manipulation and counterfeiting are predicates for money laundering. It should increase supervision of financial institutions and DNFBPs to ensure their compliance with AML regulations. Afghanistan should also increase the number of MSB/hawala inspections, enact a comprehensive registration regime, and expand implementation of the MSB/hawala licensing program. Afghanistan should create an outreach program to notify and educate hawaladars about licensing, transaction reporting requirements, and STRs. Regulators and enforcement officers need adequate resources to supervise the financial sector and investigate financial crimes.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

Afghanistan's law enforcement and institution regulation are hampered by corruption. Limited resources, lack of technical expertise, and poor infrastructure also deter effective regulatory oversight. No clear division exists between the hawala system and the formal financial sector. Hawaladars use bank accounts and wire transfer services to settle with other hawaladars abroad and within Afghanistan. Hawaladars generally fail to file STRs as legally required. Insurance companies and securities dealers are also required to file STRs, but the government does not enforce this requirement. Precious metals and stones dealers, lawyers, accountants, and real estate agents are not supervised as financial businesses in Afghanistan.

Afghanistan's FIU, the Financial Transactions and Reports Analysis Center of Afghanistan (FinTRACA), has limited capacity to identify bad actors and build cases against them. FinTRACA often faces administrative hurdles within the Attorney General's Office (AGO) regarding prosecution. The AGO is authorized to prosecute money laundering and seize illicit assets, but its new management team, seated in the second half of 2016, has yet to effectively grapple with weak prosecutorial capacity to pursue money laundering cases and asset seizures. Furthermore, the Afghan government has yet to establish a recovery mechanism for the value of assets seized, and therefore no entity, including the police and courts, has responsibility for post-conviction asset recovery. Early positive indications show that FinTRACA's new leadership is dynamic and anxious to pursue the organization's objectives.

Kabul International Airport lacks effective currency controls for all passengers. Beyond the formal border crossings, the Afghanistan-Pakistan frontier is notoriously porous, enabling smugglers to cross with relative ease.

Law enforcement officers, prosecutors, and judges need training on effective, lawful asset seizure, and the GNU should implement procedures for money laundering seizures. It should continue to increase seizure and confiscation procedures in cases involving narcotics and drug trafficking. Afghanistan also should strengthen inspection controls and enforcement of the currency declaration regime at airports.

## **Albania**

### **OVERVIEW**

Albania is not a regional financial or offshore center. The country remains at significant risk for money laundering due to rampant corruption and weak legal and government institutions. Albania has a large cash economy and informal sector, with significant money inflows from abroad in the form of remittances. Major proceeds-generating crimes in Albania include drug trafficking, tax evasion, smuggling, and human trafficking. Albania has a substantial black market for smuggled goods, and smuggling is facilitated by weak border controls and customs enforcement. Albania produces and exports significant amounts of marijuana, primarily for European use, and is a transit country for Afghan heroin and cocaine, serving as a key gateway for heroin distribution throughout Europe. Albania serves as a base of operations for regional organized crime organizations. Illicit proceeds are easily laundered.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Real estate (particularly in the coastal areas), business development projects, and gaming are among the most popular methods of hiding illicit proceeds. Law enforcement recognizes the need to combat money laundering but remains largely ineffective in doing so. The Albanian State Police has a dedicated Economic Crime Unit tasked with AML efforts, while police and prosecutors continue to receive training on this subject. Better collaboration between police and prosecutors is needed.

### **KEY AML LAWS AND REGULATIONS**

In 2016, the Albanian parliament passed several significant constitutional and legal reforms aimed at tackling corruption and organized crime. The reforms, if implemented properly, will result in better enforcement of money laundering and other financial crime laws.

In recent years, Albania has made technical improvements to its AML regime. These include increasing predicate crimes covered by the AML law, establishing CDD measures for financial institutions, and improving the powers and processes used by authorities in responding to foreign requests for assistance.

Albania and the United States do not have a MLAT, but cooperation is possible through multilateral conventions.

Albania is a member of MONEYVAL, a FATF-style regional body. Its most recent mutual evaluation can be found at:

[http://www.coe.int/t/dghl/monitoring/moneyval/Countries/Albania\\_en.asp](http://www.coe.int/t/dghl/monitoring/moneyval/Countries/Albania_en.asp)

### **AML DEFICIENCIES**

Albania has a substantial black market for smuggled goods, primarily tobacco, jewelry, stolen cars, and mobile phones. Smuggling is facilitated by weak border controls and customs enforcement.

The Albanian court system applies a high burden of proof in money laundering cases. Some, but not all, courts require a simultaneous conviction for a predicate offense before issuing a conviction for money laundering, even though the law specifically states that no predicate offense is necessary. The Supreme Court has not issued a controlling decision, so the law in this area remains in flux. The AML regime also is plagued by numerous technical deficiencies.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

While the Government of Albania passed criminal code reforms and legislative amendments in 2012, implementation efforts have been weak. Despite a sizeable number of money laundering investigations, the number of money laundering prosecutions remains low. Through mid-year 2016, four money laundering cases were referred to the court for prosecution while seven defendants were convicted of the offense. In 2016 the Prosecutor General's Office hired a third forensic accountant to assist in the investigation of cases.

The government has taken steps to combat official corruption, but it needs to continue to address judicial and prosecutorial corruption. Since the lifting of immunity for judges and high officials in 2012, prosecutors have investigated at least 23 high-level officials, including 14 locally-elected officials, four judges, one court clerk, three prosecutors, and one police officer. Jurisdiction over judicial corruption and high-level corruption was transferred to the Serious Crimes Court in March 2014. Prosecutions led by the related Serious Crimes Prosecution Office have resulted in the convictions of two judges, one prosecutor, and one locally elected mayor on corruption charges. Two other judges and one prosecutor charged with corruption await trial.

On July 22, 2016, Albania passed substantial amendments to its Constitution to reform the justice system, including vetting judges and prosecutors for corruption and links to organized crime, and creating an independent, vetted, and monitored court and prosecutorial office for cases of high-level corruption and organized crime, which would include organized narcotics traffickers. Several laws necessary for the implementation of the constitutional changes were passed in October 2016. Albania must implement the laws effectively and continue to develop the effectiveness of its police and prosecutors that focus on corruption, money laundering, and economic crimes.

## **Algeria**

### **OVERVIEW**

Money laundering through Algeria's formal financial system is minimal due to stringent exchange control regulations and a banking sector dominated by state-owned banks. Additionally, the continued prevalence of archaic paper-based systems and banking officials not trained to function in the current sophisticated international financial system has deterred money launderers who are more likely to use sophisticated transactions. A large informal, cash-based economy, estimated to be 30-50 percent of GDP, is vulnerable to abuse by criminals. Notable criminal activity includes trafficking, particularly of drugs, cigarettes, arms,

and stolen vehicles; theft; extortion; and embezzlement. Public corruption and terrorism remain serious concerns.

Algeria is making significant progress in bringing its AML regime into line with international standards.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

The restricted convertibility of the Algerian dinar enables the central bank to monitor all international financial operations carried out by banking institutions. Most money laundering occurs primarily outside the formal financial system, through tax evasion, abuse of real estate transactions, and commercial invoice fraud. Algerian authorities are increasingly concerned by cases of customs fraud and TBML. Financial crime risks are increasing due to the widespread use of cash in Algeria's economy.

### **KEY AML LAWS AND REGULATIONS**

The following laws are applicable to money laundering in Algeria: Executive Decree no. 06-05 fixing the shape, design, content, and the acknowledgment of receipt of the declaration of suspicion; Regulation no. 12-03 on the prevention and fight against money laundering and terrorist financing; Executive Decree no. 13-157 amending and supplementing Executive Decree 02-127 on the creation, organization, and functioning of the Financial Intelligence Processing Unit (CTRF), Algeria's FIU; Law no. 15-06 amending and supplementing Law No. 05-01 on the prevention and fight against money laundering and terrorist financing; Executive decree no. 15-153 fixing the threshold for payments that must be made through the banking and financial circuits; Law no. 16-02 establishing rules for the application of the penal code, Law no. 66-156, as pertains to AML/CFT.

AML provisions in Algeria impose data collection and due diligence requirements on financial institutions processing wire transfers, with stricter requirements for cooperation with law enforcement authorities, upon request, for transfers exceeding \$1,000. In addition, all payments for certain purchases in excess of the following amounts must be completed via the banking system: DZD 5 million (approximately \$45,500) for real estate; or DZD 1 million (approximately \$9,100) for goods and services. Non-compliance with these provisions could result in sanctions against the individual and/or financial institution.

Algeria is a member of the MENAFATF, a FATF-style regional body. Its most recent mutual evaluation can be found at:

[http://www.menafatf.org/images/UploadFiles/Mutual\\_Evaluation\\_Report\\_of\\_the\\_Republic\\_of\\_Algeria.pdf](http://www.menafatf.org/images/UploadFiles/Mutual_Evaluation_Report_of_the_Republic_of_Algeria.pdf)

### **AML DEFICIENCIES**

Alternative remittance and currency exchange systems are not regulated.



Challenges in implementation of the AML law remain. The CTRF's self-analysis identifies the need to educate bankers to increase the accuracy of reporting. While the CTRF has provided some information on the number of cases it is processing, additional information would be needed to further evaluate implementation. Furthermore, CTRF should work to increase its strategic analysis capabilities.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

The CTRF is active in its processing and analysis of STRs, increasing its activity based on additional filings by banks. It is compiling and disseminating AML-related information to banks and engaging in some level of quantitative and qualitative self-analysis. A CTRF report in summer 2016 explains that after receiving STRs, the CTRF analyzes the data submitted and shares with other government entities. The report indicates the CTRF forwarded approximately 125 cases to judicial authorities but did not track results. This increased activity by the CTRF indicates Algeria is making an effort to improve its AML regime. Algeria should continue to work to fully implement its laws and regulations.

## **Antigua and Barbuda**

### **OVERVIEW**

Antigua and Barbuda is an offshore center which continues to be vulnerable to money laundering and other financial crimes. Its relatively large financial sector and internet gaming industry add to its susceptibility. Antigua and Barbuda also operates a Citizenship by Investment Program (CIP) that increases its susceptibility to money laundering and other financial crimes. Antigua and Barbuda is a transit point for illegal drugs going to the United States and Europe. According to the Antiguan Office of National Drug Control and Money Laundering Policy (ONDCP), the collaborative efforts between Antigua and Barbuda and U.S. law enforcement agencies have brought about a decrease in drug trafficking activity.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Money laundering, narcotics trafficking, gaming, and firearms trafficking are major sources of illicit funds in the country. Funds are laundered through the purchase of real estate, vehicles, vessels, and jewelry as well as through a variety of businesses.

The CIP remains among the most lax in the world. An individual is eligible for economic citizenship with a \$400,000 minimum investment in real estate, a contribution to the National Development Fund of \$200,000, or a \$1.5 million approved business investment. Applicants must make a source of funds declaration and provide evidence supporting the declaration. The government established a Citizenship by Investment Unit (CIU) to manage the screening and application process. The CIU does not maintain adequate autonomy from politicians to prevent political interference in its decisions.

Shell companies are not permitted in Antigua and Barbuda. International companies are authorized to possess bearer shares; however, the license application requires disclosure of the names and addresses of directors (who must be natural persons), the activities the corporation intends to conduct, the names of shareholders, and number of shares they will hold. Registered agents or service providers are compelled by law to know the names of beneficial owners. Offshore financial institutions are exempt from corporate income tax.

ONDCP has a four-pronged approach to combatting narcotics trafficking and money laundering via the reporting of financial intelligence and investigation, AML/CFT compliance, anti-drug strategy, and counternarcotics operations. The Royal Police Force of Antigua and Barbuda is also responsible for investigating drug trafficking, money laundering, terrorist financing, and other financial crimes.

### **KEY AML LAWS AND REGULATIONS**

Casinos and internet gaming maintain a strong presence in Antigua and Barbuda. The Financial Services Regulatory Commission (FSRC) regulates internet gaming companies, and the ONDCP maintains records of payouts over \$25,000 (also reported to the FSRC). Regulations require internet gaming companies to incorporate as IBCs and the majority of individuals in key management positions to maintain a physical presence on the island. Additionally, domestic casinos must incorporate as domestic corporations.

The following entities must comply with CDD rules: banks, international offshore banking businesses, venture risk capital providers, and money transmission services; entities offering financial services, foreign exchange, financial and commodities-based derivative instruments, or transferable or negotiable instruments; money brokers and exchanges, money lenders, and pawn shops; real property businesses; credit unions, building societies, and trust businesses; dealers in precious metals, art, jewelry, and high-value goods; casinos and providers of internet gaming and sports betting; car dealerships; travel agents; company service providers, attorneys, notaries, and accountants.

Antigua and Barbuda is a member of the CFATF, a FATF-style regional body. Its most recent mutual evaluation can be found at: [https://www.cfatf-gafic.org/index.php?option=com\\_docman&task=cat\\_view&gid=355&Itemid=418&lang=en](https://www.cfatf-gafic.org/index.php?option=com_docman&task=cat_view&gid=355&Itemid=418&lang=en)

### **AML DEFICIENCIES**

Antigua and Barbuda has largely achieved technical compliance with international AML standards. The government has prosecuted few cases of money laundering and official corruption, and reports of corruption are endemic.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

Antigua and Barbuda continues to work to improve its AML regime. The Proceeds of Crime Amendment Act of 2014 introduces civil forfeiture provisions in Antigua and includes amendments to improve the consistency of the provisions relating to criminal confiscation.

Antigua and Barbuda recorded its first successful confiscation case under the Proceeds of Crime Act in October 2015. The ONDCP first arrested two persons with over 160 kilograms of cocaine aboard a sailing vessel. The Court ordered the defendant to pay the amount of \$30,000 to the government after learning he had forfeitable assets.

ONDCP froze the operations of the European Federal Credit Bank of Antigua (Eurofed), a bank connected to the former Prime Minister of Ukraine, Pavlo Lazarenko, on the grounds that it had been obtained through acts of corruption committed during his time in power in Ukraine. In 2016, \$66.7 million in frozen assets were transferred to the government's Forfeiture Fund, which the government appropriated, not all of which was included on the official budget.

In 2016, U.S. prosecutors alleged that government officials from Antigua and Barbuda participated in a corruption scandal involving the payout of close to \$8 million in bribes by Brazilian construction contractor Odebrecht. The corruption allegations involve two high-level officials and two offshore banks in Antigua and Barbuda. Antigua and Barbuda continues to investigate allegations of money laundering.

## **Argentina**

### **OVERVIEW**

Tax evasion, institutionalized corruption, drug trafficking, and high levels of informal transactions and contraband trade remain significant challenges for Argentina's AML regime. Smuggling across the porous northern border with Bolivia and Paraguay, in the maritime ports, and especially in the tri-border area (Argentina, Paraguay, and Brazil), is another major source of illegal proceeds. Since President Macri took office in December 2015, he has taken steps toward widespread economic reform and to strengthen Argentina's AML regime.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Argentina has a long history of capital flight and tax evasion, a main predicate crime for money laundering. Argentines hold billions of U.S. dollars outside the formal financial system, both domestically and offshore. In 2016, the Macri government established a tax amnesty program to allow taxpayers to declare previously unreported assets held both offshore and domestically. It reached tax information exchange agreements with several countries that will enter into force in 2017 to facilitate increased visibility on Argentina's offshore assets. The United States also began ongoing negotiations with Argentina on a bilateral tax treaty and concluded negotiations for a Tax Information Exchange Agreement.

The Financial Information Unit (UIF) and the Central Bank supervise money remittance flows, which are carried out by approximately 20 financial entities. Independent remittance companies also act through agents such as banks, post offices, and their own office franchises.

TBML remains a significant concern. Economic reforms aimed at increasing trade and encouraging growth may be exploited by transnational criminal organizations through a wide range of TBML schemes. Intellectual property rights violations, particularly the sale of counterfeit goods, also generate significant proceeds that contribute to illicit financial activity. Argentine Customs is working to staff and train new personnel for its Trade Transparency Unit, which has suffered from significant personnel turnover in recent years.

### **KEY AML LAWS AND REGULATIONS**

Under law 27.260 of June 2016, the Argentine government moved the UIF from the Ministry of Justice and Human Rights to the Ministry of Economy and Finance (MOEF). This promises to strengthen the UIF's autonomy. The law also reinforces the obligation of the UIF to maintain the secrecy of the identity of its sources of information when disseminating information to prosecutors and judges and authorizes the UIF, at its own discretion, to communicate information to other public agencies having intelligence or investigative powers.

On October 14, 2016, the MOEF published Resolution 135/2016, issuing new regulations governing the UIF's information exchanges with both its international and inter-ministerial counterparts. The Argentine government is in the process of creating a criminal intelligence fusion center of which the UIF will be a member.

Argentina is a member of the FATF and the GAFILAT, a FATF-style regional body. Its most recent mutual evaluation can be found at:

[http://www.gafilat.org/UserFiles//Biblioteca/Evaluaciones/Argentina\\_3ra\\_Ronda\\_2010.pdf](http://www.gafilat.org/UserFiles//Biblioteca/Evaluaciones/Argentina_3ra_Ronda_2010.pdf)

### **AML DEFICIENCIES**

Despite noted improvements, implementation of the AML regime remains a challenge. The UIF has no access to intelligence or judicial databases to cross-check information or conduct link analysis, and also lacks human and technical resources to analyze STRs. Federal judges and prosecutors need additional training on the adequate use and protection of intelligence reports received from the UIF, especially when information is derived from the UIF's foreign counterparts.

Many DNFBPs, including high-value goods dealers, NPOs, real estate agents, and notaries, have no sectoral regulator. Several legally obligated entities have not registered, and there is no mechanism for enforcement.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

Enforcement remains a primary challenge. Critical components of this effort will be the establishment of trust among the UIF, other AML stakeholders, and the private sector; fostering a universal culture of AML compliance; improving the ability to coordinate, investigate, and prosecute complex financial crimes efficiently; providing training and increasing awareness of financial crimes among judges, prosecutors, and investigators; and increasing convictions.

Since the Macri government made the UIF central to its strategy to combat drug trafficking and pursue public corruption cases, the UIF underwent an almost complete overhaul. In September 2016, FinCEN reestablished information sharing with the UIF after a year-long suspension for unauthorized disclosure of financial intelligence. The UIF has received general training for all staff and is receiving donor assistance in establishing a risk-based approach.

Program effectiveness, as measured by convictions and asset forfeiture, has been negligible. From 1999-2015, Argentina successfully prosecuted only one contraband smuggling and seven money laundering cases. In 2016, the Argentine government successfully prosecuted two cases of money laundering linked to drug smuggling involving 16 defendants.

Systematic deficiencies in Argentina's criminal justice system persist, including widespread delays in the judicial process, a lack of judicial independence, and legal loopholes. Investigative judges and prosecutors lack experience in financial crimes. As of May 2016, 70 cases of UIF sanctions were under appeal in the court system. Eight had been decided, all against the UIF, and there were no cases where UIF application of penalties against a financial institution had been upheld. Additionally, the UIF is currently obligated to collaborate on all cases referred to it by a judge, giving it no independent ability to turn down a case or be strategic about which cases to pursue.

## **Aruba**

### **OVERVIEW**

Aruba is an autonomous country within the Kingdom of the Netherlands. The kingdom retains responsibility for foreign policy and defense, including signing international conventions. The kingdom may extend international conventions to the autonomous countries. With the kingdom's agreement, each autonomous country can be assigned a status of its own within international or regional organizations subject to the organization's agreement. The individual countries may conclude MOUs in areas in which they have autonomy, as long as these MOUs do not infringe on the foreign policy of the kingdom as a whole. The Kingdom extended the application to Aruba of the UN Drug Convention in 1999 and the UNTOC in 2007. A governor appointed by the King represents the kingdom on the island, and a Minister Plenipotentiary represents Aruba in the Kingdom Council of Ministers.

In June 2016, Aruba, Sint Maarten, the Netherlands, and Curacao signed an MOU with the United States to stimulate joint activities and enhance sharing of information in the areas of criminal investigation and upholding public order and security and to strengthen mutual cooperation in the areas of forensics and the organization of the criminal justice system. While the MOU is a broad-based attempt to improve all of the criminal justice system, one priority area is cracking down on money laundering operations.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Aruba is not considered a regional financial center. Because of its location, Aruba is a transshipment point for drugs from South America bound for the United States and Europe, and for currency flowing in the opposite direction. Bulk cash smuggling represents a risk due to the location of Aruba between North and South America. Money laundering is primarily related to proceeds from illegal narcotics trafficked by criminal organizations and occurs through real estate purchases and international tax shelters. There is no significant black market for smuggled goods on Aruba.

The Free Zone Aruba NV (FZA) is a government-owned limited liability company which manages and develops the free zones. (Service companies also can set up business outside of the designated customs-controlled free zones.) All companies with free zone status are reviewed and controlled by the FZA, which also has an integrity system in place to deter illegal activities, including smuggling and money laundering. Financial services, banks, and insurance companies are not permitted to operate in the free zones. There are 13 casinos, and online gaming is allowed under a licensing and reporting system.

### **KEY AML LAWS AND REGULATIONS**

KYC laws cover banks, life insurance companies and insurance brokers, money transfer companies, investment companies and brokers, factoring and leasing companies, trust and company service providers, car dealers, casinos, lawyers, civil notaries, accountants, tax advisors, realtors, and dealers in precious metals, stones, and other high-value objects.

The MLAT between the Kingdom of the Netherlands and the United States applies to Aruba and is regularly used by U.S. and Dutch law enforcement agencies for international drug trafficking and money laundering investigations.

The 1981 MLAT between the Kingdom of the Netherlands and the United States, rather than the U.S. - EU Agreement, which has not yet been extended to the Kingdom's Caribbean countries, applies to Aruba and is regularly used by U.S. and Aruban law enforcement agencies for international drug trafficking and money laundering investigations.

Aruba is a member of the CFATF, a FATF-style regional body, and, through the Kingdom, the FATF. Its most recent mutual evaluation can be found at:

<https://www.cfatf-gafic.org/index.php/documents/cfatf-mutual-evaluation-reports/aruba-2>

### **AML DEFICIENCIES**

Aruba's money laundering laws do not cover proceeds generated from counterfeiting and piracy of products, insider trading, market manipulation, many types of environmental crimes, or fraud.

The Kingdom has not yet extended the application of the UNCAC to Aruba.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

Aruba does not have a suspicious transaction reporting system but rather a broader unusual transaction reporting (UTR) system. Service providers are required to report large cash transactions of \$14,000 or more, wire transactions of \$279,000 or more, other unusual transactions, and transactions suspected to be related to money laundering.

Aruba enacted a State Ordinance for the Prevention of and Combating Money Laundering and Terrorist Financing (AML/CFT State Ordinance) with new rules for the identification and verification of clients and the reporting of unusual transactions to prevent and combat money laundering and terrorist financing when providing certain services. Non-regulated financial service providers (including investment brokers and factoring and leasing companies) and DNFBPs (including lawyers, civil notaries, tax advisors, accountants, jewelers, high-value goods dealers, and casinos) must also comply with the requirements of the AML/CFT State Ordinance and must register with the Central Bank of Aruba (CBA). The CBA continues to implement the recommendations of the AML/CFT National Risk Assessment conducted in 2012. In 2015, Aruban authorities supported the seizure of \$4.4 million and several arrests in an international money laundering case.

## **Azerbaijan**

### **OVERVIEW**

Azerbaijan is both a transit point between the East and West, given its geographic location, and a conduit for illicit funding, given its economic difficulties. The majority of foreign investment and international trade in Azerbaijan continues to be in the energy sector. While all other economic activities lag behind the energy sector, Azerbaijan has developed a new strategy for economic diversification to diminish its overdependence on income from energy resources; the results of this strategy are pending its implementation. The economic realities of the manat's continued devaluation and a financial sector suffering from exponentially growing rates of non-performing loan, coupled with Azerbaijan's physical location between Iran and Russia, create an environment conducive to the transit of illicit funds.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

The major source of criminal proceeds in Azerbaijan continues to be public corruption across all sectors and agencies within the government. In addition, the Afghan drug trade generates significant illicit funds, some of which transit Azerbaijan. Although the passage of the Joint Comprehensive Plan of Action has opened Iran for transit of funds, it is unlikely that Azerbaijan will experience a demonstrable decrease in funds from Iran. Robbery, tax evasion, smuggling, trafficking, and organized crime continue to generate illicit funds in Azerbaijan as well. Additional money laundering likely occurs in the financial sector, including in non-bank financial entities and alternative remittance systems. Azerbaijan also possesses a significant black market for smuggled goods for sale in-country and is a transit point for smuggled cargo.

### **KEY AML LAWS AND REGULATIONS**

The Azerbaijani government has taken several steps to thwart the transit of illicit funds. Azerbaijan is actively working to create an unfavorable environment for illicit funds activity through a package of legislation entitled “The National Action Plan,” which includes four codes, seven laws, one ordinance of the Cabinet of Ministers, and one Presidential Decree. The plan is expected to be submitted to Parliament in February 2017. This legislative package specifically empowers multiple ministries and agencies (Justice, Finance, Taxes, Internal Affairs, State Security Service, State Border Service, and State Customs Committee) as well as the Cabinet of Ministers, Central Bank, Chamber of Auditors, Supreme Court, and Prosecutor General’s Office to execute this comprehensive legislation. As part of its active and ongoing measures, Azerbaijan established the Financial Markets Supervision Authority (FMSA) by Presidential Decree in February 2016. This body was explicitly given the authority to oversee the development and implementation of reforms and oversee their successful implementation.

Azerbaijan is currently developing MOUs on AML cooperation between the FMSA and the FIUs of the United Arab Emirates, Ukraine, San Marino, Estonia, Moldova, Turkey, Slovenia, and Georgia.

Azerbaijan is a member of MONEYVAL, a FATF-style regional body. Its most recent mutual evaluation can be found at:

[http://www.coe.int/t/dghl/monitoring/moneyval/Countries/Azerbaijan\\_en.asp](http://www.coe.int/t/dghl/monitoring/moneyval/Countries/Azerbaijan_en.asp)

### **AML DEFICIENCIES**

While the FMSA is taking significant legislative action to address the recognized deficiencies, until such legislation is approved: criminal liability for money laundering has not been extended to legal persons in Azerbaijan; criminalization of the acquisition, possession, and use of property obtained with illicit funds is limited to “significant amounts” only; banks are not legislatively required to share customers’ CDD information with correspondent banks; sanctions are not effective, proportionate, or dissuasive to financial institutions; and loopholes exist inhibiting proper identification of PEPs.

The AML law excludes dealers of arts, antiques, and other high-value consumer goods; entities dealing with jewelry and precious metals; travel agencies; and auto dealers from the list of covered entities. These entities are not required to maintain customer information or report suspicious activity.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

With the new legislative package, the FMSA has placed an affirmative obligation on financial institutions to report AML activities, including designation and placement of the offending party on the FMSA website as a “designated person.” As a result of this designation, the FMSA, through the relevant government ministries, will be able to freeze the assets of the named individual/entity. Until the legislative package becomes law, the noted deficiencies remain. Its comprehensive scope makes it difficult to forecast its effectiveness and what unintended consequences may arise.



## **Bahamas**

### **OVERVIEW**

The Commonwealth of the Bahamas is a regional and offshore financial center. The country's economy is heavily reliant upon tourism, tourism-driven construction, and the offshore financial sector. The Bahamas remains a transit point for illegal drugs bound for the United States and other international markets.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

The major sources of laundered proceeds are drug trafficking, firearms trafficking, gaming, and human smuggling. There is a black market for smuggled cigarettes and guns. Money laundering trends include the purchase of real estate, large vehicles, boats, and jewelry, as well as the processing of money through a complex web of legitimate businesses and IBCs registered in the offshore financial sector. Drug traffickers and other criminal organizations take advantage of the large number of IBCs and offshore banks registered in the Bahamas to launder money, despite CDD and transaction reporting requirements.

According to a 2013 report by the IMF, the Bahamas is a “major offshore financial center.” The offshore sector consists mostly of branches or subsidiaries of global financial institutions. The IMF report notes that, while oversight of the financial system has improved, the Bahamas is still recognized as a significant tax haven. For example, the Bahamas does not disclose in a public registry information about trusts and foundations, maintain official records of company beneficial ownership, require that company accounts be placed on public record, or require resident paying agents to tell the domestic tax authorities about payments to non-residents.

Casino gaming is legal for tourists and the Bahamas has four large casinos, including a casino in Bimini that draws in customers from the United States via a ferry service to and from Miami. The \$3.5 billion Chinese Export-Import Bank-funded Baha Mar Casino and Resort on New Providence Island did not open as scheduled in 2015 or in 2016. When completed, it will be the largest casino in the Caribbean.

The country has one large FTZ, Freeport Harbor, managed by a private entity, the Freeport Harbor Company, a joint venture between Hutchison Port Holdings (a subsidiary of a Hong Kong company) and The Port Group (The Grand Bahama Port Authority, the Bahamian parastatal regulatory agency). The Freeport Harbor Company includes the Freeport Container Port and Grand Bahama International Airport as well as private boat, ferry, and cruise ship facilities and roll-on/roll-off facilities for containerized cargo and car transshipments.

### **KEY AML LAWS AND REGULATIONS**

Current law prohibits Bahamian citizens, permanent residents, and temporary workers from gambling in casinos. However, gaming operations based on U.S.-based lottery results and hosted on the internet, locally known as “web shops,” flourish in the Bahamas.

In September 2014, the government passed a comprehensive gaming bill designed to regulate the web shops and bring internet-based gaming into compliance with industry standards. The law requires web shop operators to be licensed, pay taxes on revenue and property, and comply with internal control standards. In 2015, the Bahamas issued conditional licenses to those “web-shops” that fulfilled the new regulatory requirement.

The Bahamas is a member of the CFATF, a FATF-style regional body. Its most recent mutual evaluation can be found at: <https://www.cfatf-gafic.org/index.php/documents/cfatf-mutual-evaluation-reports/the-bahamas-1>

### **AML DEFICIENCIES**

Information on money laundering criminal prosecutions and convictions is not publicly available.

The Government of the Commonwealth of The Bahamas has the requisite institutional and legal framework to combat money laundering, however greater emphasis should be placed on enforcement and effective implementation of the AML regime. In order to better gauge the effectiveness of the government’s AML programs, authorities should release information on the number of prosecutions and convictions and other enforcement actions.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

The Government of the Commonwealth of the Bahamas should continue to provide resources and training to its law enforcement, judicial, and prosecutorial bodies in order to investigate and prosecute money laundering; enforce existing legislation; and safeguard the financial system from possible abuses. With the expansion of gaming oversight, the government should ensure full implementation of appropriate safeguards and provide additional STR training.

The Bahamas should further enhance its AML regime by criminalizing bulk cash smuggling; continuing implementation of the National Strategy on the Prevention of Money Laundering; establishing a currency transaction reporting system; and implementing a system to collect and analyze information on the cross-border transportation of currency. It also should ensure beneficial ownership information of all entities licensed in its offshore financial center is available upon the request of law enforcement authorities and kept up to date.

The government’s National Anti-Money Laundering Task Force meets twice monthly and is led by the Attorney General. The Task Force discusses issues and makes recommendations to policy makers. The Task Force is comprised of senior representatives of various financial regulators and law enforcement agencies (FIU, Central Bank, Securities Commission, Compliance Commission, Insurance Commission, Bahamas Customs Department, and the Royal Bahamas Police Force). The Task Force should seek to engender an AML compliance culture in the Bahamas.

## Barbados

### OVERVIEW

Barbados is a regional financial center with a sizeable IBC presence. The country's susceptibility to money laundering is primarily associated with the domestic sale of illegal narcotics and the laundering of foreign criminal proceeds. There are some reports of proceeds from illicit activities abroad being laundered through domestic financial institutions.

### VULNERABILITIES AND EXPECTED TYPOLOGIES

Narcotics trafficking, money laundering, and firearms trafficking are major sources of illicit funds in the country. In addition to the use of financial institutions, money is laundered through the purchase of real estate, vehicles, vessels, and jewelry as well as through a variety of businesses.

Bearer shares are not permitted. There are no FTZs and no domestic or offshore casinos.

### KEY AML LAWS AND REGULATIONS

The Central Bank of Barbados (CBB) is responsible for regulating and supervising commercial and offshore banks, trust companies, merchant banks, and finance companies. The CBB estimates the offshore sector is a \$32 billion industry. As of 2015, there were nine commercial banks and holding companies and 13 trusts and merchant banks licensed by the CBB. As of August 2016, there were 27 international banks licensed by the CBB. There are no clear statistics available on the IBC sector, although promotional material suggests there are over 4,000 IBCs. IBCs are subject to heightened due diligence requirements for license applications and renewals, and are audited if total assets exceed \$500,000.

There is a Double Taxation Treaty with the United States and a specific agreement between Barbados and the United States for the exchange of information with reference to taxes.

Entities that must comply with CDD rules are banks, securities and insurance brokers and companies, money exchanges or remitters, financial management firms, lawyers, real estate brokers, high-value goods dealers, accountants, investment services or any other financial services, credit unions, building societies, restricted liability societies, friendly societies, offshore banks, IBCs and foreign sales corporations, mutual funds and fund administrators and managers, and international trusts.

Barbados is a member of the CFATF, a FATF-style regional body. Its most recent mutual evaluation can be found at: [https://www.cfatf-gafic.org/index.php?option=com\\_docman&task=cat\\_view&gid=353&Itemid=418&lang=en](https://www.cfatf-gafic.org/index.php?option=com_docman&task=cat_view&gid=353&Itemid=418&lang=en)

### AML DEFICIENCIES

Barbados' criminal law limits the government's ability to seize assets acquired through criminal activity without conviction. The Government of Barbados should continue developing new non-conviction-based asset forfeiture laws to increase the efficacy of asset recovery procedures.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

The Government of Barbados should allot more resources to ensure the FIU, law enforcement, supervisory agencies, and prosecutorial authorities are fully staffed and have the capacity to perform their duties. The FIU is administrative in nature, which means it does not have the capacity to do investigative work or resolve legal issues.

The government should consider taking a more aggressive approach to conducting examinations of the financial sector and asserting more control over vetting and licensing of offshore entities. Supervision of NPOs, charities, DNFBPs, and money transfer services could be strengthened through increased reporting requirements and oversight. Information sharing among regulatory and enforcement agencies also needs improvement.

Barbados should become a party to the UN Convention against Corruption.

## **Belize**

### **OVERVIEW**

Belize is not a key regional financial center, though it has an offshore financial sector. Belize is a transshipment point for marijuana and cocaine. FTZs are routinely used to move money across borders. Belize is vulnerable to money laundering due to the lack of enforcement of its laws and regulations, strong bank secrecy protections, geographic location, and weak investigatory and prosecutorial capacity. The sources of money laundering in Belize are drug trafficking, tax evasion, securities fraud, and conventional structuring schemes.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

The Government of Belize continues to permit financial activities that are vulnerable to money laundering, including offshore banks, insurance companies, trust service providers, mutual fund companies, and IBCs. The Belizean dollar is pegged to the U.S. dollar.

Belize has two FTZs. The Corozal Free Zone, the larger of the two with 282 operating businesses, is located in the north on the border with Mexico, and the Benque Viejo Free Zone is located on the western border with Guatemala. Belizean law enforcement agencies strongly suspect there is money laundering and illicit importation of duty free products in the FTZs. There are also large sums of cash suspected to be moving through the FTZs. With the arrival of a new Director General in July 2016, the Belize International Financial Services Commission implemented enforcement of previously-approved fee increases and more stringent due diligence requirements on the offshore financial sector.

The FIU, Customs & Excise Department, and Belize Police Department, who are all actors in the fight against money laundering, face challenges such as political interference, corruption, and human resource and capacity limitations.

### **KEY AML LAWS AND REGULATIONS**

Belize has made efforts to strengthen its AML regulatory regime. In 2016, Belize enacted amendments to its Money Laundering and Terrorism Act to address terrorist financing matters. In addition, Belize has regulations in place for PEPs in line with international standards.

Belize has comprehensive CDD and STR regulations. CDD-covered entities include domestic and offshore banks; venture risk capital; money brokers, exchanges, and transmission services; moneylenders and pawnshops; insurance entities; real estate intermediaries; credit unions and building societies; trust and safekeeping services; casinos; motor vehicle dealers; jewelers; international financial service providers; public notaries, attorneys, accountants, and auditors; FTZ businesses; and NGOs.

There are mechanisms in place for information exchanges between the United States and Belize, as well as between Belize and numerous other countries. However, Belize is slow to respond to requests from foreign FIUs. INTERPOL requests are routinely ignored.

Belize is a member of the CFATF, a FATF-style regional body. Its most recent mutual evaluation can be found at: <https://www.cfatf-gafic.org/index.php/member-countries/a-d/belize>

### **AML DEFICIENCIES**

The FIU's mandate to conduct its AML enforcement responsibilities far exceeds its capacity. This is in large part due to limited human resources and high turnover rates of contractual staff members. Leadership continuity is an issue as there have been three FIU Directors in as many years. In an effort to compensate for staffing deficiencies, the FIU has called upon senior attorneys in private practice to lead the prosecution of serious or complex cases due to the lack of experience of the two prosecutors on staff at the FIU.

Belize is making efforts to address its AML deficiencies. The FIU trained both offshore and onshore entities, including international financial service providers, credit unions, and money transfer service providers. Additionally, the FIU conducted outreach and sensitization visits in the Benque Viejo FTZ. The FIU also reportedly conducted 21 on-site compliance examinations of businesses in the Corozal FTZ.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

In 2016, the FIU signed MOUs with the Belize Police Department, Customs and Excise Department, and the Tax Department. Increased information and resource sharing could enhance Belize's capacity to address money laundering. Belize has also initiated a national risk assessment with technical assistance from international experts. This will identify money laundering risks and provide a strategic map for further actions.

To address issues of corruption within Belize, the country became a party to the UNCAC on December 12, 2016.

Belize prosecuted and convicted five people in 2016 for either failure to declare more than \$5,000 (the threshold increased to \$10,000 in April 2016) in cash when entering or leaving Belize. However, there were no major money laundering prosecutions. Belize has struggled to investigate money laundering and other financial crimes, resulting in a low number of money laundering prosecutions and convictions. The judiciary branch expressed concern about the sustainability of Belizean AML laws since they have not been implemented effectively. Belize investigators and prosecutors need instruction on implementation of these laws.

While the Government of Belize has made advances in its recent legislative and regulatory work, it should also provide more professional development training for current staff and provide additional human resources to effectively enforce its AML regime. The loosely monitored offshore financial sector and FTZs continue to be concerns. Furthermore, the historically low prosecution and conviction figures reflect the lack of robust enforcement efforts. The government should prioritize providing its investigative, prosecutorial, and judicial personnel with the resources and training to successfully fulfill their responsibilities.

## **Benin**

### **OVERVIEW**

The port of Cotonou is a transportation hub for the sub-region which serves Nigeria and land-locked countries in the Sahel. Criminal networks exploit the volume of goods and people moving through Benin.

Due to its proximity to unstable neighboring countries and extremely porous borders, Benin continues to face regional threats of organized crime, narcotics trafficking, and piracy. Benin is a transit point for a significant volume of drugs and precursors moving from Latin America, Pakistan, and Nigeria into Europe, Southeast Asia, and South Africa. It is difficult to estimate the extent of drug-related money laundering in Benin, believed to be done through purchase of real estate and building construction for rent or re-sale, bulk cash smuggling, and payments to officials. Money laundering also occurs in the country's banking system and money service businesses.

Benin is continuing efforts to strengthen its specialized financial crime judicial police and the National Financial Intelligence Processing Unit (CENTIF), Benin's FIU, and ensure laws are fully implemented across all relevant sectors.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Open borders, the prevalence of cash transactions, and the informal economy facilitate money laundering in Benin.

Benin is vulnerable to drug-related money laundering. Cases linked to Benin include the proceeds of narcotics trafficking being comingled with revenue from the sale of imported used cars for customers in neighboring countries. Human trafficking and corruption also are of serious concern. In recent years, Benin was implicated in large international schemes in which Lebanese financial institutions were used to launder and move criminal proceeds through West Africa and back into Lebanon. As part of the schemes, funds were wired from Lebanon to the United States to buy used cars that were then shipped to Benin and sold throughout West Africa. Profits from the sale of these cars were combined with drug proceeds from Europe and subsequently sent to Lebanon via bulk cash smuggling and deposited into the Lebanese financial system.

### **KEY AML LAWS AND REGULATIONS**

Benin's domestic AML regime has advanced over the past two decades with the introduction of legislation criminalizing drug-related money laundering (Act 1997-024) and money laundering related to illicit activity beyond drug trafficking (Act 2006-14).

There is no MLAT between Benin and the United States; alternative means can facilitate records exchange in connection with drug investigations.

Benin is a member of the GIABA, a FATF-style regional body. Its most recent mutual evaluation can be found at: [www.giaba.org/reports/mutual-evaluation/Benin.html](http://www.giaba.org/reports/mutual-evaluation/Benin.html)

### **AML DEFICIENCIES**

A bill currently pending would enlarge the scope of the existing law by requiring attorneys, notaries, and financial brokerage firms to report large cash transactions involving their clients and customers. Passage of the law would also require certain non-governmental and religious organizations to report large cash donations.

Existing legislation makes it unclear who is responsible for asset forfeiture in money laundering cases. Creation of a committee to address the issue is anticipated.

Benin is not a member of the Egmont Group. Benin's FIU initiated an application for membership two years ago and subsequently halted the application due to lack of funds for a fitness assessment and concern over outstanding weaknesses in Benin's regulatory framework. CENTIF is in the process of translating relevant laws into English but also foresees challenges in travel to Egmont meetings and participation in English language proceedings.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

Beninese officials have limited capacity to effectively track financial flows, inhibiting their ability to investigate and prosecute individuals or groups under the country's legal regime.

Benin has laws in place requiring banks to report large cash transactions and prohibiting citizens from carrying large quantities of cash, but penalties are not enforced. Benin customs authorities do not evaluate cross-border currency declarations for money laundering purposes despite a requirement to declare cross-border money transfers of 2,000,000 francs CFA or more (approximately \$3,380).

CENTIF is under-resourced, and agents within its office and other law enforcement offices are reassigned to new jurisdictions and new disciplines after training investments. Insufficient funding for day-to-day operations hinders travel to conduct investigations. On the judicial side, investigating judges lack specialized training in complex financial crimes and cases sit unattended. Out of 800 statements of suspicion recorded between 2010 - 2016, forty were sent to court, three presented, two closed for lack of evidence, and one is still pending. Benin has had no successful money laundering prosecutions to date.

Benin has taken steps to improve data sharing and cooperation among departments involved in financial crimes enforcement. CENTIF convenes quarterly meetings to improve coordination among law enforcement offices and help follow cases after referral to see how they are progressing through the justice system. In late 2015, nine Beninese investigators and prosecutors completed a month-long financial investigations training program on national legislation, regional cooperation, financial profiling, and asset forfeiture.

## **Bolivia**

### **OVERVIEW**

Bolivia is not a regional financial center, but remains vulnerable to money laundering. Criminal proceeds laundered in Bolivia are derived primarily from smuggling contraband and from the foreign and domestic drug trade.

In recent years Bolivia has enacted several laws and regulations that, taken together, should help the country to more actively fight money laundering. Bolivia should continue its implementation of its laws and regulations with the goal of identifying criminal activity that results in investigations, criminal prosecutions, and convictions.

In May 2014, Bolivia transferred control of its Financial Investigative Unit (UIF) from Bolivia's financial regulatory body to the Ministry of Economy and Public Finance in order to give the UIF greater independence. Since the move, statistics previously accessible online are no longer available, but Bolivia is working to rectify this issue.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Major sources of illicit funds in Bolivia include cocaine trafficking, smuggled goods, and informal currency exchanges. Chile is the primary entry point for illicit products, which are then sold domestically or informally exported. According to a local think-tank, the informal sector offers opportunities for money laundering and structuring (splitting large amounts of money into



smaller quantities to avoid scrutiny by the financial regulatory agencies). This money then enters the formal market through the financial system.

Although informal currency exchange businesses and non-registered currency exchanges are illegal, many still operate. Corruption is common in informal commercial markets and money laundering activity is likely.

The Bolivian justice system has been hindered by corruption and political interference, either of which could impede the fight against narcotics-related money laundering. Lack of well-trained prosecutors and police officers has also been a problem, leading to ineffective criminal investigations.

Bolivia has 13 FTZs for commercial and industrial use located in El Alto, Cochabamba, Santa Cruz, Oruro, Puerto Aguirre, Desaguadero, and Cobija. Lack of regulatory oversight of these FTZs increases money laundering vulnerabilities.

Casinos are illegal in Bolivia. Soft gaming (e.g., card games, roulette, bingo) is regulated; however, many operations have questionable licenses.

### **KEY AML LAWS AND REGULATIONS**

Bolivia has passed several laws that control the entry and exit of foreign exchange and which criminalize illicit gains. In 2012, Bolivia created the National Council to Combat Illicit Laundering of Profits, with participation by several government ministries, with the goal of issuing guidelines and policies to combat money laundering. In 2013, Bolivia also created new regulatory procedures that allow for freezing and confiscation of funds and other assets related to money laundering.

All financial institutions in Bolivia are required by the UIF and the banking regulations to report all transactions above \$3,000 (or transactions above \$10,000 for banks).

Bolivia has KYC regulations. All transactions conducted through the financial system require a valid photo identification in addition to other required information. Financial intermediaries must register this information into their systems, regardless of the transaction amount or whether the transaction is a deposit or a withdrawal.

Bolivia is a member of GAFILAT, a FATF-style regional body. Its most recent mutual evaluation can be found at:

[http://www.gafilat.org/UserFiles/documentos/en/evaluaciones\\_mutuas/Bolivia\\_3era\\_Ronda\\_2011.pdf](http://www.gafilat.org/UserFiles/documentos/en/evaluaciones_mutuas/Bolivia_3era_Ronda_2011.pdf)

### **AML DEFICIENCIES**

Lack of personnel in the UIF, combined with inadequate resources and weaknesses in Bolivia's legal and regulatory framework, limit the UIF's reach and effectiveness. Compliance with UIF's reporting requirements is extremely low. Information exchange between the UIF and police

investigative entities is also limited, although the UIF maintains a database of suspect persons that financial entities must check before conducting business with clients.

Bolivia does not have a mutual legal assistance treaty with the United States; however, various multilateral conventions to which both countries are signatories are used for requesting mutual legal assistance.

In 2013, after several legislative changes and improvements to its AML system, the UIF's membership in the Egmont Group of FIUs was reinstated.

Bolivia is currently working to address noted deficiencies, including the need to better regulate notaries, vehicle dealers, real estate businesses, and jewelry stores, as well as bitcoins, mobile device payments, and financial outflows.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

Bolivia implemented the 1988 UN Drug Convention and has laws that penalize the production, extraction, preparation, sale and transportation of any narcotic drug or psychotropic substance. The criminal courts have jurisdiction over crimes related to narcotics, terrorism, and money laundering. With a legal order, courts can request information from banks for investigative purposes.

Bolivia has an extradition treaty with the United States. There are some instances where the Bolivian government has been cooperative with U.S. law enforcement, e.g., on boarding requests for Bolivian-flagged vessels. However, overall there is little law enforcement cooperation between Bolivia and the United States. Cooperation with other countries is also reported to be limited.

According to available data, there were approximately 35 money laundering-related prosecutions in 2016. Conviction data is not available.

Banks are very active enforcing all regulations to control money laundering or any other suspicious transaction.

## **Bosnia and Herzegovina**

### **OVERVIEW**

Bosnia and Herzegovina (BiH) has a primarily cash-based economy and is not an international or regional financial center. BiH is situated centrally within the Balkans and has open borders with Croatia, Serbia, and Macedonia. The Visa Liberalization Agreement with the EU enables easy transit from eastern countries and the Balkan region to countries of Western Europe. BiH is a market and transit country for smuggled commodities, including cigarettes, firearms, counterfeit goods, lumber, and fuel oil.

International experts have noted deficiencies in Bosnia and Herzegovina's confiscation measures; CDD; suspicious transaction reporting; internal controls, compliance, and audit; sanctions; special attention for higher risk countries; regulation of bank branches and subsidiaries and DNFBPs; guidelines and feedback; statistical data; public reporting from the Financial Investigation Unit, BiH's FIU, on trends and typologies; lack of adequate supervisory powers in the insurance market; resources, integrity, and training at financial institutions; national-level cooperation; definition of legal persons and beneficial owners; and regulations on NPOs. Although progress has been made, BiH has not fully harmonized the criminalization of money laundering at the district and federal levels. BiH has established a working group to resolve these issues.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Most money laundering activities in BiH Bosnia and Herzegovina focus on evading taxes, and the majority of reports on suspicious transactions are connected to tax evasion. A smaller amount involves concealing the proceeds of illegal activities, including trafficking in persons, illicit drugs, organized crime, and corruption. The FIU notes a high number of cases in which individuals withdraw funds under the guise of legitimate business, but where the transactions are later found to be fabricated. Reports on suspicious transactions submitted by banks show that, by number of transactions, fraud and identity theft are increasing, as are identity card counterfeiting and credit card fraud.

There are concerns about the effectiveness of controls of cross-border transportation of currency and bearer negotiable instruments at the maritime border and land crossings. There is no indication BiH law enforcement has taken action to combat the TBML likely to be occurring in the country. Corruption is endemic, affecting all levels of the economy and society. Integration of laundered proceeds in real estate is a problem.

There are four active FTZs in BiH. Companies working in these zones are primarily producing automobile parts, forestry and wood products, and textiles. There have been no reports that these areas are used for money laundering. The Ministry of Foreign Trade and Economic Relations is responsible for monitoring FTZs.

### **KEY AML LAWS AND REGULATIONS**

The main legislation defining BiH's AML regime includes the Law on AML/CFT, Criminal Codes of BiH, Criminal Procedures Code, and the Laws on Banks.

The country has comprehensive KYC and STR regulations and applies due diligence measures.

The country has mechanisms in place for records exchange.

BiH is a member of MONEYVAL, a FATF-style regional body. Its most recent mutual evaluation can be found at:

[http://www.coe.int/t/dgh/monitoring/moneyval/Countries/BH\\_en.asp](http://www.coe.int/t/dgh/monitoring/moneyval/Countries/BH_en.asp)

**AML DEFICIENCIES**

BiH amended its law on money laundering in 2015. BiH continues to slowly implement its action plan to address deficiencies. Items to be addressed include, among other items, implementation of an adequate financial supervisory framework; implementation of adequate AML measures for the non-profit sector; the establishment and implementation of adequate cross-border currency controls; the harmonization of the criminalization of money laundering in all criminal codes, e.g., in both entities and at the State level; and adequate procedures for the confiscation of assets.

To date, BiH's State level government has addressed cross-border currency control and imposed due diligence procedures for PEPs.

**ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

BiH's political structure and ethnic politics hinder the effectiveness of its AML regime. Coordination of law enforcement efforts among the multiple jurisdictional levels in BiH - the State, the two entities (the Federation of Bosnia and Herzegovina and the Republika Srpska), and Brcko District - is improving, but additional efforts are necessary.

Criminal codes and criminal procedure codes from the State, the two entities, and Brcko District contain similar money laundering offenses. Self-laundering is not criminalized consistently and penalties for money laundering are not yet equivalent. The criminal codes of the entities and Brcko District each lack specific provisions on some aspect of confiscation and forfeiture income or other benefits, commingled property, or instrumentalities. Since the State does not have the resources to investigate all money laundering violations, the respective criminal codes complement one another. The jurisdictions, however, maintain separate bank supervision and enforcement/regulatory bodies.

BiH has implemented the 1988 UN Drug Convention and other applicable agreements. BiH has not refused to cooperate with foreign governments.

In the period January - August 2016, the BiH Court (State-level) convicted four persons on charges related to money laundering (which had been prosecuted prior to 2016) and initiated no new prosecutions.

**Brazil****OVERVIEW**

In 2016, Brazil was the second-largest economy in the Americas and among the ten largest economies in the world, by nominal GDP. São Paulo, Brazil's largest city, is a regional financial center for Latin America. Brazil is a major drug-transit country, as well as one of the world's largest drug consumer countries. Transnational criminal organizations operate throughout Brazil and launder proceeds from trafficking of narcotics, weapons, and counterfeit goods. A multi-

billion dollar contraband trade occurs in the Tri-Border Area (TBA) shared with Paraguay and Argentina. Public corruption is the primary money laundering priority for Brazilian law enforcement, followed by narcotics trafficking.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Trafficking of drugs, weapons, and counterfeit goods, and public corruption, are the primary sources of illicit funds in Brazil. Money laundering methods include the use of banks, real estate investment, financial asset markets, remittance networks, shell companies and phantom accounts, illegal gaming (*jogo de bicho*), informal financial networks such as hawalas, and through the sale of cars, cattle, racehorses, artwork, and other luxury goods. Drug trafficking organizations have been linked to black market money exchange operators. Money is often laundered through bulk cash smuggling; Brazilian law enforcement has successfully seized millions in cash in highway seizures and served arrest warrants throughout Brazil, especially on the border with Paraguay (State of Parana). Money laundering techniques vary widely in Brazil. In Sao Paulo, Rio de Janeiro, and Belo Horizonte, techniques are sophisticated and often involve foreign bank accounts, shell companies, and financial assets. In rural Brazil, promissory notes and factoring operations are more commonly used.

Some high-priced goods in the TBA are paid for in U.S. dollars, and cross-border bulk cash smuggling is a concern. Large sums of U.S. dollars generated from licit and suspected illicit commercial activity are transported physically from Paraguay into Brazil. From there, the money may make its way to banking centers in the United States. However, Brazil maintains some control of capital flows and requires disclosure of the ownership of corporations.

In March 2014, money laundering at a gas station tipped off Brazilian law enforcement to a connection with the parastatal oil company, Petrobras. Since then, “Operation Carwash” has uncovered a complicated web of corruption, money laundering, and tax evasion, leading to the arrests of former and current federal ministers, members of Congress, political party operatives, money launderers, politically appointed directors, and civil service employees at Petrobras and other parastatals, and executives at major private construction firms. Corruption-related money laundering is associated with fraudulent contracts (particularly those involving parastatal companies and private contractors), bribery and influence-peddling, antitrust violations, public pension fund investments in financial asset markets, and undeclared or illegal campaign donations.

There are four FTZs in Brazil. The government provides tax benefits in certain FTZs, which are located to attract investment to the country’s relatively underdeveloped North and Northeast regions.

### **KEY AML LAWS AND REGULATIONS**

Brazil’s money laundering legal framework has been updated three times since its establishment in 1998, most recently by Law #12.683 in 2012, and facilitates the finding, freezing, and forfeiture of illicit assets. Brazil has comprehensive KYC and STR regulations. Brazilian

regulations mandate enhanced due diligence for PEPs. Brazil is not subject to any U.S. or international sanctions.

Brazil and the United States have a MLAT. Brazil also regularly exchanges records with the United States and other jurisdictions through its membership in several exchange mechanisms (Interpol/Stolen Asset Recovery Initiative Focal Points, GAFILAT's Asset Recovery Network System-RRAG).

Brazil is a member of the FATF and the GAFILAT, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.fatf-gafi.org/publications/mutualevaluations/documents/mutualevaluationreportofbrazil.html>

### **AML DEFICIENCIES**

Legal persons cannot be criminally charged under Brazil's money laundering statute, but are subject to reporting requirements if they are covered entities under the AML law. Legal persons in violation of the reporting requirements can face fines and suspension of operation.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

In 2015, Brazil's federal prosecutors initiated 190 money laundering investigations, resulting in 120 indictments. Brazil does not compile comprehensive statistics on convictions, nor does data include state and local actions.

Through its 2003 National Strategy Against Corruption and Money Laundering and associated whole-of-government working groups, Brazil has made significant strides in strengthening its legal framework, building capacity to investigate and prosecute financial crimes through specialized police units and courts, and fostering interagency cooperation and civil society input on prospective reforms. Challenges remain, including a slow-moving criminal justice system up against strict statutes of limitations and the use of foreign tax havens by Brazilians. Brazil will benefit from expanded use of the task-force model and cooperative agreements that have facilitated recent major anti-corruption breakthroughs, as well as increased information exchange on best practices for financial market fraud, government contract oversight, and collaboration and leniency agreements.

## **British Virgin Islands**

### **OVERVIEW**

The British Virgin Islands (BVI) is a UK overseas territory. Its economy is dependent on tourism and the offshore financial sector. BVI is a well-established, sophisticated financial center offering accounting, banking and legal services, captive insurance, company incorporations, mutual funds administration and trust formation, and shipping registration. At the close of September 2016, the commercial banking sector had assets valued at approximately

\$2.2 billion. Potential misuse of BVI corporate vehicles remains a concern. Criminal proceeds laundered in the BVI derive primarily from domestic criminal activity and narcotics trafficking.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

The BVI has zero-rated corporation tax and no wealth, capital gains, or estate tax for offshore entities. Exploitation of offshore financial services, the unique share structure that does not require a statement of authorized capital, and lack of mandatory ownership information filing pose significant money laundering risks. The BVI is a favored destination for incorporating new companies and registering shell companies, which can be established for little money in a short amount of time. There are reports a substantial percentage of BVI's offshore business comes from China and Russia.

Financial services contribute over half of government revenues. The Financial Services Commission's (FSC) most recent statistical bulletin, published in June 2016, notes there are 430,310 active companies. Of these, 1,078 are private trust companies. There are six commercially licensed banks and 1,935 registered mutual funds.

The BVI's proximity to the U.S. Virgin Islands and its use of the U.S. dollar pose additional risk factors for money laundering. The BVI, similar to other jurisdictions in the Eastern Caribbean, is a major target for drug traffickers, who use the area as a gateway to the United States. BVI authorities work with regional and U.S. law enforcement agencies to help mitigate these threats.

### **KEY AML LAWS AND REGULATIONS**

Money laundering is criminalized, as are all predicate offenses in line with the international standards. Criminal penalties for money laundering and money laundering-related offenses have been increased to up to \$500,000 and 14 years in prison depending on the offense.

Administrative penalties have been increased from a maximum of \$4,000 to a maximum of \$100,000. Penalties under the Anti-money Laundering Regulations have also been increased to \$150,000.

The FSC is the sole supervisory authority responsible for the licensing and supervision of financial institutions. KYC and STR requirements cover banks, money service businesses, insurance agencies, investment businesses, insolvency practitioners, trust and company service providers, attorneys-at-law, notary publics, accountants, auditors, insolvency practitioners (only those who carry out a relevant business as defined), yacht and auto dealers, real estate agents, dealers in precious stones and metals, dealers in other high-value goods, and non-profit organizations.

The BVI is a member of the CFATF, a FATF-style regional body. Its most recent mutual evaluation can be found at: <https://www.cfatf-gafic.org/index.php/member-countries/s-v/virgin-islands>

### **AML DEFICIENCIES**

The BVI applies enhanced due diligence procedures to PEPs. Part III of the Anti-Money Laundering and Terrorist Financing Code of Practice, 2008 outlines the CDD procedures that licensees should follow to ensure proper verification of clients. The government reports that its CDD procedures are consistent with international standards.

International experts have criticized the BVI's supervision, particularly of the company formation sector, and also its sanctions regime. From January through June 2016, the BVI Enforcement Committee reviewed 77 enforcement cases, resulting in 10 administrative penalties, one cease and desist order, one advisory, one license revocation, and two warning letters.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

The BVI is a UK Caribbean overseas territory and cannot sign or ratify international conventions in its own right. Rather, the UK is responsible for the BVI's international affairs and may arrange for the ratification of any convention to be extended to the BVI. The 1988 UN Drug Convention was extended to the BVI in 1995. The UN Convention against Corruption was extended to the BVI in 2006, and the UN Convention against Transnational Organized Crime was extended to the BVI in 2012.

Between January 1 and October 31, 2016, there were two money laundering-related prosecutions and no money laundering-related convictions. There have been 15 money laundering convictions since 2008. This extremely low volume of prosecutions and convictions is not commensurate with the size and complexity of the BVI's financial sector.

The BVI has implemented a register which will allow BVI competent authorities direct and immediate beneficial ownership information; however, this registry is not publicly available.

The government is currently engaged in amending legislation to enable the Financial Investigation Agency (FIA) to take enforcement actions against DNFBPs that are non-compliant with their AML legal responsibilities. Such amendments will allow the FIA to enforce administrative penalties against non-compliant DNFBPs.

## **Burma**

### **OVERVIEW**

Burma's economy is underdeveloped, as is its financial sector, and most currency is still held outside the formal banking system, although bank deposits have increased over the past several years. The lack of financial transparency, the low risk of enforcement and prosecution, and the large illicit economy makes it potentially appealing to the criminal underground. Burma's long, porous borders are poorly patrolled.

The Burmese government has made significant progress in addressing international AML concerns, although the efficacy of its new legislation has yet to be tested. The expressed interest



of key officials in the Minister of the State Counselor's Office and Ministry of Foreign Affairs to take a joint leadership role to marshal AML cooperation is a positive development.

While Burma's designation as a jurisdiction of "primary money laundering concern" under Section 311 of the USA PATRIOT Act remains in effect, the U.S. Department of the Treasury's administrative exception issued in 2012 was reaffirmed in October 2016.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Burma continues to be a major exporter of heroin, second only to Afghanistan, and a regional source for amphetamines. The government faces the additional challenge of having vast swaths of its territory, particularly in drug-producing areas along Burma's eastern borders, controlled by non-state armed groups.

Endemic corruption remains an issue despite recent economic reforms that have significantly increased competition and transparency and some of the National League for Democracy's stances on zero tolerance.

The illegal trade in wildlife, precious minerals, and timber is also a source of illicit proceeds. The NGO Global Witness estimates the volume of unofficial jade exports in the tens of billions of dollars annually. In January 2016, Burma filed its first report with the Extractive Industries Transparency Initiative, which included 53 percent of official sales of jade; the government plans to deepen and broaden reporting on natural resource revenues.

Many Burmese rely on informal money transfer mechanisms, such as the *hundi*, which remain unregulated and unsupervised and, therefore, vulnerable to exploitation by criminal networks. Many business deals and real estate transactions are done in cash. Fewer than 25 percent of adults have a bank account; Burma's cash-based economy makes it difficult for authorities to detect illicit financial flows.

There have been at least five operating casinos, including one in the Kokang special region near China (an area the Burmese government does not control), that primarily have targeted foreign customers. Little information is available about the regulation or scale of these enterprises. They continue to operate despite the fact casino gambling is officially illegal in Burma.

### **KEY AML LAWS AND REGULATIONS**

Burma has made steady progress in improving the technical compliance of its legal and regulatory framework in line with international standards. Burma made meaningful progress to address its strategic deficiencies by adequately criminalizing money laundering, establishing an FIU to oversee suspicious transaction reporting, enhancing financial transparency, and strengthening CDD measures.

Burma is a member of the APG, a FATF-style regional body. Its most recent mutual evaluation can be found at:

<http://www.apgml.org/members-and-observers/members/member-documents.aspx?m=e0e77e5e-c50f-4cac-a24f-7fe1ce72ec62>

### **AML DEFICIENCIES**

Burma's AML deficiencies mainly pertain to logistical challenges, such as insufficient computer systems and limited government capacity and coordination. Financial institutions remain reliant on paper-based record keeping and on manual data entry to automated systems. The government, however, in cooperation with international donors, is taking measures to increase the automation and processing of electronic reporting.

The FIU relies on the cooperation of 25 entities, including customs, the Central Bank, and law enforcement, but the understanding of these groups about AML issues and procedures is limited. Planning for oversight of non-conventional financial services, such as money transfer services, microfinance institutions, and securities firms, is in the initial phases, and the Central Bank provides limited AML oversight of state-owned banks.

In November 2003, the United States identified Burma as a jurisdiction of "primary money laundering concern," pursuant to Section 311 of the USA PATRIOT Act, generally prohibiting U.S. financial institutions from establishing or maintaining correspondent accounts with Burma. While the Section 311 finding remains in place, in 2012, Treasury issued an administrative exception which permits U.S. financial institutions to maintain correspondent banking relationships under certain conditions; these permissions were reconfirmed on October 7, 2016, in conjunction with the termination of the economic and financial sanctions on Burma.

The FATF first placed Burma on its Public Statement in 2011. On February 19, 2016, the FATF noted Burma's progress in implementing its action plan and adopting legislation and removed Burma from its Public Statement.

Burma is in the process of joining the Egmont Group. Burma does not have a records-exchange mechanism with the United States but high-level law-enforcement officials have stated they are willing to engage in an MOU.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

Burma is working on relevant implementation of the 1988 UN Drug Convention.

Burma's court systems have prosecuted only about 10 money laundering cases but the government, particularly the FIU, continues to build capacity. The FIU and international donors hold regular seminars to better inform the private sector and law enforcement of Burma's AML law, their responsibilities under the law, and the FIU's organization and structure.

## **Cabo Verde**

### **OVERVIEW**

As a small archipelago nation off the west coast of Africa, Cabo Verde has a small financial system, primarily composed of the banking sector. Located between Africa, the Caribbean, South America, and Europe, Cabo Verde has been experiencing an increase in narcotics trafficking in the past decade.

Despite the existence of gaps, the Government of Cabo Verde has revised laws, policies, and regulations to curb illicit financial activities. The AML legal framework established in 2009 has improved port container monitoring and increased information sharing between domestic and international airports. Cabo Verde continues to receive donor support in its fight against crime and drugs through law enforcement training for Cabo Verdean armed forces, financial and technical assistance for the Cabo Verdean Financial Information Unit (UIF), the country's FIU, and through information sharing.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Given its large informal economy, Cabo Verde is vulnerable to money laundering operations. At present, the vast majority of laundered proceeds come from narcotics trafficking. Due to its location in the Atlantic Ocean, along major trade routes, Cabo Verde is an important transit point for narcotics headed for Europe from South America. Narcotics transit Cabo Verde by commercial aircraft and maritime vessels, including yachts. Additionally, consumption of illegal drugs is increasing in Cabo Verde.

Because of drug trafficking, the formal financial sector may be used to launder money by drug traffickers. Public corruption is limited and does not appear to contribute to money laundering in Cabo Verde.

### **KEY AML LAWS AND REGULATIONS**

The Cabo Verdean central bank publishes procedures with which financial institutions must comply regarding customer identification and due diligence, analysis of customer transactions, suspicious transaction reporting, and record-keeping.

Cabo Verde is a member of the GIABA, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.giaba.org/reports/mutual-evaluation/Cabo%20Verde.html>

### **AML DEFICIENCIES**

Although not required by law, financial institutions exercise enhanced due diligence procedures for both domestic and foreign PEPs.

The efficiency and effectiveness of the Ministry of Justice's Financial Investigative Unit needs to be increased so that it can operate in full compliance with international standards and best practices and serve optimally as the core agency of the Cabo Verdean AML regime. With donor assistance, the UIF is working to develop a strategy for AML supervision of DNFBPs, develop

basic financial analytical techniques, assess the bulk cash declaration regime, work with customs on full implementation of cross-border currency declaration requirements, and develop protocols with customs authorities with regard to financial intelligence exchange.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

With donor support, Cabo Verde has made an effort to increase its capability to combat money laundering. The government does not have the human, technical, and logistical resources to enable it to respond in an effective and timely manner to AML challenges. Limited resources hamper Cabo Verde's ability to enforce AML regulations, and public institutions are often unaware of their reporting responsibilities.

Public officials and international experts consider the Cabo Verdean FIU to have a deficient regulatory framework, although the government has made improvements. In 2012, the government passed Decree-Law No. 9/2012, which extended the powers of the FIU and transferred its physical structure from the Central Bank to the Ministry of Justice. However, the FIU still lacks adequate human and financial resources to perform all its duties in an effective manner, particularly the proper identification and analysis of suspicious transactions.

## **Cambodia**

### **OVERVIEW**

Cambodia is neither a regional nor an offshore financial center. Cambodia's money laundering vulnerabilities include a weak and ineffective AML regime; a cash-based, dollarized economy; porous borders; loose oversight of casinos; and the National Bank of Cambodia's limited capacity to oversee the fast-growing financial and banking industries. A weak judicial system and endemic corruption also constrain effective enforcement.

Cambodia has a significant black market for smuggled goods, including drugs and imported substances for local production of methamphetamine. Both legal and illicit transactions, regardless of size, are frequently conducted outside of formal financial institutions and are difficult to monitor. Cash proceeds from crime are readily channeled into land, housing, luxury goods, and other forms of property without passing through the formal banking sector. Casinos along the Thailand and Vietnam borders are other potential avenues to launder money.

Cambodia's AML law allows authorities to freeze assets relating to money laundering until courts issue final decisions. The AML regime lacks a clear system for sharing assets with foreign governments. In December 2014, Cambodia revised Strategy 5 in the National Strategies on AML/CFT 2013-2017 (National Strategies) by adding seven more actions to build capacity of the Cambodia Financial Intelligence Unit (CAFIU) and law enforcement officials and to strengthen cooperation among relevant domestic agencies in AML activities.

The government should continue its work to increase the volume and quality of STRs and CTRs from reporting entities of all types and increase the operational independence of the nascent and understaffed CAFIU.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

The sources of illicit funds are not identifiable. The national risk assessment (NRA) is being drafted to help identify the types of offense where illicit funds may be generated. According to the draft NRA, requests from relevant domestic and foreign authorities on money laundering-related fraud and scam cases have all been sent to competent authorities for investigation.

Cambodia's non-financial sectors, including -- most significantly -- the gaming and real property industries, are unregulated or under-regulated. Although gaming is illegal for Cambodian citizens, Cambodians often participate in illegal gaming. Gaming is legal for foreigners in Cambodia, and there are 57 legal casinos. The Cambodian town of Poipet, located along the Cambodia/Thailand border, has 10 casinos in operation. According to a UNODC report, more than 90 percent of the patrons in these casinos are Thai. Visas are not required for Thai citizens, and Thai baht is accepted. As a result, large amounts of money flow through Poipet's casinos; in 2015, it was estimated approximately \$12 million of cash destined for border casinos crossed the Poipet border every day. No casino located in Cambodia has ever submitted a cash or suspicious transaction report to CAFIU.

### **KEY AML LAWS AND REGULATIONS**

The National Coordination Committee on Anti-Money Laundering and Combating the Financing of Terrorism (NCC), a permanent and senior-level coordination mechanism, is responsible for ensuring the effective implementation of the AML law, including the development of national policy and a monitoring system to measure AML efforts. Both technical compliance with international standards and effectiveness are being discussed by a domestic working group, created by the NCC to answer questions and implement recommendations from the country's mutual evaluation. The working group is comprised of officials from relevant ministries and private sector representatives. Action plans to strengthen the AML regime will be issued after completion of the NRA.

The KYC policy was issued in 2003 to help identify potential money launderers. KYC-covered entities include banks, microfinance institutions, and credit cooperatives; securities brokerage firms and insurance companies; leasing companies; exchange offices/money exchangers; real estate agents; money remittance services; dealers in precious metals and stones; post offices offering payment transactions; lawyers, notaries, accountants, auditors, investment advisors, and asset managers; casinos and gaming institutions; NGOs, and foundations.

The CAFIU uses automated tools and filters to determine the flow of financial transactions and determine suspicious transactions filed with law enforcement agencies.

Cambodia is a member of the APG, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.apgml.org/mutual-evaluations/documents/default.aspx?pcPage=7>

### **AML DEFICIENCIES**

Pervasive corruption among law enforcement entities and a weak judiciary are major deficiencies in the government's ability to fight money laundering.

The AML law excludes pawn shops from its explicit list of covered entities but allows the CAFIU to designate any other profession or institution to be included within the scope of the law.

Cambodia is not subject to any U.S. or international sanctions/penalties.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

The NCC has been active in proposing legal and policy reforms to tackle AML deficiencies.

The Government of Cambodia established a review panel as part of the supplementary measures laid out in the National Strategies. The panel, comprised of the CAFIU and relevant law enforcement agencies, serves as a mechanism to strengthen cooperation among AML regulatory and law enforcement bodies.

There have been no money laundering convictions in Cambodia.

## **Canada**

### **OVERVIEW**

Money laundering activities in Canada primarily involve the proceeds of illegal drug trafficking, fraud, corruption, counterfeiting and piracy, tobacco smuggling and trafficking, and tax evasion. Cannabis production in the province of British Columbia is estimated to be worth CAD4-6 billion (approximately \$3-4.4 billion) annually. Significant amounts of foreign-generated proceeds of crime are laundered in Canada, and professional, third-party money laundering has increased. Local organized crime groups launder the proceeds of drug trafficking within Canada. Canada does not have a significant black market.

Legislation does not allow law enforcement to have direct access to Canada's FIU databases, but legislation will go into effect in June 2017 that strengthens information sharing.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Money is laundered in Canada via smuggling, MSBs/currency exchanges, casinos, real estate, wire transfers, offshore corporations, credit cards, foreign accounts, and the use of digital currency.

Canada does not have a significant black market for illicit goods. The most commonly smuggled goods are cigarettes, counterfeit items, and software. Underground financial systems exist within some immigrant communities. Human trafficking organizations also engage in money laundering activities.

### **KEY AML LAWS AND REGULATIONS**

Amendments to the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA) which strengthen Canada's AML regime and improve international compliance come into force June 17, 2017. These amendments will strengthen and expand the Financial Transactions and Reports Analysis Centre's (FINTRAC) ability to disclose information to police, the Canada Border Services Agency, and provincial securities regulators. They also mandate AML measures for provincially-operated online casinos.

Entities subject to KYC and STR requirements include banks and credit unions; life insurance companies, brokers, and agents; securities dealers; casinos; real estate brokers and agents; agents of the Crown (certain government agencies); MSBs; accountants and firms; lawyers; precious metals and stones dealers; and notaries in Quebec and British Columbia. A second package of amendments is under development that would close other gaps in Canada's AML regime, such as the lack of AML compliance measures for foreign MSBs and virtual currency dealers.

Canada has records exchange mechanisms with the United States and other governments.

Canada is a member of the FATF and of the APG, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-Canada-2016.pdf>

### **AML DEFICIENCIES**

AML regulation of attorneys was overturned by the Canadian Supreme Court as an unconstitutional breach of attorney-client privilege. Trust and company service providers, with the exception of trust companies, are also not subject to preventative measures.

Canada's legislative framework does not allow law enforcement agencies access to FINTRAC's databases. However, FINTRAC may disclose intelligence to assist with money laundering investigations or national security threats and is required to share information when information is deemed relevant to an investigation or prosecution. Information may be sent to multiple authorities if links to parallel investigations are suspected.

As of July 2016, the PEP provisions of the PCMLTFA were amended to include domestic persons and heads of international organizations (HIO). The PCMLTFA now requires reporting

entities to determine whether a client is a foreign PEP, a domestic PEP, an HIO, or an associate or family member of any such person.

Canada published its national AML inherent risk assessment in July 2015. Canada is not subject to U.S. or international sanctions or penalties.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

Canada has a rigorous detection and monitoring process in place but should further enhance its enforcement and conviction capability. Canada adopted the Security of Canada Information Sharing Act in 2015 to facilitate information sharing among government agencies regarding activity that undermines national security, including terrorism.

Investigators regularly make large cash seizures of Canadian and U.S. currency and seize assets purchased with cash. Bulk cash smuggling is widespread. In addition to the offense of laundering the proceeds of crime, the possession of proceeds of crime (PPOC) is a criminal offense. The same penalties apply to both laundering and PPOC convictions involving more than \$5,000. Of PPOC charges brought in 2014 (most recent data available), 17,191 resulted in a conviction of at least one charge and 4,812 resulted in a PPOC conviction. Money laundering convictions under the criminal code hover around 100 per year.

Canada implemented legislation regulating virtual currencies in 2014, subjecting exchangers to the same reporting requirements as MSBs. Digital currency exchanges must register with FINTRAC. The legislation also covers foreign companies with a place of business in Canada and those directing services at Canadians. Financial institutions are prohibited from establishing and maintaining accounts for virtual currency businesses not registered with FINTRAC.

## **Cayman Islands**

### **OVERVIEW**

The Cayman Islands, a UK overseas territory, is an offshore financial center that provides a wide range of services including banking, structured finance, investment funds, trusts, and company formation and management. As of June 2016, the banking sector had \$1.131 trillion in international assets. As of September 2016, there are 175 banks, 152 trust company licenses, 134 licenses for company management and corporate service providers, 864 insurance-related licenses, five MSBs, and almost 100,000 companies licensed or registered in the Cayman Islands. According to the Cayman Islands Monetary Authority, as of September 2016 there are approximately 10,830 mutual funds.

Most money laundering in the Cayman Islands is related to foreign criminal activity and involves fraud, tax evasion, and drug trafficking. The government should take steps to adopt and implement a risk-based approach in money laundering regulations and complete a platform for sharing beneficial ownership information.



**VULNERABILITIES AND EXPECTED TYPOLOGIES**

Money laundering in the Cayman Islands is primarily related to foreign criminal activity and involves fraud, tax evasion, and drug trafficking, largely cocaine. The offshore sector is used to layer or place funds into the Cayman Islands financial system. Due to its status as a zero-direct tax regime, the Cayman Islands is considered attractive to those seeking to evade taxes in their home jurisdictions.

Gaming is illegal. The Cayman Islands does not permit registration of offshore gaming entities. Authorities do not see risks from bulk cash smuggling related to cruise ships given strong due diligence procedures in place. Cayman Enterprise City, a Special Economic Zone, was established in November 2011 for knowledge-based industries, primarily internet and technology, media and marketing, commodities and derivatives, and biotechnology.

**KEY AML LAWS AND REGULATIONS**

Shell banks and anonymous accounts are prohibited. The Cayman Islands amended its Companies Law to prohibit the use of any bearer shares as of May 13, 2016.

CDD and STR requirements cover banks, trust companies, investment funds, fund administrators, securities and investment businesses, insurance companies and managers, money service businesses, lawyers, accountants, corporate and trust service providers, money transmitters, dealers of precious metals and stones, the real estate industry, and other relevant financial business as defined in the Proceeds of Crime Law.

In 2016 the Cayman Islands Legislative Assembly passed the following AML-related legislation: the Monetary Authority (Amendment) Law authorizes the Cayman Islands Monetary Authority to impose administrative penalties for AML and regulatory breaches; Special Economic Zone (Amendment) Law allows for stronger due diligence and authorizes the Special Economic Zone Authority to collect beneficial ownership information; the Confidential Information Disclosure Law repeals and replaces the Confidential Relationships (Preservation) Law, updates circumstances in which a person may be required or authorized to disclose confidential information, and removes the criminal sanction for breach of confidential information; Accountants Law modernizes the system for regulation of accountants; the Non-Profit Organizations Law provides for monitoring and supervision of publicly funded NPOs; Police (Amendment) Law provides for regulations which strengthen the international cooperation framework among law enforcement agencies; and the Proliferation Financing (Prohibition) (Amendment) Law requires freezing of assets related to nuclear proliferation without delay.

The Cayman Islands applies enhanced due diligence procedures to PEPs.

The Cayman Islands is a member of the CFATF, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.fatf-gafi.org/topics/mutualevaluations/documents/mutualevaluationofthecaymanislands.html>

**AML DEFICIENCIES**

Commodities and derivatives are potential areas of vulnerability. To combat this, the Cayman Islands enhanced its AML supervision for DNFBPs that trade or store precious metals and stones and financial derivatives within the Special Economic Zone.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

The UK is responsible for the Cayman Islands' international affairs and arranges for the ratification of conventions to be extended to the Cayman Islands. The 1988 UN Drug Convention was extended to the Cayman Islands in 1995. The UN Convention Against Transnational Organized Crime was extended to the Cayman Islands in 2012. The UN Convention against Corruption has not yet been extended; however, the implementation platform for the anti-corruption convention exists under current Cayman law. Between January 1 and October 31, 2016, there were two money laundering-related prosecutions and two money laundering-related convictions. The United States convicted two Cayman Islands companies in March 2016 for conspiring to hide more than \$130 million in Cayman Islands bank accounts.

The Cayman Islands continues to develop its network of tax information exchange mechanisms and has a network of 36 signed information exchange agreements, with 31 in force. It also implemented automatic exchange of information for tax purposes under the Common Reporting Standard in 2016, and exchanges will begin in 2017.

The government of the Cayman Islands reportedly plans to incorporate a risk-based approach and administrative penalties for financial and DNFBP supervisors. The Cayman Islands is developing a centralized platform to enhance the timeliness of sharing of beneficial ownership information, with a target implementation date of June 2017. Currently, all financial service providers are required to maintain beneficial ownership information on their clients.

## **China, People's Republic of**

### **OVERVIEW**

The development of China's financial sector has required increased enforcement efforts to keep pace with the sophistication and reach of criminal networks. Chinese authorities continue to investigate cases involving traditional money laundering schemes and identify new money laundering methods, including illegal fundraising activity, cross-border telecommunications fraud, and corruption in the banking, securities, and transportation sectors.

While China continues to make improvements to its AML legal and regulatory framework, gradually making progress toward meeting international standards, implementation and transparency remain lacking in the context of international cooperation. China should cooperate with international law enforcement to investigate how indigenous Chinese underground financial systems, virtual currencies, and trade-based value transfer are used for illicit outbound transfers, and to receive inbound remittances and criminal proceeds.

**VULNERABILITIES AND EXPECTED TYPOLOGIES**

The primary sources of criminal proceeds are corruption, narcotics and human trafficking, smuggling, economic crimes, intellectual property theft, counterfeit goods, crimes against property, and tax evasion. Criminal proceeds are generally laundered via methods that include bulk cash smuggling; TBML; manipulating invoices for services and the shipment of goods; purchasing valuable assets, such as real estate and gold; investing illicit funds in lawful sectors; gambling; and exploiting formal and underground financial systems, in addition to third-party payment systems. Chinese officials have noted that corruption in China often involves state-owned enterprises, including those in the financial sector.

China is not considered a major offshore financial center; however, China has 19 Special Economic Zones (SEZs) and other designated development zones at the national, provincial, and local levels. As part of China's economic reform initiative, China has opened FTZs in Shanghai, Tianjin, Guangdong, and Fujian.

**KEY AML LAWS AND REGULATIONS**

China passed a new law in September 2016 to require all charities to register with the government and to identify sources of funding in order to improve transparency in the non-profit sector.

In an August 2016 report, the People's Bank of China (PBOC) AML Bureau Director General reviewed China's work to date, noting China had published five major guidelines clarifying implementation of its 2006 AML Law and built up an alert system, including KYC, STR, and customer information and transaction recording requirements.

On July 1, 2016, a PBOC guideline requiring real-name identity verification for online payment platforms operated by non-bank financial institutions took effect. The PBOC guideline requires that account users be verified by their real-name identity to make online payments, receive or transfer funds, and use online wealth management services. Tencent and Alipay have reportedly implemented the requirements.

In February 2016, the PBOC issued a guideline requiring the Shanghai FTZ to construct an AML system and to conduct capital monitoring and analysis in the zone. The guideline calls for prioritizing CDD investigations and focusing on actual account holders and transaction beneficiaries.

China is a member of the FATF as well as the APG and the EAG, both of which are FATF-style regional bodies. Its most recent mutual evaluation can be found at: <http://www.fatf-gafi.org/countries/a-c/china/documents/mutualevaluationofchina.html>

See comments on the Agreement on Mutual Legal Assistance in Criminal Matters between the United States and China described below.

**AML DEFICIENCIES**

Improvements should be made addressing the rights of bona fide third parties in seizure/confiscation actions.

China is not subject to any U.S. or international AML sanctions or penalties.

China's FIU is not a member of the Egmont Group.

## **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

China should enhance coordination among its financial regulators and law enforcement bodies to better investigate and prosecute offenders. China's Ministry of Public Security should continue ongoing efforts to develop a better understanding of how AML tools can be used, in a transparent fashion, to support the investigation and prosecution of a wide range of criminal activity. China should also continue to adapt its AML regime and financial regulations to address new and developing threats like virtual currencies, such as bitcoin, that are being used to circumvent capital controls.

The government should ensure all courts are aware of and uniformly implement mandatory confiscation laws. In domestic cases, once an investigation is opened, all law enforcement entities and public prosecutors are authorized to take provisional measures to seize or freeze property in question to preserve the availability of the same for later confiscation upon conviction. Although China's courts are required by law to systematically confiscate criminal proceeds, enforcement is inconsistent and no legislation authorizes seizure/confiscation of substitute assets of equivalent value.

The United States and China are parties to the Agreement on Mutual Legal Assistance in Criminal Matters. U.S. agencies consistently seek to expand cooperation with Chinese counterparts on AML matters. U.S. law enforcement agencies note China has not cooperated sufficiently on financial investigations and does not provide adequate responses to requests for financial investigation information. In addition, China's inability to enforce U.S. court orders or judgments obtained as a result of non-conviction-based forfeiture actions against China-based assets remains a significant barrier to enhanced U.S.-China cooperation in asset freezing and confiscation.

In 2015, there were 1,540 money laundering prosecutions; conviction data is not available.

## **Colombia**

### **OVERVIEW**

Despite the Government of Colombia's fairly strict AML regime, the laundering of money, primarily from Colombia's illicit drug production and illegal mining but also from domestic terrorist groups, continues to penetrate its economy and affect its financial institutions. Colombia is taking appropriate steps by addressing some of the inefficiencies in its asset

forfeiture regime and should continue to look for additional ways to increase efficiency and streamline an overly cumbersome judicial system. The Colombian government should find legal and administrative mechanisms to address the lack of interagency cooperation, which continues to hamper the government's progress in implementing an effective and efficient AML regime.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

The postal money order and securities markets; the smuggling of bulk cash, gasoline, liquor, and household appliances; wire transfers; remittances; TBML; casinos, games of chance, and lotteries; electronic currency; prepaid debit cards; and prepaid cellular minutes are various techniques used to launder illicit funds. Trading of counterfeit items is another method used to launder illicit proceeds. The 104 FTZs in Colombia are vulnerable due to inadequate regulation, supervision, and transparency.

Criminal organizations smuggle merchandise to launder money through the formal financial system using trade, the non-bank financial system, and the black market peso exchange mechanism. Purchased goods are either smuggled into Colombia via neighboring countries or brought directly into Colombia's customs warehouses, avoiding taxes, tariffs, and customs duties. Counterfeit and smuggled goods are readily available in well-established black markets. Invoice-related TBML schemes are also used to transfer value. Evasion of the normal customs charges is frequently facilitated by the complicity of corrupt customs authorities.

Money laundering also occurs through regionally-run lotteries, called "Chance," which are easily exploitable due to weaknesses in the reporting system of these games to central government regulators.

### **KEY AML LAWS AND REGULATIONS**

The AML legal regime and regulatory structure in Colombia generally meets international standards, and Colombia has enacted comprehensive CDD and STR regulations. Enhanced due diligence for PEPs is required.

Colombia cooperates with the United States in money laundering investigations, and exchange of information occurs regularly. In November 2016, Colombia and the United States signed a new asset sharing agreement. Recently, the Colombian legislature began considering changes to its 2014 Asset Forfeiture Reform Law, which would address some of the deficiencies in the current law and streamline the administrative and judicial processes of the asset forfeiture regime.

Colombia is a member of the GAFILAT, a FATF-style regional body. Its most recent mutual evaluation can be found at:

[http://www.gafilat.org/UserFiles/documentos/en/evaluaciones\\_mutuas/Colombia\\_3era\\_Ronda\\_2008.pdf](http://www.gafilat.org/UserFiles/documentos/en/evaluaciones_mutuas/Colombia_3era_Ronda_2008.pdf)

### **AML DEFICIENCIES**

Key impediments to developing an effective AML regime are underdeveloped institutional capacity, limited interagency cooperation, and an inadequate level of expertise in investigating and prosecuting complex financial crimes. The lack of interagency cooperation, a reluctance to share information, and bureaucratic stove-piping are factors that continue to limit the effectiveness of Colombia's AML regime. Despite improvements, regulatory institutions have limited analytical capacity and tools and lack the technology to effectively utilize the vast amount of available data.

COLJUEGOS, the gaming supervisor, continues to make limited gains by adding analytic capacity. However, the agency still suffers from a lack of resources, unfamiliarity with how to process and share information with prosecutors and judicial police, and a lack of information-sharing agreements with other regulatory and intelligence agencies.

Colombian law restricts the disclosure of financial intelligence from Colombia's FIU, the Unit for Information and Financial Analysis (UIAF), to the Attorney General's Office (AGO) only. The legal requirement that prosecutors conduct investigations means many cases already investigated by UIAF must be re-examined by the AGO, increasing case processing time and adding unnecessary work for prosecutors.

Lack of familiarity with the 2014 asset forfeiture law, especially outside of Bogota, continues to challenge the judicial sector. Moreover, a Supreme Court decision introduces an additional step to the proceedings, requiring prosecutors to first appear before an arraignment judge before the case can continue to the higher courts. The government reorganized the body in charge of managing seized assets to increase the speed by which these assets could be discharged; however, the AGO still retains the right to seize certain assets using a separate legal procedure. A lack of sound practices, standards, and coordination between the two entities continues to be an impediment.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

Despite Colombia's robust legal and institutional AML infrastructure, key impediments are the lack of interagency cooperation, limited information sharing among the relevant agencies, an ineffective and inefficient judicial system, and a lack of expertise and experience in investigating and prosecuting complex financial crimes, especially outside of Bogota. Some Colombian policymakers recognize these challenges and have been working to address them, yet institutional deficiencies remain. After the unexpected departure of the UIAF director in April 2016, Colombia's FIU has been without a permanent director for most of 2016, creating uncertainties regarding the policies and direction of a key AML institution.

The Colombian Attorney General's Office reported that 60 money laundering cases resulted in a final judicial decision in 2016. Of these 60 cases, 51 concluded with a conviction.

## **Costa Rica**

### **OVERVIEW**

Transnational criminal organizations continue to favor Costa Rica as a base to commit financial crimes due to its location and limited enforcement capability. Costa Rica's government has attempted to strengthen the legal framework for supervision and enforcement; however, challenges remain in mitigating money laundering risks. Costa Rica is a transit point that is also increasingly used as an operations base for narcotics trafficking; and significant laundering of proceeds from illicit activities continues. Costa Rica should continue to close financial crimes legislative gaps and allocate resources for investigation and prosecution.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Narcotics trafficking proceeds represent the largest source of laundered assets. Human trafficking, financial fraud, corruption, and contraband smuggling also generate illicit revenue. The construction industry; MVTs, including money remitters; the casino industry; and real estate have been identified as vulnerable to exploitation, as well as state and private financial institutions. Online gaming is legal in Costa Rica, and there are allegations of the laundering of millions of dollars. Authorities have occasionally detected TBML schemes and continue to identify bulk cash smuggling by foreign nationals.

### **KEY AML LAWS AND REGULATIONS**

Costa Rican law does not attribute criminal responsibility to legal entities, although it may ascribe civil liability.

Costa Rica has KYC and STR requirements. Regulatory entities mandate CDD procedures for the following entities: banks, savings and loan cooperatives, and pension funds; insurance companies and intermediaries, money exchangers, and money remitters; securities broker/dealers, credit issuers, and sellers or redeemers of traveler's checks and postal money orders; trust administrators, financial intermediaries, and asset managers; real estate developers and agents; manufacturers, sellers, and distributors of weapons; art, jewelry, and precious metals dealers; sellers of new and used vehicles; casinos, virtual casinos, and electronic or other gaming entities; lawyers, and accountants.

Costa Rica and the United States do not have a MLAT agreement, nor is one under negotiation at this time. However, Costa Rica cooperates effectively with U.S. law enforcement through international cooperation offices at key institutions and is party to several inter-American cooperation agreements on criminal matters and UN conventions.

Costa Rica is a member of the GAFILAT. Its most recent mutual evaluation can be found at: [http://www.gafilat.org/UserFiles//Biblioteca/Evaluaciones/IEM%204ta%20Ronda//MER\\_Costa\\_Rica\\_Final\\_Eng%20\(1\).pdf](http://www.gafilat.org/UserFiles//Biblioteca/Evaluaciones/IEM%204ta%20Ronda//MER_Costa_Rica_Final_Eng%20(1).pdf)

### **AML DEFICIENCIES**

Costa Rica's 2015 National Strategy to Counter Money Laundering and Terrorism Financing seeks to address deficiencies, including lack of regulatory oversight of DNFBPs, lack of

transparency regarding beneficial ownership of legal entities, an inadequate sanction regime for noncompliance, and insufficient resources allocated to AML.

Costa Rica enhanced its legal and regulatory frameworks in 2016, and the National Assembly passed Law 9387, allowing the government to freeze assets with suspected organized crime links. In December 2016, the National Assembly passed Legislative bill 19.245, which seeks to combat fiscal fraud by creating a registry of beneficial owners of legal entities. In May 2016, Bill 19.951 was introduced to extend regulatory supervision to credit card operators, money transfer business, casinos, and real estate developers and agents.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

Costa Rica still faces challenges in mitigating identified risks, including developing an adequate legal framework for non-conviction-based asset forfeiture. To remedy this deficiency, Bill 19.571 was introduced in October 2015 and remains on the agenda for debate in the National Assembly. Prosecutors face challenges in prosecuting stand-alone money laundering cases because they are obligated to obtain convictions for predicate offenses first. Additionally, personnel shortages frequently hinder investigations.

There are ongoing U.S. financial crime investigations with Costa Rican ties, and Costa Rica cooperates well with U.S. law enforcement. In 2016, U.S. investigators dismantled a billion-dollar online gaming ring with Costa Rica-based employees. In May 2016, the U.S. Department of Justice cited cooperation from Costa Rica's Judicial Investigation Organization in the conviction of the Liberty Reserve founder for money laundering.

In 2016, Costa Rican investigators advanced complex cases and seized larger businesses, including two car washes and a hotel. During the period January 1 - October 1, 2016, the special bureau for money laundering in San Jose brought four cases to trial and achieved convictions or guilty pleas in three cases. In addition, regional prosecutors brought 23 cases during the period January 1-November 1, 2016, of which 13 resulted in convictions or guilty pleas.

Costa Rica continues to work to improve its enforcement and regulatory framework, focusing on those deficiencies highlighted by international experts.

## **Cuba**

### **OVERVIEW**

Cuba is not a regional financial center. Cuban financial practices and U.S. sanctions continue to prevent Cuba's banking system from fully integrating into the international financial system. The government-controlled banking sector, low internet and cell phone usage rates, and lack of government and legal transparency render Cuba an unattractive location for money laundering through financial institutions. The centrally-planned economy includes limited private activity. A significant cash-based black market operates parallel to the heavily subsidized and rationed formal market dominated by the state.



The Government of Cuba does not identify money laundering as a major problem. Cuba should increase the transparency of its financial sector and expand its capacity to fight illegal activities. Cuba also should increase the transparency of criminal investigations and prosecutions.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Cuba's geographic location puts it between drug-supplying and drug-consuming countries. Cuba has little foreign investment, a small international business presence, and no offshore casinos or internet gaming sites. Cuba's first special economic development zone at the port of Mariel in northwestern Cuba was established in November 2013 and is still under development; it is not currently an area of concern. There are no known issues with or abuse of NPOs, alternative remittance systems, offshore sectors, FTZs, bearer shares, or other specific sectors or situations.

### **KEY AML LAWS AND REGULATIONS**

Legislation released in 2013 outlines regulations regarding enhanced customer due diligence of foreign PEPs, although it continues to exempt domestic PEPs from the reach of the legislation.

Cuba has bilateral agreements with a number of countries, including the United States, related to combating drug trafficking. It is unknown if any of these agreements include mechanisms to share information related to financial crimes or money laundering.

The United States and Cuba do not have a formal records-exchange mechanism in place but, under the Law Enforcement Dialogue process, have developed a mutual legal assistance relationship as part of the legal cooperation technical exchange and have established direct communication between DEA and its Cuban counterpart to focus on counternarcotics cooperation.

Cuba is a member of the GAFILAT, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.fatf-gafi.org/publications/mutualevaluations/documents/mer-cuba-2015.html>

### **AML DEFICIENCIES**

Although the risk of money laundering is low, Cuba has a number of strategic deficiencies in its AML regime. These include a lack of SAR reporting to its FIU from financial institutions and DNFBPs and weak supervision and enforcement in the DNFBP and NPO sectors.

These deficiencies stem from Cuba's opaque national banking and financial sector, which hampers efforts to monitor the effectiveness and progress of Cuba's AML efforts. Cuba should increase the transparency of its financial sector. Cuba should ensure its CDD measures and SAR requirements include domestic PEPs, all DNFBPs, and the NPO sector, and create appropriate laws and procedures to enhance international cooperation and mutual legal assistance. Cuba also should increase the transparency of criminal investigations and prosecutions.

The U.S. government issued the Cuban Assets Control Regulations in 1963, under the Trading with the Enemy Act. Between January 2015 and October 2016, the Departments of Commerce and the Treasury significantly modified sanctions regulations, with the easing of restrictions on authorized travel, commerce, and financial transactions. The embargo remains in place, however, and the sanctions regulations still restrict travel for “tourist activities,” as well as most investment and the import of most products of Cuban origin. With some notable exceptions, including agricultural products, medicines and medical devices, and certain non-sensitive telecommunications equipment and consumer communications devices, most exports from the United States to Cuba require a license. Additionally, U.S.-based assets in which Cuba or the Cuban government have an interest are blocked by operation of law, in the absence of a license.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

The Cuban government has run high-profile campaigns against corruption in recent years, investigating and prosecuting Cuban officials and foreign businesspeople. Cuba also is continuing its efforts to investigate and prosecute cases of money laundering. There are press reports of Cuba prosecuting and convicting individuals for money laundering and related offenses as recently as December 2016, but Cuba released no official reports of prosecutions or convictions for money laundering in 2016.

Cuba has agreed to continued cooperation and to the establishment of mechanisms to promote cyber-security and to combat terrorism, drug-trafficking, trafficking and trade in persons, money laundering, smuggling, and other transnational crimes. The United States and Cuba have a Law Enforcement Dialogue with technical exchanges on counternarcotics, cybercrime and cybersecurity, money laundering and associated crimes, counterterrorism, and legal cooperation.

## **Curacao**

### **OVERVIEW**

Curacao is an autonomous country within the Kingdom of the Netherlands. The Kingdom retains responsibility for foreign policy and defense, including entering into international conventions. The Kingdom may extend international conventions to the autonomous countries. With the Kingdom’s agreement, each autonomous country can be assigned a status of its own within international or regional organizations subject to the organization’s agreement. The individual countries may conclude MOUs in areas in which they have autonomy, as long as these MOUs do not infringe on the foreign policy of the Kingdom as a whole. The Kingdom extended the UN Drug Convention to Curacao in 1999, and in 2010, the UNTOC was extended to Curacao.

In June 2016, Aruba, Sint Maarten, the Netherlands, and Curacao signed an MOU with the United States for joint activities and sharing of information in the areas of criminal investigation and upholding public order and to strengthen mutual cooperation in the areas of forensics and the organization of the criminal justice system. While the MOU is a broad-based attempt to improve

all of the criminal justice system, one priority area is cracking down on money laundering operations.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Curacao is a regional financial center and, due to its location, a transshipment point for drugs from South America. The financial sector consists of company (trust) service providers, administrators, and self-administered investment institutions providing trust services and administrative services. These entities have international companies, mutual funds, and investment funds as their clients.

Money laundering is primarily related to proceeds from illegal narcotics. Money laundering organizations take advantage of the availability of U.S. dollars, offshore banking and incorporation systems, two FTZs, an expansive shipping container terminal with the largest oil transshipment center in the Caribbean, and resort/casino complexes to place, layer, and launder illegal proceeds. Money laundering occurs through real estate purchases, international tax shelters, wire transfers, and cash transport among Curacao, the Netherlands, and other Dutch Caribbean islands. Also, bulk cash smuggling is a continuing problem due to Curacao's close proximity to South America.

### **KEY AML LAWS AND REGULATIONS**

Curacao enters into tax information exchange agreements (TIEAs) and double taxation agreements with other jurisdictions to prevent tax fraud and money laundering.

The following types of service providers are obligated by AML legislation to report unusual transaction reports (UTRs) to the FIU, and are covered by the KYC laws: accountants and accounting firms, auditors and auditing firms, auto/car dealers, credit unions, credit card companies, building societies, insurance companies, financial leasing companies, money remitters, real estate agents, securities broker/dealers, banks, casinos, credit associations, dealers in luxury goods, financial advisors, lotteries, money exchangers (only domestic banks are permitted to provide the service of exchanging foreign currencies), notaries, pawn shops, dealers in precious stones and metals, lawyers, superannuation/pension funds, online betting lotteries, construction material dealers, and trust companies.

The MLAT between the Kingdom of the Netherlands and the United States, rather than the U.S. - EU Agreement, which has not yet been extended to the Kingdom's Caribbean countries, applies to Curacao and is regularly used by U.S. and Curacao law enforcement agencies for international drug trafficking and money laundering investigations. Additionally, Curacao has a TIEA agreement signed with the United States.

Curacao is a member of the CFATF, a FATF-style regional body and, through the Kingdom, the FATF. Its most recent mutual evaluation can be found at: <https://www.cfatf-gafic.org/index.php/documents/cfatf-mutual-evaluation-reports/curacao>

### **AML DEFICIENCIES**

Curacao is currently drafting a supervisory law for internet gaming. Presently, internet casinos are subject to the AML obligations in the National Ordinance on Identification of Clients when Rendering Services and the amended National Ordinance on the Reporting of Unusual Transactions.

Curacao should conduct an AML national risk assessment. It also should strengthen its regulation and supervision of the offshore sector and FTZs, investigate underground banking networks, increase the number of money laundering investigations and prosecutions, and evaluate the risks posed by TBML, tax evasion, and the placement of illicit proceeds by corrupt foreign officials into its financial system.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

Instead of a STR system, Curacao utilizes a broader UTR reporting system. Pursuant to local legislation, the reporting entities file UTRs with the FIU. The FIU analyzes the UTR and determines if it should be classified as a STR. The latest statistics, as of November 1, 2015, were 17,169 UTRs filed and 667 disseminated referrals to law enforcement agencies.

Curacao is carrying out three money laundering prosecutions: one against a lottery operator, and two against former government officials. All three are on appeal.

## **Dominica**

### **OVERVIEW**

Dominica is an offshore center with a considerable IBC presence and internet gaming. Money laundering cases involve external proceeds from fraudulent investment schemes, advance fee fraud schemes, and the placement of euros related to questionable activities conducted in other surrounding jurisdictions. Domestic money laundering is chiefly linked to narcotics activities.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Dominica is uniquely located between the French territories of Guadeloupe and Martinique and, due to its geographical location, the country is used as a transshipment point for narcotics and other criminal activities. For the past few years, money laundering cases involved fraudulent investment schemes, advance fee fraud schemes, credit card fraud schemes and the placement of euros from criminal activities into the financial system from the neighboring French territories of Marie Galante, Les Saintes, Guadeloupe, and Martinique.

Dominica hosts one internet gaming company, twelve offshore banks, and close to 19,000 IBCs. Bearer shares are permitted, but beneficiaries of the bearer shares must be disclosed to financial institutions as part of their KYC programs. The Eastern Caribbean Central Bank licenses and supervises domestic commercial banks. The Financial Services Unit (FSU) within Dominica's

Ministry of Finance supervises and licenses offshore banks, credit unions, insurance companies, internet gaming companies, and the country's economic citizenship program.

Under Dominica's citizenship by investment program (CIP), individuals can obtain citizenship for approximately \$100,000 for an individual and \$200,000 for a family of up to four persons, or through an investment in real estate valued at a minimum of \$200,000. There is no residency requirement and passport holders may travel to most Commonwealth and EU countries without a visa. An application for economic citizenship must be made through a government-approved local agent and requires a fee for due diligence or background check purposes. There is no mandatory interview process; however, the government may require interviews in particular cases. Dominica's CIP has vulnerabilities that present AML and regional security risks and that may make it susceptible to abuse by criminal actors.

Furthermore, the porous borders pose a great challenge to law enforcement officials in effectively policing the various coastlines for drugs and smuggling of goods such as firearms and cash. Law enforcement officials continue to harness all available resources to curtail this illegal trade.

### **KEY AML LAWS AND REGULATIONS**

In Dominica, there are comprehensive AML laws and regulations. These include: the Money Laundering (Prevention) Act No. 8 of 2011, as amended; the Financial Services Unit Act, No. 18 of 2008; the Financial Intelligence Unit Act, No. 7 of 2011; the Proceeds of Crime Act, No. 4 of 1993, as amended; the Anti-Money Laundering and Counter-Financing of Terrorism Code of Practice, No. 10 of 2014; the Exchange of Information Act, No. 25 of 2001; the Mutual Assistance in Criminal Matters Act, Chap. 12:19; the Transnational Organized Crime (Prevention and Control) Act, No. 13 of 2013; and the Criminal Law and Procedure (Amendment) Act, No. 3 of 2014.

The government enacted legislation to combat money laundering. The Proceeds of Crime Act of 2014, which is cited as the Anti-Money Laundering and the Suppression of Terrorist Financing Code of Practice, highlights duties of the FIU and the FSU in ensuring that financial institutions and persons carrying on a relevant business put appropriate AML systems and controls in place. The legislation clearly sets out provisions with which relevant entities are bound to comply. There are offenses and penalties created for non-compliance.

Entities that must comply with KYC rules are banks, venture risk capital, money transmission services, money and securities brokers, traders in foreign exchange, money lending and pawning, money exchanges, mutual funds, credit unions, building societies, trust businesses, insurance businesses, securities exchange, real estate businesses, car dealers, casinos, courier services, jewelry businesses, internet gaming and wagering entities, management companies, asset management and advice services, custodial and nominee service providers, registered agents, telecommunications companies, and utility companies.

Dominica is a member of the CFATF, a FATF-style regional body. Its most recent mutual evaluation can be found at: <https://www.cfatf-gafic.org/index.php/documents/mutual-evaluation-reports/dominica-1>

### **AML DEFICIENCIES**

Dominica has achieved technical compliance with international AML standards. The AML/CFT Code of Practice covers legal persons and also provides for enhanced due diligence for PEPs. It is not clear whether Dominica has the ability to maintain statistics on matters relevant to the effectiveness and efficiency of its AML regime. In addition, it has not commenced the process of monitoring agents licensed to incorporate IBCs.

Currently Dominica is not subject to any U.S. or international sanctions.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

The Proceeds of Crime Statutory Rules and Orders of 2014 ensures every entity puts proper controls in place to detect and prevent money laundering. Secondly, it provides guidance to every financial services entity and professional to appropriately apply the requirements of the Money Laundering Prevention Act of 2011. This update also promotes the use of an appropriate and proportionate risk-based approach to the detection and prevention of money laundering.

The 1988 UN Drug Convention was ratified on June 16, 1993. All pertinent Articles of the convention were incorporated into Dominica's legislation.

## **Dominican Republic**

### **OVERVIEW**

The Dominican Republic (DR) continues to be a major transit point for the transshipment of illicit narcotics destined for the United States and Europe. The six international airports, 16 seaports, and a large porous frontier with Haiti present Dominican authorities with serious challenges. The DR is not a major regional financial center, despite having one of the largest economies in the Caribbean.

Corruption within the government and the private sector, the presence of international illicit trafficking cartels, a large informal economy, and weak financial controls make the DR vulnerable to money laundering threats. Financial institutions in the DR engage in currency transactions involving international narcotics trafficking proceeds that include significant amounts of U.S. currency or currency derived from illegal drug sales in the United States. Casinos are legal, and unsupervised gaming activity represents a significant money laundering risk. While the country has passed a law creating an international FTZ, implementing regulations will not be issued until the law is reformed to avoid perceptions the zone will be left out of the DR's AML regulatory regime.

The DR is not currently a member of the Egmont Group of FIUs, although it officially requested to begin the process to rejoin Egmont in January 2015, after making the necessary legislative changes to comply with Egmont requirements in 2014.

The government should take steps to rectify continuing weaknesses regarding PEPs, pass legislation to provide safe harbor protection for STR filers, and criminalize tipping off. The government should better regulate casinos and DNFBPs, specifically real estate companies, and strengthen regulations for financial cooperatives and insurance companies.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

The major sources of laundered proceeds stem from illicit trafficking activities, tax evasion, and financial fraud, particularly transactions with forged credit cards. U.S. law enforcement has identified networks smuggling weapons into the DR from the United States. Car dealerships, precious metals dealers, casinos, tourism agencies, and real estate and construction companies are also used to launder money in the DR. The smuggling of bulk cash by couriers and the use of wire transfers are the primary methods for moving illicit funds from the United States into the Dominican Republic. Once in the DR, currency exchange houses, money transfer companies, real estate and construction companies, and casinos facilitate the laundering of these illicit funds.

### **KEY AML LAWS AND REGULATIONS**

The DR does have a mechanism (Law 72-02) for the sharing and requesting of information from international law enforcement authorities related to money laundering. The DR also has comprehensive CDD and STR regulations.

The United States and the DR do not have a bilateral MLAT but do in fact use the MLAT process via multilateral law enforcement conventions to exchange data for judicial proceedings. The process is only used on a case by case basis.

The Dominican Republic is a member of the GAFILAT, a FATF-style regional body. Its most recent mutual evaluation is not currently available.

### **AML DEFICIENCIES**

The DR's weak asset forfeiture regime is improving but does not cover confiscation of instrumentalities intended for use in the commission of money laundering offenses, property of corresponding value, and income, profits, or other benefits from the proceeds of crime. The DR Congress is currently reviewing legislation that would institute non-conviction-based asset forfeiture and align the asset forfeiture regime with international standards.

Following its expulsion from the Egmont Group of FIUs in 2006, the FIU improved its functionality, but it was only in 2014 that the necessary legislative changes were made to eliminate a second FIU-like organization to bring the legislative framework into compliance with Egmont Group rules. The DR officially requested readmission to the Egmont Group in 2015 and its application is being processed.

The DR also has weaknesses regarding PEPs, has no legislation providing safe harbor protection for STR filers, and does not criminalize tipping off. The government also needs to strengthen regulation of casinos and non-bank financial institutions and is exploring methodologies to do so.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

The DR continues to work on noted deficiencies where it is non-compliant with international AML standards, and in early 2016 the national money laundering working group reaffirmed the government's commitment to full compliance with international standards.

The Attorney General's Office reports there have been eight convictions in calendar year 2016 for money laundering offenses as well as nine active investigations. The Financial Analysis Unit reports that it passed 20 cases for prosecution to the Public Ministry from 2012-2015. The Attorney General's Office has developed a criminal investigations unit which will work on sensitive cases involving, among other issues, money laundering and corruption.

## **Ecuador**

### **OVERVIEW**

Ecuador is a major drug transit country. With a dollarized economy and geographic location between two major drug producing countries, Ecuador is highly vulnerable to money laundering. Corruption is a significant problem in Ecuador, and there is evidence money laundering occurs through trade and commercial activity, as well as through cash couriers. Large amounts of undeclared currency entering and leaving Ecuador indicate transit of illicit cash is a significant activity.

Structuring is a problem in Ecuador, especially along the northern border with Colombia where low-level criminals cross the border into Ecuador to make deposits under the reporting threshold into financial institutions.

Ecuador's Attorney General is investigating allegations of widespread fraud and money laundering at state oil company PetroEcuador. An August report by the National Assembly Justice Commission estimated former PetroEcuador officials had stolen at least \$12 million from the company, hiding the cash in Panamanian offshore accounts. On October 21, the Attorney General brought charges of embezzlement and bribery related to PetroEcuador against 17 individuals, including several former high-level government officials and family members. Several of the former public officials linked to the case have fled Ecuador to avoid prosecution.

Ecuador should criminalize bulk cash smuggling, give prosecutors additional time to investigate cases, allow for investigation without notifying a suspect s/he is under investigation, and require the FIU to make public STR/CTR statistics. The government needs to make a dedicated effort to better train judges, prosecutors, and investigators on the country's applicable AML legislation and regulations. The government also should assign additional prosecutors and investigators to



pursue financial investigations outside Quito and provide training to increase institutional capacity and leadership within the Ecuadorian National Police (ENP) Money Laundering Unit.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Government authorities report trade mechanisms are increasingly used for money laundering purposes. In June, authorities uncovered a money laundering ring in which Ecuadorian companies smuggled gold into Ecuador from Peru, and then exported the gold to the United States and other countries. Authorities arrested seven executives from two Ecuadorian companies and subsequently charged them with money laundering. Government authorities and private sector observers note persistent problems with money laundering related to corruption in government institutions, tax fraud, and bulk cash smuggling through airports and across land borders.

### **KEY AML LAWS AND REGULATIONS**

The 2016 Organic Law of Prevention, Detection, and Eradication of Money Laundering and Financial Crimes (2016 AML Law) places the Financial and Economic Analysis Unit (UAFE), the FIU, under the authority of the Coordinating Ministry for Political Economy. The move gives the ministry direct control over UAFE, which had previously reported only to the National Council Against Money Laundering. The 2016 AML Law also strengthens the UAFE's oversight powers and grants it the authority to levy fines against institutions for non-compliance with reporting requirements. The law also significantly increases financial reporting requirements for financial institutions and public and private companies by requiring the reporting of all transactions over \$10,000 and expanding the list of covered entities.

Ecuador has comprehensive KYC and STR regulations.

UAFE became a member of the Egmont Group in 2016 and is exchanging information with its counterparts, including FinCEN. Ecuador is able to use various conventions to ensure the availability to the United States and other governments of adequate records in connection with drug investigations and proceedings.

Ecuador is a member of the GAFILAT, a FATF-style regional body. Its most recent mutual evaluation can be found at:

[http://www.gafilat.org/UserFiles/documentos/es/evaluaciones\\_mutuas/Ecuador\\_3era\\_Ronda\\_2011.pdf](http://www.gafilat.org/UserFiles/documentos/es/evaluaciones_mutuas/Ecuador_3era_Ronda_2011.pdf)

### **AML DEFICIENCIES**

The 2014 Integral Organic Penal Code (COIP) does not criminalize bulk cash smuggling. The 2016 AML Law stipulates that failure to declare cash/currency at a port of entry is punishable by only a 30 percent administrative fine – the law does not address the smuggling of other financial instruments.

Ecuador has enhanced due diligence for PEPs.

Ecuador is not subject to U.S. or international sanctions or penalties.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

The ENP Money Laundering Unit is effective in investigating money laundering crimes. Widespread corruption and a lack of adequate training within the judiciary are the primary deficiencies in Ecuador's AML regime. Observers note judges are often susceptible to bribery from prosecutors and defendants and frequently hinder the fight against narcotics-related money laundering after law enforcement officials have investigated a crime and made an arrest. Judges also lack proper training on AML regulations and frequently misinterpret the law.

Authorities can pursue money laundering charges against bulk cash smugglers, but convictions are difficult to obtain as authorities are given only 30 days to investigate (in other money laundering cases, once an arrest is made, they are given 90 days). The COIP requires state prosecutors to inform a suspect s/he is under investigation, which, according to government authorities, often results in key evidence disappearing.

There are no reported incidents of the government failing to comply with its responsibilities under the conventions or refusing to cooperate with foreign governments.

The government does not make information publicly available on the number of money laundering-related prosecutions and convictions.

## **Egypt**

### **OVERVIEW**

Egypt is not considered a regional financial center or a major hub for money laundering. The Government of Egypt has shown increased willingness to tackle money laundering, but Egypt remains vulnerable by virtue of its large informal, cash-based economy. There are estimates as much as 90 percent of the population does not have bank accounts and the informal economy accounts for approximately 40 percent of the GDP. Consequently, extensive use of cash is common. The Central Bank and the Federation of Egyptian Banks aim to promote financial inclusion by incentivizing individuals and small businesses to enter the formal financial sector.

Countering corruption remains a long-term focus, and there have been cases involving public figures and entities, including allegations leading to the resignation of the Minister of Supply. The EU, Switzerland, UK, and Canada have all instituted targeted sanctions to freeze assets of former president Hosni Mubarak and several members of his regime based on their apparent misappropriation from the Egyptian state.

The government should continue to build its capacity to successfully investigate and prosecute money laundering offenses. In particular, the judicial system should continue to increase the number of judges trained in financial analysis related to money laundering activity. Egypt also

should work to more effectively manage all aspects of its asset forfeiture regime, including identification, seizure, and forfeiture.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Sources of illegal proceeds reportedly include smuggling of antiquities and trafficking in narcotics and/or arms. However, some organizations also have turned to funding sources based on new technologies and social media. Intellectual property rights (IPR) violations are often overlooked in Egypt and are a major source of illicit proceeds. The government likely will not begin to target IPR as its resources are entirely directed to anti-corruption, security, and counter-terrorism. Authorities also note increased interception of illicit cross-border fund transfers by customs agents in recent years.

### **KEY AML LAWS AND REGULATIONS**

In January 2016, the Central Bank of Egypt (CBE) increased the amount of U.S. dollars that could be deposited in banks by exporting companies from \$50,000 per month to \$250,000 per month, without a daily maximum. The amount was increased to \$1 million in February 2016. In March 2016, the CBE eliminated limits on individual deposits and withdrawals. These controls were designed to influence Egypt's parallel, less transparent currency market. In November 2016, Egypt floated its currency. The government is also increasing efforts to improve monitoring of remittances from abroad to ensure the remittance system is not used for money laundering purposes. Remittances from Egyptian citizens abroad amount to some \$20 billion per year, and authorities are working to more fully integrate these remittances into the formal banking system. The floating of the currency should move more of the remittance transactions back into formal market channels.

Egypt has KYC and STR regulations in place.

Egypt is a member of the MENAFATF, a FATF-Style Regional Body. Its most recent mutual evaluation report can be found at:

[http://www.menafatf.org/images/UploadFiles/MER\\_Egypt\\_ForPublication.pdf](http://www.menafatf.org/images/UploadFiles/MER_Egypt_ForPublication.pdf).

### **AML DEFICIENCIES**

Egypt should improve its capacity to successfully investigate and prosecute money laundering offenses. In particular, the judicial system should continue to increase the number of judges trained in financial analysis related to money laundering activity. Egypt needs to create the institutional and legal framework for conducting AML prosecutions independent of action on the predicate offense. In the past, the penal code had obliged prosecutors to press charges on the most serious, readily provable offense and, because other offenses carried higher penalties than money laundering, prosecutors did not pursue money laundering. Now, judges are required to issue two penalties, one for money laundering and another for the predicate offense. However, different circuits of Egypt's Court of Cassation, the country's highest criminal court, have reportedly taken differing positions on whether a conviction for the predicate offense is required

for a money laundering conviction. Finally, Egypt's asset forfeiture regime could more effectively identify, seize, and induce forfeiture of assets.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

There are institutional obstacles and disincentives to actually conducting money laundering investigations. For example, the functions of investigation and prosecution of the predicate crimes for money laundering are institutionally separated from prosecution of the money laundering activity itself. The underlying criminal activity is investigated and prosecuted by general and drug crime sections of the Public Prosecution Office (PPO), while money laundering prosecutions are handled primarily by the High State Security Prosecutions section (the same section that prosecutes national security cases). The government is working to incorporate technical and analytical training on the investigation and prosecution of money laundering and related crimes into its judicial curriculum.

Moreover, although not required by Egypt's money laundering statute, it has been the PPO's policy that prosecution for money laundering requires a prior conviction for the underlying criminal activity, which excludes the potential for the independent prosecution of money laundering. Consequently, there have been relatively few money laundering prosecutions in Egypt; the prospective defendants have already been convicted and sentenced for the underlying criminal activity, and the money launderers themselves fall outside the PPO's prosecution policy.

## **El Salvador**

### **OVERVIEW**

El Salvador is a major transit route for South American cocaine destined for the United States, as well as cash proceeds returning to South America.

The lack of supervision of DNFBCs and an independent FIU are key challenges to mitigating El Salvador's money laundering vulnerabilities. The current FIU within the Attorney General's Office (AGO) cannot capitalize on regional information sharing or fully investigate/prosecute complex money laundering cases. While the FIU is not currently subject to political manipulation, the unit has been compromised by previous attorneys general and remains structurally vulnerable to manipulation in the future.

Current capacity building efforts are improving El Salvador's ability to investigate and prosecute more complex money laundering cases. El Salvador cannot fully take advantage of this foreign assistance until the FIU is built up into a fully independent unit.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

The U.S. dollar is the official currency in El Salvador, and the country's dollarized economy and geographic location make it an ideal haven for transnational organized crime groups, including

human smuggling and drug trafficking organizations. Money laundering is primarily related to proceeds from illegal narcotics and organized crime.

The Central America Four Agreement among El Salvador, Guatemala, Honduras, and Nicaragua allows for the free movement of their citizens across the respective borders. This agreement is a vulnerability to each country and the region for the cross-border movement of contraband and illicit proceeds of crime if citizens can bypass formal immigration and customs inspection.

According to authorities, organized crime groups launder money through the use of banks, front companies, parking lots, travel agencies, remittances, the import and export of goods, and cargo transportation. Illicit activity includes the use of smurfing operations, whereby small amounts of money are deposited or transferred in a specific pattern to avoid detection by government authorities. In addition, increased oversight of regional financial institutions have caused money laundering activities to increase in countries with less robust and developed regulatory oversight, including El Salvador. The large informal sector also creates vulnerabilities for El Salvador because it creates challenges for AML supervision.

As of December 2016, there are 17 FTZs operating in El Salvador. The FTZs are comprised of more than 200 companies operating in areas such as textiles, clothing, distribution centers, call centers, business process outsourcing, agribusiness, agriculture, electronics, and metallurgy. FTZs are particularly vulnerable to illicit activity such as TBML and bulk cash smuggling.

### **KEY AML LAWS AND REGULATIONS**

The regulatory institutions charged with AML supervision are weak and lack both human resources and sufficient regulatory powers. Following a 2015 reform, the Superintendent of the Financial System now supervises all MSBs, including those not related to a bank or a bank holding company. The Central Bank prepared implementing regulations, which went into effect January 4, 2016.

The government of El Salvador's General Assembly passed an Asset Forfeiture (AF) Law in November 2013. Implementation of the law began in September 2014 when a specialized judge assumed control of the autonomous AF judicial court established by the legislation. According to the AGO, the specialized court finalized the forfeiture of \$609,000 in 2016, in addition to six vehicles and 15 real estate properties. The financial investigation unit brought money laundering charges against a group of dual U.S. and Salvadoran nationals for laundering approximately \$15,000,000 and has frozen \$2,000,000 in assets in an El Salvadoran bank.

The AF legislation allows the government to sell property seized in conjunction with criminal investigations and redirect up to 35 percent of the revenue to the AGO for counter drug trafficking, AML, and anti-organized crime efforts. In 2016, 28 cases were presented to the autonomous AF judicial court, and 16 cases were finalized, compared to 27 cases and 10 finalized in 2015.

El Salvador is a member of the CFATF, a FATF-style regional body. Its most recent mutual evaluation can be found at: <https://www.cfatf-gafic.org/index.php/documents/mutual-evaluation-reports/el-salvador-1/71-el-salvador-3rd-round-mer>

### **AML DEFICIENCIES**

The Superintendent of the Financial System supervises only those accountants and auditors with a relationship with a bank or bank holding company. Independent entities are not subject to any supervision, nor are other DNFBPs.

Information sharing between El Salvador and FinCEN, the U.S. FIU, was frozen in 2013, following an unauthorized disclosure of information from El Salvador's FIU. Politicization of the FIU was addressed following a change in administration at the AGO, but the FIU remains under-resourced and lacks structural independence. El Salvador maintains limited membership in the Egmont Group of FIUs, due to the suspension of U.S. information sharing. Egmont continues to work with Salvadoran authorities to improve compliance.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

Authorities are currently working on amendments and legislation to improve regulation of DNFBPs to better comply with international standards.

El Salvador's major money laundering convictions to date relate to bulk cash smuggling and isolated transactions. However, the AGO does have at least four large scale money laundering investigations/prosecutions currently underway, including the first money laundering case against a transnational gang.

## **Georgia**

### **OVERVIEW**

Much of the illegal income in Georgia derives from fraud in the banking sector, falsification of documents, and misappropriation of funds. There is little to no connection detected between illegal narcotics and money laundering. The Russian-occupied territories of South Ossetia and Abkhazia fall outside the control of Government of Georgia authorities and are not subject to monitoring.

Georgian prosecutors and law enforcement authorities should put more emphasis on pursuing the link between organized crime and money laundering. Georgia also should develop a task force approach, which will facilitate greater exchange of information and cooperation among the relevant bodies.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Illicit income is mainly generated from fraud related crimes (scams, stolen banking cards, etc.) and cybercrime, either in Georgia or abroad. Cybercrime cases have involved hacking into domestic or foreign computer systems and taking over communication channels of the victims to make them transfer funds to the fraudsters' accounts abroad.

According to the Investigation Service of the Ministry of Finance, there is a small black market for smuggled goods in Georgia. There is little evidence to suggest it is funded significantly from narcotics proceeds, or that the funds generated by smuggling are laundered through the formal financial system. Smuggled goods are sold in black or gray markets to avoid tax and customs duties. The extent of black market trading in the occupied territories of Abkhazia and South Ossetia is unknown. The rapid growth of the gaming industry in Georgia and the corresponding lack of AML regulatory supervision are concerning.

### **KEY AML LAWS AND REGULATIONS**

Georgia's AML Law was amended in July 2015 to grant the Financial Monitoring Service (FMS), Georgia's FIU, the power to suspend suspicious transactions temporarily. Another amendment was made to extend the reporting requirements to the cross-border transportation of cash, negotiable instruments, and securities through cargo containers and mail. The tax code was amended to increase sanctions for the violation of the cross-border transportation of cash and securities rules. Moreover, the Minister of Finance issued an order that requires customs authorities to obtain information about the sender and recipient, as well as the origin and intended use of cash and securities transported across the Georgian border when the amount is above GEL 30,000 (approximately \$11,700). The Law of Georgia on Commercial Games was amended to strengthen the fit and proper criteria for owners and managers of gaming institutions. The Law on Payment Systems and Payment Services also was amended in 2015 to clarify that money remittance services can only be provided to physical persons.

The Anti-Corruption Council of Georgia is currently reviewing draft amendments to the Georgian AML Law, which will broaden the scope of the application of monitoring requirements to domestic PEPs.

Georgia implemented comprehensive KYC rules and STR regulations in compliance with international standards. The FMS shares operational information with its colleagues on a regular basis. Georgia does not require a formal agreement or MOU to share information with Egmont Group member FIUs.

Georgia is a member of MONEYVAL, a FATF-style regional body. Its most recent mutual evaluation can be found at:

[http://www.coe.int/t/dghl/monitoring/moneyval/Evaluations/round4/GEO4\\_MER\\_MONEYVAL\(2012\)18\\_en.pdf](http://www.coe.int/t/dghl/monitoring/moneyval/Evaluations/round4/GEO4_MER_MONEYVAL(2012)18_en.pdf)

### **AML DEFICIENCIES**

Enhanced due diligence measures are applicable only to foreign PEPs.

**ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

The Governmental Commission on Implementation of United Nations Security Council Resolutions is currently developing an AML/CFT national risk assessment.

The draft strategy document of the prosecution service calls for an increase in the effectiveness of money laundering investigations and prosecutions, while focusing on the capacity development and skill-based training for prosecutors.

Investigations into narcotics, extortion, weapons of mass destruction, human trafficking, prostitution, and smuggling rarely include financial components. Despite a domestic market for illegal drugs and international drug trafficking through Georgia, narcotics trafficking is rarely investigated as a predicate offense for money laundering. The Government of Georgia has not adopted a formal task force approach to money laundering; however, coordination and information sharing among various law enforcement and criminal justice agencies has improved.

Between January 1 and October 1, 2016, there were 18 money laundering prosecutions and seven convictions.

**Ghana****OVERVIEW**

Ghana is gradually realizing both the risk money laundering injects into the country's economic growth and its increasing role in the global fight against ML. With donor assistance, Ghana recently produced a money laundering national risk assessment to better understand and mitigate the country's risks in this area. The report found that Ghana's AML laws are largely compliant with international standards, although these laws are not often applied.

The perception of money laundered in Ghana is that it is linked to proceeds of narcotics trafficking, fraud, and public corruption. The most prevalent forms of financial crime in Ghana are still romance scams, advance-fee-fraud, or other similar schemes. Major vulnerabilities in Ghana's AML regime are a lack of enforcement actions and of effective customer due diligence or KYC identification adherence by most DNFBPs. To address these and other money laundering issues, the government of Ghana should allocate adequate funding to support the fight against money laundering, effectively implement relevant asset forfeiture laws and regulations, and sanction banks and other institutions that do not file STRs and currency transactions reports as required by Ghanaian law.

**VULNERABILITIES AND EXPECTED TYPOLOGIES**

DNFBPs are most vulnerable to money laundering. These sectors include real estate agencies, casinos, dealers in precious metals, accountants, lawyers, notaries, car dealers, NPOs, trust and company service providers, and remittance companies. These sectors account for about 30 percent of the country's gross domestic product and employ about 25 percent of the population,



yet none of these institutions or their representatives have ever filed a STR. Ghana is a cash-dominant economy. As such, bulk cash smuggling is the most likely money laundering scheme attractive to launderers. No banks in Ghana provide offshore banking services. Ghana has designated four FTZ areas, but only one, the Tema Export Processing Zone, is active.

The Ghanaian criminal justice system specifically outlawed financial crime with the 2008 Anti-Money Laundering Act. Most investigators and prosecutors lack specific training in this area, and those who do undertake money laundering investigations are typically only trained in general crime investigation. Financial crime cases are prosecuted by state attorneys from the Attorney General's Office and by police prosecutors, who are not attorneys. While several state attorneys have received general training in financial crime prosecution, only a few have specialized AML training. There are no certified financial crime investigators trained in asset forfeiture in Ghana.

### **KEY AML LAWS AND REGULATIONS**

Ghana's principal AML legislation is the Anti-Money Laundering Act, 2008 (Act 749), as amended by the Anti-Money Laundering (Amendment) Act, 2014 (Act 874). It defines the act of money laundering to include the conversion, concealment, disguise, or transfer of property which is or forms part of the proceeds of crime; the concealment and disguise of the unlawful origin of the property; and the acquisition, use, or possession of the property. After parliament passed this act, another 12 acts and two executive instruments were passed or amended to strengthen Ghana's AML regime. No additional legal changes are pending.

Ghana has comprehensive KYC and STR regulations. In 2016, parliament amended Ghana's Companies Act, 1963 (Act 179) to establish a beneficial ownership register in the country.

Ghana and the United States do not have a MLAT, but records can be exchanged through other mechanisms such as the Egmont Group or as parties to the UNCAC and UNTOC. Moreover, mutual legal assistance can be provided on a reciprocal basis through letters of request.

Ghana is a member of the GIABA, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.giaba.org/reports/mutual-evaluation/Ghana.html>.

### **AML DEFICIENCIES**

There are requirements on banks and insurance companies to identify high-risk clients such as PEPs, but there is a lack of effective identification and monitoring of PEPs and their associates. For example, recent onsite inspections of capital market operators showed that many of these organizations were unable to produce their PEP lists. Other deficiencies are mentioned in the previous sections of this report. Ghana's AML regime covers legal persons. Ghana is not subject to any U.S. or international sanctions/penalties.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

Ghana did not report any specific steps to implement the UN Drug Convention; however, Ghana is implementing the FATF Recommendations via its membership in GIABA. Post was not aware of any refusals to cooperate with U.S. or other governments on ML issues. Other enforcement issues are addressed previously in this report. Ghana recorded two money laundering convictions in 2016; five in 2015; and two in 2014.

## **Grenada**

### **OVERVIEW**

Grenada's geographic location in the Caribbean places it in close proximity to drug shipment routes from Venezuela to the United States and Europe. As a narcotics transfer point, money laundering in Grenada is principally connected to smuggling and narcotics trafficking by local organized crime rings. Illegal proceeds are laundered through a variety of businesses, as well as through the purchase of real estate, boats, jewelry, and cars.

Grenada is not a regional financial center. The Eastern Caribbean Central Bank is the supervisory authority for Grenadian commercial banks, and the Grenada Authority for the Regulation of Financial Institutions is responsible for supervising DNFBPs. Even though IBCs and offshore banking and trust companies are allowed to conduct business in Grenada, none are currently operating. Grenada has no casinos or internet gaming sites. The International Companies Act regulates the establishment and management of IBCs in Grenada and requires registered agents to maintain records of the names and addresses of company directors and beneficial owners of all shares. Bearer shares are not permitted. There are no FTZs in Grenada.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

The identifiable avenues for money laundering in Grenada are drug trafficking, fraud, and under-invoicing.

There are no free trade zones in Grenada.

### **KEY AML LAWS AND REGULATIONS**

Grenada's comprehensive Proceeds of Crime Act, Regulation and Guidelines is enforced and covers CDD and STR requirements. The Proceeds of Crime Act, Regulation and Guidelines was updated in 2013, 2014, and 2015.

Grenada has a records-exchange mechanism in place with the United States and has established laws and regulations ensuring the availability to U.S. and other foreign government personnel of adequate records in connection with drug investigations and proceedings.

Grenada is a member of the CFATF, a FATF-style regional body. Its most recent mutual evaluation can be found at: [https://www.cfatf-gafic.org/index.php?option=com\\_docman&task=cat\\_view&gid=345&Itemid=418&lang=en](https://www.cfatf-gafic.org/index.php?option=com_docman&task=cat_view&gid=345&Itemid=418&lang=en)

**AML DEFICIENCIES**

The Proceeds of Crime Act, Regulations and Guidelines covers legal persons. It also speaks to enhanced due diligence for PEPs.

The fight against narcotics-related money laundering is hindered by the tipping off of suspected perpetrators; inadequate cooperation among law enforcement agencies; lack of proper monitoring by financial institutions; failure of financial institutions to file STRs; insufficient training of law enforcement and financial institutions; and failure of magistrates and judges to properly understand the statutes in general and/or the law or regulations as far as the ability to prosecute or impose sentencing.

**ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

Grenada is a signatory to and implements the 1988 UN Drug Convention and other applicable agreements. Grenada has made significant progress in improving its AML efforts and has established the legal and regulatory framework to address previously identified strategic deficiencies.

In 2016, Grenada prosecuted and successfully obtained convictions in six money laundering cases.

Grenada continues to seek training for all of its law enforcement departments, notably the Customs and Excise Department, which is proactive in the fight against money laundering. Additionally, Grenada took a more robust approach on forfeitures and confiscation matters, making use of the results-driven Proceeds of Crime legislation.

**Guatemala****OVERVIEW**

Guatemala continues to be a transshipment route for South American cocaine and heroin destined for the United States, and for cash returning to South America. Smuggling of synthetic drug precursors is also a problem. Reports suggest the narcotics trade is increasingly linked to arms trafficking.

Guatemala continues incremental progress in its ability to investigate and prosecute money laundering and other financial crimes, with a key agency beginning to provide technical assistance to other nations. However, there remain vulnerabilities due to a lack of complete coordination by the Public Ministry (PM) prosecutors, and the tendency of the jurisdiction to treat money laundering as a stand-alone crime, rather than coordinating money laundering cases with those involving extortion, corruption, or trafficking.

Open issues for Guatemala include: improved communications between the Special Verification Agency (IVE), Guatemala's FIU, and the PM; development of more internal capacity for financial crime investigations at the PM, including combined efforts by different Ministry offices; greater coordination among different financial supervision entities, including the IVE and other parts of the Superintendent of Banking; institutionalization of coordination between the PM and the National Secretariat for Administration of Forfeited Property (SENABED), the entity in charge of seized asset administration; and greater autonomy for SENABED. Additionally, relevant agencies remain chronically understaffed.

In order to improve efficiencies and maximize the effectiveness of a solid legal framework to address AML issues, Guatemala should continue to use vetting and corruption investigations to weed out those elements that hinder trust within and among relevant agencies.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Illicit funds come from various sources, with drug trafficking only one among them. Others include institutional corruption, extortion, human trafficking, commerce of other illicit goods, and tax evasion. Money is most notably laundered through real estate transactions, ranching, the concert business, and the gaming industry. It is also laundered through serial small transactions below the \$10,000 reporting requirement, either in small banks along the Guatemala-Mexico border, or by travelers carrying cash to other countries. Guatemala does not currently prohibit structuring of deposits to avoid reporting requirements.

Authorities are increasingly effective in conducting sound investigations of financial crimes, with the limitations noted above. Guatemalan investigations still face political headwinds with rampant corruption at all levels of government, both elected and within the existing bureaucracies, the latter often tied to low pay and traditional practices to supplement income. In both cases, improved transparency, increased professionalism, and ongoing efforts to investigate and eliminate corruption are making a difference.

There is a category of "offshore" banks in Guatemala in which the customers' money is legally considered to be deposited in the foreign country where the bank is headquartered. These "offshore" banks are subject to the same AML regulations as local banks.

Guatemala has 14 active FTZs. FTZs are mainly used to import duty-free goods utilized in the manufacturing of products for exportation, and there are no known cases or allegations that indicate FTZs are hubs of money laundering or drug trafficking activity.

The Central America Four Border Control Agreement among El Salvador, Guatemala, Honduras, and Nicaragua allows for free movement of the citizens of these countries across their respective borders. As a result of this agreement, Guatemalan customs officials are not requiring travelers crossing their land border to report cash in amounts greater than \$10,000, as required by law.

### **KEY AML LAWS AND REGULATIONS**

Guatemala has a solid AML legal framework. The KYC and STR regulations, however, are not as effective as they might be, given the lack of coordination and cooperation by relevant government agencies, and lack of manpower.

Guatemala is a member of both the CFATF and GAFILAT, both FATF-style regional bodies. Its most recent mutual evaluation can be found at: <https://www.cfatf-gafic.org/index.php/documents/cfatf-mutual-evaluation-reports/guatemala-1/79-guatemala-3rd-round-mer/file>.

Guatemala and the United States do not have a MLAT. Other mechanisms are used to exchange relevant information.

### **AML DEFICIENCIES**

While Guatemala does exercise enhanced due diligence for PEPs, there are other deficiencies. Detected weaknesses include DNFBPs such as notaries, attorneys, and casinos or video lotteries, as being at high risk for serving as money laundering vehicles. The casinos in particular are an area where further legislation is necessary. Casinos are currently unregulated and a number of casinos and games of chance operate, both onshore and offshore. Otherwise, the required legislative frameworks are in place to address primary concerns regarding money laundering.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

Although a recent report highlighted the strengths of the IVE and its ability to investigate money laundering and the legal frameworks are useful, there remain procedural challenges that limit the efficiency of the IVE and the PM, a shortage of staff to adequately address the demand for investigation and analysis, and the ongoing problem of a lack of collaboration and cooperation among offices in the PM, at times even within offices, based on lack of trust because of rampant societal corruption.

In the 12 month period ending July 31, 2016, the PM office in charge of money laundering prosecutions received 411 accusations, filed charges in 100 cases, and obtained 42 convictions.

## **Guinea-Bissau**

### **OVERVIEW**

With five separate Bissau-Guinean governments in 15 months, the country made little headway to mitigate the conditions that led to the labeling of Guinea-Bissau as a “narco-state”. Moreover, the suspension of directed budget support by multilateral institutions has reduced government revenues by almost half, leading to further cutbacks in already deprived and inadequate law enforcement and judicial systems.

The 88 islands that make up the Bijagos Archipelago, combined with a military still able to sidestep the authority of the civilian government with impunity, continue to make the country a

favorite transshipment center for drugs. Drug barons from Latin America and their collaborators from the region and elsewhere have taken advantage of Guinea-Bissau's extreme poverty, unemployment, history of political instability, lack of effective customs and law enforcement, and general insecurity to transship drugs destined for consumer markets, mainly in Europe. Using threats and bribes, drug traffickers have been able to infiltrate state structures and operate with impunity.

On April 8, 2010, the United States Department of the Treasury (Treasury) designated two Guinea-Bissau-based individuals, former Bissau-Guinean Navy Chief of Staff Admiral Jose Americo Bubo Na Tchuto and Air Force Chief of Staff Ibraima Papa Camara, as drug kingpins, thereby prohibiting U.S. persons from conducting financial or commercial transactions with those individuals and freezing any assets they may have under U.S. jurisdiction. The U.S. Drug Enforcement Administration arrested Na Tchuto in 2013. In October 2016, a New York court sentenced Na Tchuto to four years for drug trafficking, which includes the more than three years already served in detention. He was released in November 2016, and returned to Guinea-Bissau, where then Prime Minister Baciro Dja welcomed him as a "hero of the revolution." The 2013 arrest of Na Tchuto and the outstanding arrest warrant against then Armed Forces Chief General Antonio Indjai, for drug trafficking and terrorism offenses, as well as the fact that Air Force Chief of Staff Ibraima Papa Camara remains in his position despite Treasury's "kingpin" designation indicate that senior government officials continue to be involved in the drug trade and underscore the extent of complicity with drug trafficking at the highest levels.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

The cohesion and effectiveness of the state itself remain very poor, despite modest efforts to initiate reforms. Corruption is a major concern and the judiciary has reportedly demonstrated a lack of integrity on a number of occasions. Many government offices, including the justice ministry, lack the basic resources, such as electricity, they require to function.

The major sources of illicit funds are drug trafficking, illegal logging, and corruption. Real estate and investment in legitimate businesses serve as the most common forms of laundering. There is no record of investigations, prosecutions, or convictions for the offense of money laundering, and corruption within the government points to internal obstacles to the fight against drug trafficking and money laundering.

### **KEY AML LAWS AND REGULATIONS**

The Anti-Money Laundering Uniform Law, a legislative requirement for members of the West African Economic and Monetary Union (WAEMU), has been adopted by Guinea-Bissau, but its publication has been pending for several years; thus, the law is not yet in force. Guinea-Bissau has yet to criminalize most of the designated predicate offenses and lacks adequate legal provisions for the conduct of CDD procedures. Article 26 of National Assembly Resolution No. 4 of 2004 stipulates that if a bank suspects money laundering it must obtain a declaration of all properties and assets from the subject and notify the Attorney General, who must then appoint a judge to investigate. The bank's solicitation of an asset list from its client could amount to informing the subject of an investigation. In addition, banks are reluctant to file STRs for fear of

alerting the subject because of allegedly indiscrete authorities. No STR regulations are under negotiation.

Guinea-Bissau is a member of the GIABA, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.giaba.org/reports/mutual-evaluation/Guinea-Bissau.html>

### **AML DEFICIENCIES**

Guinea-Bissau is not in full compliance with international standards and accords against money laundering because of inadequate resources, weak border controls, under-resourced and understaffed police, competing national priorities, and historically low political will. The jurisdiction is currently considering ways to address deficiencies, but the instability of the government has hindered any progress.

The formal financial sector in Guinea-Bissau is undeveloped and poorly supervised; and the FIU is only partially functional, owing in part to the lack of resources, analytical staff, and technical equipment, among many other issues.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

The woefully inadequate police and judicial systems make serious enforcement difficult. No money laundering-related prosecutions and convictions have occurred in recent years.

## **Guyana**

### **OVERVIEW**

Guyana's geographic location makes it attractive for transnational organized crime groups, including human and drug trafficking organizations. It continues to be a transit country for South American cocaine destined for Europe, the United States, Canada, West Africa, and the Caribbean.

There is a culture of using informal networks to move money between Guyana and the diaspora, and Guyana has a large cash-based economy. Many criminals use cash couriers or familial networks to move large sums of money between Guyana and the United States. Unregulated currency exchange houses also pose a risk, as they are used both for the exchange of currency and to transfer funds to and from the diaspora. Additionally, casinos are legal in Guyana and pose a risk for money laundering. Guyana has one casino.

In 2013, the CFATF issued a public statement noting significant strategic deficiencies in Guyana's AML regime and declaring Guyana a money laundering risk to the international financial system. Subsequently, the government created an action plan to address noted deficiencies and, in mid-2015, passed amendments to update its AML legislation to include a definition of beneficial ownership and broaden the definition of property subject to confiscation, among other improvements. In 2016, the CFATF removed Guyana from its public statement.

**VULNERABILITIES AND EXPECTED TYPOLOGIES**

The primary sources of laundered funds are believed to be narcotics trafficking and corruption. However, the laundering of proceeds from other illicit activities, such as human trafficking, contraband, illegal natural resource extraction, and tax evasion, is substantial. Common money laundering typologies include the use of fictitious agreements of sale for non-existing precious minerals to support large cash deposits at financial institutions; cross-border transport of small volumes of precious metals, declared as scrap or broken jewelry to avoid scrutiny by the relevant officials and the payment of relevant taxes and duties; TBML using gold; and the use of middle- and senior-aged cash couriers for the cross-border transport of large sums of U.S. dollars.

**KEY AML LAWS AND REGULATIONS**

The Government of Guyana has legislation in place that could enable a more effective response to the threat of money laundering. In June 2015, Guyana passed and began to enforce the Anti-Money Laundering and Countering the Financing of Terrorism (AMLCFT) Amendment Act, seeking to address remaining deficiencies in its AML regime, such as the availability of proportionate and dissuasive sanctions.

Guyana has comprehensive CDD and STR regulations. There is also a records exchange mechanism in place with the United States.

Guyana is a member of the CFATF, a FATF-style regional body. Its most recent mutual evaluation report can be found at: <https://www.cfatf-gafic.org/index.php/member-countries/d-m/guyana>

**AML DEFICIENCIES**

International experts recommended Guyana make the following major improvements to its AML regime: adequately criminalize money laundering; to establish a fully operational and effectively functioning FIU; institute effective measures for customer due diligence and enhanced financial transparency; and establish adequate STR requirements. To correct noted deficiencies, Guyana passed the Anti-Money Laundering and Countering the Financing of Terrorism Regulations 2015; issued the Guidelines on Targeted Financial Sanctions 2015; and completed amendments to the AMLCFT Act in 2015 and 2016. Guyana's AML regime also extends to legal persons and provides for enhanced due diligence for PEPs.

Though created in 2003, the FIU was severely understaffed and ineffective. In June 2016, a new director of the FIU was appointed, and the functional capacity of the unit has been enhanced.

Guyana submitted a letter of interest to join the Egmont Group of FIUs in 2011, which is still being considered.

**ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**



Guyana has ratified the 1988 UN Drug Convention.

The major agencies involved in anti-drug and AML efforts are the Office of the Attorney General, FIU, Ministry of Finance, Bank of Guyana, Guyana Police Force, Guyana Revenue Authority, the Customs Anti-Narcotics Unit, and the Serious Organized Crimes Unit (SOCU). Although the AML legislation gives the FIU authority to investigate alleged money laundering, the FIU does not have the capacity to conduct such investigations. The SOCU investigates those cases referred to it by the FIU. The effectiveness of these agencies at investigating money laundering is limited, as they lack adequate human resources, training to ensure successful prosecutions, and a strong interagency network. Additionally, lack of cooperation by the business community also hinders Guyana's AML efforts.

Despite its limited staffing capacity, in February, the SOCU seized roughly \$80,000 worth of local and foreign currency and arrested two persons suspected of money laundering. This was the first seizure under Guyana's updated AML legislation.

Guyana should raise awareness and understanding of AML laws and implementation procedures, through training and the publication of guidelines, within the judicial system and in agencies with the authority to investigate financial crimes. STR requirements, wire transfers, and customer due diligence regulations should be strengthened and additional resources extended to the FIU and SOCU.

## Haiti

### OVERVIEW

Haitian criminal gangs are engaged in international drug trafficking and other criminal and fraudulent activity. While Haiti itself is not a major financial center, regional narcotics and money laundering enterprises utilize Haitian couriers, primarily via maritime routes. Much of the drug trafficking in Haiti, as well as the related money laundering, is connected to the United States. Important legislation was adopted over the past several years, in particular anti-corruption and AML laws, but the weakness of the Haitian judicial system leaves the country vulnerable to corruption and money laundering.

On June 8, 2016, the CFATF issued a public statement asking its members to consider the risks arising from the deficiencies in Haiti's AML/CFT regime. The statement follows CFATF's acknowledgement that, although Haiti had made improvements in non-legislative areas, it had not made sufficient progress in fulfilling its action plan to address its serious AML deficiencies including legislative reforms. On November 9, 2016, the CFATF reaffirmed its stance, although noting Haiti's recent progress and efforts to introduce new legislation, including a new law designed to grant administrative autonomy to the Central Financial Intelligence Information Unit (UCREF), Haiti's FIU.

### VULNERABILITIES AND EXPECTED TYPOLOGIES

Most of the identified money laundering schemes involve significant amounts of U.S. currency held in financial institutions outside of Haiti or non-financial entities in Haiti, such as restaurants and other small businesses. Foreign currencies represent 63 percent of Haiti's bank deposits as of October 2016. A great majority of property confiscations to date have involved significant drug traffickers convicted in the United States. Illicit proceeds are also generated from corruption, embezzlement of government funds, smuggling, counterfeiting, kidnappings for ransom, illegal emigration and associated activities, and tax fraud.

Haiti has seven operational FTZs. There are also 157 licensed casinos and many other unlicensed casinos. Online gaming is illegal.

### **KEY AML LAWS AND REGULATIONS**

The AML legislation passed in 2013 was further strengthened by amendments in 2016. In 2014, the Executive signed a long-delayed anti-corruption bill. Banks and financial companies, wire transfer agencies, credit unions, insurance companies, cooperatives, casinos, lawyers, accountants, notaries, and real estate agents must comply with KYC rules and report suspicious transactions to the UCREF.

Haiti is a member of the CFATF, a FATF-style regional body. Its most recent mutual evaluation can be found at: <https://www.cfatf-gafic.org/index.php/member-countries/d-m/haiti>

### **AML DEFICIENCIES**

The weakness of the Haitian judicial system and prosecutorial mechanisms as well as judges' and prosecutors' lack of knowledge of the recently adopted legislative amendments continue to leave the country vulnerable to corruption and money laundering. Haiti is not a member of the Egmont Group, but is currently applying for membership.

The government remains hampered by ineffective and outdated criminal codes and criminal procedural codes, and by the inability or unwillingness of judges and courts to address cases referred for prosecution. Draft criminal codes and criminal procedural codes that would address these deficiencies are expected to be considered by parliament over the next few months.

The government should continue to devote resources to building an effective AML regime, to include continued support to units charged with investigating financial crimes and the development of an information technology system. The 2013 AML/CFT law and its 2016 amendments, despite strengthening the regulatory framework to combat financial crimes, undermine the independence and effectiveness of Haiti's FIU.

Haiti also should take steps to establish a program to identify and report the cross-border movement of currency and financial instruments. Casinos and other forms of gaming should be better regulated and monitored. The Government of Haiti should take steps to combat pervasive corruption at all levels of Haitian government and commerce.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

The Government of Haiti continues to take steps, such as training staff and coordinating with the nation's banks, to implement a better AML regime. In September 2016, the National Assembly added missing elements to the 2013 AML/CFT law to bring it up to international standards, although deficiencies still remain. In order for Haiti to fully comply, however, the criminal code will have to be updated.

After years of delay, passage of the 2014 anti-corruption law constituted a positive step to try to address public corruption, but implementation issues remain. Frequent changes in leadership, fear of reprisal at the working level, rumored intervention from the Executive, and a lack of judicial follow-through (prosecutions) make implementation particularly difficult. Frequent changes in the judiciary also make it difficult for cases to be followed by prosecutors.

The UCREF has continued to build its internal capabilities and to do effective casework. The UCREF forwarded six cases to the judiciary in 2016. Continued issues in the judicial sector mean the UCREF's progress is not yet reflected in conviction rates. Once a case is received, an investigating judge has two months from the arrest date to compile evidence, but there is no limit to the timeframe to schedule court dates, communicate with investigating agencies and prosecutors, and track financial data. There were no convictions or prosecutions for money laundering in 2016.

## **Honduras**

### **OVERVIEW**

Honduras is not an important regional or offshore financial center. Money laundering in Honduras continues to stem primarily from significant narcotics trafficking throughout the region. Human smuggling of illegal migrants into the United States, extortion, kidnapping, and public corruption also generate significant amounts of laundered proceeds.

During 2016, the National Banking and Insurance Commission (CNBS) issued some of the regulations needed to implement the 2015 revisions to the AML law, but additional regulations are needed. Honduras also has developed and is implementing a national AML strategy.

The FIU staff needs additional training, and the FIU should improve its capacity to develop and disseminate money laundering typologies. Key players within the AML regime should seek to improve interagency coordination.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Money laundering in Honduras derives from both domestic and foreign criminal activity. Honduras' geographic location makes it an ideal haven for transnational organized crime groups, including human and drug trafficking organizations. The majority of proceeds are suspected to be controlled by local drug trafficking organizations and transnational organized crime syndicates. A significant amount of laundered proceeds passes directly through the formal

banking system. Money laundering also occurs to an increasing extent in the non-financial sector. Law enforcement has detected large-scale money laundering activities in the automobile and real estate sectors and, to a lesser extent, in remittance companies, currency exchange houses, the construction sector, and many other kinds of businesses. Another area of vulnerability is the legality of bearer shares, which present a significant money laundering challenge. Additionally, TBML is a growing problem.

The Central America Four Agreement among El Salvador, Guatemala, Honduras, and Nicaragua allows for free movement of citizens of these countries across their respective borders without visas; however, citizens can be subject to immigration or customs inspections. The agreement represents a vulnerability of each country for the cross-border movement of contraband and proceeds of crime.

The country's lack of resources and capacity to effectively and efficiently investigate and analyze complex financial transactions, when combined with wide-scale corruption within the law enforcement and judicial sectors, contribute to a favorable climate for significant money laundering. There is smuggling of bulk cash, liquor, firearms, gasoline, clothes, illegally caught lobster, and cigarettes.

### **KEY AML LAWS AND REGULATIONS**

CNBS developed a strategic and operational plan to improve its supervisory capacity, including by establishing a new AML/CFT risk management unit. In 2015, Honduras issued regulations relating to DNFBPs and is developing a DNFBP registry. Effective May 28, 2016, the CNBS issued some of the implementing regulations for the 2015 reforms to the money laundering law. Honduras has comprehensive CDD and STR regulations.

Honduras can exchange information in connection with narcotics investigations and proceedings with the United States under appropriate treaties and conventions.

Honduras is a member of the GAFILAT, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.gafilat.org/blog/noticias/141016091643/Mutual-Evaluation-Report-of-Honduras.htm&lang=en>

### **AML DEFICIENCIES**

Although Honduras has developed a national AML strategy, Honduras needs to implement a risk-based approach and must focus on effectively and efficiently implementing its AML regime.

Honduras is taking steps to implement a new risk-based approach. It has conducted a national risk assessment with the assistance of an international donor. The government should make the national risk assessment public. The government has begun to work on creating a degree program, in coordination with a Honduran university, on money laundering and counter-terrorist financing.

Honduras is not subject to any U.S. or international sanctions or penalties.

**ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

Honduras cooperates with foreign governments. On August 23, 2016, following up on the suggestion of President Juan Orlando Hernandez, the presidents of the Northern Triangle countries of Honduras, Guatemala, and El Salvador signed an agreement in which they agreed to fight together the threats and risks to the region caused by organized crime. Under the agreement, the countries will form a tri-national force to fight gang crime. The countries will also create inter-institutional groups that will work on the borders of the Northern Triangle. A goal of the agreement is to give the Northern Triangle countries the ability to act more quickly and to work together as a team in a much more organized manner so that they can better fight organized crime.

During 2016, Honduran prosecutors conducted 24 ML-related prosecutions and obtained seven convictions. Honduran investigators and prosecutors continue to be challenged by complex money laundering cases.

The FIU should provide additional training for its staff members on a number of topics including, but not limited to, the financial products available at financial institutions, international standards, analysis of financial data, report writing, relevant Honduran laws, and the analysis of suspicious and cash transactions reports. The FIU should improve its capacity to detect and describe money laundering typologies. It should disseminate information on typologies to regulated entities and provide feedback to those entities on reports they submit so that filed reports contain complete and accurate responses to requests for information. Key players within relevant law enforcement agencies and key agencies should seek to improve coordination with respect to implementation of the AML regime.

## **Hong Kong**

**OVERVIEW**

Hong Kong, a Special Administrative Region (SAR) of the People's Republic of China, is a major international financial and trading center. As of December 31, 2016, Hong Kong's stock market was the world's seventh largest, with \$3.2 trillion in market capitalization. Already the world's eighth largest banking center in terms of external transactions and the fifth largest foreign exchange trading center, Hong Kong has continued its expansion as the primary offshore renminbi (RMB) financing center, accumulating the equivalent of over \$90.6 billion in RMB-denominated deposits at authorized institutions as of November 2016. Hong Kong does not differentiate between offshore and onshore entities for licensing and supervisory purposes.

**VULNERABILITIES AND EXPECTED TYPOLOGIES**

Hong Kong's low tax rates and simplified tax regime, coupled with its sophisticated banking system, shell company formation agents, free port status, and the absence of currency and

exchange controls present vulnerabilities for money laundering, including TBML and underground finance.

Casinos are illegal in Hong Kong. Horse races, a local lottery, and soccer betting are the only legal gaming activities, all under the direction of the Hong Kong Jockey Club (HKJC), a non-profit organization. The HKJC's compliance team collaborates closely with law enforcement to disrupt illegal gaming outlets. Government of Hong Kong officials indicate the primary sources of laundered funds, derived from local and overseas criminal activity, are fraud and financial crimes, illegal gaming, loan sharking, smuggling, and vice.

### **KEY AML LAWS AND REGULATIONS**

Hong Kong has AML legislation allowing the tracing and confiscating of proceeds derived from drug-trafficking (Drug Trafficking (Recovery of Proceeds) Ordinance) and organized crime (Organized and Serious Crimes Ordinance). These two ordinances have made it more difficult for drug traffickers and other criminals to launder or retain their illicit profits. Hong Kong also has enacted the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance (AMLO) for supervising authorized institutions' compliance with the legal and supervisory requirements.

Under the AMLO, where payment-related information is exchanged or intended to be exchanged authorized institutions need to carry out CDD procedures. Furthermore, the AMLO Guideline and the Hong Kong Monetary Authority's (HKMA) Transactions Guidance Paper provide substantial practical guidance on filing STRs. The guideline indicates that, where knowledge or suspicion arises, an STR should be filed in a timely manner with the Joint Financial Intelligence Unit, which is jointly run by staff of the Hong Kong Police Force and the Hong Kong Customs & Excise Department.

In February 2016, the Hong Kong Association of Banks, in collaboration with the HKMA, published the Guidance Paper on Combating Trade-based Money Laundering in order to implement effective measures to further mitigate authorized institutions' money laundering risks.

Hong Kong is a member of the FATF and the APG, a FATF-style regional body. Its most recent mutual evaluation can be found at:

<http://www.fatf-gafi.org/publications/mutualevaluations/documents/mutualevaluationofhongkongchina.html>

### **AML DEFICIENCIES**

Hong Kong has yet to establish a system that detects the physical cross-border transportation of currency and bearer negotiable instruments. Hong Kong needs to accord priority to establishing such a declaration/disclosure system.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

Over the last two years, financial regulators, most notably the HKMA, conducted extensive outreach, including at the highest corporate levels, to stress the importance of robust AML controls and highlight potential criminal sanctions implications for failure to fulfill legal obligations under the Anti-Money Laundering and Counter-Terrorist Financing (AML/CFT, Financial Institutions) Ordinance.

The United States and Hong Kong SAR are parties to the Agreement Between the Government of the United States of America and the Government of Hong Kong on Mutual Legal Assistance in Criminal Affairs, which entered into force in 2000. As a SAR of China, Hong Kong cannot sign or ratify international conventions in its own right. China is responsible for Hong Kong's international affairs and may arrange for its ratification of any convention to be extended to Hong Kong. The 1988 Drug Convention was extended to Hong Kong in 1997. The UNCAC and the UNTOC were extended to Hong Kong in 2006.

Hong Kong should establish threshold reporting requirements for currency transactions and put in place structuring provisions to counter efforts to evade reporting. The government should establish a cross-border currency reporting requirement. In July 2015, the Hong Kong government launched a three-month public consultation on such a reporting system. The Hong Kong government is consolidating the views collected. Hong Kong should also implement a mechanism whereby the government can return funds to identified victims once it confiscates criminally-derived proceeds.

From January 1 - November 30, 2016, there were 90 money laundering convictions. During the same timeframe, assets restrained under the money laundering and asset confiscation laws totaled \$34.3 million.

## **India**

### **OVERVIEW**

India's main money laundering vulnerability comes from a widespread lack of access to formal financial institutions, particularly in the rural sector, that has resulted in the growth of informal financing networks. The government has launched large-scale financial inclusion programs to increase the number of banked individuals. According to Global Financial Integrity, over the last decade, India is one of the top four sources of illicit financial outflows, primarily based on TBML and abusive trade mis-invoicing.

India should consider the regulation of traditional MVTS and further facilitate the development and expansion of new payment products and services, including mobile banking. The government should ensure all relevant DNFBPs comply with AML regulations.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

The most common money laundering methods include opening multiple bank accounts to hide funds, intermingling criminal proceeds with licit assets, purchasing bank checks with cash, and

routing funds through complex legal structures. Transnational criminal organizations use offshore corporations and TBML to disguise the criminal origins of funds, and companies use TBML to evade capital controls. Illicit funds are sometimes laundered through real estate, educational programs, charities, and election campaigns. Laundered funds are derived from narcotics trafficking, trafficking in persons, and illegal trade, as well as tax avoidance and economic crimes. Counterfeit Indian currency has also been a problem. Notably, however, in November 2016, the Reserve Bank of India demonetized the 500 and 1000 rupee notes and introduced new banknotes to try to crack down on “black money” stemming from corruption, tax evasion, and other illicit financial activity. While this action addresses the problem of counterfeit currency, it does little to mitigate long term money laundering risks.

India has licensed seven offshore banking units (OBUs) to operate in Special Economic Zones (SEZs), which were established to promote export-oriented commercial businesses. As of March 2015, there were 202 SEZs in operation, and 413 SEZs that have received formal approval but have yet to start operations. Customs officers control access to the SEZs. OBUs have defined physical boundaries and functional limits, are prohibited from engaging in cash transactions, can only lend to the SEZ wholesale commercial sector, and are subject to the same AML regulations as the domestic sector.

### **KEY AML LAWS AND REGULATIONS**

In October 2015, India began implementing legislation passed in response to government electoral promises to repatriate previously undisclosed and non-taxed financial assets. Some tax analysts and business community members criticized the severity of the legal penalties in the new law, such as 10-year jail terms, hefty financial penalties, and lack of immunity from prosecution. India’s tax department has attempted to allay taxpayer fears of harassment and corruption by assigning enforcement responsibilities to senior officers and publicly clarifying legislation guidelines.

India has comprehensive KYC and STR requirements.

India is a member of the FATF, as well as two FATF-style regional bodies, the APG and the EAG. Its most recent mutual evaluation can be found at: <http://www.fatf-gafi.org/countries/d-i/india/>

### **AML DEFICIENCIES**

India’s current safe harbor provision is too limited and only protects principal officers and compliance officers of institutions that file STRs in good faith.

Legal persons in India are covered by criminal and civil laws against money laundering. India uses enhanced due diligence for PEPs. India is not subject to U.S. sanctions or penalties.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**



Although India has taken steps to implement an effective AML regime, deficiencies remain. While 2012 amendments to the Prevention of Money Laundering Act (PMLA) widen the definition of money laundering, the government has not changed its enforcement model. Observers and law enforcement professionals express concern about effective implementation and enforcement of the current laws, especially with regard to criminal prosecutions.

U.S. investigators have had limited success in coordinating the seizure of illicit proceeds with Indian counterparts. While intelligence and investigative information supplied by U.S. law enforcement authorities have led to numerous money seizures, a lack of follow-through on investigative leads has prevented a more comprehensive offensive against violators and related groups. India is demonstrating an increasing ability to act on mutual legal assistance requests but continues to struggle with institutional challenges, which limit its ability to provide assistance.

India should recognize the vulnerability of and consider the regulation of traditional MVTS and further facilitate the development and expansion of new payment products and services, including mobile banking. Such an increase in lawful, accessible services would allow broader financial inclusion of legitimate individuals and entities and shrink the informal network, particularly in the rural sector.

India should address noted shortcomings in the criminalization of money laundering, as well as its domestic framework for confiscation and provisional measures. The government should ensure all relevant DNFBPs comply with AML regulations. India should extend its safe harbor provision to also cover all employees. The government of India should seek to use data and analytics to systematically detect trade anomalies that could be indicative of customs fraud, TBML, and counter-valuation in hawala networks.

## **Indonesia**

### **OVERVIEW**

While not a major regional financial center, Indonesia remains vulnerable to money laundering due to gaps in financial system legislation and regulation, a cash-based economy, weak rule of law, and ineffective law enforcement institutions. Most money laundering in Indonesia is connected to drug trafficking and other criminal activity such as corruption, tax crimes, illegal logging, wildlife trafficking, theft, bank fraud, credit card fraud, maritime piracy, sale of counterfeit goods, illegal gambling, and prostitution.

Overall, Indonesia is making progress in identifying and taking steps to address its money laundering vulnerabilities. The primary areas for improvement would be greater analytical training for law enforcement personnel, judicial authorities' awareness of the money laundering offense, increased capacity and focus by investigators and prosecutors on conducting financial investigations as a routine component of criminal cases, and more widespread education for workers in the financial services sector.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Indonesia has a long history of smuggling of illicit goods and bulk cash, made easier by thousands of miles of unpatrolled coastlines, sporadic and lax law enforcement, and poor customs infrastructure. Proceeds from illicit activities are easily moved offshore and repatriated as needed for commercial and personal use. Endemic corruption remains a significant concern and poses a challenge for AML regime implementation.

FTZs are not a particular concern for money laundering in Indonesia. This vast archipelago nation offers many opportunities for narcotics smuggling and cross-border transfer of illegally earned cash without needing to rely on FTZs. The primary factors hindering the fight against narcotics-related money laundering are the lack of analytical training for law enforcement personnel, and insufficient training on money laundering detection and reporting for lower-level workers in the financial services sector. Indonesia's tax amnesty law also poses a money laundering risk, as assets submitted under the program do not appear to be subject to AML measures.

### **KEY AML LAWS AND REGULATIONS**

Indonesia has had KYC requirements as a crucial part of its AML regime since 2001. PEPs are subject to enhanced due diligence; in practice, even lower-level civil servants may be included in this category.

On January 11, 2012, the Indonesian government issued Presidential Decree No. 6, 2012, which establishes the National Coordinating Committee on the Prevention and Combating of Money Laundering (AML Committee). This committee is responsible for coordinating Indonesia's AML efforts. The interagency AML Committee is chaired by the Coordinating Minister for Political, Legal, and Security, with the Deputy Coordinating Minister for Economic Affairs and the Head of Indonesia's FIU, the Indonesian Financial Transaction Reports and Analysis Center (PPATK), as secretaries of the Committee.

The PPATK coordinates Indonesia's AML efforts and programs. PPATK is directly responsible to the President and submits implementation reports every six months to the President and legislature. Much of PPATK's AML activities are tied into its efforts to identify and combat terrorist financing.

In late 2015, Indonesia conducted a national risk assessment, which Indonesia then followed by taking a leadership role, along with Australia, in the regional risk assessment on terrorist financing produced in August 2016.

Indonesia is a member of the APG, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.apgml.org/documents/search-results.aspx?keywords=Indonesia>

### **AML DEFICIENCIES**

The main deficiencies in Indonesia's AML regime are lack of expertise within the law enforcement community and insufficient knowledge of reporting requirements by lower-level bank officials. Indonesia is not subject to any U.S. or international sanctions for money laundering.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

Indonesia is taking steps to implement the 1988 UN Drug Convention and other applicable agreements and conventions. Combating narcotics abuse is a top priority for the current administration, and Indonesia recognizes the need for international cooperation to stem this transnational threat.

PPATK publishes a monthly report summarizing reporting activity. In addition to CTRs and STRs, PPATK also publishes a Cash Carry Report in collaboration with the Directorate General of Customs and Excise to track physical cross-border transfers of cash. PPATK also invites the public to report any suspicious transactions. For the period January - August 2016, PPATK referred 253 Results of Analysis STRs, reports that follow-up on the initial notifications provided by financial institutions, to investigators, a 16.2 percent increase over the same January - August timeframe in 2015. Most were alleged corruption cases. For the period January - August 2016, PPATK produced 75 Examination Reports (ERs), the final assessment after full analysis and evaluation of an STR. There is a significant increase in the number of ERs referred this year; the 2016 total through August is greater than the cumulative total of the last five years. The Indonesian government lacks sufficient practices or procedures to collect high-quality prosecution and conviction statistics.

In 2016, there were seven money laundering convictions.

## **Iran**

### **OVERVIEW**

Iran has a large underground economy, spurred by uneven taxation, widespread smuggling, sanctions evasion, and currency exchange controls. There is also pervasive corruption within Iran's ruling and religious elite, government ministries, and government-controlled business enterprises. Although Iran is not currently a financial hub, with the lifting of nuclear-related sanctions against Iran under the Joint Comprehensive Plan of Action (JCPOA), Iran could expand its regional financial significance, as investors and companies explore opportunities for new investment in and trade with Iran. To increase its financial standing, however, Iran must implement significant reforms in its financial sector, which is opaque and poorly regulated.

Iran remains a major transit route for opiates smuggled from Afghanistan through Pakistan to the Persian Gulf, Turkey, Russia, and Europe. At least 40 percent of opiates leaving Afghanistan enter or transit Iran for domestic consumption or transport to consumers in Russia and Europe. Most opiates and hashish are smuggled into Iran across its land borders with Afghanistan and Pakistan, although maritime smuggling has increased as traffickers seek to avoid Iranian border

interdiction efforts. In 2015, Iran's Minister of Interior estimated the combined value of narcotics trafficking and sales in Iran is \$6 billion annually.

On November 21, 2011, the U.S. Government identified Iran as a state of primary money laundering concern pursuant to Section 311 of the USA PATRIOT Act. The FATF has repeatedly warned of Iran's failure to address the risks of terrorist financing, urging jurisdictions around the world to impose countermeasures to protect their financial sectors from illicit finance emanating from Iran. In June 2016, Iran made a high-level political commitment to the FATF to implement an action plan to address its strategic AML/CFT deficiencies. In response, although Iran remains on FATF's Public Statement, FATF suspended its call for countermeasures for 12 months while Iran implements its action plan.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Iran's merchant community makes active use of MVTS, including hawala (*sarrafi* in Persian) and moneylenders. Leveraging the worldwide hawala network, Iranians are able to easily, securely, and inexpensively make both legitimate and illegitimate money transfers to Europe, North America, and beyond. Counter-valuation in hawala transactions is often accomplished via trade; thus TBML is a prevalent form of money laundering. Many hawala owners and the traditional Iranian merchant class have ties to the regional hawala hub of Dubai. An estimated 400,000 Iranians reside in the United Arab Emirates (UAE), with up to 50,000 Iranian-owned companies based there. According to media reporting, Iranians have invested billions of dollars in capital in the UAE, particularly in Dubai real estate. Money launderers also use Iran's real estate market to hide illicit funds.

In 1984, the Department of State designated Iran as a State Sponsor of Terrorism. Iran continues to provide material support, including resources and guidance, to multiple terrorist organizations and other groups that undermine the stability of the Middle East and Central Asia.

### **KEY AML LAWS AND REGULATIONS**

Iran has criminalized money laundering and has adopted KYC and STR requirements. Additionally, Iran has put in place a regulation to institute cross-border currency declarations for amounts over the equivalent of \$10,000 in any currency.

Iran is not a member of either a FATF-style regional body or of the Egmont Group.

### **AML DEFICIENCIES**

In October 2007, the FATF issued its first public statement expressing concern over Iran's lack of a comprehensive AML/CFT framework. Beginning in 2009, the FATF urged all jurisdictions to apply effective countermeasures to protect their financial sectors from the money laundering/terrorist financing risks emanating from Iran, and it also stated that jurisdictions should protect against correspondent relationships being used to bypass or evade countermeasures or risk mitigation practices. As a result of Iran's high-level commitment to the FATF to implement an action plan to address its strategic AML/CFT deficiencies, on June 24,

2016, the FATF continued to include Iran on its Public Statement but suspended its call for countermeasures for 12 months while Iran implements its action plan.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

For nearly two decades, the United States has undertaken targeted financial actions against key Iranian financial institutions, entities, and individuals that include legislation and more than a dozen Executive Orders (E.O.s). One noteworthy action taken against Iran includes designating one state-owned Iranian bank (Bank Saderat and its foreign operations), designated for funneling money to terrorist organizations (E.O. 13224).

Although U.S. nuclear-related secondary sanctions against Iran were lifted on JCPOA Implementation Day in January 2016, the United States continues to enforce sanctions targeting Iran's support for terrorism, destabilizing regional activities, ballistic missile activities, and human rights abuses. Thus, post-JCPOA Implementation Day, there are more than 200 Iran-related persons and entities remaining on the Department of the Treasury's List of Designated Nationals.

## **Iraq**

### **OVERVIEW**

Iraq's economy is primarily cash-based and its financial sector is severely underdeveloped. Iraq has about 2,000 financial institutions, most of which are money exchange houses. Although Iraqi law prohibits these entities from transferring funds outside of Iraq, some probably conduct cross-border transfers. U.S. dollars are widely accepted. Iraqi law enforcement and bank supervisors have made progress in their capabilities to detect and halt illicit financial transactions mostly due to a 2015 AML law. However, the illicit use of some currency exchange networks and the weak compliance capabilities of the banking sector leave the Iraqi financial sector susceptible to abuse.

Smuggling is endemic, often involving consumer goods. Bulk cash smuggling is likely common, in part because Iraqi law only allows for the seizure of funds at points of entry, such as border crossings and airports. Narcotics trafficking occurs on a small scale. Corruption is pervasive at all government levels and is widely regarded as a cost of doing business in Iraq.

Iraqi authorities have been making strides in combatting money laundering, but almost all of the progress is connected to terrorist financing. Investigations into financial gains from political corruption or other actors remain virtually nonexistent.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Since June 2014, when Iraq's ongoing conflict with ISIL escalated, it has been more difficult for the government to monitor AML efforts in areas outside of central government control. The Central Bank of Iraq (CBI) has taken a number of steps to deter money laundering, including by

issuing a national directive to prohibit financial transactions with banks and financial companies located in ISIL-controlled areas, publishing a list of companies prohibited from accessing the U.S. currency auction, and increasing its investigative activities and cooperation with the Ministry of Interior (MOI). However, the CBI lacks adequate personnel and technical capacity to fully monitor financial entities and routinely encounters difficulty engaging various parts of the government during its investigations.

According to the manager of Iraq's Free Trade Zone Authority, Iraq has three FTZs, but only Khour Az-Zubayr, Basrah, is currently operational. Under the Free Trade Zone Authority Law goods imported or exported from the FTZs are generally exempt from all taxes and duties, unless the goods are to be imported for use in Iraq. Additionally, capital, profits, and investment income from projects in the FTZs are exempt from taxes and fees throughout the life of the project. TBML is a significant problem in Iraq and is linked to hawalas and informal financial systems.

### **KEY AML LAWS AND REGULATIONS**

In October 2015 Iraq passed a new AML law; implementing regulations are still being drafted. The CBI is working with international donors to draft the regulations. The implementation of the 2015 AML law should help to increase the regulation and supervision of the financial sector, but to date the capacity of the regulatory authorities remains limited, and enforcement is subject to political constraints.

Since June 2016, Iraq has made improvements to its AML regime, namely through addressing issues related to the criminalization of money laundering and strengthening its FIU.

Iraq is a member of MENAFATF, a FATF-style regional body. Its most recent mutual evaluation can be found at: [http://www.menafatf.org/MER/MER\\_Iraq\\_English.pdf](http://www.menafatf.org/MER/MER_Iraq_English.pdf)

### **AML DEFICIENCIES**

A lack of technological and human capital is a major hindrance to Iraq's efforts to effectively combat money laundering. The lack of cooperation between the intelligence agencies, the FIU, the CBI, and the judiciary, while improving, is a major obstacle to effective enforcement actions. Additionally, the Money Laundering Reporting Office (MLRO) needs to be empowered to enforce its authority to receive reports from all reporting entities.

In practice, despite CDD requirements, most banks open accounts based on referrals by existing customers and/or verification of a person's employment. Actual application of CDD and other preventive measures varies widely across Iraq's state-owned and private banks. Banks generally comply with the requirement to file CTRs with the MLRO, but very few STRs are filed. Due to a weak institutional culture of compliance and the lack of robust penalties for noncompliance, banks often are unmotivated to file STRs and sometimes conduct internal investigations in lieu of reporting. Iraqi authorities should encourage increased reporting by financial institutions through more in-depth onsite supervision and an increase in the penalties levied for noncompliance.

**ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

The CBI revoked the licenses of dozens of exchange houses and money transfer companies linked to illicit financial activity in 2016, and the MOI closed the offices of over 40 unlicensed exchange houses.

The number of criminal convictions rose dramatically in 2016, and coordination with U.S. authorities has increased. However, the result in many cases is a fine against an institution or closure of the financial office.

Greater coordination between the Iraqi government and the Kurdistan Regional Government (KRG) is needed to regulate financial transactions, crack down on smuggling networks, and cooperate on AML efforts. The KRG abides by Iraq's AML law, and there are renewed efforts to coordinate with the central government; however, the extent of the cooperation remains extremely limited. Moreover, Kurdish customs requirements are less stringent than Iraq's, which risks enabling the smuggling of illicit and counterfeit goods into southern Iraq.

**Italy****OVERVIEW**

Italy's economy is the eighth-largest in the world and the third-largest in the Eurozone. Italy has a sophisticated AML regime and legal framework, but continued risk of money laundering stems from activities associated with organized crime. Numerous reports by Italian NGOs identify domestic organized crime as Italy's largest enterprise. Tax crimes also represent a significant risk and have been identified by Italy's national risk assessment (NRA) as accounting for 75 percent of all proceeds-generating crime in Italy. While on the rise, CDD and reporting remain weak among non-financial sectors, and regulations are inconsistent. The Government of Italy continues to combat sources of money laundering. The current government has undertaken reforms to curb tax evasion and strengthen anti-corruption measures, and the government's fight against organized crime is ongoing.

**VULNERABILITIES AND EXPECTED TYPOLOGIES**

Drug trafficking is a primary source of income for Italy's organized crime groups, which exploit Italy's strategic geographic location to do business with foreign criminal organizations in Eastern Europe, China, South America, and Africa. Other major sources of laundered money are proceeds from tax evasion and value-added tax fraud, smuggling and sale of counterfeit goods, extortion, corruption, illegal gaming, and loan sharking. Italian authorities have strong policy cooperation and coordination, and Italy is now developing a national AML strategy informed by the NRA. Law enforcement agencies have been successful in undertaking complex financial investigations and prosecutions and have confiscated large amounts of criminal proceeds.

**KEY AML LAWS AND REGULATIONS**

The Ministry of Economy and Finance is host to the Financial Security Directorate, which establishes policy regarding financial transactions and AML efforts. The directorate published Italy's most recent NRA in July 2014. The Bank of Italy (BOI) is home to the Financial Information Unit (UIF), Italy's FIU, which is the government's main mechanism for collecting data on financial flows and receiving STRs. The BOI continues to issue guidance on CDD measures, in order to support banks and financial intermediaries in the definition of their CDD policies.

Law no. 186, criminalizing self-laundering, was added to the Italian Penal Code and became effective on January 1, 2015, giving Italy increased authority to prosecute individuals for money laundering as a standalone crime. This new law defines self-laundering as an operation aimed to conceal the illegal origin of the money, carried out by the same person who committed or participated in the predicate offense.

The UIF reported an increase in STR filings of 33 percent in the first half of 2016 over the first half of 2015. Of these STRs, approximately 25 percent were voluntary disclosures. The UIF attributes this dramatic increase in STRs to more active participation among non-financial professionals, particularly lawyers and accountants. The UIF has worked to increase the number of STRs filed by DNFBPs, especially within the public administration sector. In the first half of 2016, the percentage of STRs reported by DNFBPs rose slightly, and the share received from professionals doubled. The government plans to continue to implement measures that will significantly increase the number of STRs from DNFBPs.

Italy has a MLAT with the United States and is party to the U.S.-EU MLAT.

Italy is a member of the FATF. Its most recent mutual evaluation report can be found at: <http://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-Italy-2016.pdf>.

### **AML DEFICIENCIES**

As of January 2014, regulations require the application of enhanced CDD measures for the financial sector in transactions with both domestic and foreign PEPs. However, DNFBPs are not required to apply enhanced CDD when dealing with domestic PEPs. DNFBPs are also not legally required to file a STR when the beneficial owner is not identified in a business transaction. Money remitters operating under EU passporting arrangements are not adequately regulated or supervised, although the situation should improve with the implementation of the EU's 4<sup>th</sup> AML Directive.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

The criminalization of self-money laundering allows for expanded legal authority to prosecute individuals for money laundering and may help decrease the need for these lesser convictions. However, penalties applied to persons convicted of money laundering may not be sufficiently dissuasive as there are numerous repeat offenders. Italy continues to implement the 1988 UN Drug Convention and seeks to implement revisions to its AML policies in accordance with the



EU's 2015 Fourth Anti-Money Laundering Directive, which mandates compliance by June 26, 2017.

## **Jamaica**

### **OVERVIEW**

Money laundering in Jamaica is primarily related to proceeds from illegal narcotics and fraud schemes and is largely controlled by organized criminal groups. Jamaica continues to experience a large number of financial crimes related to advance fee fraud (lottery scams), corruption, and cybercrime.

Since the Proceeds of Crime Act was instituted in 2007, Jamaica's Financial Investigations Division, which includes the FIU, has used the act to seize approximately \$20 million in properties and other assets believed to be derived from criminal activities. The Proceeds of Crime Act has been increasingly successful but is still not being implemented to its fullest potential due to difficulties prosecuting financial crime and achieving convictions in these cases.

The Government of Jamaica should make a concerted effort to identify money laundering-related activities and deter political and public corruption, while working to ensure that financial institutions are as inclusive as possible. Jamaica also should take steps to provide sufficient resources to the prosecutors and courts and should review and amend, if necessary, its case-processing procedures to enhance its ability to prosecute financial crimes fairly and efficiently. Jamaica should also further develop the capacities of its law enforcement and prosecutorial authorities in order to successfully prosecute financial crime cases.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Money laundering in Jamaica is primarily related to proceeds from illegal narcotics, financial scams, and extortion and is largely controlled by organized criminal groups. There are dozens of violent Jamaican gangs on the island. Jamaica continues to experience a large number of financial crimes related to cybercrime and advance fee fraud (lottery scams), which primarily target U.S. citizens.

### **KEY AML LAWS AND REGULATIONS**

The Proceeds of Crime Act has been increasingly successful but is still not being used to its fullest potential. The act incorporates the existing provisions of its predecessor legislation and permits the civil forfeiture of assets related to criminal activity. The act has expanded the confiscation powers of the Government of Jamaica and permits, in addition to pre-conviction forfeiture of assets, a post-conviction forfeiture of benefits assessed to have been received by the convicted party within the six years preceding the conviction. The act criminalizes money laundering related to narcotics offenses, fraud, firearms trafficking, human trafficking, terrorist financing, and corruption and applies to all property or assets associated with an individual convicted or suspected of involvement

with a crime. This includes legitimate businesses used to launder drug money. The Financial Investigation Division continues to work with partners in the Jamaica Constabulary Force and others to refer cases which could result in seizure of assets.

In 2014, Jamaica passed the Banking Services Act, which allows for greater information sharing among the Bank of Jamaica, the Financial Services Commission, and foreign counterparts.

Jamaica's financial institutions (including money remitters and cambios) file an inordinately high volume of suspicious transaction reports annually, the vast majority of which are deemed defensive filings.

In 2016, the Financial Investigations Division began using AML software to allow for the online filing of CTRs and STRs by over 300 financial institutions, real estate agents, and other regulated entities. It also allows for the automated analysis of these disclosures and the generation of both tactical and strategic reports to improve the overall effectiveness of combating money laundering and identifying drug trafficking and other criminal activities.

Jamaica is a member of the CFATF, a FATF-style regional body. Its most recent mutual evaluation can be found at: <https://www.cfatf-gafic.org/index.php/documents/cfatf-mutual-evaluation-reports/jamaica-1>

### **AML DEFICIENCIES**

Lengthy delays in processing judicial orders hinder the effectiveness of the Jamaican court system. The Jamaican courts and prosecutors have been unable to keep pace with an increase of all charged crimes, including financial crimes. Inefficient methods of practice amongst the investigators, prosecutors, defense bar, and judiciary, combined with corruption and a culture of unaccountability, further exasperates an already overburdened system. Jamaica has chosen to pursue predicate offenses to money laundering, rather than pursuing money laundering as a stand-alone offense, due to the challenge of investigating and prosecuting money laundering cases. This has resulted in the non-prioritization of money laundering investigations and fewer money laundering prosecutions and convictions.

Political and public corruption both generate and facilitate illicit funds and activity.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

Although lawyers are included in 2014 amendments to the AML regulations, the Jamaican Bar Association filed an injunction to exclude them from AML requirements. That action is still pending.

In 2015, there were twenty-two prosecutions and four convictions related to money laundering, bringing the tally to ninety-seven such prosecutions and ten convictions in the last six years.

## Kazakhstan

### OVERVIEW

While not a regional financial center, the Republic of Kazakhstan has the most developed economy and financial system in Central Asia and has an ambitious plan for creating a regional financial offshore zone in its capital, Astana.

Kazakhstan is a transit country for Afghan heroin and opiates to Europe via Russia and thus is vulnerable to drug-related money laundering crimes. Tracking narcotics revenue remains difficult, as payments make use of informal alternative remittance systems, such as hawala, or through the QIWI Wallet electronic payment system.

The absence of parallel financial investigations and the resistance of local key stakeholders to a “stand-alone” money laundering concept create additional challenges. There is currently no criminal or administrative liability for money laundering offenses for legal persons. Enhanced due diligence is required only for foreign PEPs, whereas domestic PEPs are not covered.

Low numbers for money laundering investigations and convictions indicate the need to strengthen the efficiency of the current AML regime. The Prosecutor General’s Office (PGO) expressed its strong commitment to resolving open issues related to financial investigations and asset recovery through the development of an interagency working group.

### VULNERABILITIES AND EXPECTED TYPOLOGIES

Governmental corruption, an organized crime presence, and a large shadow economy make the country vulnerable to money laundering. A significant part of Kazakhstan’s wealth derived from minerals and hydrocarbons is held in offshore accounts with little public scrutiny or accounting oversight. The major sources of laundered proceeds are graft by public officials, tax evasion, and fraudulent financial activity, particularly transactions using shell companies to launder funds returned in the form of foreign investments. In addition, the smuggling of contraband and fraudulent invoicing of imports and exports remain common practices.

Casinos and slot machine parlors are located only in selected territories. The Ministry of Culture and Sport is responsible for the regulation of the gaming sector and also issues licenses to gaming businesses. Kazakhstani law prohibits online casinos and gaming. Law enforcement agencies find it challenging to combat online gaming. The vulnerabilities of these businesses to money laundering and the scope of government oversight are not known.

### KEY AML LAWS AND REGULATIONS

The AML/CFT Law adopted in 2009, as amended in 2012, 2014, 2015, and 2016, creates the legal framework for all preventive measures to be observed by the private sector.

Kazakhstan is a member of the EAG, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.eurasiangroup.org/mers.php>

**AML DEFICIENCIES**

Current AML law does not cover financial management firms; travel agencies; or dealers of art, antiques, and other high-value consumer goods. These entities are not required to maintain customer information or report suspicious activity.

Kazakhstan lacks a mechanism to share with other countries assets seized through joint or trans-border operations. Non-conviction-based asset forfeiture provisions will come into effect in 2018.

**ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

During the first 10 months of 2016, prosecutors brought 54 money laundering-related cases to court. Only one money laundering-related conviction occurred during this period.

The government requires additional resources to ensure the proper enforcement of its financial crimes regulations. The government should train and educate local institutions and personnel on further implementation of the AML law in accordance with the soon-to-be conducted national risk assessment. The government should ensure due diligence and reporting requirements are applied to all appropriate entities.

On January 1, 2018 a new provision will enter into force allowing confiscation of property illegally obtained or purchased with illicit funds, replacing a provision that permits mandatory seizure, in part or in whole, of the property of any person convicted for miscellaneous predicate offenses. Currently, law enforcement agencies do not attempt with any frequency or consistency to determine the origin of assets during the initial stage of an investigation. Since the burden of proof lies with law enforcement, under the new provision it will be difficult to determine the origin of assets that belong to a suspected person.

All reporting entities subject to the AML law are inspected by their respective regulatory agencies. Most of those agencies, however, lack the resources and expertise to inspect reporting entities for AML compliance. In addition, all reporting entities, except banks, have difficulties implementing a risk-based approach to AML compliance, so they mostly apply CDD procedures in a blanket fashion. Regulatory agencies, in coordination with the FIU, should ensure the ability of non-bank reporting entities to implement a risk-based AML approach that will lead to improved STR reporting.

There is a two-tier AML/CFT Certification Program for private sector representatives that includes both national and international components. Ninety percent of Kazakhstani banks have at least one compliance specialist certified in money laundering investigation.

**Kenya****OVERVIEW**

Kenya remains vulnerable to money laundering and financial fraud. It is the financial hub of East Africa, with its banking and financial sectors growing in sophistication. Kenya is also at the forefront of mobile banking. Money laundering occurs in the formal and informal sectors and derives from both domestic and foreign criminal operations. Criminal activities include transnational organized crime, cybercrime, corruption, smuggling, trade invoice manipulation, illicit trade in drugs and counterfeit goods, trade in illegal timber and charcoal, and wildlife trafficking.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Although banks, wire services, and mobile payment and banking systems are increasingly available, there are also thriving unregulated networks of hawaladars and other unlicensed remittance systems that lack transparency and facilitate cash-based, unreported transfers that the government cannot track. Foreign nationals, including refugee populations, and ethnic Somali residents primarily use the hawala system to send and receive remittances internationally. Diaspora remittances to Kenya totaled \$1.55 billion in 2015 and \$862 million between January and September 2016. There are about 159,000 mobile-money agents in Kenya, most working through Safaricom's M-PESA system. There are also over 10 million accounts on M-Shwari, Safaricom's online banking service. These services remain vulnerable to money laundering activities.

Kenya is a transit point for international drug traffickers, and TBML continues to be a problem. Kenya's proximity to Somalia makes it an attractive location for the laundering of certain piracy-related proceeds. There is a black market for smuggled and grey market goods in Kenya, which serves as a transit country for the region. Goods reportedly transiting Kenya are not subject to customs duties, but authorities acknowledge many such goods are actually sold in Kenya. Trade in goods is often used to provide counter-valuation in regional hawala networks.

### **KEY AML LAWS AND REGULATIONS**

Financial institutions engage in currency transactions related to international narcotics trafficking, involving significant amounts of U.S. currency, which is derived from illegal sales in the United States as well as in Kenya. Under the Proceeds of Crime and Anti-Money Laundering Act (POCAMLA) and other banking regulations, Kenyan financial institutions and entities reporting to the Financial Reporting Center (FRC), Kenya's FIU, are subject to KYC and STR rules and have enhanced due diligence procedures in place for PEPs.

Kenya and the United States cooperate on money laundering investigations on a case-by-case basis.

Kenya is a member of the ESAAMLG, a FATF-style regional body. Its most recent mutual evaluation report can be found at: [http://www.esaamlg.org/reports/view\\_me.php?id=228](http://www.esaamlg.org/reports/view_me.php?id=228)

### **AML DEFICIENCIES**

An automated system would improve the FRC's efficiency and ability to analyze suspicious transactions. Although the FRC receives STRs from some MVTS providers, this sector is more challenging to supervise for AML compliance.

The tracking and investigation of suspicious transactions within the mobile payment and banking systems remain difficult. For example, criminals could potentially use illicit funds to purchase mobile credits at amounts below reporting thresholds. The lack of rigorous enforcement in this sector, coupled with inadequate reporting from certain reporting entities, increases the risk of abuse.

In order to demand bank records or seize an account, the police must obtain a court order by presenting evidence linking the deposits to a criminal violation. The confidentiality of this process is not well maintained, which allows account holders to be tipped off, providing an opportunity to move their assets or contest the orders.

The government, especially the police, does not allocate adequate resources to build sufficient institutional capacity and investigative skill to conduct complex financial investigations independently. Bureaucratic and other impediments also may impede investigation and prosecution of these crimes. Kenya should fully satisfy its commitments on good governance, anti-corruption efforts, and improvements to its AML regime.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

The POCAMLA legislation provides a comprehensive framework to address AML issues and authorizes appropriate sanctions for money laundering crimes. The Office of the Director of Public Prosecutions, which includes a division that specifically addresses money laundering and terrorist financing offenses, has used ancillary provisions in the POCAMLA to apply for orders to restrain, preserve, and seize proceeds of crime in Nairobi.

Kenya's constitution requires public officials to seek approval from the Ethics and Anti-Corruption Commission (EACC) prior to opening a bank account. The EACC denied permission to 146 government employees to open foreign bank accounts.

In March 2015, the Capital Markets Authority listed new guidelines requiring brokers to adhere to enhanced internal controls. The brokers are required to assess the risk levels of clients, by checking their backgrounds and assigning them risk ratings, and to report suspicious trades and transactions above \$10,000 to the FRC.

In July 2015, the government made commitments to strengthen its AML regime by working toward gaining membership to the Egmont Group, working with international donors to conduct a risk assessment for money laundering, and working with development partners to facilitate the full implementation of its AML rules and regulations. Kenya agreed to accelerate its work to strengthen the capacity of the FRC and the central bank to track illicit financial flows and to increase bilateral information sharing and enforcement efforts. Despite some progress, Kenya has not yet fulfilled all of its commitments.

## **Korea, Democratic People's Republic of**

### **OVERVIEW**

The Democratic People's Republic of Korea (DPRK or North Korea) has a history of involvement in currency counterfeiting, drug trafficking, terrorist financing, and the laundering of related proceeds, as well as the use of deceptive financial practices in the international financial system. The DPRK regime continues to present a range of challenges for the international community through its pursuit of nuclear weapons, weapons trafficking and proliferation, and human rights abuses.

On June 1, 2016, the U.S. Department of the Treasury identified the DPRK as a jurisdiction of "primary money laundering concern," pursuant to Section 311 of the USA PATRIOT Act, and issued a proposed rulemaking generally prohibiting U.S. financial institutions from establishing or maintaining correspondent accounts with DPRK financial institutions and prohibiting the use of U.S. correspondent accounts to process transactions for North Korean financial institutions. This proposed rule was finalized on November 4, 2016.

Furthermore, in October 2016, the FATF again expressed its serious concerns with the threats posed by DPRK's illicit activities related to the proliferation of weapons of mass destruction (WMDs) and its financing, and urged the DPRK to immediately and meaningfully address its AML/CFT deficiencies. The FATF strengthened the public statement by aligning it with the key financial operative paragraphs of UNSCR 2270 in urging all jurisdictions to terminate correspondent accounts and close existing branches and subsidiaries of DPRK banks. The FATF reaffirmed its earlier calls on its members 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 called on its members and urged all jurisdictions to apply effective countermeasures and targeted financial sanctions in accordance with applicable UNSCRs in order to protect their financial sectors from money laundering and proliferation financing risks emanating from the DPRK.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Access to current information on the financial and other dealings of the DPRK is hampered by the extremely closed nature of its society, but it has reported on its AML framework through engagement with the international AML community.

### **KEY AML LAWS AND REGULATIONS**

In April 2016, DPRK adopted an AML law through Decree No. 1113 of the Presidium of the Supreme People's Assembly, replacing the previous AML law of October 2006. The new AML law covers the main elements of the money laundering offense (conversion, transfer, concealing, disguising, acquisition, possession and use of property, knowing that such property is the proceeds of an offense) and the coverage of the offense extends to any type of property,

regardless of its value, that directly or indirectly represents the proceeds of crime. However, the law remains significantly deficient, and there is no evidence of an AML infrastructure in the DPRK capable of implementing the law.

The DPRK is not a member of a FATF-style regional body but is an observer of the APG. It has been subject to the FATF call for countermeasures since 2011.

### **AML DEFICIENCIES**

There is little available information on the DPRK's financial system, and it is not clear what kinds of financial institutions currently operate in the DPRK or the type of financial activities conducted. The DPRK has not been subject to a review of its AML regime based on international standards.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

The AML law nominally sets out a supervisory framework by the Financial Supervisory Bureau, which has broad responsibilities for implementation and enforcement of the AML law. However, there is no evidence the DPRK can effectively supervise its financial institutions and enforce AML practices. Moreover, although the AML law mentions effective monitoring and supervisory mechanisms, including powers to sanction financial institutions and other businesses and professions that do not comply with AML requirements, there is neither explanation for how this is achieved nor evidence of any established framework to implement sanctions.

The DPRK is party to a number of international conventions, including the 1988 UN Drug Convention. There is no evidence, however, that the DPRK has taken sufficient steps to properly implement provisions contained in the conventions.

## **Kyrgyz Republic**

### **OVERVIEW**

The Kyrgyz Republic is not a regional financial center, although a large shadow economy, corruption, organized crime, and narcotics trafficking make the country vulnerable to financial crimes. Despite these issues, the banking system in the Kyrgyz Republic is relatively stable and is viewed as a reliable partner for foreign banks and other financial institutions.

The government substantially addressed its action plan to remedy major AML deficiencies, by adequately criminalizing money laundering and terrorism financing; establishing an adequate legal framework for identifying, tracing, and freezing terrorist assets; establishing adequate measures for the confiscation of funds related to money laundering; and strengthening customer due diligence requirements. Despite these efforts, weaknesses remain in implementation and enforcement.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**



In 2016, known remittances from migrant workers comprise nearly 32 percent of GDP. A significant portion of remittances enters informal channels or is hand-carried to Kyrgyzstan from abroad.

Absent exact figures, it appears narcotics trafficking is the main source of criminal proceeds. The country sits along the transit route from Afghanistan to Russia and beyond. The smuggling of consumer goods, tax and tariff evasion, and official corruption continue to serve as additional major sources of criminal proceeds. Money laundering also occurs through trade-based fraud, bulk-cash couriers, and informal and unregulated value transfer systems. Weak political will, resource constraints, inefficient financial systems, and corruption serve to stifle efforts to effectively combat money laundering.

### **KEY AML LAWS AND REGULATIONS**

The following entities are subject to STR requirements: banks; financial organizations; credit unions; insurance organizations; professional participants in the equity markets; mortgage companies; private pension funds and managers of retirement assets; leasing companies; persons providing funds or value transfer, including a specialized system of money transfers without opening an account; foreign exchange dealers; pawnshops/buyer companies; commodity exchanges; persons organizing and conducting lotteries; real estate brokerages and intermediaries; dealers of precious metals, precious stones, and jewels (and waste of these products); other persons conducting financial transactions; persons providing trustee services, including trust companies; and post/telegraph organizations providing money transfers.

Banks, credit institutions, stock brokerages, foreign exchange offices, insurance companies, notaries, attorneys, regulators, tax consultants and auditors, realtors, the state's property agency, trustees, jewelry stores and dealers, and customs officers are subject to KYC requirements.

In 2016, the FIU signed more than eight international cooperation agreements on exchanging information on money laundering and terrorism financing.

The Kyrgyz Republic is a member of the EAG, a FATF-style regional body. Its most recent mutual evaluation is available at: <http://www.eurasiangroup.org/mers.php>

### **AML DEFICIENCIES**

The AML law was amended twice in 2015. Amendments in April specifically exclude the gaming industry, with the exception of lotteries, from coverage under the law. Additional amendments in July expand the list of entities required to report STRs but remove notaries. There is no criminal liability for legal persons engaged in money laundering activity.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

Despite noted progress, significant gaps still exist in enforcement and implementation. The procedures for investigation and enforcement are still underdeveloped, and there are virtually no

investigations and prosecutions of money laundering. Both government and private institutions lack personnel, training, and capacity to enforce the law and its attendant regulations. A previous attempt at reform of the Financial Police proved ineffective. The Financial Intelligence Service of the Kyrgyz Republic (FIS), the country's FIU, is not recognized by other government entities as a legitimate investigative agency, resulting in a lack of cooperation and information sharing across agency lines. The FIS says it sends prosecutable cases, which the prosecution service refuses to pursue; the prosecutors say they receive scant information from the FIS and requests to prosecute without sufficient evidence. In March 2015, the government amended the FIS law and ordered the FIU to create a Public Advisory Council in order to monitor its activities.

According to FIS 2016 data, the FIS conducted 34 financial investigations on money laundering, but data on prosecutions and convictions are not available.

In June 2016 a draft AML law was prepared that will, if passed, replace an existing AML law. This draft law would introduce new items which are required under international standards but are missing in the current law. For example, the new draft law has an article on international cooperation and an expanded list of money laundering crimes.

## **Laos**

### **OVERVIEW**

The fast-growing economy, weak governance, and Laos' geographic position at the heart of mainland Southeast Asia combine to make it vulnerable to money laundering. Cash-based transactions, even for large purchases such as vehicles and real estate, remain commonplace, and government efforts to move toward electronic records and transactions continue to proceed slowly. The financial sector in Laos has expanded rapidly over the last decade, and while the government has enacted several new regulations aimed at preventing money laundering, officials' knowledge remains relatively limited and implementation is untested, leaving Laos an attractive target for money launderers.

Corruption is widespread, though the government of Prime Minister Thongloun has focused greater government attention on the issue. Drug trafficking, wildlife trafficking, and human trafficking are major concerns. Traffickers are likely taking advantage of poor recordkeeping, weak enforcement of new regulations, and prevalence of cash transactions to launder the proceeds of their crimes. Smuggling is made easier by porous borders. Bulk cash smuggling to and from Thailand, China, and Vietnam is likely occurring. Laos has a large informal economy and uses informal value transfer systems.

Laos still needs to show improvement in several areas, including demonstrating fit and proper controls of banks and amending the penal code to include legal persons.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Major sources of illicit funds in the jurisdiction are thought to include narcotics trafficking, wildlife trafficking, and proceeds of corruption. Money can easily be laundered in Laos' cash-based economy, remote casinos remain a vulnerability, and large real estate developments are thought to be another vehicle for large-scale laundering. Authorities are poorly equipped to investigate. Central government control and ability to investigate outside of the capital can be inconsistent.

### **KEY AML LAWS AND REGULATIONS**

Law No. 49/NA on Anti-Money Laundering and Combatting the Financing of Terrorism (AML Law), took effect on February 24, 2015. Under the law, covered entities are required to verify the identity of customers as well as the intention and objectives behind the transactions. Laos has comprehensive KYC and STR regulations. Reporting units must report large transactions that exceed certain monetary thresholds and those under suspicion of being connected to money laundering.

The new "Regulation on the Establishment of Commercial Banks and Commercial Banks' Branches" was issued in January 2016. This regulation includes controls over bank license holders and checks on sources of capital.

Laos is a member of the APG, a FATF-style regional body. Its most recent mutual evaluation can be found at <http://www.apgml.org/mutual-evaluations/documents/default.aspx?s=date&c=8b7763bf-7f8b-45c2-b5c7-d783638f3354>

There is no current records exchange mechanism in place with the United States; Laos' AML systems are nascent, though the government is exploring international cooperation mechanisms.

### **AML DEFICIENCIES**

Laos' major deficiencies include legal persons not being covered under existing legislation, though this should change with the new penal code, expected in mid-2017; lack of oversight for MVTS providers; and weak implementation capacity. Additionally, there is no protection against liability for individuals reporting suspicious activity, although safe harbor regulations have been discussed over the last year.

Laos' system to identify, freeze, and seize assets is new and untested.

Laos is not an Egmont member but is exploring membership.

Laos continued its AML reform efforts during 2016.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

Enforcement capacity is weak, and political will can be inconsistent. However, Laos has increasingly engaged the international community on AML issues and has requested assistance where it is needed. Laos is working to implement the entirety of its action plan.

There were no AML-related prosecutions reported during the period.

The Bank of Lao People's Democratic Republic and its Anti-Money Laundering Investigations Office are actively seeking assistance from donors and have worked closely with international experts during 2016 to build capacity and address deficiencies.

Laos is not subject to any U.S. or international sanctions or penalties.

## **Lebanon**

### **OVERVIEW**

Lebanon is a hub for banking activities in the Middle East and Eastern Mediterranean and has one of the more sophisticated banking sectors in the region. Over the past two years, Lebanon's government passed key legislation that strengthened its AML regime. Lebanon's Central Bank, the Banque du Liban, together with the Bank's Special Investigation Committee (SIC), the FIU, regularly issues and updates compliance regulations in accordance with international banking standards.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Lebanon has a black market for cigarettes, cars, counterfeit consumer goods, pirated software, CDs, and DVDs. Neither the sale of these goods nor the domestic illicit narcotics trade generate significant proceeds that are laundered through the formal banking system. Lebanon's extensive global diaspora remits approximately \$7.5 billion annually.

Lebanese authorities have revoked licenses and increased regulatory requirements for exchange houses that facilitate money laundering, including by Hizballah - a U.S.-designated terrorist organization. A number of Lebanese expatriates in Africa, the Gulf, and South America have established financial systems outside the formal financial sector, some of which reportedly engage in TBML schemes. International trade also provides counter-valuation between Lebanese hawaladars. Hawala operations are restricted to licensed and supervised money dealers.

Lebanon's Customs Authority operates two FTZs in Beirut and Tripoli. Offshore banking, trust, and insurance companies are not permitted in Lebanon.

### **KEY AML LAWS AND REGULATIONS**

In October 2016, Lebanon's parliament passed a new exchange of tax information law (Law 43/2015), which authorizes the Ministry of Finance to join international agreements related to tax evasion and tax fraud. Parliament also passed legislation governing trusts, the abolishment of bearer shares, and tax information exchange. This legislation strengthens Lebanon's AML regime.

AML legislation from 2015 amends existing Law 318/2001 and widens categories of reporting entities to include public notaries, attorneys, and accountants. It also expands the list of predicate offenses that fall under money laundering charges. Legislation now allows asset confiscation and the sharing of confiscated assets with concerned countries. Law 42/2015 (Declaring the Cross-Border Transportation of Money) imposes requirements to declare inbound and outbound cash transportation of amounts exceeding \$15,000 or its equivalent in any currency.

Lebanon is a member of the MENAFATF, a FATF-style regional body. Its most recent mutual evaluation can be found at:

<http://www.menafatf.org/MER/MutualEvaluationReportoftheLebaneseRepublic-English.pdf>

### **AML DEFICIENCIES**

On June 30, 2015, the Central Bank issued Intermediate Circular No. 393, which strengthens AML controls on money remitters and increases oversight of exchange houses. In 2016, it issued regulations to regulate prepaid cards and bearer shares and to require banks to create AML/CFT board committees. The SIC issued additional circulars and AML controls for DNFBPs.

Local banks and financial institutions have implemented regulatory measures, including enhanced due diligence regarding high risk customers and/or closure of accounts that represent unacceptable risks. As a result, there is no significant volume of currency transactions related to international narcotics trafficking that include significant amounts of U.S. currency, currency derived from illegal drug sales in the U.S., or illegal drug sales that otherwise significantly affect the U.S. The SIC froze a number of accounts on suspicion of money laundering; however, the SIC does not publicly disclose figures of total amounts frozen. The number of filed STRs and subsequent money laundering investigations coordinated by the SIC has increased; however, convictions remain modest.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

Lebanon strengthened its overall efforts to disrupt and dismantle money laundering. The government continues to better coordinate the investigation of complex financial crimes among its law enforcement and investigative agencies.

The SIC referred 29 alleged money laundering cases to the Prosecutor General during the first nine months of 2016. The government prosecuted twelve cases, which have not yet resulted in any convictions. The Internal Security Forces (ISF) received 48 money laundering allegations from Interpol, arrested three persons, and referred five suspected cases for investigation. The ISF Cybercrime and Intellectual Property Unit tracked 76 cases of local hackers who embezzled funds from local depositors and transferred the funds to bank accounts located outside Lebanon.

The government has begun training a joint task force, which includes representatives from Customs, the ISF, the SIC, and the judiciary. Cooperation between the SIC and local

enforcement authorities has improved following training initiatives undertaken in 2015. Lebanon would benefit from increased cooperation among local and international law enforcement organizations on AML issues.

Customs must inform the SIC of suspected TBML; however, local press reports allege corruption at Customs. Lebanon is a participant country of the Kimberley Process, and trade in rough diamonds is governed by Law Number 645. However, there have been persistent reports of smuggling and the incorrect invoicing and misclassification of diamonds.

## **Liberia**

### **OVERVIEW**

Liberia is not a significant regional financial center. Its financial system has limited capacity to detect money laundering, and financial controls remain weak. The Liberian economy is cash-based and, given weak border controls, remains vulnerable to drug-related money laundering and other illicit financial activities.

The Government of Liberia has begun revising laws, policies, and regulations to curb illicit financial activities, but many gaps remain. Although the government established an FIU last year, it remains under-resourced and lacks capacity to adequately track and analyze suspicious transactions.

Liberia should improve monitoring of foreign exchange and remittances and monitor corporate debt and securities activity. It should also strengthen border controls, enhance the supervisory authority of the Central Bank of Liberia (CBL), and strengthen the FIU. Liberia should work with neighboring countries to harmonize laws, policies, and protocols.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Smuggled goods enter Liberia through its porous and poorly-controlled borders. Illicit transactions are facilitated by Liberia's cash-based economy, with both Liberian and U.S. dollars being legal tenders.

Money exchange operations are poorly controlled, and a license to establish a foreign exchange bureau in Liberia can be obtained from the CBL without a background check. There are also numerous non-licensed foreign exchange sites and a large number of unregulated money changers in the country whose activities have raised concerns.

Unmonitored diamond and gold mining activities coupled with opaque trading networks encourage money laundering.

The Liberia National Police (LNP), Liberian Drug Enforcement Agency, and National Security Agency investigate financial crimes but have not been effective in pursuing investigations and

prosecutions due to logistical and human capacity limitations. Liberia does not currently have a FTZ. There are two unregulated casinos in the country.

Money laundering investigations are hampered by a cash-based economy, weak financial transparency, lack of proper recordkeeping, political interference, corruption, and limited law enforcement and prosecutor capacity.

### **KEY AML LAWS AND REGULATIONS**

The CBL updates KYC and CDD guidelines in accordance with international best practices. However, the CBL is constrained by limited capacity to monitor and enforce compliance. Commercial banks sometimes ignore KYC/CDD guidelines. The FIU receives and analyzes STRs and CTRs and drafts STR and CTR regulations and guidance. It also drafted regulations and guidance on cross border cash transfers.

Liberia does not have a records-exchange mechanism with the United States.

Liberia is a member of the GIABA, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.giaba.org/reports/mutual-evaluation/Liberia.html?lng=fr>

### **AML DEFICIENCIES**

The Central Bank of Liberia Act and Financial Institutions Act mandate banks and non-bank financial institutions to exercise KYC rules and conduct enhanced due diligence for domestic and foreign PEPs. However, Liberia's financial sector faces major deficiencies, including reporting entities' inadequate technical capacity to implement the regulations properly. Government oversight of these outlets and the financial sector is hampered by the lack of adequately trained personnel and insufficient resources.

Liberia is not currently subject to any U.S. or international sanctions/penalties nor is it a member of the Egmont Group.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

There are laws against money laundering and economic sabotage that include the Anti-Money Laundering and Terrorist Financing Act of 2012 and the Penal Law. In 2016, the FIU adopted three new AML regulations. The regulation addressing the cross-border transportation of currency and bearer negotiable instruments requires the declaration of all cash or instruments over \$10,000; currency transaction reporting for financial institutions requires the filing of a CTR for all transactions by individuals over \$5,000 and by businesses over \$10,000; and suspicious transaction reporting by financial institutions requires the filing of a STR for any unusual or suspicious transaction. Enforcement is often impeded by limited human and logistical capacity of law enforcement agencies and by judicial corruption.

Liberia is member of Economic Community of West African States (ECOWAS). Liberia's laws are consistent with UN conventions and ECOWAS protocols on narcotics and psychotropic substances to which Liberia is a signatory. Liberia cooperates with foreign governments and international organizations to address obstacles to its AML programs.

There have been no prosecutions or convictions for money laundering in Liberia.

The FIU shares its regulations and guidance on STRs, CTRs, and cross-border transfer of cash with other border control agencies, including the Liberia Revenue Authority (LRA) and LNP.

The FIU requires financial reporting entities to keep adequate records and maintain applicable procedures regarding KYC/CDD incidences. It works with these entities to implement and enforce money laundering regulations. The FIU, LRA, and CBL have conducted site-visits, consultations, workshops, and training programs with reporting entities and agencies to build capacity, educate, and raise awareness about illicit financing.

## **Malaysia**

### **OVERVIEW**

Malaysia is a highly open, upper-middle income economy with exposure to a range of money laundering threats. The country's porous land and sea borders, strategic geographic position, and well-developed financial system increase its vulnerability to domestic and transnational criminal activity, including fraud, corruption, drug trafficking, wildlife trafficking, smuggling, tax crimes and terrorism finance. Malaysia has largely up-to-date AML statutory instruments, well-developed policies, institutional arrangements, and implementation mechanisms. But while the country's AML framework is generally sound, it has produced minimal outcomes in terms of investigations and prosecutions, especially of foreign-sourced crimes. Based on Malaysia's high degree of technical compliance and its continuing progress in efforts to improve AML enforcement, Malaysia was granted full membership in the FATF in February 2016.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Malaysia is primarily used as a transit country to transfer drugs originating from the southeastern Asian Golden Triangle to Europe. Drug trafficking by ethnic Chinese, Iranian, and Nigerian drug trafficking organizations is an important source of illegal proceeds. Malaysia is also a source, destination, and transit country for wildlife trafficking with some contraband (i.e., ivory) used as currency by the trafficking networks. Corruption has also emerged as a significant money laundering risk: state-owned development fund 1Malaysia Development Berhad (1MDB) faces credible allegations that billions of dollars were misappropriated from its accounts for political purposes or personal gain. It is the subject of several international probes, including investigations in Singapore, Switzerland, and the United States. Other predicate offenses generating illicit proceeds in Malaysia include fraud, criminal breach of trust, illegal gaming, credit card fraud, counterfeiting, robbery, forgery, human trafficking, and extortion. Financial fraud, including fake investment schemes and internet-based scams, pose a high money



laundering risk. Smuggling of goods subject to high tariffs is another major source of illicit funds.

Malaysia has a large-scale cash and informal economy and a relatively small offshore sector on the island of Labuan, which is subject to the same AML laws as those governing onshore financial service providers. The financial institutions operating in Labuan include both domestic and foreign banks and insurers. Offshore companies must be established through a trust company, which is required by law to establish true beneficial owners and submit STRs.

There are issues in tax and customs duties evasion and outflow of funds through illegal remittances by money changers. Unauthorized illicit money service businesses continue to pose a significant vulnerability.

Free trade zones in Malaysia are divided into Free Industrial Zones (FIZ), where manufacturing and assembly takes place, and Free Commercial Zones (FCZ), generally for warehousing commercial stock. Currently there are 17 FIZs and 17 FCZs in Malaysia. Companies wishing to operate in a FIZ or FCZ must be licensed.

Casinos are licensed and regulated by the Ministry of Finance. Malaysia has one licensed casino, in operation for over 40 years, which the central bank, Bank Negara Malaysia, periodically assesses for compliance with the AML/CFT regulations.

Malaysia is a global leader in Islamic finance. The country's Islamic financial sector also is subject to the same AML legal and regulatory regime as conventional finance institutions. Malaysian regulators are of the view that, based on their supervisory experience, there are no material differences in risks when compared to conventional financial institutions. Malaysia's national risk assessment did not separately assess AML risks and vulnerabilities in the Islamic finance sector.

### **KEY AML LAWS AND REGULATIONS**

Malaysia's Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 (AMLA) covers the money laundering offense, financial intelligence, reporting obligations, investigative powers, the confiscation regime, and the cross border declaration regime. Other laws supplement AMLA, such as the Dangerous Drugs (Forfeiture of Property) Act 1988 (DDFOPA), Malaysian Anti-Corruption Commission Act 2009 (MACCA) and the Criminal Procedure Code. Malaysia's AML regime includes comprehensive KYC and STR regulations.

Malaysia is a member of the APG and was granted full membership in the FATF in February 2016. Its most recent mutual evaluation can be found at: <http://www.apgml.org/includes/handlers/get-document.ashx?d=ae0b2ca0-65d3-4f5c-9112-b0fcf9e12849>

### **AML DEFICIENCIES**

Malaysia has a high degree of technical compliance with international standards on combating money laundering, but there are several remaining deficiencies. Most notably, Malaysia has not effectively targeted high-risk offenses (other than fraud) or foreign-sourced threats in its prosecution of money laundering. Malaysia has preferred to pursue other criminal justice measures, particularly confiscation, rather than money laundering prosecutions. Additionally, the sanctions imposed for money laundering have been low and have not been demonstrated to be effective.

### **ENFORCEMENT/IMPLEMENTATION ISSUES**

Malaysia has committed to an action plan for improving its effectiveness in several areas, including enhancing focus on investigation and prosecution of high-risk money laundering crimes and expanding the usage of formal international cooperation to mitigate risks. The FATF granted Malaysia full membership based on the commitment demonstrated by Malaysia on the action plan and its continuing progress in efforts to improve its AML regime.

## **Mexico**

### **OVERVIEW**

Mexico continues to be a major source, distribution, and transit country for illegal narcotics destined for the United States. Billions of dollars of trafficking proceeds are moved from the United States and laundered through the Mexican financial system annually. Corruption, bulk cash smuggling, kidnapping, extortion, oil and fuel theft, intellectual property rights violations, fraud, and trafficking in persons and firearms are sources of additional funds laundered through Mexico. Mexican authorities have had some success investigating and blocking accounts of suspected money launderers and other illicit actors. However, money laundering offenses continue to be committed with relative impunity as the government struggles to prosecute and convict those accused of illicit financial activities as well as seize property and assets owned or controlled by drug traffickers and money launderers. Prosecutions of money laundering cases, of which there are very few considering the volume of illicit finance in Mexico, have declined in recent years.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Illicit drug proceeds leaving the United States are the principal sources of funds laundered through the Mexican financial system. Mexican transnational criminal organizations (TCOs) launder funds using a variety of methods. TBML involves the use of dollar-denominated illicit proceeds to purchase retail items in the United States for export and re-sale in Mexico, with revenue from the sale of these goods ultimately going to TCOs. Two additional popular methods include structuring deposits, whereby criminals smuggle bulk amounts of U.S. dollars into Mexico, where they are deposited into bank accounts in small, structured increments, and funnel accounts, through which deposits in the United States are withdrawn in Mexico with little time elapsing between the deposits and withdrawals. Funnel accounts are an attractive method of moving funds since there is generally no requirement for an individual to present identification

when making a deposit into an account, and amounts deposited are usually below reporting requirements. Unlicensed exchange houses are also used to launder narcotics-related proceeds.

### **KEY AML LAWS AND REGULATIONS**

Mexican AML law criminalizes money laundering using an “all serious crimes” approach and covers all legal persons criminally and civilly. Local CDD rules cover banks, mutual savings companies, insurance companies, securities brokers, retirement and investment funds, financial leasing and factoring entities, licensed and unlicensed foreign exchange centers, savings and loan institutions, money remitters, SOFOMES (multiple purpose corporate entities), SOFOLES (limited purpose corporate entities), general deposit warehouses, casinos, notaries, lawyers, accountants, jewelers, realtors, NPOs, armored car transport companies, armoring services, construction companies, art dealers and appraisers, credit card system operators, pre-paid card services, and traveler’s check services. CDD rules include both foreign and domestic PEPs.

Mexico is a member of both the FATF and the GAFILAT, a FATF-style regional body.

Mexico’s most recent mutual evaluation can be found at: <http://www.fatf-gafi.org/countries/j-m/mexico/>

### **AML DEFICIENCIES**

Mexico’s revised federal criminal code came into effect on June 18, 2016, and includes procedures to hold legal persons liable for money laundering offenses - a previously-noted deficiency.

Mexico’s FIU has successfully blocked the bank accounts of numerous drug traffickers and money launderers. However, Mexican law enforcement and judicial authorities struggle to investigate and prosecute money laundering offenses and other financial crimes.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

Illicit actors in Mexico invest in financial and real assets, such as property, businesses, and luxury items. Although authorities recognize the abuse of certain sectors by money launderers, the response of law enforcement entities is limited by lack of judicial capacity, corruption, and cumbersome current asset forfeiture laws. Prosecution of money laundering cases has been problematic, with fewer than 20 percent of all 2016 money laundering investigations leading to charges being filed. The relative lack of convictions on money laundering cases is consistent with Mexico’s overall problem of impunity. Mexico switched from an inquisitive to accusatorial judicial system in mid-2016, which should help improve prosecution rates in the medium- to long-term. The adoption of new civil asset forfeiture legislation, if approved by Mexico’s Congress as drafted, would enable Mexican law enforcement agencies to more easily seize illicit proceeds, thereby making it more difficult for illicit finance actors to deposit and invest these funds in Mexico’s financial system. Corruption in the judicial system, however, still impedes the Mexican government’s ability to convict organizations and individuals involved in money laundering.

The collaboration between the public and private sectors is key. Without sharing emerging trends, typologies, and behavioral transaction anomalies, enforcement entities may miss key components of the money laundering methodologies employed by illegitimate enterprises.

## **Morocco**

### **OVERVIEW**

Morocco continues to strengthen its AML regime, making strides in risk management, information-sharing, and streamlining implementation. The principal money laundering vulnerabilities in Morocco stem from a large informal sector, the prevalence of cash-based transactions, a high volume of remittances, and international trafficking networks. It is still possible to deposit large amounts of currency in banks without declaring its origin despite requirements for banks to obtain this information.

The Unité de Traitement du Renseignement Financier (UTRF), Morocco's FIU, is undertaking an in-depth national risk assessment in 2016, which will deepen understanding of these vulnerabilities and be a springboard for effective AML interventions.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

The sizable informal sector, estimated at 12.6 percent of GDP, and Moroccans' tendency to transact in cash continue to present regulatory challenges. According to a 2014 government survey, over half of Morocco's estimated 1.68 million informal businesses make less than \$10,000 per year. However, the sheer volume of business conducted informally, totaling \$42 billion per year, makes the informal sector a source of vulnerability. To extend its regulatory reach, in 2015 the government of Morocco passed law 114-13, which offers benefits for informal sector workers to register as "self-employed," regulating these small businesses and making them pay taxes, thereby encouraging the transition to the formal sector. Over 20,000 entrepreneurs registered their businesses in the first year. The Central Bank expects that the introduction of Islamic banking services in 2017 will increase use of formal banking services by appealing to individuals who were previously hesitant to use banking services for religious reasons. The banking participation rate had already climbed to 68 percent of the population in 2015.

Money transfer services present a money laundering vulnerability due to their volume and also the minimal amount of identifying information accompanying transfers to Morocco. Remittance transfers rose by 2.9 percent from 2014 to 2015 to \$61.7 million or 6.3 percent of GDP. The UTRF is engaging this sector to identify and address shortcomings in AML controls.

Morocco's geographical location as a gateway to Europe makes it an attractive conduit for smuggling, human trafficking, and illegal migration. The legislature passed an anti-trafficking in persons law in 2016, which introduces a legal framework consistent with international standards. Heavy sentences for offenders and a broad definition of trafficking to include anyone who gives

or receives payments or benefits related to trafficking will be a boon to stemming trafficking in persons and related money laundering vulnerabilities.

Illicit trade in Moroccan-grown cannabis and the transiting of cocaine destined for markets in Europe also constitute vulnerabilities for money laundering.

Morocco has seven FTZs. Currently, offshore banks are located only in the Tanger Free Zone. An interagency commission chaired by the Ministry of Finance regulates the FTZs. The FTZs allow customs exemptions for goods manufactured in the zone for export abroad. The UTRF has reported suspicions of money laundering schemes using the Tanger Free Zone.

### **KEY AML LAWS AND REGULATIONS**

The UTRF continues to update its policies, improve capacity, and promote coordination. Morocco has all key AML laws and regulations in place, including comprehensive KYC programs and STR procedures. PEPs and other high-risk customers or transactions must be scrutinized under Morocco's AML law and the Periodical of the Governor of the Central Bank, No.2/G/2012.

Morocco is a member of the MENAFATF, a FATF-style regional body. Its most recent mutual evaluation can be found at:

[http://www.menafatf.org/images/UploadFiles/MENAFATF.5.07.E.P6.R1\\_02-01-08\\_.pdf](http://www.menafatf.org/images/UploadFiles/MENAFATF.5.07.E.P6.R1_02-01-08_.pdf)

### **AML DEFICIENCIES**

The real estate market, art and antiquities dealers, and vendors of precious gems and stones have not been subject to risk assessment. Drug proceeds are easily laundered through investments in luxury products (e.g., jewelry or vehicles), but mostly in real estate. Other non-financial sectors, including notaries, casinos, and accountants, do not appear to pose significant risks, according to the UTRF.

Morocco's AML regulations, in general, do not stipulate what measures must be taken to ensure due diligence in the investigative process. In practice, there is a strong informal understanding between the UTRF, the Central Bank, and all relevant financial institutions on what constitutes adequate due diligence and thresholds for reporting. However, institutionalizing uniform robust due diligence standards would further strengthen Morocco's AML regime.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

Morocco works closely with international partners to strengthen its AML regime. Morocco has implemented the UN Drug Convention and other applicable agreements and has also voluntarily initiated exchanges with private sector partners to address key vulnerabilities. While the Central Bank formally holds supervisory authority to ensure compliance with banking regulations, the UTRF plays a vital role as the recipient of STRs. In addition to receiving STRs, UTRF assesses systemic risk, disseminates information to financial entities, and regularly hosts dialogues with

banks, other financial entities, and government authorities to facilitate information-sharing, capacity building, and coordination.

## **Netherlands**

### **OVERVIEW**

The Netherlands is a major financial center and, consequently, an attractive venue for laundering funds generated from illicit activities, including those related to the sale of cocaine, cannabis, or synthetic and designer drugs, such as ecstasy. The Netherlands has a prosperous and open economy, which depends heavily on foreign trade.

Six islands in the Caribbean fall under the jurisdiction of the Kingdom of the Netherlands: Bonaire, St. Eustatius, and Saba are special municipalities of the Netherlands; Aruba, Curacao, and St. Maarten are countries within the Kingdom. The Netherlands provides supervision for the courts and for combating crime and drug trafficking within the Kingdom.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Financial fraud, especially tax evasion, is believed to generate a considerable portion of domestic money laundering activity. There are a few indications of syndicate-type structures in organized crime and money laundering, but there is virtually no black market for smuggled goods in the Netherlands. Few border controls exist within the Schengen Area of the EU and, although Dutch authorities run special operations in the border areas with Germany and Belgium and in the Port of Rotterdam to minimize smuggling, Netherlands-based drug trafficking organizations continue to exploit Schengen to facilitate cross-border crime. These networks often utilize Belgium and Germany to ship narcotics to the United States and other destinations in an attempt to conceal their activities. Underground remittance systems, such as hawala, operate in the Netherlands. Cybercurrencies are increasingly being used by criminal networks to facilitate illegal activity.

### **KEY AML LAWS AND REGULATIONS**

The Government of the Netherlands continues to correct noted deficiencies and to make progress in improving its AML regime. On January 1, 2015, rules entered into force that raise the maximum prison sentence for money laundering and broaden the definition of corruption to include bribery of financial service providers. Laws now require compliance with KYC and STR regulations by pawnshops and brokers in high-value goods. The new legislation introduces more stringent rules on audit and compliance for trusts and asset administration companies. On March 1, 2015, the National Prosecutor's Office issued new guidelines for prosecuting money laundering cases. The Netherlands will implement the EU's Fourth Anti-Money Laundering Directive (AMLD) in 2017.

The Netherlands has comprehensive KYC and STR regulations. There is a MLAT between the Netherlands and the United States.

The Netherlands is a member of the FATF. Its most recent mutual evaluation can be found at: <http://www.fatf-gafi.org/publications/mutualevaluations/documents/mutualevaluationreportofthenetherlands.html>

### **AML DEFICIENCIES**

The Dutch FIU enjoys an international reputation for professionalism. The FIU is an independent, autonomous entity under the National Police Unit. It is expected that the ongoing National Police's reorganization, scheduled for completion in 2018, will enhance the flexibility and effectiveness of law enforcement in responding to money laundering cases. The police closely cooperate with the Dutch Tax Authority's investigative service. The Anti-Money Laundering Center, established in 2013, combines expertise from government agencies, such as the FIU, the National Police, and the Tax Authority; knowledge institutions; private sector partners; and international organizations. Seizing financial assets of criminals continues to be a priority for law enforcement.

The Netherlands should make available the number of its prosecutions and convictions.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

The Netherlands utilizes an "unusual transaction" reporting system. Designated entities are required to file unusual transaction reports (UTRs) with the FIU on any transaction that appears "unusual" (applying a broader standard than "suspicious"), or when there is reason to believe a transaction is connected with money laundering. The FIU analyzes UTRs and forwards them to law enforcement for criminal investigation. Once the FIU forwards the report, the report is then classified as a STR. The Netherlands does not require all covered entities to report all transactions in currency above a fixed threshold. Instead, different thresholds apply to various specific transactions, products, and sectors. The Dutch Prosecutor's Office secured 1,168 criminal convictions for money laundering in 2015.

In 2015, Dutch law enforcement authorities arrested a number of individuals offering a guaranteed anonymous exchange of large amounts of bitcoins in exchange for currency (euros). Because of the suspect nature of the origin of the bitcoins, the exchange service charged a higher commission rate. This investigation is ongoing.

## **Nicaragua**

### **OVERVIEW**

The Republic of Nicaragua is not considered a regional financial center. Its financial system and economy are vulnerable to money laundering as the country continues to be a transshipment route for illegal drugs destined for the United States and cash returning to South America. Nicaragua has made important strides in its legislative framework in recent years, creating a FIU, the Financial Analysis Unit (UAF), and satisfactorily addressing numerous areas of deficiency. In 2016, the UAF updated and expanded the list of KYC- and STR-covered entities, to include

non-bank financial institutions, bringing Nicaragua's regulations closer in line with international standards. However, weak governmental institutions, significant reports of corruption at all levels, and the lack of rule of law overshadow any legal or regulatory changes.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Money laundering proceeds result from the sale of illegal narcotics, mainly cocaine, and are mostly controlled by international organized crime. Corruption and impunity cases include local officials and community leaders accused of collaborating with narcotics traffickers and organized crime entities. The courts remain particularly susceptible to bribes, manipulation, and other forms of corruption. The existence of multiple, nontransparent quasi-public businesses with ties to the ruling party that manage large cash transactions as well as the proliferation of subsidiary companies with unclear ownership increases the country's vulnerability to money laundering.

Some evidence exists of informal "cash and carry" networks for delivering remittances from abroad that may also be indicative of money laundering. Nicaragua's geography and limited border control in remote regions leaves it vulnerable to cross-border movement of contraband and criminal proceeds. Subject matter experts believe the black market for smuggled goods in Nicaragua is larger than officially recognized, indicating possible TBML. Many market vendors deal in cash and many of the goods are stolen. Money laundering also occurs via traditional mechanisms, such as purchases of land, vehicles, and livestock. The Central America Four Agreement among El Salvador, Guatemala, Honduras, and Nicaragua allows for the free movement of citizens across respective borders. Consequently, the agreement represents a vulnerability to each country for the cross-border movement of contraband and proceeds of crime.

The National Free Trade Zone Commission, a government agency, regulates FTZ activities. As of November 2016, a total of 220 companies operate with FTZ status. The Nicaraguan Customs Agency monitors all FTZ imports and exports.

In April 2016, the National Assembly amended Law 735 related to the prevention and prosecution of organized crime and the administration of confiscated and abandoned goods resulting from organized crime to give the president direct control over the primary responsible party, the National Council Against Organized Crime. Subject matter experts believe the amendment will decrease transparency, especially regarding the administration of seized assets.

### **KEY AML LAWS AND REGULATIONS**

Nicaragua has records exchange mechanisms in place with other nations, including the United States.

In 2016, the UAF updated its STR and KYC regulations, standardizing them, expanding the list of covered entities to include non-bank financial institutions, and establishing registration and reporting procedures for such entities. In line with previously existing regulations, all newly covered entities have to carry out comprehensive prevention programs with adequate systems to



identify and keep records regarding the origin of funds and ultimate beneficiaries, implement early detection systems, analyze suspicious activities, and report these activities to the UAF. Financial institutions implement comprehensive CDD and STR regulations and have in place enhanced due diligence procedures for domestic and foreign PEPs.

Nicaragua is a member of the GAFILAT. Its most recent mutual evaluation can be found at: <http://www.uaf.gob.ni/index.php/difusion/evaluaciones-a-nicaragua>

### **AML DEFICIENCIES**

Weak governmental institutions, deficiencies in the rule of law, and concerns about corruption should be addressed. The Nicaraguan legal framework should also continue to be strengthened by considering identity falsification, counterfeiting, and piracy as predicate offenses for money laundering. Without this classification, apprehended criminals using these means explicitly to launder money can be tried for lesser crimes, and are not strongly deterred from continuing laundering activities.

Nicaragua applied for membership in the Egmont Group in 2014; the application remains pending.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

In 2016, according to data from the UAF, the Government of Nicaragua conducted 20 investigations, prosecuted 19 money laundering-related cases, obtained 14 convictions (plus 23 convictions from cases opened in the previous year), and seized over \$2.8 million.

## **Nigeria**

### **OVERVIEW**

Nigeria is a major drug transshipment point and a significant center for financial crime. Corrupt officials and businessmen, criminal and terrorist organizations, and internet fraudsters take advantage of the country's location, porous borders, weak laws, endemic corruption, inadequate enforcement, and poor socioeconomic conditions to launder the proceeds of crime. Criminal proceeds laundered in Nigeria derive partly from foreign drug trafficking and criminal activity including illegal oil bunkering, bribery and embezzlement, contraband smuggling, theft, and financial crimes. Public corruption is also a significant source of laundered criminal proceeds. International advance fee fraud, also known as "419 fraud" in reference to the fraud section in Nigeria's criminal code, remains a lucrative financial crime.

Nigeria should pass and implement legislation that ensures the operational autonomy of the Nigeria Financial Intelligence Unit (NFIU), promotes the efficient recovery of criminal proceeds, and provides for mutual legal assistance in accordance with international standards. Nigeria should improve cooperation among various law enforcement agencies that investigate financial crimes. Nigeria also should review its safe harbor provisions to ensure they are in line with

international standards and consider developing a cadre of trained judges with dedicated portfolios to process financial crimes cases effectively. Nigeria should strengthen its Federal Ministry of Justice Central Authority Unit, which handles international cooperation in the areas of extradition and mutual legal assistance.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Nigerian financial institutions appear conscientious in submitting CTRs to the relevant authorities. The high volume of those reports and the cash-based nature of the Nigerian economy make it difficult for the government to detect suspicious activity. Nigeria's oil industry, which generates up to 70 percent of government revenues, has long been mired in corruption and mismanagement under successive governments. In 2016, President Buhari implemented several transparency measures, such as requiring all government entities, including the Nigerian National Petroleum Corporation, to remit nearly all revenues to a Treasury Single Account (TSA). The recent implementation and enforcement of the TSA as well as the Government Integrated Financial Management Information System are intended to make government revenue collection and expenditures more streamlined and transparent.

The Economic and Financial Crimes Commission (EFCC) is the leading money laundering investigative entity in Nigeria. EFCC investigators usually conduct investigations with little prosecutor involvement and over-rely on investigation by confession. The challenge of collecting admissible evidence in money laundering cases often requires a combination of cooperation between U.S. and Nigerian law enforcement agencies and the use of formal mechanisms for mutual legal assistance. The United States and Nigeria are parties to various multilateral conventions that contain mutual legal assistance provisions, as well as a bilateral MLAT.

### **KEY AML LAWS AND REGULATIONS**

In 2016, Nigeria made limited progress towards the passage of several pieces of legislation intended to address strategic deficiencies in the country's AML regime. The Nigerian Financial Intelligence Centre (NFIC) Bill, which would make the NFIU a stand-alone agency, and the Proceeds of Crime (POC) Bill passed the National Assembly in 2014 and 2015, respectively, but have not yet been signed into law. There has also been little movement on a draft mutual legal assistance bill, pending in the National Assembly since 2015.

Nigeria has comprehensive KYC rules and STR regulations. In Nigeria, legal persons are covered criminally and civilly. Nigerian law also provides for enhanced due diligence for both foreign and domestic PEPs.

Nigeria is a member of the GIABA, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.giaba.org/reports/mutual-evaluation/Nigeria.html>

### **AML DEFICIENCIES**

Nigerian financial institutions engage in currency transactions related to international narcotics trafficking that include significant amounts of US currency.

Nigeria is not currently subject to any U.S. or other international sanctions/penalties. Nigeria has yet to meet the requirements for the autonomy of the NFIU, and there are compliance issues among both financial and non-financial entities.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

In 2016, the EFCC aggressively investigated high-profile money laundering cases. However, the EFCC's conviction rates continue to be low due in part to gaps in the judicial system that cause cases to languish in the system for long periods of time without resolution. There are concerns about the Department of State Services' capacity to investigate money laundering and that it does not share case information with other agencies that also conduct financial investigations.

## **Pakistan**

### **OVERVIEW**

Pakistan is strategically located at the nexus of south, central, and western Asia, with a coastline along the Arabian Sea. Its porous borders with Afghanistan, Iran, and China facilitate the smuggling of narcotics and contraband to overseas markets. The country suffers from financial crimes associated with tax evasion, fraud, corruption, trade in counterfeit goods, contraband smuggling, narcotics trafficking, human smuggling/trafficking, terrorism and terrorist financing. There is a substantial demand for money laundering and illicit financial services due to the country's black market economy and challenging security environment.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Money laundering in Pakistan affects both the formal and informal financial systems. Pakistan does not have firm control of its borders, which facilitates the flow of illicit goods and monies into and out of Pakistan. From January - December 2016, the Pakistani diaspora remitted \$19.7 billion back to Pakistan via the formal banking sector, up 2.3 percent from 2015. Though it is illegal to operate a hawala without a license in Pakistan, the practice remains prevalent because of poor ongoing supervision efforts and a lack of penalties levied against illegally operating businesses. Unlicensed hawala/hundi operators are also common throughout the broader region and are widely used to transfer and launder illicit money through neighboring countries.

Common methods for transferring illicit funds include fraudulent trade invoicing; MSBs, to include unlicensed hundis and hawalas; and bulk cash smuggling. Criminals exploit import/export firms, front businesses, and the charitable sector to carry out their activities. Pakistan's real estate sector is another common money laundering vehicle, since real estate transactions tend to be poorly documented and cash-based.

Additionally, the Altaf Khanani money laundering organization (Khanani MLO) is based in Pakistan. The group, which was designated a transnational organized crime group by the United States in November 2015, facilitates illicit money movement between, among others, Pakistan, the United Arab Emirates (UAE), United States, UK, Canada, and Australia, and is responsible for laundering billions of dollars in organized crime proceeds annually. The Khanani MLO offers money laundering services to a diverse clientele, including Chinese, Colombian, and Mexican organized crime groups and individuals associated with designated terrorist organizations.

### **KEY AML LAWS AND REGULATIONS**

In January 2015, Pakistan issued its National Action Plan (NAP), addressing primarily counter-terrorist financing. The government's implementation of the NAP has yielded mixed results, which is in part due to the lack of institutional capacity as well as political will.

Pakistan is a member of the APG, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.apgml.org/members-and-observers/members/member-documents.aspx?m=8fc0275d-5715-4c56-b06a-db4af266c11a>

### **AML DEFICIENCIES**

Unlicensed hawaladars continue to operate illegally throughout Pakistan, particularly in Peshawar and Karachi, though under the NAP Pakistan has reportedly been pursuing illegal hawala/hundi dealers and exchange houses. Pakistan's FIU forwards a limited number of STRs to Pakistan's Federal Investigation Agency (FIA), the agency responsible for investigating money laundering cases. The FIA lacks the capacity to pursue complicated financial investigations.

The United States and Pakistan do not have a MLAT, and Pakistan's FIU is not a member of the Egmont Group of FIUs.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

In recent years, the Government of Pakistan has taken steps to address technical compliance with international AML standards, however, deficiencies remain in their implementation. Pakistani authorities should investigate and prosecute money laundering in addition to the predicate offense creating the laundered proceeds. The Government of Pakistan should demonstrate effective regulation over exchange companies; implement effective controls for cross-border cash transactions; and develop an effective asset forfeiture regime. Pakistan should also design and publicly release metrics that track progress in combating money laundering such as the number of financial intelligence reports received by its FIU and the annual number of money laundering prosecutions and convictions. Pakistani law enforcement and customs authorities also should address TBML and value transfer, particularly as it forms the basis for account-settling between hawaladars.

## Panama

### OVERVIEW

Panama's strategic geographic location; dollarized economy; status as a regional financial, trade, and logistics hub; and favorable corporate and tax laws make it an attractive location for money launderers. Panama passed comprehensive AML legal reforms in 2015, but it must demonstrate its ability to effectively implement these reforms, including by investigating and successfully prosecuting complex money laundering schemes.

In April 2016, the "Panama Papers" exposed significant vulnerabilities related to lack of financial transparency and the use of shell companies to launder money, commit tax fraud, and evade U.S. sanctions. The Papers also highlighted inadequate supervision of both the financial and non-financial sectors (particularly lawyers and corporate service providers). These vulnerabilities were further highlighted by the U.S. Treasury Department's designation, in May 2016, of the Waked Money Laundering Organization (Waked MLO) for providing material support, via money laundering and other services, to designated narcotics traffickers. The action highlighted the Waked MLO's use of the formal banking sector, bulk cash smuggling, real estate, and TBML to launder funds.

### VULNERABILITIES AND EXPECTED TYPOLOGIES

Money laundered in Panama primarily comes from drug trafficking proceeds due to its location along major trafficking routes. Numerous factors hinder the fight against money laundering, including the need for increased collaboration among government agencies, inexperience with money laundering investigations and prosecutions, tipping off of criminals, inconsistent enforcement of laws and regulations, corruption, and an under-resourced judicial system.

Criminals launder money via bulk cash smuggling and trade at airports, seaports, and the FTZs, and through shell companies, which exploit regulatory gaps. Criminals also use the formal banking system to hide and move the proceeds of illicit activity. Panama has 18 FTZs, including the Colon Free Zone (CFZ), the second-largest FTZ in the world. Bulk cash is easily introduced into the country by declaring it is for use in the CFZ, but no official verification process exists to confirm its end use in lawful business in the zone.

### KEY AML LAWS AND REGULATIONS

Panama has comprehensive CDD and STR requirements. Only banks have enhanced due diligence procedures for foreign and domestic PEPs.

In 2015, Panama strengthened its legal framework, amended its criminal code, and passed a new AML/CFT law and other legislation enhancing the framework for international cooperation. The government passed Law 23 to criminalize money laundering and to expand the AML compliance requirements for entities in 31 sectors. As part of the law, Panama created a new regulator, the *Intendencia*, to oversee compliance by 12,080 DNFBPs across 16 broad sectorial categories and the CFZ. The number of DNFBPs has dropped significantly in recent years as the government

has retired business registrations, for example, those previously registered, but never closed, businesses not paying licensing dues. Panama also passed Law 18 to severely restrict the use of bearer shares; companies still using these types of shares must appoint a custodian and maintain strict controls over their use.

In March 2016, the FIU launched a website for companies to submit STRs/CTRs – previously, reports were submitted on paper. The FIU has since registered thousands of entities and begun receiving reports online.

Panama is a member of the GAFILAT, a FATF-style regional body. Its most recent evaluation can be found at: <http://www.imf.org/external/pubs/ft/scr/2014/cr1454.pdf>

### **AML DEFICIENCIES**

Entities often submit inconsistent, incomplete, or unnecessary STRs/CTRs. Bank AML compliance officers often provide minimal analysis in STRs, fearing liability; some notify clients or bank executives about investigations. Panama has no tipping off law to criminalize such acts.

Supervisory authorities lack sufficient resources, including trained staff with industry experience, to effectively monitor whether entities (particularly DNFBPs) are complying with reporting requirements. Regulatory bodies cannot access STRs/CTRs due to confidentiality laws, making it difficult for examiners to assess reporting problems. The FIU should improve its quality of STR analysis and shorten its response times to requests for information from foreign FIUs. The FIU should improve the quality of its requests for information to its foreign counterparts, so that information exchanges and collaboration on significant cases can be expedited. The protection of client secrecy is often stronger than authorities' ability to pierce the corporate veil to pursue an investigation.

The CFZ remains vulnerable to illicit financial activities, due primarily to weak customs enforcement and limited oversight of transactions.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

The judicial system lacks sufficient resources to effectively prosecute and convict money launderers and remains at risk for corruption. Panama completed the transition to a U.S.-style accusatory penal system in September 2016. Prosecutors, however, still have minimal experience under the new system.

Panama does not accurately track criminal prosecutions and convictions related to money laundering. This year, Panama's methodology for collecting the number of prosecutions is different from last year's due to personnel changes and differing interpretations of a "money laundering" case. There were 34 prosecutions from January to August 2016. The government did not provide conviction data.

In 2013, the Government of Panama and the United States signed an agreement creating a bilateral committee to allocate \$36 million in forfeited assets for AML projects. In December 2016, the committee approved several project proposals.

## **Paraguay**

### **OVERVIEW**

Paraguay is a drug transit country and money laundering center. The Tri-Border Area, comprising Paraguay, Argentina, and Brazil, is home to a multi-billion dollar contraband trade that facilitates much of the money laundering in Paraguay. Transnational criminal organizations operating in these three countries are believed to launder the proceeds from narcotics trafficking and other illicit activities through banks and non-bank financial sector entities. Paraguay's progress in combating money laundering is impeded by widespread corruption, burdensome bureaucracy, and the fear of reprisal against regulatory and supervisory authorities. The Government of Paraguay is taking steps to enhance interagency coordination, address pervasive corruption, prioritize effective legislative and judicial reform, provide training and resources, and demonstrate political will to investigate and prosecute the laundering of illicit funds.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Money laundering occurs in both financial institutions and the non-bank financial sector, particularly in exchange houses. Large sums of dollars generated from both legitimate and suspected illicit commercial activity are transported physically from Paraguay to neighboring countries, with onward transfers to other destinations, including U.S. banking centers. Money launderers and transnational criminal syndicates are able to take advantage of Paraguay's financial system due to weak controls in the financial sector, porous borders, the continued use of bearer bonds, unregulated exchange houses, lax or no enforcement of cross-border transportation of currency, and ineffective and/or corrupt officials. In addition, while there are laws criminalizing public-sector corruption, private-sector corruption has not been criminalized.

Ciudad del Este (CDE) and nearby areas on Paraguay's border with Brazil and Argentina represent the heart of Paraguay's informal economy, and TBML occurs in the region. The area is well known for arms and narcotics trafficking, document forging, smuggling, counterfeiting, and violations of intellectual property rights, with the illicit proceeds from these crimes as sources of laundered funds. Cigarettes produced in Paraguay are smuggled across borders, largely to Brazil, Argentina, and Uruguay. Cigarette smuggling is used for money laundering purposes and the cigarette supply chain enriches criminal organizations and corrupt officials.

Paraguay does not have an offshore sector. Paraguay's port authority manages free trade ports and warehouses in Argentina, Brazil, Chile, and Uruguay.

### **KEY AML LAWS AND REGULATIONS**

Paraguay has KYC and STR regulations that apply to a wide range of entities. Though the regulations are comprehensive, there are gaps in implementation. For example, many STRs are poorly written and do not contain actionable information. The Anti-Money Laundering Secretariat, Paraguay's FIU, conducts outreach to reporting entities to explain, clarify, and improve STR reporting requirements.

There is no MLAT in force between Paraguay and the United States, though both are parties to various multilateral conventions which provide for cooperation in criminal matters. Paraguay has record exchange agreements with the United States and other jurisdictions.

Paraguay is a member of the GAFILAT. Its most recent mutual evaluation can be found at: [http://www.gafilat.org/UserFiles/documentos/es/evaluaciones\\_mutuas/Paraguay\\_3era\\_Ronda\\_2008.pdf](http://www.gafilat.org/UserFiles/documentos/es/evaluaciones_mutuas/Paraguay_3era_Ronda_2008.pdf).

### **AML DEFICIENCIES**

Paraguayan legislation covers legal persons and provides for enhanced due diligence for PEPs. Paraguay is not subject to any international sanctions. It is difficult to track the government's effectiveness in implementing its AML regime due to the lack of centralized data.

The Government of Paraguay, through long-term engagement of international donors, is working to improve its AML regime and implement its strategic plan. Although the Attorney General's money laundering prosecution unit has had some success, the lack of a coordinated multiagency enforcement effort impedes broader achievements. To address this, the government has formed an interagency financial crimes working group with the goal of enhancing coordination on AML issues, including but not limited to, investigations and prosecutions, financial sector preventive measures, and asset forfeiture.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

Although Paraguay's approach to improving AML implementation is uneven, the country continues to take steps to implement the 1988 UN Drug Convention and international standards. While Paraguay had fewer money laundering prosecutions in 2016 (three, compared to seven in 2015), it is important to note the number of convictions increased (five, compared to three in 2015).

Paraguayan authorities executed search warrants in November for one of the largest money laundering cases in Paraguayan history, reportedly totaling \$1.2 billion dollars and involving businesses in CDE. Less than a week later at the request of the defense, the Attorney General recused the entire 13-member prosecutorial team from the case. Though they were later reinstated, the defense is likely to appeal. The defendants reportedly used linked companies in the Middle East and China to falsely invoice large shipments for dispatch to CDE's airport – shipments that were never actually sent. The company then used the falsified customs documents to justify large deposits into the local banking system and initiate foreign transfers to "pay" for the fictitious shipments. This case follows the \$600 million ForEx money laundering



case centered on currency exchange houses in CDE. Although authorities have charged 18 banking officials in the ForEx case, only four have been convicted, all low-level employees.

## Peru

### OVERVIEW

Peru made progress implementing its “National Plan to Combat Money Laundering and Terrorist Financing” in 2016, including significant regulatory and legislative advances to strengthen the AML regime. The administration passed legislation that improves access to bank and tax information for the FIU, establishes greater control over reporting entities, and enables money-laundering cases to be tried absent proof of a predicate crime.

The new government also made administrative changes that may reduce Peru’s capacity to address money laundering crimes. The independent asset forfeiture agency was absorbed into the Ministry of Justice (MOJ), potentially limiting operational autonomy and effectiveness. The AML/CFT Working Group (CONTRALAFI) also was moved to the MOJ. Organizational structures and key officials of both entities have yet to be determined.

Peru must build prosecutorial and judicial capacity to improve its woeful track record on prosecutions and convictions. Capacity development should include the conduct of investigations, investigative and intelligence reporting for prosecutors, case development by prosecutors, case presentation at trial, and judicial money laundering awareness. These efforts should be complemented by improved information sharing and case development across agencies and branches of government.

Peru’s AML agencies also must increase their focus on non-traditional avenues through which narcotics and transnational crime revenues are laundered, including illegally mined gold, timber, and counterfeit goods.

### VULNERABILITIES AND EXPECTED TYPOLOGIES

Illegal gold mining, illegal logging, and counterfeiting are closely tied to the narcotics industry, and revenue from these sources is subject to the same or similar laundering techniques as narcotics revenue. Of increasing concern is the use of illegally mined gold as a medium for money laundering, given the risk it poses to the integrity of the U.S. regime. Gold purchased using narcotics revenue is imported into the United States with little oversight as gold is not a negotiable financial instrument. The FIU identified at least \$4.4 billion in suspicious revenue associated with illegal mining over the last decade. The illegal gold trade in Peru is worth \$2.6 billion per year.

Money is laundered via formal financial institutions, money-transfers, notaries, casinos, currency exchanges, and trade in goods, including counterfeit goods. Endemic corruption hampers investigations and prosecutions of narcotics-related money laundering crimes. Judicial corruption can halt progress of cases. Political figures and legislators have been implicated in

money laundering, creating an impediment to progress on reform. Corruption within the police force constrains investigations.

Casinos remain an area of money laundering concern as the FIU cannot directly monitor or investigate casinos independent of the supervising authority, the Ministry of Trade & Tourism (MINCETUR). MINCETUR provides information to the FIU and requires casinos to report suspicious transactions.

Informal remittance businesses, including travel agencies and small wire transfer businesses, remain unsupervised and vulnerable to money laundering. Peru would benefit from expanded supervision and regulation of financial institutions and DNFBPs; however, the FIU needs additional resources to deal with its monitoring responsibilities.

### **KEY AML LAWS AND REGULATIONS**

Peru has a robust legislative and regulatory framework for AML and the opportunity for the executive to legislate to resolve current deficiencies.

Peru is a member of GAFILAT. Its most recent mutual evaluation can be found at: <http://www.gafilat.org/content/biblioteca/>

### **AML DEFICIENCIES**

Peru's national plan aims to strengthen its AML regime in line with GAFILAT recommendations. Peru receives technical assistance from various donors. Peru still must address several deficiencies, with specific focus on the high level of informal business activity.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

Advances in Peru's AML regime and investigative capacity have not resulted in increased prosecutions or convictions. Peru has convicted only 21 people of money laundering, with no verified convictions in 2016. There are insufficient prosecutors and even the money laundering Prosecutor's Office lacks capacity to develop and plead cases, especially as Peru moves to a new accusatory legal system.

The present restrictive requirement for the FIU to report suspicious activity solely to prosecutors hampers the ability of police to investigate. All investigations require a financial audit by the police or prosecutors, yet neither entity has enough capable accountants. A lack of prosecutors is compounded by the legal requirement for a prosecutor to accompany police to review potential asset seizures. Staff shortages at the registry agency mean many properties remain unregistered, limiting asset seizures.

## **Philippines**

### **OVERVIEW**

The Republic of the Philippines is well integrated into the international financial system. Money laundering is a serious concern due to the Philippines' international narcotics trade, high degree of corruption among government officials, trafficking in persons, and the high volume of remittances from Filipinos living abroad. Sophisticated transnational organized crime and drug trafficking organizations use the Philippines as a drug transit country. Criminal groups use the Philippine banking system, commercial enterprises, and particularly casinos, to transfer drug and other illicit proceeds from the Philippines to offshore accounts. Finally, insurgent and transnational terrorist groups in the southern Philippines engage in money laundering through ties to organized crime.

The Philippines recently published a national risk assessment (NRA). There are significant gaps in its AML regime including the failure to appropriately regulate DNFPBs, such as casinos, which are at high risk for money laundering. The non-inclusion of casinos as covered institutions remains an especially critical concern. In early 2016, a cyber heist resulted in \$81 million of Bangladesh central bank funds laundered through Philippine casinos with the participation of a remittance agent. The government-owned Philippine Amusement and Gaming Corporation (PAGCOR) plays a dual role as both operator of its own gaming establishments and licensor/regulator of the rapidly expanding gaming industry, creating serious conflict of interest issues. Additionally, the NPO sector is not regulated on a risk-based approach.

Implementation weaknesses include insufficient cooperation among law enforcement agencies and the Anti-Money Laundering Council (AMLC), the Philippine FIU; deficiencies in the capacity of financial investigators, prosecutors, supervising officials, and covered entities; and the lack of clear legal jurisdiction of the Bangko Sentral ng Pilipinas (BSP), the central bank, over MSBs.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

The high-threat predicate crimes identified in the NRA are drug trafficking, graft and corruption, fraud, smuggling, human trafficking, intellectual property violations, environmental crimes, and firearms crimes.

The Philippines' bank secrecy provisions are among the world's strictest, requiring investigators to obtain a court order to access bank records in most cases. This makes it difficult for the AMLC to perform its basic financial analytical functions and inhibits the ability of law enforcement to proactively pursue money laundering cases in the absence of a link to a specific predicate crime.

Although BSP regulations include KYC, record keeping, and CDD requirements on MSBs, enforcement is weak because the BSP has no clear legal jurisdiction over MSBs that are not affiliates or subsidiaries of banks. Dealers of precious metals and stones are covered entities under the AML law but are not effectively regulated because there is no single regulatory authority and the industry associations are not well organized.

Corruption through the use of NPOs, dummy corporations, and foreign exchange dealers has been a source of illicit funds, which underscores the need for the Philippine government to close the gaps in its AML regime relating to NPOs. Currently, there is no single supervisory authority and monitoring is weak due to insufficient coordination and limited resources of regulatory bodies.

The Philippine Economic Zone Authority (PEZA) regulates about 300 economic zones throughout the country. A few other zones/freeports are regulated by local government units or by government-owned development agencies. Overall, PEZA zones are properly regulated, but smuggling can be a problem in locally regulated zones.

### **KEY AML LAWS AND REGULATIONS**

Provisions in the AML law and its implementing rules and regulations for KYC and STR requirements substantially meet international standards. The BSP has revised its AML examination manual to reflect a risk-based approach.

The Philippines is a member of the APG, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.apgml.org/documents/search-results.aspx?keywords=philippines>

### **AML DEFICIENCIES**

CDD requirements include enhanced due diligence for PEPs, their families, and associates assessed as high-risk for money laundering.

The most pressing AML deficiency is the continuing non-inclusion of casino operators and other DNFPBs as covered entities. Legislation to correct this deficiency has been languishing for many years. The current AML regime does not yet list tax evasion as a predicate crime, and covered entities do not include real estate agents and brokers and auto and art dealers. The cyber heist also exposed the vulnerability posed by weakly supervised remittance agents and MSBs.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

To address weaknesses noted in its NRA, legislation to strengthen the AML law by including casinos, real estate dealers/brokers, and car and art dealers as covered entities as well as expanding the list of predicate crimes to include cybercrime and tax evasion is pending before the Philippine congress. Legislation is also pending to amend the BSP charter to give the agency clear legal authority over all MSBs.

While the Philippines has made progress in enacting legislation and issuing regulations, limited human and financial resources constrain tighter monitoring and enforcement. The continuing lack of prosecutions and convictions is not surprising since only 49 cases have been filed since the AMLC began operating in October 2001.

## Portugal

### OVERVIEW

Portugal is a transit point for narcotics entering Europe, and Portuguese officials indicate the majority of money laundered in the country is narcotics-related. Portugal has no major deficiencies in its AML enforcement apparatus.

### VULNERABILITIES AND EXPECTED TYPOLOGIES

Portugal's long coastline, vast territorial waters, and privileged relationships with countries in South America and Lusophone Africa make it a gateway country for South American cocaine and a transshipment point for drugs coming to Europe from West Africa.

Authorities have noted significant criminal proceeds from corruption, traffic in works of art and cultural artifacts, extortion, embezzlement, tax offenses, smuggling, prostitution, organized crime, gambling, and aiding or facilitating illegal immigration. Portuguese authorities also have detected criminal funds being placed into the financial system from smuggled commodities, particularly tobacco products. Suspect funds from Angola are used to purchase Portuguese businesses and real estate.

There are 11 casinos in Portugal managed by eight public cooperatives licensed by the Ministry of Economy. Business interests from China (Macau) have significant involvement in some of the cooperatives. The State Secretary for Tourism supervises and monitors casinos. Portuguese authorities legalized online casinos in 2015.

### KEY AML LAWS AND REGULATIONS

Portugal has a comprehensive AML enforcement mechanism that conforms to EU, 1988 UN Drug Convention and UNTOC standards. Money laundering is a criminal offense. Banks and other financial institutions are held to reporting standards by the Bank of Portugal and the Securities Market Commission. Covered entities also adhere to KYC and STR regulations.

The United States and Portugal do not have a MLAT but are able to share information on money laundering investigations through other mechanisms.

Portugal is a member of the FATF. Its most recent mutual evaluation can be found at: <http://www.fatf-gafi.org/countries/n-r/portugal/documents/mutualevaluationofportugal.html>

### AML DEFICIENCIES

Portugal has no major deficiencies in its AML enforcement apparatus.

### ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Although the general legal principle in Portugal is that only individuals are subject to criminal liability, there are exceptions. Paragraph 2 of Article 11 of the Criminal Code provides for criminal corporate liability for white-collar crimes, money laundering, crimes against public health, cybercrime, and certain other crimes.

The Government of Portugal should continue to be concerned about many suspicious and large scale Angolan investments in Portuguese luxury real estate, businesses, and financial institutions. There are allegations Portugal serves as a hub for laundering illicit funds for Angola's ruling class. Increased Chinese efforts to establish political and economic influence also warrant monitoring.

## Russian Federation

### **OVERVIEW**

In 2016, Russia strove to improve its AML legal and enforcement framework, updating and amending various laws to improve their efficacy. While money laundering remains a major problem in Russia, official data shows some progress. The Central Bank of Russia (CBR) estimates losses to Russia through "fictitious transactions" amounted to \$1.49 billion in 2015, and \$0.3 billion in the first half of 2016. "Fictitious transactions" include "remittances of funds abroad by means of fictitious transactions with securities, granted loans, and on foreign accounts."

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Official corruption remains a problem at all levels of government and is a major source of laundered funds. Cybercrime remains a significant problem. Russian hackers and traditional organized crime structures continue to work together, raising threats to the financial sector. Russia is a transit and destination country for international narcotics traffickers. Criminal elements use Russia's financial system and foreign legal entities to launder money. Criminals invest in and launder their proceeds through securities instruments, e-currencies, precious metals, domestic and foreign real estate, and luxury consumer goods.

There is a large migrant worker population in Russia. While the majority of workers likely use formal banking mechanisms, many transfers may occur through informal value transfer systems that may pose vulnerabilities for money laundering.

Russia froze draft regulations against bitcoin, based on blockchain technology, to encourage the domestic development of new blockchain-based technologies and innovation. This creates the potential for abuse of the crypto-currency for money laundering.

Gaming is only allowed in specified regions, with regulatory authority shared across multiple agencies. Rosfinmonitoring, Russia's FIU, has been designated as the competent AML authority for casinos. Only licensed casinos in special gambling zones can register with Rosfinmonitoring. Online gaming is prohibited.

**KEY AML LAWS AND REGULATIONS**

Government control of the financial sector, covering KYC and STR requirements, is enshrined in legislation. Rosfinmonitoring requires individuals trading in commodity or financial markets to provide information upon request, and mandates notification of the opening, closing, or changing of details of any accounts or letters of credit by companies of “strategic importance to the Russian Federation.”

The government has amended its 2002 AML law at least once annually, including nine times in 2016. Some amendments close loopholes and clarify the law. One defined trusts, partnerships, and funds as “foreign entities without legal personalities” and required identification of beneficiaries. Another creates mandatory reporting requirements when banks deny customers service, regardless of the grounds.

Other amendments loosen overly stringent requirements, for example, by abolishing mandatory identification of low-cost jewelry purchases. Banks may delegate client identification to other banks for small transactions, easing reporting requirements for credit and debit card transactions. Client identification requirements for foreign currency transactions below \$1,540 are simplified, and the threshold for reporting foreign currency exchange by PEPs is now \$616, up from \$231.

In other cases, reporting requirements expand. Stock registrars must now report trades over \$770,000. Legal entities face monetary fines for failing to report on individuals with an ownership stake of 25 percent or greater. Finally, one amendment allows for opening remote bank accounts and strengthens the use of e-signatures for identification.

Russia is a member of FATF and two FATF-style regional bodies, MONEYVAL and EAG. Its most recent mutual evaluation can be found at: <http://www.fatf-gafi.org/publications/mutualevaluations/documents/mutualevaluationoftherussianfederation.html>

**AML DEFICIENCIES**

Although the United States and Russia are parties to a MLAT, cooperation under the MLAT is often ineffective.

Notwithstanding obligations under both the UNCAC and the UNTOC to establish the liability of legal persons for participating in corruption, money laundering, and other serious crimes, there is no criminal liability for legal persons in Russia. In March 2015, a bill providing for criminal liability for legal persons was submitted to the Duma. In June 2015, the government issued a negative review of the bill, which remains with a Duma committee.

Russian individuals and businesses with connections to the illegal annexation of Crimea are subject to U.S. sanctions. As a result, regularly updated information previously available in English on Russian government websites is no longer available. This includes Rosfinmonitoring, which now publishes a fraction of the information it previously made available.

Changes to Russian law may also have created vulnerabilities rather than closing them. PEPs are now subject to less stringent reporting requirements for foreign currency transactions. Russia loosened restrictions on the use of crypto-currencies in July 2016. In addition, despite concerns, it is now possible to open a bank account in Russia without being physically present.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

In 2015, Rosfinmonitoring investigated 40,000 cases and confiscated \$128 million in property. Rosfinmonitoring reported 657 individuals committed 863 money laundering crimes in 2015, and 627 criminal cases were prosecuted. The CBR revoked 105 bank licenses in 2015 and 85 as of October 2016, primarily for suspicious transactions.

U.S. authorities were unable to enforce criminal forfeiture claims under Russian law when a drug dealer, convicted in the United States, admitted he used the proceeds to purchase warehouses in Russia.

## **Senegal**

### **OVERVIEW**

Senegal serves as a regional business center for Francophone West Africa. No major changes were noted in money laundering trends in 2016. Most money laundering activities involved bank transfers to offshore accounts in tax havens, or the purchase of high-end real estate by foreign officials. Senegal is vulnerable to the activities of organized crime, drug trafficking, internet fraud, bank and deposit fraud, document forgery, and Ponzi schemes. Corruption remains pervasive at many levels of government and commerce.

The Government of Senegal has made incremental progress in strengthening its capacity for prevention and investigation of financial crimes. Open issues to address include training law enforcement, prosecutors, and judges to investigate and prosecute money laundering. Recommendations for improvement include drafting and enacting a civil forfeiture law allowing assets to be seized in the absence of criminal charges. Senegal needs legislation on the management of seized property to hold an auction to sell the property or have a storage area to safeguard the property until a decision can be reached as to its status.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Major sources of laundered proceeds are corrupt politicians and drug transactions. Foreign government officials, as well as private persons, launder money through the purchase of high-end property or transferring illicit funds through Senegalese bank accounts to offshore tax havens.

Only seven percent of Senegalese have bank accounts, resulting in real estate transactions being conducted in cash. As a result, the construction industry is reputed to be a popular sector for laundering illicit funds. The continued building boom and high property prices also suggest that



this sector remains vulnerable to money laundering. Ownership and transfer of property is not transparent. Improving government registration of property is recommended.

Touba, located in the central region of Senegal, is a largely autonomous region with a special legal status under the jurisdiction of the Mouride religious brotherhood. Touba reportedly receives between \$550 and \$800 million per year in funds repatriated by networks of Senegalese traders abroad and is vulnerable to TBML because the government has limited authority in this region. Other areas of concern include the transportation of cash, gold, and other items of value through Senegal's airport and across its porous borders. The widespread use of cash; money transfer services, including informal channels (hawaladars); and new payment methods also contributes to money laundering vulnerabilities. Mobile payment systems such as Wari, Joni-Joni, and Western Union cater to the needs of the unbanked Senegalese but are not always subject to enforcement of AML controls due primarily to resource constraints. The same applies to money transfer organizations.

### **KEY AML LAWS AND REGULATIONS**

Senegal did not enact any new AML laws or regulations in 2016. A new law has been proposed for the proper management, disposal, and storage of seized property. This law has yet to be passed.

The Central Bank of West Africa regulates KYC for the banks within the eight-country West Africa Economic and Monetary Union. The regulation was broadened to cover money transfer operations in 2016.

Senegal is a member of the GIABA, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.giaba.org/reports/mutual-evaluation/Senegal.html>

### **AML DEFICIENCIES**

Senegalese authorities were drafting legislation extending enhanced due diligence to domestic PEPs in 2015, but no such law has been enacted yet. Senegal is not subject to U.S. or international sanctions. The main strategy in addressing money laundering enforcement deficiencies is through training provided by donors.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

Senegal is a party to the 1988 UN Drug Convention. Since 2014, Senegal has partnered with seven other countries on the Partnership on Illicit Finance (PIF). The goal of the PIF is to have each country develop an action plan to fight illicit finance. Senegal is cooperative on AML efforts involving foreign governments.

According to U.S. law enforcement, Senegalese law enforcement authorities have a good understanding of the broad range of activities that constitute money laundering, as well as how the money launderers disguise the money trail. They also found that Senegalese authorities were doing a better job at identifying financial crimes and money laundering than most other countries

in West Africa. A vetted unit of law enforcement professionals who have undergone advanced training on money laundering is being developed.

## **Serbia**

### **OVERVIEW**

Serbia is situated on a major trade corridor, known as the Balkan route, which is used by criminal groups for various criminal activities, including narcotics trafficking and smuggling of persons, weapons, pirated goods, and stolen vehicles. While the bulk of narcotics seizures continue to be of heroin, seizures of South American cocaine transiting Serbia to Western Europe also occur. Traffickers are often Serbian organized criminal groups or transnational organized criminal groups that include Serbian citizens.

Money laundering vulnerabilities include fictitious legal transactions and trade with off-shore persons, misuse of consultancy and other services, construction and sale of real estate, inheritance or family financial support-related transactions, trade in gold and abuse of e-banking and virtual currencies, and risks arising from Serbia's geographic position. According to Serbia's 2015 Money Laundering Typologies/Money Laundering Case Studies, funds are laundered through the abuse of legal entities, front companies and offshore jurisdictions, and the abuse of payment cards and remittance services.

Authorities in 2015 paid special attention to monitoring migrants' transactions to identify potential links to terrorism, financing terrorism, and human trafficking.

Of 109 activities envisaged by the Action Plan accompanying the National Strategy Against Money Laundering and Terrorist Financing (2015-2019), 22 were implemented, 39 were partially implemented, and 48 were not implemented.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

According to the 2012 National Risk Assessment, illicit proceeds are mainly generated through unlawful production and circulation of narcotics, corruption, and tax evasion.

The most common money laundering typologies recognized by the Administration for the Prevention of Money Laundering (APML) include: depositing funds of suspicious origin into non-resident accounts in Serbia; agreement on the gift and purchase of real estate with dirty money; drawing funds from an account of a legal person on the basis of a loan interest; privatization with funds of unknown origin; abuse of money transfer agents for the purpose of human trafficking; money laundering through associated legal persons; and introducing funds of unknown origin into legal flows.

Obstacles to fighting narcotics-related money laundering are Serbia's position as a transit country in international drug routes, poverty and unemployment, a prolonged privatization process, inconsistent or selective implementation of regulations by an inefficient court system,

migration, persistent corruption, and the misuse of modern technology and electronic money transfers.

From the APML's perspective, FTZs are not a concern.

### **KEY AML LAWS AND REGULATIONS**

According to international experts, important AML issues include deficiencies regarding international standards related to NPOs, financial sanctions, supervision of certain DNFBPs, PEPs, wire transfers, and high-risk jurisdictions.

Both Serbia's AML law and the Law on the Freezing of Assets are in the process of being updated. The draft AML law aligns with international standards and was supposed to be adopted by the end of 2016; its current status is unknown. With the adoption of the Law on the Prevention of Money Laundering and Terrorism Financing, public notaries will become covered entities and domestic PEPs will be subject to enhanced due diligence measures.

Serbian AML/CFT law introduced comprehensive CDD requirements in 2009.

In May 2009 Serbia signed an MOU with FinCEN. The Law on Mutual Legal Assistance in Criminal Matters, the AML/CFT law, the Law on Banks, and the Law on Payment Transactions ensure the availability of records.

Serbia is a member of MONEYVAL, a FATF-style regional body. Its most recent mutual evaluation can be found at:

[http://www.coe.int/t/dghl/monitoring/moneyval/Evaluations/round5/MONEYVAL%282016%292\\_MER\\_Serbia\\_en.pdf](http://www.coe.int/t/dghl/monitoring/moneyval/Evaluations/round5/MONEYVAL%282016%292_MER_Serbia_en.pdf)

### **AML DEFICIENCIES**

Legal persons are covered. Foreign PEPs are subject to enhanced due diligence according to the current law, and domestic PEPs will be covered under a new proposed law.

Serbia is not subject to any U.S. or international sanctions or penalties.

Serbia has a National Strategy against Money Laundering and Terrorist Financing (2015-2019). The implementation of the Action Plan is on-going. Serbia should improve interagency cooperation, pursue money laundering independently of other crimes, and build the capacities of the APML and AML supervisors.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

Serbia has not refused to cooperate with foreign governments.

In 2015 one final conviction against two individuals was delivered and three new prosecutions were initiated.

Serbian authorities exchange information and conduct investigations on an ad hoc basis. Efforts are underway to establish formal task forces and liaison officers to combat money laundering. Efforts are also underway to institute provisions on seizure and confiscation of criminal proceeds, to seek training on investigating financial crimes, and to conduct further AML training.

## **Sint Maarten**

### **OVERVIEW**

Sint Maarten is an autonomous entity within the Kingdom of the Netherlands. The Kingdom retains responsibility for foreign policy and defense, including entering into international conventions. The Kingdom may extend international conventions to the autonomous countries. With the Kingdom's agreement, each autonomous country can be assigned a status of its own within international or regional organizations subject to the organization's agreement. The individual countries may conclude MOUs in areas in which they have autonomy, as long as these MOUs do not infringe on the foreign policy of the Kingdom as a whole. In 1999, the Kingdom extended the UN Drug Convention to Sint Maarten, and in 2010, the UNTOC was extended to Sint Maarten.

A governor appointed by the King represents the Kingdom on the island and a Minister Plenipotentiary represents Sint Maarten in the Kingdom Council of Ministers in the Netherlands.

In June 2016, Aruba, Sint Maarten, the Netherlands, and Curacao signed an MOU with the United States to stimulate joint activities and enhance sharing of information in the areas of criminal investigation and upholding public order and security and to strengthen mutual cooperation in forensics and the organization of the criminal justice system. While the MOU is a broad-based attempt to improve all of the criminal justice system, one priority area is cracking down on money laundering operations.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Sint Maarten has an offshore banking industry consisting of one bank.

Many hotels legally operate casinos on the island, and online gaming is also legal but is not subject to supervision.

Sint Maarten's favorable investment climate and rapid economic growth over the last few decades have drawn wealthy investors to the island to invest their money in large scale real estate developments, including hotels and casinos. In Sint Maarten, money laundering of criminal profits occurs through business investments and international tax shelters. Its weak government sector continues to be vulnerable to integrity-related crimes.

### **KEY AML LAWS AND REGULATIONS**

KYC laws cover banks, lawyers, insurance companies, customs, money remitters, the Central Bank, trust companies, accountants, car dealers, administrative offices, Tax Office, jewelers, credit unions, real estate businesses, notaries, currency exchange offices, and stock exchange brokers.

The MLAT between the Kingdom of the Netherlands and the United States, rather than the U.S. - EU Agreement, which has not yet been extended to the Kingdom's Caribbean countries, applies to Sint Maarten and is regularly used by U.S. and Sint Maarten law enforcement agencies for international drug trafficking and money laundering investigations.

Sint Maarten is a member of the CFATF, a FATF-style regional body, and, through the Kingdom, the FATF. Its most recent mutual evaluation can be found at: <https://www.cfatf-gafic.org/index.php/documents/cfatf-mutual-evaluation-reports/sint-maarten-1>

### **AML DEFICIENCIES**

In July 2015, Sint Maarten's FIU reported that hundreds of unusual financial transaction investigations were backlogged at the Sint Maarten Public Prosecutor's Office. Approximately 1,138 reports totaling \$243 million have not been investigated.

The UNCAC has not yet been extended to Sint Maarten.

Sint Maarten has yet to pass and implement legislation to regulate and supervise its casino, lottery, and online gaming sectors in compliance with international standards. In addition, the threshold for conducting customer due diligence in the casino sector does not comply with international standards.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

The National Ordinance Reporting Unusual Transactions establishes an "unusual transaction" reporting system. Designated entities are required to file unusual transaction reports (UTRs) with the FIU on any transaction that appears unusual (applying a broader standard than "suspicious") or when there is reason to believe a transaction is connected with money laundering. If, after analysis of an unusual transaction, a strong suspicion of money laundering arises, those suspicious transactions are reported to the public prosecutor's office.

The harbor of Sint Maarten is well known for its cruise terminal, one of the largest in the Caribbean islands. The local container facility plays an important role in the region. Larger container ships dock their containers in Sint Maarten where they are picked up by regional feeders to supply the smaller islands surrounding Sint Maarten. Customs and law enforcement authorities should be alert for regional smuggling, TBML, and value transfer schemes.

## **South Africa**

### **OVERVIEW**

South Africa's position as the financial center of the continent, its sophisticated banking and financial sector with a high volume of transactions, and its large, cash-based market make it a target for transnational and domestic crime syndicates.

South Africa is committed to continuous improvement of its legislative and enforcement environment and to building regional capacity. The Financial Intelligence Centre (FIC), South Africa's FIU, works closely with other governmental organizations. In 2016, the Illicit Financial Flows Task Team (FTT) was chartered. The FTT is composed of six agencies, including a U.S. law enforcement representative, with a national coordinated approach to investigate and prosecute money laundering activities.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Corruption, fraud, and organized crime are believed to constitute the largest sources of laundered funds. The narcotics trade also contributes substantial proceeds. South Africa is the largest market for illicit drugs within sub-Saharan Africa and a transshipment point for cocaine and heroin. Other sources include theft, racketeering, currency speculation, credit card skimming, wildlife poaching, theft of precious metals and minerals, human trafficking, stolen cars, and smuggling. The proliferation of informal and formal remittance schemes for foreign workers to send cash home to neighboring countries presents a challenge for authorities.

Many criminal organizations are involved in legitimate business operations, complicating efforts to detect money laundering. In addition to domestic criminal activity, observers note criminal activity by Chinese triads; Taiwanese groups; Nigerian, Pakistani, Andean, and Indian drug traffickers; Bulgarian credit card skimmers; Lebanese trading syndicates; and the Russian mafia. Some foreign nationals are using South African nationals to help them send illicit funds out of the country. Investment clubs (*stokvels*) and funeral savings societies have been used as cover for pyramid schemes. Additionally, criminals have used nominee structures to launder illicit funds by mixing illicit funds with legitimate assets held on someone else's behalf.

In 2016, investigations into high-level corruption gained widespread coverage in the media, and the Public Protector mandated a judicial inquiry into undue political influence by private individuals close to President Zuma. The issue of PEPs gained attention when private banks refused to provide financial services to a PEP family.

Legislation in 2014 allows the establishment of four types of Special Economic Zones (SEZ): Industrial Development Zones (IDZs); free ports; FTZs; and Sector Development Zones. Currently, South Africa operates IDZs. Imports related to manufacturing or processing in the zones are duty free, provided the finished product is exported. The South African Revenue Service implements customs controls for these zones. Additional SEZes are under development.

### **KEY AML LAWS**

The FIC Act compels financial institutions and other designated businesses to monitor financial flows and report suspicious transactions. The government has implemented comprehensive

KYC and STR regulations. The South African Reserve Bank (SARB) and the Financial Services Board carry out AML supervision for banking and non-banking entities, respectively.

South Africa is a member of the FATF and the ESAAMLG, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.fatf-gafi.org/media/fatf/documents/reports/mer/MER%20South%20Africa%20full.pdf>

### **AML DEFICIENCIES**

The FIC Amendment Act (FICAA), ratified by both chambers of Parliament in May 2016, was ultimately sent back to Parliament in December due to the President's concerns with its constitutionality. The amendments allow institutions to use a risk-based approach toward AML deterrence. The FICAA also would require financial institutions to identify PEPs, including those in the private sector involved in high-value government procurements, and add high-value goods dealers, auctioneers, and virtual currency exchanges to the categories of entities falling under FIC authority.

The criminal justice system has become more effective in securing money laundering convictions, but lack of capacity in law enforcement and other institutions to handle complex cases remains a challenge. The difficulty in obtaining information on beneficial ownership impacts financial institutions' ability to detect and report suspicious transactions.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

The FTT was established in October 2016, specifically to target criminal syndicates and seize illicit money tied to narcotics, wildlife poaching, and weapons trafficking. The FTT has investigative powers and is comprised of dedicated investigators and intelligence analysts who will target suspicious money flows leaving the country. U.S. law enforcement participates with representatives from the SARB, FIC, South African Police Service, and National Prosecuting Authority.

Press coverage of scandals involving FIC reports of suspicious transactions by prominent individuals demonstrate the reach and intensity of FIC scrutiny. Authorities assert that despite, or perhaps because of increased press scrutiny, the cooperation among FIC, law enforcement, and prosecutorial authorities is largely effective.

In August 2016, the SARB imposed fines totaling R34.5 million (approximately \$2.5 million) on five banks relating to weaknesses in AML controls. Widespread media coverage of the fines led to increased attention to compliance by other financial institutions. The FIC also sanctioned car dealers for failure to register with FIC.

During the fiscal year that ended March 31, 2016, the FIC referred 511 cases for further investigation and blocked R185 million (approximately \$13.2 million) as suspected proceeds of crime. Prosecutors typically include money laundering as a secondary charge in conjunction with other offenses. Accordingly, the government does not generally keep separate statistics for money laundering-related prosecutions, convictions, or forfeitures.

## Spain

### OVERVIEW

Spain is proactive in identifying, assessing, and understanding its money laundering risks and works to mitigate these risks. Spain remains a logistical hotspot for organized crime groups based in Africa, Latin America, and the former Soviet Union and is a trans-shipment point for illicit drugs entering Europe from North Africa and South America. Spain is largely compliant with the FATF Recommendations and has up-to-date laws and regulations and sound AML institutions. In 2016, Spain significantly increased the budget of its FIU, the Executive Service of the Commission for the Prevention of Money Laundering and Monetary Infractions (SEPBLAC), and fully implemented its “Financial Ownership File,” a database under the control of SEPBLAC that was set out in Article 43 of Spain’s AML Law and is available to law enforcement. In general, Spain continues to build on its already strong measures to combat money laundering.

### VULNERABILITIES AND EXPECTED TYPOLOGIES

Spain is a trans-shipment point for cross-border illicit flows of drugs. Moroccan hashish and Latin American cocaine enter the country and are distributed and sold throughout Europe, with the resulting proceeds often returned to Spain. Passengers traveling from Spain to Latin America reportedly smuggle sizeable sums of bulk cash. In addition, bulk cash is sent from Latin America to Spain by the same means that drugs enter Spain from Latin America. Informal money transfer services also facilitate cash transfers between Spain and Latin America, particularly Colombia. Law enforcement authorities continue to cite an emerging trend in drugs and drug proceeds entering Spain from newer EU member states with less robust law enforcement capabilities.

The most prominent means of laundering money are through the purchase and sale of real estate, the use of complex networks of companies and legal arrangements, the exploitation of MVTs, and the use of cash couriers. The major sources of criminal proceeds are drug trafficking, organized crime, customs fraud, human trafficking, and counterfeit goods. Illicit proceeds continue to be invested in real estate in the once-booming coastal areas in the south and east of the country, but criminal groups also place money in other sectors, including services, communications, automobiles, art work, and the financial sector.

Authorities report significant illicit capital flows destined for China over the past five years. In February 2016, Spanish authorities raided the Madrid headquarters of Chinese bank ICBC and arrested six employees. In June, a court document summarizing the investigation to date noted the bank received cash from Chinese criminal groups in Spain and wired the money to accounts in China. The court document estimates approximately \$98 million was laundered in this way from 2011 to 2014. The investigation is ongoing and Spain’s High Court has not yet decided whether to close the case or hold a trial.



## **KEY AML LAWS AND REGULATIONS**

Spain enacted its current law on Preventing Money Laundering and the Financing of Terrorism in 2010; the law entered into force immediately. All associated implementing regulations were approved and entered into force in May 2014. Spain has comprehensive KYC and STR regulations.

Spain is a member of the FATF. Its most recent mutual evaluation can be found at: <http://www.fatf-gafi.org/countries/s-t/spain/documents/mer-spain-2014.html>

## **AML DEFICIENCIES**

Spain is largely compliant with FATF recommendations. Spain has addressed two noted deficiencies: in 2016, SEPBLAC received a nearly 29 percent budget increase in order to increase personnel from 54 to 79 employees; and in June 2017, the new EU Funds Transfer Regulation will become effective in Spain.

As of October 2016, Spain has not started the process to update its current national law on Preventing Money Laundering and the Financing of Terrorism to transpose and implement EU Directive 2015/849. Additionally, effective controls are not in place to ensure lawyers comply with their AML obligations. Spain has not updated its penal code to extend the maximum period of disbarment for professionals.

## **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

A number of money laundering cases have been prosecuted, including those involving third-party money laundering, self-laundering, and laundering the proceeds of both domestic and foreign predicate offenses. Spain has had success in disabling criminal enterprises and organized criminal groups by identifying and shutting down their complex money laundering networks of national and international companies. However, the relatively low level of sanctions (terms of imprisonment and periods of disbarment) imposed for money laundering offenses is a weakness, as is the limited judicial system's capacity to handle complex money laundering cases in a timely fashion.

Spanish officials report the following statistics regarding money laundering-related prosecutions and convictions (2015 data is tentative): cases concluded: 64 (2014), 76 (2015); people being prosecuted: 275 (2014), 277 (2015); cases resulting in convictions: 45 (2014), 53 (2015); persons convicted: 186 (2014), 180 (2015); convicted person holding a position in the judicial system: 1 (2015).

## **St. Kitts and Nevis**

### **OVERVIEW**

St. Kitts and Nevis (SKN) is a federation composed of two islands in the Eastern Caribbean. Its economy is heavily reliant on tourism, construction, and the offshore financial sector. SKN remains a transit point for drug traffickers going to the United States and Europe.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

SKN remains susceptible to corruption and money laundering because of the high volume of narcotics trafficking around the islands. The growth of its offshore sector coupled with unusually strong bank secrecy laws also remains problematic.

SKN derives a significant portion of its revenue from its program offering citizenship through investment (CIP); however, this program's prior lax vetting created AML and security vulnerabilities domestically and internationally. Despite recent efforts to improve the application process and vetting procedures, the CIP continues to be afflicted by significant deficiencies in vetting candidates and conducting due diligence on passport and citizenship recipients after they receive citizenship. An individual is eligible for economic citizenship with a \$400,000 minimum investment in real estate. Also, an applicant is eligible by making a contribution ranging from \$250,000 to \$356,000 (based on an application for two adults and two dependents) to the Sugar Industry Diversification Foundation, a special project approved for the purpose of citizenship by investment. Applicants must make a source of funds declaration and provide evidence supporting the declaration. The Ministry of Finance has established a Citizenship Processing Unit to manage the screening and application process.

### **KEY AML LAWS AND REGULATIONS**

The AML legislation is at the federation level and covers both St. Kitts and Nevis. Each island has the authority to organize its own financial structure and procedures. St. Kitts has acts governing companies, limited partnerships, foundations, and trusts that are registered in St. Kitts, while Nevis has Ordinances that govern corporations, limited liability companies, trusts, and multiform foundations. Most of the offshore financial activity is concentrated in Nevis.

The Eastern Caribbean Central Bank (ECCB) has responsibility for regulating and supervising the domestic sector of SKN. Offshore banks, which are supervised by the Financial Services Regulatory Commission, are required to have a physical presence in the federation; shell banks are not permitted.

St. Kitts and Nevis is a member of the CFATF, a FATF-style regional body. Its most recent mutual evaluation can be found at: [https://www.cfatf-gafic.org/index.php?option=com\\_docman&task=cat\\_view&gid=335&Itemid=418&lang=en](https://www.cfatf-gafic.org/index.php?option=com_docman&task=cat_view&gid=335&Itemid=418&lang=en)

### **AML DEFICIENCIES**

There is a limited amount of information on the exact number of financial entities in the federation. In 2010, St. Kitts had licensed approximately 36 corporate service providers, three trust providers, 116 captive insurance companies, and over 2,100 companies and foundations. Nevis had over 11,000 IBCs, 4,200 limited liability companies, over 1,000 trusts, and over 110

insurance companies. Nevis can form an IBC in less than 24 hours, and bearer shares are allowed though “discouraged.” Internet gaming entities must apply for a license as an IBC.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

SKN did not report passage of new enforcement legislation or prosecutions in 2016, and there have been no money laundering prosecutions or convictions since 2013. There are no guidelines to provide law enforcement the authority to conduct an investigation based on a foreign request for assistance. SKN’s legislation incorporates provisions for civil penalties; however, they continue to be applied in an unreliable manner and do not apply to all pertinent financial sectors. Bearer shares are authorized if the bearer share certificates are retained in the protected custody of persons or financial institutions authorized by the Minister of Finance. Specific identifying information must be maintained on bearer certificates, including the name and address of the bearer as well as the certificate’s beneficial owner.

In May 2014, the U.S. Department of Treasury’s Financial Crimes Enforcement Network (FinCEN) issued an advisory to alert U.S. financial institutions that certain foreign individuals abuse the SKN CIP to obtain SKN passports for the purpose of engaging in illicit financial activity or evading sanctions. The use of the SKN CIP is promoted in foreign locales, such as Dubai, possibly as a way of facilitating the evasion of sanctions. FinCEN is engaging SKN to evaluate if recent CIP improvements sustainably address U.S. AML/CFT concerns.

Financial oversight in Nevis remains problematic due to SKN allowing the creation of anonymous accounts, strong bank secrecy laws, and overall lack of transparency of beneficial ownership of legal entities. The ambiguous regulatory framework regarding customer due diligence makes Nevis a desirable location for criminals to conceal proceeds.

The Government should focus on addressing these issues. SKN must work toward transparency and accountability in financial regulation. Specifically, it must precisely determine the exact number of internet gaming companies present on the islands and conduct the necessary oversight of these entities. The government should ensure all relevant entities covered under the AML laws and regulations are subject to sanctions that are proportionate and dissuasive. SKN should promote close supervision of the CIP and be transparent in reporting monitoring results.

## **St. Lucia**

### **OVERVIEW**

St. Lucia’s main sources of revenue are tourism and the offshore banking sector. It has a diverse manufacturing sector and the government is trying to revitalize the banana industry. St. Lucia is a transit point for illegal drugs going toward the United States and Europe.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Money laundering in St. Lucia primarily relates to drug trafficking. Illicit drug trafficking by organized crime rings and the laundering of drug proceeds by domestic and foreign criminal elements remain serious problems for St. Lucia. It is believed financial institutions unwittingly engage in currency transactions involving international narcotics trafficking proceeds.

St. Lucia has an offshore banking sector, which is supervised by the Financial Sector Supervision Unit of the Ministry of Finance. Onshore domestic banks are supervised by the Eastern Caribbean Central Bank. St. Lucia also has a FTZ where investors can establish businesses and conduct trade and commerce outside of the National Customs territory. Activities may be conducted entirely within the zone or between the St. Lucia free zone and foreign countries.

### **KEY AML LAWS AND REGULATIONS**

St. Lucia launched a new economic citizenship program in October 2015, but changed its fees and regulations in January 2016. An individual can obtain citizenship for a minimum investment of \$100,000 per applicant, \$160,000 for an applicant and spouse, or \$190,000 for a family of up to four persons. There is no residency requirement and passport holders may travel to most Commonwealth and EU countries without a visa. Application for economic citizenship must be made through a government-approved local agent and requires payment of a background check/due diligence fee. An in-person interview is not required.

Banks, building societies, and credit unions; insurance companies; international financial services companies; finance and lending companies; factors, guarantors, and registered agents; exchange bureaus; investment advisers; cash remittance services; postal and other courier services; real estate businesses; car dealerships; casinos, gaming houses, and internet gaming services; jewelers and bullion dealers; custodial, advice, and nominee services; check cashing services; financial leasing; venture risk capital firms; administrators and issuers of financial instruments, credit cards, traveler's checks, and bankers' drafts; money brokers; financial intermediaries; securities brokers and underwriters; investment and merchant banks; trusts, asset management, and fiduciary services; company formation and management services; collective investment schemes and mutual funds; lawyers; and accountants must comply with KYC rules.

There is a Tax Information Exchange Agreement between the Governments of St. Lucia and the United States.

St. Lucia became a party to the UNCAC on November 18, 2011.

St. Lucia is a member of the CFATF, a FATF-style regional body. Its most recent mutual evaluation can be found at: [https://www.cfatf-gafic.org/index.php?option=com\\_docman&task=cat\\_view&gid=334&Itemid=418&lang=en](https://www.cfatf-gafic.org/index.php?option=com_docman&task=cat_view&gid=334&Itemid=418&lang=en)

### **AML DEFICIENCIES**

There remains a substantial black market for smuggled goods in St. Lucia, mostly gold, silver, and other jewelry, predominantly smuggled from Guyana. There is a black market in high-quality jewelry purchased from duty free establishments in St. Lucia by both local and foreign

consumers. Monies suspected to be derived from drug trafficking and other illicit enterprises are filtered into and washed through trading firms. TBML is evident in St. Lucia.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

The Customs and Excise Department is routinely confronted by false declarations, false invoicing, and fraudulent evasion of duties and taxes on goods, and there is a robust approach to cash seizures and forfeitures.

Law enforcement and customs authorities should be given training on how to recognize and combat trade-based value transfer, which could be indicative of both customs fraud and money laundering. The Government of St. Lucia should improve investigative capacity within the police and courts to prosecute cash seizure and forfeiture cases expeditiously and successfully.

The government should ensure its economic citizenship program is adequately supervised and monitored to prevent its abuse by criminals.

## **St. Vincent and the Grenadines**

### **OVERVIEW**

St. Vincent and the Grenadines' (SVG) economy is dependent on the tourism and offshore banking industries. Agriculture is also an important sector of St. Vincent and the Grenadines' economy. There is a high unemployment rate on the islands. SVG is the leading marijuana producer in the region and a transit point for other types of illicit drugs.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

SVG remains vulnerable to money laundering and other financial crimes as a result of drug trafficking and its offshore financial sector. The set of islands remains a small but active offshore financial center with a relatively large number of IBCs. United States currency is often smuggled into the country via couriers, go-fast vessels, and yachts.

Money laundering is principally affiliated with the production and trafficking of marijuana in SVG, as well as the trafficking of other narcotics from within the Caribbean region. Money laundering occurs in various financial institutions, such as domestic and offshore banks, and through money remitters.

As of 2016, the offshore financial sector includes five offshore banks, four offshore insurance companies, 16 registered agents, 39 mutual fund managers and administrators handling 92 mutual funds, and two casinos. As of 2015, there were 6,331 IBCs, 440 continued IBCs, and 100 international trusts. There are no internet gaming licenses. No physical presence is required for offshore sector entities and businesses, with the exception of offshore banks. The regulatory body with the mandate to supervise the offshore financial sector and DNFBPs is the Financial

Services Authority. Resident nominee directors are not mandatory except when an IBC is formed to carry on banking business.

Bearer shares are permitted for IBCs, but not for banks. The St. Vincent and the Grenadines government requires registration and custody of bearer share certificates by a registered agent who must also keep a record of each bearer certificate issued or deposited in its custody. There are no FTZs in SVG.

### **KEY AML LAWS AND REGULATIONS**

The primary laws and regulations that constitute the AML regime in SVG are the Proceeds of Crime Act, No. 38 of 2015; the Financial intelligence Unit Act, Cap 174 of the Revised Laws of 2009, as amended by Act No. 7 of 2013; the Drug Trafficking Offenses Act, Cap 173 of the Revised laws of 2009; the Exchange of Information Act, cap 146 of the Revised Laws of 2009; the Mutual Assistance in Criminal Matters Act, cap 177 of the Revised Laws of 2009; the Anti-Money laundering and Terrorist Financing Regulations, No. 20 of 2014; and the Confiscation in the Magistrates' Court Regulations, No. 22 of 2015.

The Mutual Assistance in Criminal Matters Act signed between the St. Vincent and the Grenadines government and the United States government on January 8, 1998 is the operative instrument through which records and information can be exchanged with the United States. The Treaty covers mutual legal assistance in criminal matters, the scope extending to civil and administrative matters as well.

SVG is a member of the CFATF, a FATF-style regional body. Its most recent mutual evaluation can be found at: [https://www.cfatf-gafic.org/index.php?option=com\\_docman&task=cat\\_view&gid=333&Itemid=418&lang=en](https://www.cfatf-gafic.org/index.php?option=com_docman&task=cat_view&gid=333&Itemid=418&lang=en)

### **AML DEFICIENCIES**

The major outstanding AML deficiencies relate to the supervision and regulation of DNFBPs. The FIU has been designated as the supervisory body for these entities. The FIU is in the process of formulating regulations for the sector and is currently providing AML training to the sector.

The Anti-Money laundering and Terrorist Financing Regulations include provisions to cover PEPs and ensure enhanced due diligence is done before such persons are accepted as customers of any service provider or DNFBP. The draft Anti-Money Laundering and Terrorist Financing Code 2014 was revised and is again before the Attorney General for review. As it relates to legal persons, the proposed Code would include extensive provisions for CDD and ongoing monitoring of such arrangements.

SVG has not conducted a national risk assessment yet. St. Vincent and the Grenadines' goal is to complete this early in 2017.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

In 2016, SVG initiated one charge for money laundering, which is currently being prosecuted in the courts. There were no convictions for money laundering during the year.

The government should become a party to the UNCAC. It also should adopt a provision to provide financial institutions and their employees who file STRs in good faith with protection against civil or criminal liability.

## Suriname

### OVERVIEW

Money laundering in Suriname is closely linked to transnational criminal activity related to the transshipment of cocaine, primarily to Europe and Africa. According to local media reports, both domestic and international drug trafficking organizations are believed to control most of the laundered proceeds, which are primarily invested locally in casinos, real estate, foreign exchange companies, car dealerships, and the construction sector. Public corruption also may contribute to money laundering, though the full extent of its influence is unknown. Profits from small-scale gold mining and related industries fuel a thriving informal sector. Much of the money within this sector does not pass through the formal banking system. In Suriname's undeveloped interior, bartering with gold is the norm for financial transactions.

### VULNERABILITIES AND EXPECTED TYPOLOGIES

Goods such as agricultural products, fuel, cigarettes, alcohol, and medicine are smuggled into the country via Guyana and French Guiana and are sold below market prices. Other goods are smuggled into the country with the primary aim of avoiding payment of import duties and other taxes. There is little evidence to suggest this smuggling is funded by narcotics trafficking or other illicit activity. Contraband smuggling likely does not generate funds later laundered through the financial system. There are indicators that TBML occurs, generally through the activities of local car dealerships, gold dealers, and currency exchanges (*cambios*). Money laundering may occur in the formal financial sector through banks and *cambios*.

There is no evidence the formal banking sector facilitates movement of currency derived from illegal drug sales in the United States. Local drug sales of cocaine in transit through Suriname are usually conducted in U.S. dollars, which may be deposited domestically.

### KEY AML LAWS AND REGULATIONS

Suriname has taken a number of steps recently to improve compliance with international AML standards. For example, the International Sanctions Act (O.G. 2016 no. 31) was enacted on February 29, 2016 and came into force on March 3, 2016 to amend the International Sanctions Act (O.G. 2014 no. 54). This law establishes as a legal entity a Council on International Sanctions, with the responsibility of supervising all service providers for compliance with the International Sanctions Act.

On February 29, 2016, the Law on detailed amendment to the Law on Personal Identification Service Act (O.G. 2016 no. 32) was enacted. It was brought into force on March 3, 2016 to amend the Personal Identification Services (WID) Act. This law is directly related to the CDD obligations applicable in higher risk situations and is intended to make enhanced CDD mandatory for Suriname's NPOs.

The Law on detailed amendment to the Law on Disclosure of Unusual Transactions Act (O.G. 2016 no 33) was enacted on February 29, 2016 and came into force on March 3, 2016 to amend the Disclosure of Unusual Transactions Act (O.G. 2002 no. 65, as amended in O.G. 2012 no. 133). The overarching intent of this amendment is to further improve the AML mechanisms linked, in part, to the Act on Capital Market (O.G. 2014 no. 53).

On February 29, 2016, State Decree (O.G. 2016 no 34) was enacted with the overarching intent to implement article 2, section 1 of the Act International Sanctions (O.G. 2014 no. 54).

CDD rules and STR requirements cover banks and credit unions, asset managers, securities brokers and dealers, insurance agents and companies, currency brokers, remitters, exchanges, auditors, accountants, notaries, lawyers, real estate agents, dealers in gold or other precious metals and stones, gaming entities and lotteries, and motor vehicle dealers.

The exchange of records between Suriname and other countries is possible via individual MOUs and mutual legal assistance requests.

Suriname is a member of the CFATF, a FATF-style regional body. Suriname's most recent mutual evaluation can be found at: <https://www.cfatf-gafic.org/index.php/documents/cfatf-mutual-evaluation-reports/suriname-1>

### **AML DEFICIENCIES**

On November 25, 2015, the CFATF issued a public statement asking its members to consider the risks posed to their financial systems by the strategic deficiencies in Suriname's AML regime. On November 10, 2016, the CFATF recognized Suriname's improvements in the legislative and regulatory areas and called on Suriname to continue making further improvements to achieve full compliance with international AML standards.

Suriname has requirements for enhanced due diligence procedures for foreign, but not domestic, PEPs.

During the period January to September 2016, 115 of the 306,619 STRs received by the FIU led to investigations.

Suriname is not a member of the Egmont group. Additionally, the Government of Suriname is not party to the UNCAC.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**



Suriname ratified the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances in 1992. A bill on international sanctions was passed in the first half of 2016.

A gaming board was established by Law in 2009. In March 2016, the Minister of Justice and Police met with the three-member leadership team of the Gaming Board. The Board presented a plan to start operational activities in the near future. Other than the three members, the Board has no personnel.

From January to September 2016, there were four money laundering prosecutions and no convictions.

## **Tajikistan**

### **OVERVIEW**

Criminal proceeds laundered in Tajikistan derive from both foreign and domestic criminal activities and are assumed to be primarily related to the large amounts of opium and heroin trafficked through the country from Afghanistan to Russia. Government officials indicate there has been an increase in money laundering prosecutions in 2016, but they have not provided official numbers. The absence of current money laundering investigation or prosecution statistics makes it difficult to accurately gauge the degree to which the formal banking sector is being used to launder such assets.

The Tajik government was unable to provide a large portion of the requested information this year, although it has done so in the past. Anecdotal evidence indicates that money laundering funds are used for imported cars, luxury goods, and real estate. There is little evidence money laundering occurs through the abuse of alternative remittance systems, FTZs, or bearer shares.

Tajikistan should focus on the development of criminal and prosecutorial investigative capacity. The government has expressed a desire to cooperate with international partners on investigating and prosecuting money laundering crimes.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Information is limited as to the major sources of illicit funds and how money is laundered. Government officials express a concern about their capacity to investigate and prosecute complicated money laundering crimes. Use of alternative remittance systems, FTZs, and bearer shares create the potential for abuse, but evidence of their abuse as money laundering vehicles is limited.

### **KEY AML LAWS AND REGULATIONS**

Tajikistan has the legal framework and institutional structures to tackle money laundering; it remains to be seen if there is the will to fully and consistently implement its statutes. Resource constraints, corruption, lack of training for law enforcement and border security officials, and general capacity issues continue to restrict AML enforcement. With donor assistance, the Republic of Tajikistan was conducting a national risk assessment, projected to be completed in 2016. The status of this effort is unknown.

On August 8, 2015, the law “Making Amendments and Additions to the Law of the Republic of Tajikistan” on “Public Associations” was passed. On November 2, 2015, statute No. 646 of the Government of the Republic of Tajikistan, addressing, in part, asset freezing, was approved. It remains unclear how systematic the government’s approach is to asset identification, seizure, and forfeiture. There is no publicly available information with regard to the length of time necessary to freeze assets or any estimates of the amount of assets frozen or seized.

Tajikistan has comprehensive KYC and STR regulations.

The U.S. DEA maintains an MOU with the Tajik government Drug Control Agency regarding sharing of information in connection with narcotics investigations.

Tajikistan is a member of the EAG, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.eurasiangroup.org/mers.php>

### **AML DEFICIENCIES**

Enhanced due diligence procedures are required for foreign PEPs.

Tajikistan is not subject to any U.S. or international AML sanctions or penalties.

At the working level, the Tajik government has expressed interest in training to improve its capacity to better investigate and prosecute money laundering cases.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

Tajikistan has expressed a willingness to cooperate with foreign governments, focusing on the development of the criminal and prosecutorial investigative capacity required to identify and prosecute money laundering cases. As with many other justice reform issues in Tajikistan, most deficiencies are derived from a lack of training, resources, and experience rather than a lack of political will.

The jurisdiction for investigating money laundering and related financial crimes in Tajikistan is divided among the Ministry of Internal Affairs, State Committee of National Security, Prosecutor General’s Office, and the Anti-Corruption Agency. The level and quality of cooperation and coordination among these agencies could be significantly improved through training, information sharing, and the establishment of multi-agency task forces.

## Tanzania

### OVERVIEW

While Tanzania is not a regional financial center, it is vulnerable to money laundering schemes and cross-border currency movements, which exploit the country's unregulated financial sector, as well as to deficiencies in currency transaction reporting. As a response, the Government of Tanzania created a special court to address economic crimes and report on plans to implement regulations that address cross-border currency movement and other issues. As Tanzania works to update its national AML/CFT plan, the government should continue to train, increase awareness of, and allocate resources to key financial sector, law enforcement, and judicial stakeholders.

In 2014, the U.S. Department of the Treasury issued a proposed rule naming Tanzania's FBME Bank Ltd. as a financial institution of "primary money laundering concern" pursuant to Section 311 of the USA PATRIOT Act and imposing a prohibition on U.S. financial institutions from opening or maintaining a correspondent account for, or on behalf of, FBME. Following the later takeover of FBME by the Tanzanian Central Bank and subsequent litigation, the rule was finalized on March 31, 2016. After additional litigation and per a court's request, on December 1, 2016, the rule was supplemented with language to further justify the original rule.

### VULNERABILITIES AND EXPECTED TYPOLOGIES

Money laundering in Tanzania involves the proceeds from drug trafficking, wildlife trafficking, corruption, and smuggling of precious metals and stones. A large portion of the population is still engaged in the unregulated financial sector, which is where money laundering is more likely to occur. Mobile banking services continue to expand rapidly, which opens up formerly underserved rural areas to formal banking but also creates new vulnerabilities. Criminals use front companies, hawaladars, and currency exchanges to launder funds, particularly on the island of Zanzibar. Officials indicate additional money laundering schemes in Zanzibar generally take the form of foreign investment in the tourist industry. Real estate and used car businesses also appear to be involved in money laundering.

### KEY AML LAWS AND REGULATIONS

Tanzania's main AML legislation includes The Anti-Money Laundering Act, Cap. 423 of 2006; Anti-Money Laundering (Amendment) Act, 2012; Anti-Money Laundering and Proceeds of Crime Act, No. 10 of 2009; and Written Laws (Miscellaneous Amendment) Act No. 12 of 2011. Main regulations in this area include Anti-Money Laundering Regulations, 2012; and Anti-Money Laundering and Proceeds of Crime Regulations 2015. Tanzania has KYC and STR regulations.

Tanzania is a member of the ESAAMLG, a FATF-style regional body. Its most recent mutual evaluation report can be found at: [http://www.esaamlg.org/reports/view\\_me.php?id=197](http://www.esaamlg.org/reports/view_me.php?id=197)

### AML DEFICIENCIES

In recent years, the government has taken steps to strengthen its response to money laundering. For example, the Authorities amended Section 60 of the Economic and Organized Crime Control Act (Cap. 200) to provide for the confiscation of property. Weaknesses remain, however, in supervision of the financial sector. In addition, the country has yet to establish a database of mutual legal assistance (MLA) statistics and to put in place procedures to ensure MLA requests are properly executed. Similarly, lack of legislation to allow for the confiscation, freezing, or seizure of certain assets in response to a MLA request is still unresolved.

Tanzania has a limited capacity to implement the existing money laundering laws and to supervise the banking sector. Furthermore, authorities still have failed to address noted problems related to civil forfeiture. Other ongoing issues include a focus mainly on the formal banking sector rather than full coverage of DNFBPs and ineffective provisions pertaining to recordkeeping.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

Although Tanzania enacted its Money Laundering Act in 2006, Tanzanian prosecutors did not begin to try money laundering cases until 2009. Since that time, few money laundering cases have been brought to court, and the majority of those cases are still pending. The recently enacted “The Written Laws (Miscellaneous Amendments) Act 2016” calls for the establishment of the Corruptions and Economic Crimes Division of the High Court, and could potentially lead to faster case adjudication. Moreover, Tanzania’s FIU notes a regulation titled “The Money Laundering (Cross Border Declaration of Currency) Regulation 2016” will soon be issued, which will address concerns over cross-border currency declaration.

Tanzania should increase the awareness of money laundering issues in the financial, law enforcement, and judicial sectors and allocate the necessary human, technical, and financial resources to implement its AML regime, especially in Zanzibar. It should focus on implementing its AML law and building its capacity to identify, freeze, and seize assets. It also should train police and customs officials to recognize and investigate financial crimes, and train its prosecutors and judicial officials to try, hear, and ultimately convict criminals and criminal organizations engaging in money laundering activities. Customs and the FIU should be given the resources to implement cross-border currency declaration requirements. Moreover, the FIU should improve the training for new staff, inform institutions of their reporting and recordkeeping responsibilities, and train the financial sector to identify suspicious transactions. The FIU additionally should focus on non-traditional banking mechanisms, such as the use of front companies, hawaladars, Chinese “flying money” remittance systems, currency exchanges, and mobile banking to launder funds.

## **Thailand**

### **OVERVIEW**

Thailand is a centrally located Southeast Asian country with porous borders. Thailand is vulnerable to money laundering within its own economy as well as to many categories of cross-border crime, including illicit narcotics, wildlife trafficking, and other contraband smuggling. Thailand is a source, transit, and destination country for international migrant smuggling and trafficking in persons, a production and distribution center for counterfeit consumer goods, and a center for the production and sale of fraudulent travel documents.

The proceeds of illegal gaming, official corruption, underground lotteries, and prostitution are laundered through the country's informal financial channels. The Thai black market includes a wide range of pirated and smuggled goods, from counterfeit medicines to luxury automobiles.

Thailand continues to make progress in its AML regulatory framework, since its passage of the Anti-Money Laundering Act (No. 4) (AMLA No. 4) in 2013. Thailand is expected to soon add tax offenses as a predicate offense under the AMLA.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Funds from various illegal industries (drugs, contraband goods, and illegal remittances) are transported across Thailand's four land borders and through airports and seaports. There is no requirement to declare Thai currency brought into the country. Money launderers and traffickers use banks, non-bank financial institutions, and businesses to move the proceeds of narcotics trafficking and other criminal enterprises. Unlicensed or unregulated hawaladars serve Middle Eastern travelers in Thailand. Unregulated Thai and Chinese remittance systems are also prevalent. Smuggled items include cash, financial instruments, gold, jewelry, gems, protected wildlife species, drugs, and petroleum. The Anti-Money Laundering Office (AMLO), Thailand's FIU, is effective in fighting money laundering and can operate in conjunction with, or independently from, other law enforcement bodies. AMLO's focus is on civil asset seizure and forfeiture.

### **KEY AML LAWS AND REGULATIONS**

The primary regulation in Thailand is AMLA, Section 22, which includes KYC and STR regulations. The Act requires financial institutions to keep customer identification and financial transaction data for five years from termination of relationship. Financial institutions must keep due diligence records for ten years. The Act also requires reporting of suspicious transactions. Thailand's draft Counter Proliferation Financing Act is expected to be enacted by late 2016. Tax offenses are also expected to be added as a predicate offense under the AMLA.

Thailand is a member of the Egmont Group of FIUs, and this is its primary mechanism for sharing information with the United States and other countries. A bilateral records-exchange mechanism is not in place with the U.S. and is not under negotiation.

Thailand is a member of the APG. Its most recent mutual evaluation report can be found at: <http://www.apgml.org/documents/default.aspx?s=date&c=7&pcPage=7>

### **AML DEFICIENCIES**

Thailand continues to make progress in its AML legal/regulatory framework. AMLA No. 4 transferred all supervision of reporting entities to the AMLO. Since the revision to AMLA in 2015, AMLA No. 5, the law no longer requires AMLO to prove intent before an asset can be seized; simply being connected to narcotic activity allows a seizure.

Thailand is not subject to any U.S. or international sanctions. Operationally, Thailand's AML regime appears to be continuing its longstanding focus on civil asset seizure and forfeiture as well as criminal enforcement. Thailand has continued to use AMLO's authorities to seize assets in a number of suspected human trafficking cases. AMLA No. 5 eliminates the barriers to asset sharing and recovery in cases in which repatriating or sharing forfeited proceeds with a foreign jurisdiction is appropriate. Counter proliferation has been proposed as a predicate offense; that bill is awaiting final approval before becoming law.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

Thailand's legal framework allows for international cooperation on criminal matters and extraditions. Thailand's AMLO is able to share information with or without MOUs with domestic or international partners and does so actively. AMLO can work independently as well as in parallel to, or as part of, law enforcement task forces. Thailand's primary difficulty in information sharing is with jurisdictions that require separate MOUs outside of the Egmont process. From January 1 through October 20, 2016, AMLO prosecuted 41 cases, and gained 19 convictions.

## **Timor-Leste**

### **OVERVIEW**

Timor-Leste is a small economy, with limited data available regarding illicit funds and limited awareness, even by stakeholders, of money laundering issues. The most prevalent source of illicit proceeds is corruption, which a recent assessment described as "endemic" in the public sector. Capacity is low in government entities that supervise, enforce, and investigate suspicious financial transactions. The government has committed to increasing that capacity, as well as increasing awareness among the public and private sectors.

In 2016, Timor-Leste published its first National Risk Assessment of Money Laundering and Terrorist Financing (NRA) and adopted a National Action Plan (NAP) to address the areas of concern identified in the NRA.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

There are no reliable estimates for the amount of illicit funds in Timor-Leste or the ways in which money is laundered. Most experts agree that corruption is the largest source of criminal proceeds in the country, and the NRA identifies tax evasion, drug trafficking, fraud, and trafficking in persons as other potential areas of concern. Timor-Leste is not a regional or

offshore financial center and has no FTZs. The economy is primarily cash-based, with only approximately 45 percent of the adult population having access to financial services. There are only four commercial banks in country, three of which are branches of foreign banks chartered in Australia, Portugal, and Indonesia and subject to the reporting requirements of those jurisdictions.

Capacity to investigate money laundering in Timor-Leste is low, and most investigations focus on the predicate offenses. Authorities are aware that building capacity in this area is crucial and have prioritized capacity-building for law enforcement, judiciary, the Central Bank, and the FIU in order to combat money laundering.

The NRA identifies the primarily cash economy, the use of the U.S. dollar, and the unregulated flow of cash across the borders as the primary vulnerabilities that might make Timor-Leste an attractive location for money laundering and financial crimes.

### **KEY AML LAWS AND REGULATIONS**

The Government of Timor-Leste adopted an AML law in 2011 (Law no. 17/2011), which Parliament amended in 2013 (Law no. 5/2013/III) to remedy identified deficiencies. A Decree Law (no. 16/2014) regulating the governance and powers of the FIU came into force in 2014, and the FIU was established in the same year. The Government of Timor-Leste has comprehensive KYC and STR regulations for entities under the purview of the Central Bank. These include banks, insurance companies, microfinance institutions, money transfer operators, and the currency exchange bureau.

The law mandates cooperation between relevant Timorese authorities and competent foreign authorities. However, the details of that cooperation are not specified.

Timor-Leste is a member of the APG, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.apgml.org/includes/handlers/get-document.ashx?d=9be81db1-1f46-42d0-939c-4ffca465cc64>

### **AML DEFICIENCIES**

Securities brokers, casinos, accountants, auditors, and financial consultants do not fall under the supervision of the Central Bank, so are not subject to KYC or STR regulations.

Timor-Leste's FIU is not a member of the Egmont Group of FIUs, but, as part of the NAP, is actively pursuing membership with a goal of becoming a member by 2018.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

Enforcement and investigation capacity related to money laundering and financial crimes is low. The country is taking steps to implement the 1988 UN Drug Convention and has been responsive to recommendations from international experts. In 2015, there was only one money laundering prosecution.

The publication of its NRA in 2016 and the associated NAP indicate the commitment of the government in this area. The NAP has ten strategic objectives for implementation through 2020: a robust framework for AML policy development and implementation; increased understanding of the risks in country; bringing the legal framework into compliance with international standards; increased investigative and prosecutorial capacity related to money laundering and predicate offenses; increased supervisory body capacity; enhanced implementation of preventative measures; the development of FIU capacity to collect, analyze, and disseminate reports; enhanced transparency of the beneficial ownership of legal entities; the development and enhancement of cooperation, both domestically and internationally, among responsible authorities; and enhanced public awareness.

## **Trinidad and Tobago**

### **OVERVIEW**

Trinidad and Tobago's close proximity to drug producing countries, relatively stable economy, and developed financial systems make it a target for criminals looking to launder money. Proceeds from drug trafficking, illegal arms sales, fraud, tax evasion, and public corruption are the most common sources of laundered funds and are derived from both domestic and international criminal activity. Narcotics trafficking organizations and organized crime entities, operating locally and internationally, control the majority of illicit proceeds moving through the country.

There have not been any money laundering convictions to date, although the Police Service Financial Investigations Branch continues to bring cash seizure and forfeiture cases to the courts. Trinidad and Tobago institutions encompassed in the AML regime continue to be challenged due to capacity and resource constraints. Sustained capacity building, ensuring adequate legislation, regulating the gaming industry, and increasing cooperation among law enforcement entities, the FIU, and the judiciary would greatly improve AML investigations and the rate of convictions.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Trinidad and Tobago's AML regime is unable to quantify the extent to which fraud and public corruption contribute to money laundering. Fraud and waste in government procurement have been identified as problems, but rarely result in convictions. The failure to prosecute financial crimes successfully has a corrosive impact on the integrity of public finances and may encourage others to engage in financial crimes.

Money laundering also occurs outside the traditional financial system. While public casinos and online gaming are illegal in Trinidad and Tobago, gamblers take advantage of "private members' clubs," which operate as casinos and are able to move large amounts of cash due to Trinidad and Tobago's lack of adequate AML supervision of this sector. Reports also suggest that certain local religious organizations are involved in money laundering. STRs reviewed by the FIU and Customs and Excise Division officials indicate that TBML occurs.



There are 17 FTZs in Trinidad and Tobago, where manufactured products are exported. Companies must present proof of legitimacy and are subject to background checks prior to being allowed to operate in the FTZs, and while operating are required to submit tax returns quarterly and audited financial statements yearly. There is no evidence the FTZs are involved in money laundering schemes.

Trinidad and Tobago does not have a significant offshore banking sector. The volume of money laundering in the offshore banking sector is unknown. Currency transactions below the STR threshold are common.

### **KEY AML LAWS AND REGULATIONS**

Trinidad and Tobago has fairly comprehensive KYC and STR regulations.

Trinidad and Tobago is a member of the CFATF, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.fatf-gafi.org/media/fatf/documents/reports/mer-fsrb/cfatf-4mer-trinidad-tobago.pdf>

### **AML DEFICIENCIES**

The Attorney General's office is committed to addressing legislative deficiencies and has prioritized AML investigations and prosecutions. Trinidad and Tobago needs to consistently comply with international standards regarding its legal and regulatory frameworks and to demonstrate commitment to enforce AML laws. Trinidad and Tobago should improve its capacity to investigate and prosecute money laundering cases successfully in order to increase its conviction rate.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

Trinidad and Tobago currently has 13 financial prosecutions and no convictions to date. AML stakeholders continue to face many challenges, and Trinidad and Tobago has taken steps to address deficiencies. In 2016, Trinidad and Tobago appointed a Seized Assets Committee, to establish regulations and management of monies seized under the Proceeds of Crime Act.

Trinidad and Tobago continues to address additional AML legislative deficiencies. The country is in its third and final phase of its national risk assessment (NRA). The NRA will identify risks and vulnerabilities to the AML regime and guide Trinidad and Tobago in applying mitigating measures.

## **Turkey**

### **OVERVIEW**

Turkey is an important regional financial center, particularly for Central Asia and the Caucasus, the Middle East, and Eastern Europe. Turkey's rapid economic growth over the past 15 years, combined with its commercial relationships and geographical proximity to unstable, conflict ridden areas, such as Iraq, Syria, and Crimea, makes Turkey vulnerable to money laundering risks. It continues to be a major transit route for Southwest Asian opiates moving to Europe. In addition to narcotics trafficking, other significant sources of laundered funds include smuggling, invoice fraud, tax evasion, and to a lesser extent, counterfeit goods, forgery, highway robbery, and kidnapping. Recent conflicts at the southern border of Turkey have, to a small extent, increased the risks for additional sources of money laundering.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Money laundering takes place in banks, non-bank financial institutions, and the informal economy. Illicit finance methodologies in Turkey include the large scale cross-border smuggling of currency; cross-border transfers involving both registered and unregistered exchange houses and money transfer companies; bank transfers into and out of the country; trade fraud; and the purchase of high-value items such as real estate, gold, and luxury automobiles. Turkish-based traffickers transfer money, and sometimes gold, via couriers to pay narcotics suppliers in Pakistan or Afghanistan. The transfer of money typically occurs through the non-bank financial system and bank transfers. Funds are often transferred to accounts in Pakistan, the United Arab Emirates, and other Middle Eastern countries.

### **KEY AML LAWS AND REGULATIONS**

The Financial Crimes Investigation Board (MASAK) is Turkey's FIU, and its mission is the prevention and detection of money laundering and terrorist financing offenses. KYC and STR regulations cover a variety of entities, including banks; bank or credit card issuers; authorized exchange houses; money lenders; financial services firms; precious metals exchange intermediaries; and dealers and auction houses dealing with historical artifacts, antiques, and art. Turkey's AML efforts, especially following the July 15 coup attempt, focus primarily on combatting the finances of the Gulen movement.

Turkey is a member of FATF. Its most recent mutual evaluation can be found at: <http://www.fatf-gafi.org/media/fatf/documents/reports/mer/MER%20Turkey%20full.pdf>

### **AML DEFICIENCIES**

Weaknesses in Turkey's regulatory framework and supervisory regime raise concerns that exchange houses, both registered and unregistered, and trading companies operating as unregistered money transmitters are vulnerable to misuse and could be exploited by illicit actors. Turkey's regulated exchange house sector is unwieldy, and Turkish authorities face challenges providing effective oversight of the nearly 900 exchange houses under their watch. Additionally, there are indications that a large number of unregulated exchange houses and trading companies provide money transfer and foreign exchange services illegally.

Turkey's nonprofit sector is not audited on a regular basis for money laundering activity and does not receive adequate AML outreach or guidance from the government. The General Director of Foundations issues licenses for overseas charitable foundations. However, there are an insufficient number of auditors to cover the more than 100,000 institutions.

A cash repatriation law enacted on August 3, 2016 as part of a general economic stimulus package allows Turkish citizens and corporations to freely transfer and use currency, gold, and other capital market instruments, without needing to declare the source of funds, and prevents investigation and prosecution related to these funds. This law, aimed at encouraging Turks to repatriate funds, also creates the potential for AML vulnerabilities.

Other improvements Turkey needs to make include subjecting PEPs to enhanced due diligence; continuing to enhance MASAK'S role in interagency cooperation and information sharing; improving interagency cooperation to assure a comprehensive implementation of existing laws and regulations; and identifying and taking action against unregistered MSBs, including trading companies that operate as unregistered money transmitters. To improve the deficiencies in its AML framework and implementation, Turkey will need to invest additional resources.

As a general rule, Turkey will consider implementing U.S. requests to freeze assets only if such requests are made under UNSCR 1373.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

Although Turkey's legislative and regulatory framework for addressing money laundering has improved, Turkey's investigative powers, law enforcement capability, oversight, and outreach are weak, and many of the necessary tools and expertise to effectively counter this threat through a comprehensive approach are lacking. Further, interagency coordination on AML is poor, and Turkey's financial and law enforcement agencies are often reluctant to share actionable information with one another. Turkey also lacks the civil, regulatory, and supervisory tools needed to supplement public prosecutions, further limiting the Turkish government's ability to counter money laundering.

Turkey has not kept adequate statistics on money laundering prosecutions and convictions since 2009. Therefore, Turkey's record of official investigations, prosecutions, and convictions is unclear. No data was available for 2015 or 2016. Turkey has no civil asset forfeiture procedures.

## **Turkmenistan**

### **OVERVIEW**

Turkmenistan is not a regional financial center. There are five international banks and a small, underdeveloped domestic financial sector. The largest state banks include the State Bank for Foreign Economic Relations, Dayhanbank, Turkmenbashi Bank, Turkmenistan Bank, Halk Bank, and President Bank. These state banks have narrow specializations. There are two

smaller state banks, Senagat Bank and Garagum Bank, which provide general banking services only. There are also five foreign commercial banks: the joint Turkmen-Turkish bank; a branch of the National Bank of Pakistan; the German Deutsche and Commerz banks; and a branch of Saderat Bank of Iran. The two German banks have limited local operations, providing follow-up services on transactions conducted between local Turkmen banks and the European banks' corporate headquarters; they do not provide general banking services. Transactions involving the country's significant natural resources, notably natural gas, involve offshore accounts with little public scrutiny or accounting.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Given Turkmenistan's shared borders with Afghanistan and Iran, money laundering in the country can involve proceeds from the trafficking and trade of illicit narcotics as well as those derived from domestic criminal activities. Although there is no information on cash smuggling, gasoline and other commodities are routinely smuggled across the national borders.

There are no offshore centers in the country. In 2007, Turkmenistan created the Awaza Tourist Zone (ATZ) to promote development of its Caspian Sea coast. Amendments to the tax code exempt construction and installation of tourist facilities in the ATZ from value added tax (VAT). Various services offered at tourist facilities, including catering and accommodations, are also VAT-exempt. Two casinos, managed by Turkish companies, operate in Turkmenistan.

### **KEY AML LAWS AND REGULATIONS**

The Government of Turkmenistan is taking steps to combat money laundering. Although Turkmenistan's law mandates the use of International Financial Reporting Standards by banks, few follow them. Furthermore, all other entities are only required to implement National Financial Reporting Standards. Turkmenistan maintains KYC and STR regulations.

In 2009, Turkmenistan adopted its law "On Combating the Legalization of Criminal Income and Terrorist Financing." In 2010, Turkmenistan adopted new amendments to its criminal code to bring it into compliance with the 1988 UN Drug Convention and the UNTOC. The Financial Monitoring Department of the Ministry of Finance of Turkmenistan, an administrative-type FIU, was created in 2010.

Turkmenistan does not have a records-exchange mechanism in place with the United States, and such a mechanism is not under negotiation. Turkmenistan does not have laws or regulations that ensure the availability to U.S. personnel of records in connection with drug investigations and proceedings.

Turkmenistan is a member of the EAG, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.eurasiangroup.org/mers.php>

### **AML DEFICIENCIES**

Turkmenistan is not subject to any U.S. or international sanctions or penalties. Turkmenistan is not a member of the Egmont Group of Financial Intelligence Units. In 2012, President Gurbanguly Berdimuhamedov announced that Turkmenistan would join the Egmont Group, but Turkmenistan has not yet joined. Through June 2015, the FIU had signed MOUs or information sharing agreements with 14 countries.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

Turkmenistan is a signatory to the 1988 UN Drug Convention and its Inter-Agency Coordination Working Committee for combating money laundering operates under the Ministry of Finance. Turkmenistan continues to equip FIU officials with computer software designed to perform link analysis. There were no reports of prosecutions or convictions for money laundering.

Turkmenistan's legal system provides protection and exemption from liability for reports related to suspicious activity and sets limitations on disclosure of information financial institutions obtain in the process of performance of their AML obligations.

Turkmenistan increased its activity in international financial affairs and strengthened its cooperation with leading financial and economic institutions such as the International Monetary Fund, World Bank, World Bank for Reconstruction and Development, the European Bank for Reconstruction and Development, the Asian Development Bank, and the Islamic Development Bank.

The government should continue to work to put in place an AML regime that comports with international standards. Turkmenistan should enact a safe harbor provision to protect filers of STRs from being subject to civil or criminal liability. Turkmenistan's law enforcement, customs, and border authorities need assistance to recognize and combat money laundering and terrorism financing.

## **Ukraine**

### **OVERVIEW**

Every year, money laundering schemes in Ukraine become more elaborate and complex. Launderers distance themselves from illegal profits by registering under aliases and integrating laundered money into legal businesses. Money laundering trends remain unchanged, but the use of financial technologies significantly affects the circulation of money and the diversity of payment methods between parties. The most relevant and threatening laundering schemes are connected to corruption and embezzlement/misappropriation of state assets. There is an ongoing investigation of money laundering, corruption, embezzlement, and misappropriation of state funds and property by the former president and government. Ukraine should use the results from its national risk assessment to decrease its vulnerability.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Illicit proceeds in Ukraine are primarily generated through corruption; fraud; trafficking in drugs, arms, and persons; organized crime; prostitution; cybercrime; and tax evasion. Money launderers use various means to launder money, including real estate, insurance, bulk cash smuggling, financial institutions, and shell companies. The State Financial Monitoring Service of Ukraine (SFMS), Ukraine's FIU, is the central authorized agency for AML monitoring. The British Virgin Islands, Panama, Cyprus, and other offshore tax havens are often used to obscure ownership, evade taxes, or mask illicit profits. Ukraine's large shadow economy represents a significant money laundering vulnerability. Schemes using financial instruments such as liquid and illiquid securities, lending and deposit transactions, debentures, and fictitious contracts are widely used.

Corruption exacerbates the money laundering problem in Ukraine. Furthermore, transnational organized crime syndicates utilize Ukraine as a transit country to launder illicit profits. The Prosecutor General's Office (PGO) has not yet taken action on any cases regarding Ukraine's former presidential administration. From January - August 2016, SFMS submitted 65 case referrals totaling UAH 115.24 million (approximately \$4.5 million).

### **KEY AML LAWS AND REGULATIONS**

The AML/CFT Law #889-VIII came into force on February 6, 2015, with the latest updates on December 10, 2015. The law addresses the obligations of reporting entities, regulation and supervision, law enforcement agencies (LEA), risk-oriented approaches, PEPs, and the determination of beneficial owners.

On November 26, 2015, the Law of Ukraine "On the National Agency of Ukraine for detection, investigation and management of assets derived from corruption and other crimes" (ARO-AMO) came into force. ARO-AMO includes asset search and identification provisions. Currently, the process of selection of the new agency's chairman is ongoing.

Ukraine conducted a national risk assessment; the resulting report was approved on October 7 by the AM/CFT Council (formed by the government on September 8). The report focuses on detecting national money laundering threats and provides a basis for recommendations. In order to reduce the identified risks, the government initiated two draft laws to improve AML legislation. As of September 2016, one draft is under Parliament's consideration; the other is being prepared.

Information on financial investigations is exchanged using a secure information exchange channel through SFMS. Ukraine and the United States have a MLAT, coordinated through the PGO (on legal proceedings) or Ministry of Justice (on confiscation matters).

Ukraine is a member of MONEYVAL, a FATF-style regional body. Its most recent mutual evaluation can be found at:

[http://www.coe.int/t/dghl/monitoring/moneyval/Countries/Ukraine\\_en.asp](http://www.coe.int/t/dghl/monitoring/moneyval/Countries/Ukraine_en.asp)

### **AML DEFICIENCIES**

Ukraine must address the rise of cybercrime and related transnational organized crime activities by better examining the significant amounts of money flowing into its banking system. Ukraine needs to increase prosecution of large-scale financial crimes, corruption, and money laundering. It also should improve the implementation of its provisions for asset freezing, confiscation, and forfeiture. Ukraine should regulate its gaming industry and examine how gaming is used to launder money. The government should investigate how informal MVTs are used not only for remittances, but for the transfer of illicit proceeds. Ukraine should enact its draft bill on international LEA cooperation in order to fully implement its treaty obligations.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

In the AML sphere, a pre-trial investigation is conducted by the identifying authority. From January - August 2016, there were 109 AML offenses registered by the PGO. Nine cases were submitted to court. The established amount of funds and property was UAH 5.02 million (approximately \$200,000). Courts of first instance received 38 AML cases from LEA to date. There were 11 convictions and six people were sentenced. In two cases, the courts seized UAH 33.9 million (approximately \$1.3 million) in property and funds.

The SFMS received 2,752,400 STRs totaling UAH 4.508 billion (approximately \$175 million) and 378,500 CTRs totaling UAH 113.5 billion (approximately \$4.42 billion) during the first half of 2016.

From January - August 2016, UAH 429.08 million (approximately \$16.7 million) in laundering activities were blocked. The SFMS on a regular basis monitors so-called officials of the “DNR” and “LNR” (occupied Donetsk and Lugansk regions of Ukraine). From January - August 2016, SFMS submitted 419 money laundering-related case referrals totaling UAH 33.76 billion (approximately \$1.3 billion) to the Ukrainian law enforcement agencies.

## **United Arab Emirates**

### **OVERVIEW**

The United Arab Emirates (UAE) is a stable regional hub for transportation, trade, and financial activity that has aggressively expanded its financial services business and FTZs, which now number 37. Despite increased efforts to address money laundering threats, illicit actors continue to take advantage of the relatively open business environment, multitude of global banks, exchange houses, and global transportation links to engage in illicit financial activity.

The UAE government has enhanced its AML program and demonstrated its willingness and capability to take action against illicit financial actors, even beyond immediate national security threats. However, the UAE needs to continue to increase the capacity and resources it devotes to investigating money laundering in order to comprehensively address persistent money laundering threats.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

The presence of large numbers of exchange houses, hawalas, and general trading companies in the UAE creates an environment susceptible to bulk cash smuggling, TBML, and the raising and transferring of funds for illicit activity. There are occurrences of TBML, including through commodities used as counter-valuation in hawala transactions or through trading companies illegally operating as exchange houses. Such activity might support sanctions-evasion networks and foreign terrorist groups.

A portion of the money laundering activity in the UAE is likely related to proceeds from illegal narcotics produced in Southwest Asia. Other money laundering vulnerabilities in the UAE include the real estate sector, the misuse of the international gold and diamond trade, and the use of cash couriers to transfer illicit funds. Domestic public corruption contributes little, if anything, to money laundering.

The UAE has an extensive offshore financial center, with 37 FTZs and two financial free zones. There are over 5,000 multinational companies located in the FTZs and thousands more individual trading companies. Companies located in the FTZs are considered offshore or foreign entities for legal purposes. UAE law prohibits the establishment of shell companies and trusts, however, the operation of financial entities in FTZs not identified, regulated, or supervised for financial activity presents a gap in regulatory oversight. Therefore, there is significant opportunity for illicit actors to engage in regulatory arbitrage and avoid the controls and supervision put in place by the Central Bank of the UAE (CBUAE) and FTZ regulators of the two financial free zones.

The UAE is progressing in its ability to investigate suspected money laundering activity and should further increase its capacity and resources devoted to investigating money laundering activities both federally by the Anti-Money Laundering and Suspicious Cases Unit (AMLSCU), the FIU, and by law enforcement at the federal level in each emirate. The UAE also worked on enhancing the independence of the AMLSCU, publishing annual reports, and providing comprehensive statistics on the activities carried out by the unit. Over 98 percent of STRs are now received online.

### **KEY AML LAWS AND REGULATIONS**

The AML law permits the CBUAE to freeze the assets of any suspicious institution or individual, and has comprehensive KYC and STR regulations. The UAE has a records exchange mechanism in place with other governments, but does not have a MLAT with the United States. A lack of information sharing among respective UAE entities engaged in AML prevents optimum implementation of AML laws and regulations.

The UAE is a member of the MENAFATF, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://www.menafatf.org/images/UploadFiles/UAEoptimized.pdf>

### **AML DEFICIENCIES**



There are no sanctions or penalties against the UAE for major AML deficiencies. Additionally, the UAE has enhanced due diligence procedures for both foreign and domestic PEPs. The UAE continues to pursue additional measures to regulate its exchange houses, but still faces challenges given the size and diversity of the sector. The UAE should release annual numbers of AML prosecutions and convictions to better gauge the effectiveness of its regime.

### **ENFORCEMENT/IMPLEMENTATION AND COMMENTS**

The government continues to enhance its regulatory measures. The UAE cooperated with the U.S. government in support of the October 2016 designations of individuals and entities associated with previously-U.S.-designated UAE-based Al Zarooni Money Exchange. The UAE has expanded the scope of money laundering predicate offenses, verified client identities, designated the FIU as the sole national center for STRs, and enhanced the level of cooperation with equivalent regulatory authorities.

Several areas of AML implementation and enforcement require ongoing action by the UAE. The government should proactively develop money laundering cases and establish appropriate policies and procedures regarding all aspects of asset forfeiture. Additionally, the UAE should strengthen enforcement mechanisms for cash declaration regulations. It should conduct more thorough inquiries into large amounts of declared and undeclared cash being imported into the country as well as enforce outbound declarations of cash and gold utilizing existing smuggling and AML laws. TBML facilitated by exchange houses or general trading companies should be given greater scrutiny, including customs fraud, the trade in gold and precious gems, commodities used as counter-valuation in hawala transactions, and the abuse of trade to launder narcotics proceeds.

## **United Kingdom**

### **OVERVIEW**

The UK plays a leading role in European and world finance. Money laundering presents a significant risk to the UK because of the size, sophistication, and reputation of its financial markets. UK law enforcement invested resources over a number of years in tackling cash-based money laundering and the drug trade, which largely generates proceeds in the form of cash. The UK should follow through on plans to fill intelligence gaps, strengthen the law enforcement response, remove inconsistencies in the supervisory regime, and increase its international reach to tackle money laundering. The UK should consider changing its rules to ensure domestic PEPs are identified and, in high-risk cases, subject to enhanced due diligence requirements in accordance with international standards.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Most money laundering is cash-based, particularly cash collections networks, international controllers, and MSBs. Informal alternative remittance systems, such as hawala, are also common. Professional enablers in the legal and accountancy sector are used to move and

launder criminal proceeds. There are significant intelligence gaps, in particular in relation to ‘high-end’ money laundering, where the proceeds are held in bank accounts, real estate, or other investments rather than cash. This type of laundering is particularly relevant to major frauds and serious foreign corruption, where the proceeds are often held in bank accounts, real estate, or other investments rather than in cash.

### **KEY AML LAWS AND REGULATIONS**

Money laundering is criminalized, and the UK uses an “all serious crimes” approach to predicate crimes. The UK has a comprehensive AML regime and is an active participant in multilateral efforts to counter transnational financial crimes. The UK will transpose the EU’s Fourth Anti-Money Laundering Directive into UK law by June 2017.

The UK supervises both financial institutions and DNFBPs for AML compliance. There are 27 AML supervisors in the UK, ranging from public sector statutory organizations to professional bodies. The UK has a voluntary reporting process for supervisors. The Annual Report on AML/CFT supervision is intended to improve the transparency and accountability of supervision and enforcement in the UK and encourage good practice. HM Treasury is conducting a review into the effectiveness of the supervisory regime to address inconsistencies in the regime and to focus on ensuring a risk-based approach is fully embedded.

The Financial Conduct Authority (FCA) is in charge of consumer protection and the integrity of the UK’s financial system. The FCA follows a risk-based approach to AML supervision, working closely with regulatory and industry stakeholders to identify and mitigate current and emerging financial crime risks.

KYC and STR requirements cover banks, credit unions, building societies, money service businesses, e-money issuers, and credit institutions; insurance companies; securities and investment service providers and firms; independent legal professionals, auditors, accountants, tax advisors, and insolvency practitioners; estate agents; casinos; high-value goods dealers; and trust or company service providers.

The UK is a member of the FATF. Its most recent mutual evaluation can be found at:

<http://www.fatf-gafi.org/countries/u-z/unitedkingdom/documents/mutualevaluationofunitedkingdomofgreatbritainandnorthernireland.html>.

### **AML DEFICIENCIES**

The UK automatically applies enhanced due diligence procedures to foreign, but not domestic, PEPs, though in practice firms normally apply enhanced measures to high-risk domestic PEPs in accordance with the risk-based approach. The 2015 AML/CFT national risk assessment confirmed the UK’s law enforcement agencies’ primary expertise is cash-based money laundering. The 2016 AML/CFT Action Plan sets out how the government will increase collaboration among law enforcement agencies, supervisors, and the private sector; fill intelligence gaps and strengthen the law enforcement response; remove inconsistencies in the supervisory regime; and increase the international reach to tackle money laundering.

**ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

In 2015, there were 2,307 money laundering-related prosecutions and 1,336 convictions.

In June 2014, the Crown Prosecution Service Proceeds of Crime team was established to streamline confiscation work, although asset recovery powers are available to a range of UK agencies. UK legislation provides for non-conviction-based confiscation as another means of recovering criminal assets, alongside conviction-based confiscation. Non-conviction-based asset recovery is most commonly used when it is not possible to obtain a conviction, for example if a defendant has died or fled.

In June 2016, the UK established a freely accessible public register of company beneficial ownership information. Companies that do not provide information are subject to penalties. The register also may be used by covered entities to supplement, but not replace, CDD checks.

The former Prime Minister announced in May 2016 the UK will establish a public register of company beneficial ownership for foreign companies that already own or buy property in the UK or bid on UK central government contracts. The UK is also establishing a central register of beneficial ownership information for trusts that generate tax consequences.

In 2016, the UK permanently instituted a Joint Money Laundering Intelligence Task Force, which brings together banks and key UK law enforcement agencies to collaborate on the detection and disruption of money launderers.

## **Uruguay**

### **OVERVIEW**

Uruguay has a highly dollarized economy, with the U.S. dollar often used as a business currency; as of 2015, about 80 percent of deposits and 55 percent of credits are denominated in U.S. dollars. Laundered criminal proceeds are derived primarily from foreign activities related to drug trafficking organizations. Drug dealers also participate in other illicit activities like car theft and human trafficking; violent crime is increasing significantly. Officials from the police and judiciary assess that Colombian, Mexican, Paraguayan, and Russian criminal organizations operate in Uruguay. There is continued concern about transnational organized crime originating in Brazil.

Over the past decade Uruguay has made sustained and substantial progress combatting money laundering by passing and enforcing new legislation and strengthening the relevant supervisory institutions. As part of its broad policy to endorse international cooperation and improve fiscal transparency, the Government of Uruguay is becoming increasingly involved with regional institutions.

Uruguay still needs to continue working with non-financial entities, improve its AML statistical system, provide for criminal liability for legal persons, and improve the management of seized asset funds.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Given the longstanding free mobility of capital and the high degree of dollarization of the economy, money is likely laundered via the formal financial sector (onshore and offshore). Offshore trusts are not allowed. As of the end of 2015, there were 20 representatives of offshore financial entities. There are two offshore banks in operation; a third bank is in the process of liquidation. Uruguay's offshore financial services cater primarily to Latin American clients, especially Argentinians. In recent years there have been several high-profile money laundering cases, including one related to FIFA and several linked to alleged laundering of funds from Argentina, Mexico, Peru and Spain. Publicized money laundering cases relate to narcotics and/or involve real estate. Local corruption does not seem to be a factor behind money laundering.

There are 12 FTZs located throughout the country. Three FTZs accommodate a variety of tenants offering a wide range of services, including financial services; two were created exclusively for the development of the pulp industry; one is dedicated to science and technology; and the rest are devoted mainly to warehousing. Some of the warehouse-style FTZs and Montevideo's free port and airports are used as transit points for containers of counterfeit goods (generally manufactured in China) or raw materials bound for Brazil and Paraguay.

Bulk cash smuggling and TBML are likely to occur considering Uruguay's porous borders with Argentina and Brazil.

### **KEY AML LAWS AND REGULATIONS**

At the end of 2016 the government submitted two draft bills to the parliament: an integrated strategy against money laundering and a comprehensive counter-terrorism bill. The integrated AML strategy bill, which has strong opposition from the local lawyers' association, consolidates all AML-related legislation into a single code and addresses several noted deficiencies. The bill requires new entities, particularly casinos, real estate agencies, and notaries, to report suspicious transactions; defines new money laundering predicate crimes, including tax evasion, in a major change to local legislation; improves the procedures to seize and administer seized assets; develops new investigative procedures; and introduces more flexibility in the exchange of information with financial units abroad, among others.

The fiscal transparency bill currently before Parliament aims to upgrade Uruguay's legislation to meet international standards by implementing an automatic exchange of tax information with countries with which Uruguay has existing tax agreements (another major shift in local policies, which in turn entails a significant relaxation of Uruguay's longstanding bank secrecy policy); identifying the beneficial owners of corporations; and discouraging the use of tax havens by companies that operate locally, among others.

Other recent significant AML developments include tasking and staffing the Anti-Money Laundering Secretariat (AMLS) to supervise DNFBPs, work by the AMLS and the Central Bank's Financial Unit towards developing a risk matrix, and the creation of a strategic analysis division within the Financial Unit.

Uruguay is a member of the [GAFILAT](#), a FATF-style regional body. Its most recent mutual evaluation can be found at:

[http://www.gafilat.org/UserFiles/documentos/es/evaluaciones\\_mutuas/Uruguay\\_3era\\_Ronda\\_2009.pdf](http://www.gafilat.org/UserFiles/documentos/es/evaluaciones_mutuas/Uruguay_3era_Ronda_2009.pdf)

### **AML DEFICIENCIES**

Uruguay has comprehensive CDD and STR regulations in place, as well as enhanced due diligence procedures for PEPs. The vast majority of the STRs are filed by financial institutions, especially banks, and only a handful are submitted by non-financial covered entities.

Uruguay should continue working with DNFBPs, amend its legislation to provide for criminal liability for legal persons, continue improving its statistics related to money laundering, and improve the management of seized assets and funds.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

As of November 2016, Uruguay's Information and Financial Analysis Unit (UIAF) has frozen funds and assets on five occasions, for about \$3.5 million, and imposed fines on one securities intermediary. In the past, the UIAF closed some entities for lack of compliance. In 2015, 52 individuals were prosecuted for money laundering and seven were convicted.

## **Uzbekistan**

### **OVERVIEW**

Uzbekistan has made consistent efforts to meet international standards through legislative amendments. However, corruption and law enforcement susceptibility to political influence limit the effectiveness of this legislative base. Connected individuals can circumvent established AML rules through the creation of private financial institutions, shell/mailbox companies, and bribery. Given the lack of governmental transparency and reticence to engage with foreign partners, the effectiveness of law enforcement in countering money laundering is difficult to verify. Moreover, Uzbekistan prosecutes very few cases on finance-related charges on a yearly basis. Uzbekistan should take specific steps to combat corruption that facilitates money laundering and other financial crimes and allow unfettered cooperation with foreign partners to boost enforcement efficacy.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Uzbekistan is a transit country for Afghan opiates. Narcotics and other smuggled goods enter Uzbekistan mainly over the borders with Afghanistan and Tajikistan, likely with the complicity of corrupt officials. Corruption, narcotics trafficking, and smuggling generate the majority of illicit proceeds. Well-connected individuals capitalize on corruption to establish private banks and circumvent official regulations, thus laundering money in-country or moving it abroad. Past investigations into large-scale bribery schemes involving Uzbek officials identified the creation of offshore shell companies to conceal financial interests and proceeds as a favored laundering method.

Due to high customs-clearance costs, Uzbekistan is home to a large black market for smuggled goods, many of them originating in China. This black market does not appear to be significantly funded by narcotics proceeds but could be used to launder drug-related money.

### **KEY AML LAWS AND REGULATIONS**

The “Law on Combating Legalization of Proceeds Obtained through Crime and Financing of Terrorism” is Uzbekistan’s core AML legislation that establishes comprehensive KYC and STR regulations, including for legal persons. This law specifies that the Financial Investigative Unit (FIU) under the Office of the Prosecutor General is the key governmental body responsible for AML enforcement. A 2016 amendment to this legislation allows for the freezing of assets and suspension of transactions if transaction parties are named on a list of individuals/legal entities involved or suspected of involvement in or proliferation of weapons of mass destruction. It also names the FIU as the body responsible for maintaining this list. However, Uzbekistan has not publicly released a clear procedure for freezing/suspension of transactions, as the law specifies that such action must be coordinated with the Cabinet of Ministers. Furthermore, Uzbekistan does not have established procedures for de-listing individuals or legal persons from the list.

Uzbekistan’s FIU has signed a MOU with the Drug Enforcement Administration (DEA), which provides for information sharing with the Financial Crimes Enforcement Network and the Office of Foreign Asset Control of the Department of the Treasury.

Uzbekistan is a member of the EAG, a FATF-style regional body. Its most recent mutual evaluation report can be found at: <http://www.eurasiangroup.org/mers.php>

### **AML DEFICIENCIES**

Legal persons are not criminally or civilly liable for money laundering activity.

Uzbekistan’s AML legislation does not mandate enhanced due diligence for foreign or domestic PEPs. Uzbekistan has introduced a draft law, “On combating corruption,” which would mandate PEP due diligence. This law has been approved by the Parliament and is expected to come into force in 2017, pending presidential approval.

Furthermore, current KYC rules do not clearly state a requirement for insurance companies, insurance brokers, securities market players, stock exchange members, financial leasing companies, and postal service operators to terminate a business relationship with a customer in

case of a negative due diligence result. The AML legislation also does not include measures to prevent criminals from assuming a controlling financial interest in such financial entities.

The FIU generally only conducts financial investigations after a predicate offense has been committed, limiting the agency's effectiveness as an analytical tool. Furthermore, the FIU does not have clear legal authority to request information from banks in cases when a suspicious transaction has not been reported, and may face political pressure to cease investigative activity in case such transactions are linked to politically powerful interests.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

Uzbekistan has worked to implement recommendations noted by international experts and has made general progress in closing legislative gaps. Uzbekistan is also a signatory of the 1988 UN Drug Convention.

Uzbekistan has, however, eschewed substantive cooperation with foreign governments in enforcement and information exchange. Uzbekistan's FIU and counternarcotics agencies, for instance, failed to substantively engage with the DEA, despite the established MOU between the agencies.

In 2015, there were eight money laundering-related prosecutions, of which six resulted in convictions.

## **Venezuela**

### **OVERVIEW**

Conditions in Venezuela allow ample opportunities for financial abuses. Venezuela's proximity to drug source points and its status as a drug transit country, combined with weak AML supervision and enforcement, lack of political will, limited bilateral cooperation, an unstable economy, and endemic corruption make Venezuela vulnerable to money laundering and financial crimes. Venezuela's distorted and controlled multi-tiered foreign exchange system and strict price controls provide numerous opportunities for currency manipulation and goods arbitrage. They also cause many legitimate merchants to engage illicit actors to obtain access to U.S. dollars, facilitating money laundering. A robust black market continues to function in the porous border regions of Venezuela and Colombia despite border closings, reportedly to quell such activities. A significant amount of laundered funds come from drug trafficking, but informal traders offering products ranging from shampoo to gasoline also profit from currency manipulation. A series of recent U.S. legal actions against Venezuelan citizens, including government officials and their relatives, have exposed questionable financial activities related to money laundering.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Money laundering is widespread in Venezuela, and is evident in a number of areas, including government currency exchanges, commercial banks, gaming, real estate, agriculture, livestock, securities, metals, the petroleum industry, and minerals. TBML remains common and profitable. One such trade-based scheme, a variation of the black market peso exchange, involves drug traffickers providing narcotics-generated dollars from the United States to commercial smugglers, travel agents, investors, and others in Colombia in exchange for Colombian pesos. In turn, those Colombian pesos are exchanged for Venezuelan bolivars at the parallel exchange rate and used to repurchase dollars through Venezuela's currency control regime at much stronger official exchange rates. In Brazil, several seizures of large amounts of bolivars may be linked to drug trafficking, currency exchange scams, and U.S. dollar and euro counterfeiting schemes.

### **KEY AML LAWS AND REGULATIONS**

Revisions made in 2014 to the 2012 Organic Law Against Organized Crime and Financing of Terrorism were a step in the right direction but the law lacks important mechanisms to combat domestic criminal organizations, such as the exclusion of the state and its companies from the scope of investigations. Roughly 900 types of offenses can be prosecuted as "organized crime" under the law. One legal expert noted that such a broad mandate gives the government too much power, which has been used as a tool to suppress political opposition and intimidate its broadly-defined "enemies."

In November 2014, the Venezuelan government revised the Anti-Corruption Law and created a law enforcement organization, the National Anti-Corruption Body, to combat corruption. The reform also created a criminal penalty for bribes between two private companies. However, the law differentiates between private and public companies and includes exemptions for public companies and government employees.

Venezuela is a member of the CFATF, a FATF-style regional body. Its most recent evaluation can be found at: <https://www.cfatf-gafic.org/index.php/member-countries/s-v/venezuela>

### **AML DEFICIENCIES**

Venezuelan government entities responsible for combating money laundering and corruption are ineffective and lack political will. The National Office against Organized Crime and Terrorist Finance has limited operational capabilities. Venezuela's FIU, the National Financial Intelligence Unit (UNIF), is supervised by the Superintendent of Banking Sector Institutions, which prevents UNIF from operating independently. A politicized judicial system further compromises the legal system's effectiveness and impartiality. Although the Venezuelan government has organizations to combat financial crimes, their technical capacity and willingness to address this type of crime remains inadequate. FinCEN, the United States' FIU, suspended information sharing with the UNIF in 2006 due to an unauthorized disclosure of shared information. The suspension remains in effect until FinCEN has assurances that its information will be protected. The UNIF should operate autonomously, independent of undue influence. Venezuela should increase AML institutional infrastructure and technical capacity.

There are enhanced due diligence procedures for foreign and domestic PEPs.



## **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

Since 2003 the Venezuelan government has maintained a strict regime of currency controls. Private sector firms and individuals must request authorization from a government-operated currency commission to purchase hard currency to pay for imports and for other approved uses (e.g., foreign travel). Virtually all dollars laundered through Venezuela's formal financial system pass through the government's currency commission, the central bank, or another government agency.

Venezuela's official, "protected" exchange rate of 10 bolivars per U.S. dollar as of October 2016 is used for vital imports. A second, complementary floating official exchange rate, introduced in March 2016, is ostensibly a floating exchange rate but has stayed relatively constant, while the volatile parallel exchange rate has increased to over 1,600 bolivars per U.S. dollar as of November 2, 2016. The huge margin achievable by defrauding the currency commission has resulted in sophisticated trade-based schemes, which may include the laundering of drug money. Trade-based schemes make it extremely difficult for financial institutions and law enforcement to differentiate between licit and illicit proceeds. Numerous allegations suggest that some government officials are complicit and even directly involved in such schemes. Venezuela's CTR regulations have not kept pace with Venezuela's high inflation, with the 10,000 bolivar threshold in effect since 2010. A 10,000 bolivar (\$1,000 at the official exchange rate) withdrawal is now an ordinary transaction.

## **Vietnam**

### **OVERVIEW**

Vietnam is not a major regional financial center. Large parts of Vietnam's economy are cash-based. Aided by a stable currency (the Vietnamese *dong*) and low inflation, the government is reducing the use of both gold and U.S. dollars and is seeing success in de-dollarizing the economy. While Vietnam is technically compliant with international standards, it has not demonstrated effectiveness in AML across many sectors, including law enforcement, the judiciary, and banking supervision. Continuing economic growth and diversification, increased international trade, and a relatively young, tech-savvy population all suggest that Vietnam's potential exposure to illicit finance will increase in the coming years.

To date, Vietnam has not prosecuted any money laundering cases. In order to improve, Vietnam needs to build up AML capabilities within the Ministry of Public Security (MPS), the Supreme People's Procuracy (SPP), and the State Bank of Vietnam (SBV). Increasing enforcement of existing AML laws will take political will and a coordinated effort across government.

### **VULNERABILITIES AND EXPECTED TYPOLOGIES**

Sources of illicit funds in Vietnam include public corruption, fraud, gambling, prostitution, counterfeiting of goods, and trafficking in persons, wildlife, and drugs. Remittances from

Vietnamese organized crime groups in Europe, Australia, Canada, and the United States continue to be a significant source of illicit funds entering Vietnam, particularly proceeds from narcotics and wildlife traffickers using Vietnam as a transit country.

Vietnam remains a cash-based economy; high-value items, including real estate and luxury vehicles, are routinely purchased with cash with few questions asked. Almost all trade and investment receipts and expenditures are processed by the banking system, but many transactions are not monitored effectively. As a result, the banking system is still at risk for money laundering through false declarations, including fictitious investment transactions. Customs fraud and the over- and under-invoicing of exports and imports are common and could be indicators of TBML. Illicit funds are also used to purchase real estate for subsequent resale.

### **KEY AML LAWS AND REGULATIONS**

No new AML-related legislation was adopted in 2016. Vietnam has in place KYC and STR requirements that cover banks, other financial institutions, and DNFBPs. The Penal Code includes provisions for strengthening Vietnam's AML laws. Vietnam also appears to have a system for restraint and forfeiture of criminal-linked assets; however, it does not comply with international standards.

Vietnam does not have a records-exchange mechanism in place with the United States, but the government does provide records and responses to the United States and other governments upon request.

Vietnam is a member of the APG, a FATF-style regional body. Its most recent mutual evaluation can be found at: <http://apgml.org/mutual-evaluations/documents/default.aspx?s=date&c=8b7763bf-7f8b-45c2-b5c7-d783638f3354&pcPage=2>

### **AML DEFICIENCIES**

While Vietnam is technically compliant with current international standards, banking supervision for AML is inadequate and CDD and KYC policies within domestic banks are lacking.

Cross-border controls remain weak and demonstrate little serious effort to tackle the instances of bulk cash smuggling and wildlife trafficking. The lack of rigorous and impartial financial oversight of key state-owned enterprises (e.g., in the petroleum sector), and the resulting opportunities for embezzlement, represent an addition AML vulnerability.

Vietnam is not a member of the Egmont Group of FIUs. Vietnam has applied for membership but has not yet been approved.

### **ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS**

Vietnam has a National AML/CFT Coordinating Committee chaired by a deputy prime minister and the Governor of the State Bank of Vietnam. While Vietnam's laws are adequate, AML

enforcement is virtually nonexistent. No money laundering cases have been prosecuted to date. In addition, when predicate crimes are being investigated, a parallel AML investigation is not routinely conducted. There is no domestic cooperation between agencies such as the Anti-Money Laundering Department (AMLDD) of the SBV, Vietnam's FIU; Customs; MPS; and the General Department of Taxation. International cooperation on AML and asset forfeiture is also extremely poor, and there appears to be little appetite among key agencies (MPS, SPP and SBV) to change operating practices.

Vietnam will soon conduct an AML/CFT national risk assessment (NRA) to identify high-risk areas vulnerable to money laundering. The responsibility for this process has been allocated to MPS and the SBV, with international donor oversight. However, making sure the NRA accurately reflects the country's risks and vulnerabilities will take a coordinated effort and political will. Vietnam's adoption of any recommendations for reform will depend upon interagency and high-level support and action.

Although the number of STRs being submitted to the AMLDD increases each year, most originate from foreign financial institutions operating in Vietnam. When a domestic bank does report a suspicious transaction, the quality of the information received is generally poor.

# Appendices

## Common Abbreviations

AML	Anti-Money Laundering
APG	Asia/Pacific Group on Money Laundering
ARS	Alternative Remittance System
BCS	Bulk Cash Smuggling
CBP	Customs and Border Protection
CDD	Customer Due Diligence
CFATF	Caribbean Financial Action Task Force
CFT	Combating the Financing of Terrorism
CTR	Currency Transaction Report
DEA	Drug Enforcement Administration
DHS	Department of Homeland Security
DHS/HSI	Department of Homeland Security/Homeland Security Investigations
DNFBP	Designated Non-Financial Businesses and Professions
DOJ	Department of Justice
DOS	Department of State
EAG	Eurasian Group to Combat Money Laundering and Terrorist Financing
EC	European Commission
ECOWAS	Economic Community of West African States
EO	Executive Order
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
EU	European Union
FATF	Financial Action Task Force
FBI	Federal Bureau of Investigation
FinCEN	Financial Crimes Enforcement Network
FIU	Financial Intelligence Unit
FTZ	Free Trade Zone
FSRB	FATF-Style Regional Body
GABAC	Action Group against Money Laundering in Central Africa
GAFILAT	Financial Action Task Force of Latin America
GIABA	Inter Governmental Action Group against Money Laundering

IBC	International Business Company
ICRG	International Cooperation Review Group
IMF	International Monetary Fund
INCSR	International Narcotics Control Strategy Report
INL	Bureau for International Narcotics and Law Enforcement Affairs
IRS	Internal Revenue Service
IRS-CID	Internal Revenue Service Criminal Investigative Division
ISIL	Islamic State of Iraq and the Levant
KYC	Know-Your-Customer
MENAFATF	Middle East and North Africa Financial Action Task Force
MER	Mutual Evaluation Report
MLAT	Mutual Legal Assistance Treaty
MONEYVAL	Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism
MOU	Memorandum of Understanding
MSB	Money Service Business
MVTS	Money or Value Transfer Service
NGO	Non-Governmental Organization
NPO	Non-Profit Organization
OAS	Organization of American States
OAS/CICAD	OAS Inter-American Drug Abuse Control Commission
OFAC	Office of Foreign Assets Control
OFC	Offshore Financial Center
OPDAT	Office of Overseas Prosecutorial Development, Assistance and Training
OTA	Office of Technical Assistance
PEP	Politically Exposed Person
SAR	Suspicious Activity Report
STR	Suspicious Transaction Report
TBML	Trade-Based Money Laundering
TTU	Trade Transparency Unit
UNCAC	United Nations Convention against Corruption

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UN Drug Convention	1988 United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances
UNGPML	United Nations Global Programme against Money Laundering
UNODC	United Nations Office for Drug Control and Crime Prevention
UNSCR	United Nations Security Council Resolution
UNTOC	United Nations Convention against Transnational Organized Crime
USAID	United States Agency for International Development

## Definitions

**419 Fraud Scheme:** An advanced fee fraud scheme, known as “419 fraud” in reference to the fraud section in Nigeria’s criminal code. This specific type of scam is generally referred to as the Nigerian scam because of its prevalence in the region, particularly during the 1990s. Such schemes typically involve promising the victim a significant share of a large sum of money, in return for a small up-front payment, which the fraudster claims to require in order to cover the cost of documentation, transfers, etc. Frequently, the sum is said to be lottery proceeds or personal/family funds being moved out of a country by a victim of an oppressive government, although many types of scenarios have been used. This scheme is perpetrated globally through email, fax, or mail.

**Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT):** Collective term used to describe the overall legal, procedural, and enforcement regime countries must implement to fight the threats of money laundering and terrorism financing.

**Bearer Share:** A bearer share is an equity security that is solely owned by whoever holds the physical stock certificate. The company that issues the bearer shares does not register the owner of the stock nor does it track transfers of ownership. The company issues dividends to bearer shareholders when a physical coupon is presented.

**Black Market Peso Exchange (BMPE):** One of the most pernicious money laundering schemes in the Western Hemisphere. It is also one of the largest, processing billions of dollars’ worth of drug proceeds a year from Colombia alone via TBML, “smurfing,” cash smuggling, and other schemes. BMPE-like methodologies are also found outside the Western Hemisphere. There are variations on the schemes involved, but generally drug traffickers repatriate and exchange illicit profits obtained in the United States without moving funds across borders. In a simple BMPE scheme, a money launderer collaborates with a merchant operating in Colombia or Venezuela to provide him, at a discounted rate, U.S. dollars in the United States. These funds, usually drug proceeds, are used to purchase merchandise in the United States for export to the merchant. In return, the merchant who import the goods provides the money launderer with local-denominated funds (pesos) in Colombia or Venezuela. The broker takes a cut and passes along the remainder to the responsible drug cartel.

**Bulk Cash Smuggling:** Bulk cash refers to the large amounts of currency notes criminals accumulate as a result of various types of criminal activity. Smuggling, in the context of bulk cash, refers to criminals’ subsequent attempts to physically transport the money from one country to another.

**Cross-border currency reporting:** Per FATF recommendation, countries should establish a currency declaration system that applies to all incoming and outgoing physical transportation of cash and other negotiable monetary instruments.

**Counter-valuation:** Often employed in settling debts between hawaladars or traders. One of the parties over-or-undervalues a commodity or trade item such as gold, thereby transferring value to another party and/or offsetting debt owed.



**Currency Transaction Report (CTR):** Financial institutions in some jurisdictions are required to file a CTR whenever they process a currency transaction exceeding a certain amount. In the United States, for example, the reporting threshold is \$10,000. The amount varies per jurisdiction. These reports include important identifying information about account holders and the transactions. The reports are generally transmitted to the country's financial intelligence unit (FIU).

**Customer Due Diligence/Know Your Customer (CDD/KYC):** The first step financial institutions must take to detect, deter, and prevent money laundering and terrorism financing, namely, maintaining adequate knowledge and data about customers and their financial activities.

**Digital Currency:** Digital currency is an internet-based form of currency or medium of exchange, distinct from physical currencies or forms of value such as banknotes, coins, and gold. It is electronically created and stored. Some forms are encrypted. They allow for instantaneous transactions and borderless transfer of ownership. Digital currencies generally can be purchased, traded, and exchanged among user groups and can be used to buy physical goods and services, but can also be limited or restricted to certain online communities such as a given social network or internet game. Digital currencies are purchased directly or indirectly with genuine money at a given exchange rate and can generally be remotely redeemed for genuine monetary credit or cash. According to the U.S. Department of Treasury, digital currency operates like traditional currency, but does not have all the same attributes; i.e., it does not have legal tender status.

**Egmont Group of FIUs:** The international standard-setter for financial intelligence units (FIUs). The organization was created with the goal of serving as a center to overcome the obstacles preventing cross-border information sharing between FIUs.

**FATF-Style Regional Body (FSRB):** These bodies – which are modeled on FATF and are granted certain rights by that organization – serve as regional centers for matters related to AML/CFT. Their primary purpose is to promote a member jurisdiction's implementation of comprehensive AML/CFT regimes and implement the FATF recommendations.

**Financial Action Task Force (FATF):** FATF was created by the G7 leaders in 1989 in order to address increased alarm about money laundering's threat to the international financial system. This intergovernmental policy making body was given the mandate of examining money laundering techniques and trends and setting international standards for combating money laundering and terrorist financing.

**Financial Intelligence Unit (FIU):** In many countries, a central national agency responsible for receiving, requesting, analyzing, and/or disseminating disclosures of financial information to the competent authorities, primarily concerning suspected proceeds of crime and potential financing of terrorism. An FIU's mandate is backed up by national legislation or regulation. The Financial Crimes Enforcement Network (FinCEN) is the U.S. financial intelligence unit

**Free Trade Zone (FTZ):** A special commercial and/or industrial area where foreign and domestic merchandise may be brought in without being subject to the payment of usual customs duties, taxes, and/or fees. Merchandise, including raw materials, components, and finished goods, may be stored, sold, exhibited, repacked, assembled, sorted, or otherwise manipulated prior to re-export or entry into the area of the country covered by customs. Duties are imposed on the merchandise (or items manufactured from the merchandise) only when the goods pass from the zone into an area of the country subject to customs. FTZs may also be called special economic zones, free ports, duty-free zones, or bonded warehouses.

**Funnel Account:** An individual or business account in one geographic area that receives multiple cash deposits, often in amounts below the cash reporting threshold, and from which the funds are withdrawn in a different geographic area with little time elapsing between the deposits and withdrawals.

**Hawala:** A centuries-old broker system based on trust, found throughout South Asia, the Arab world, and parts of Africa, Europe, and the Americas. It allows customers and brokers (called “hawaladars”) to transfer money or value without physically moving it, often in areas of the world where banks and other formal institutions have little or no presence. It is used by many different cultures, but under different names; “hawala” is used often as a catchall term for such systems in discussions of terrorism financing and related issues.

**Hawaladar:** A broker in a hawala or hawala-type network.

**International Business Company (IBC):** Firms registered in an offshore jurisdiction by a non-resident that are precluded from doing business with residents in the jurisdiction. Offshore entities may facilitate hiding behind proxies and complicated business structures. IBCs are frequently used in the “layering” stage of money laundering.

**Integration:** The last stage of the money laundering process. The laundered money is introduced into the economy through methods that make it appear to be normal business activity, to include real estate purchases, investing in the stock market, and buying automobiles, gold, and other high-value items.

**Kimberly Process (KP):** The Kimberly Process was initiated by the UN to keep “conflict” or “blood” diamonds out of international commerce, thereby drying up the funds that sometimes fuel armed conflicts in Africa’s diamond producing regions.

**Layering:** This is the second stage of the money laundering process. The purpose of this stage is to make it more difficult for law enforcement to detect or follow the trail of illegal proceeds. Methods include converting cash into monetary instruments, wire transferring money between bank accounts, etc.

**Legal Person:** An individual, company, or other entity that has legal rights and is subject to obligations. In the FATF Recommendations, a legal person refers to a partnership, corporation, or other established entity that can conduct business or own property, as opposed to a human being.

**Mutual Evaluation (ME):** All FATF and FSRB members have committed to undergoing periodic multilateral monitoring and peer review to assess their compliance with FATF's recommendations. Mutual evaluations are one of the FATF's/FSRB's primary instruments for determining the effectiveness of a country's AML/CFT regime.

**Mutual Evaluation Report (MER):** At the end of the FATF/FSRB mutual evaluation process, the assessment team issues a report that describes the country's AML/CFT regime and rates its effectiveness and compliance with the FATF Recommendations.

**Mobile Payments or M-Payments:** An umbrella term that generally refers to the growing use of cell phones to credit, send, receive, and transfer money and digital value.

**Natural Person:** In jurisprudence, a natural person is a real human being, as opposed to a legal person, which may be a private or public organization. In many cases, fundamental human rights are implicitly granted only to natural persons.

**Offshore financial center:** Usually a low-tax jurisdiction that provides financial and investment services to non-resident companies and individuals. Generally, companies doing business in offshore centers are prohibited from having clients or customers who are resident in the jurisdiction. Such centers may have strong secrecy provisions or minimal identification requirements.

**Over-invoicing:** When money launderers and those involved with value transfer, trade-fraud, and illicit finance misrepresent goods or services on an invoice by indicating they cost more than they are actually worth. This allows one party in the transaction to transfer money to the other under the guise of legitimate trade.

**Politically Exposed Person (PEP):** A term describing someone who has been entrusted with a prominent public function, or an individual who is closely related to such a person.

**Placement:** This is the first stage of the money laundering process. Illicit money is disguised or misrepresented, then placed into circulation through financial institutions, casinos, shops, and other businesses, both local and abroad. A variety of methods can be used for this purpose, including currency smuggling, bank transactions, currency exchanges, securities purchases, structuring transactions, and blending illicit with licit funds.

**Shell Company:** An incorporated company with no significant operations, established for the sole purpose of holding or transferring funds, often for money laundering purposes. As the name implies, shell companies have only a name, address, and bank accounts; clever money launderers often attempt to make them look more like real businesses by maintaining fake financial records and other elements. Shell companies are often incorporated as IBCs.

**Smurfing/Structuring:** A money laundering technique that involves splitting a large bank deposit into smaller deposits to evade financial transparency reporting requirements.

**Suspicious Transaction Report/Suspicious Activity Report (STR/SAR):** If a financial institution suspects or has reasonable grounds to suspect that the funds involved in a given transaction derive from criminal or terrorist activity, it is obligated to file a report with its national FIU containing key information about the transaction. In the United States, SAR is the most common term for such a report, though STR is used in most other jurisdictions.

**Tipping Off:** The disclosure of the reporting of suspicious or unusual activity to an individual who is the subject of such a report, or to a third party. The FATF Recommendations call for such an action to be criminalized.

**Trade-Based Money Laundering (TBML):** The process of disguising the proceeds of crime and moving value via trade transactions in an attempt to legitimize their illicit origin.

**Trade Transparency Unit (TTU):** TTUs examine trade between countries by comparing, for example, the export records from Country A and the corresponding import records from Country B. Allowing for some recognized variables, the data should match. Any wide discrepancies could be indicative of trade fraud (including TBML), corruption, or the back door to underground remittance systems and informal value transfer systems, such as hawala.

**Under-invoicing:** When money launderers and those involved with value transfer, trade fraud, and illicit finance misrepresent goods or services on an invoice by indicating they cost less than they are actually worth. This allows the traders to settle debts between each other in the form of goods or services.

**UNSCR 1267:** UN Security Council Resolution 1267 and subsequent resolutions require all member states to take specific measures against individuals and entities associated with the Taliban and al-Qaida. The “1267 Committee” maintains a public list of these individuals and entities, and countries are encouraged to submit potential names to the committee for designation.

**UNSCR 1373:** UN Security Council Resolution 1373 requires states to freeze without delay the assets of individuals and entities associated with any global terrorist organization. This is significant because it goes beyond the scope of Resolution 1267 and requires member states to impose sanctions against all terrorist entities.

**Zakat:** One of the five pillars of Islam, translated as “alms giving.” It involves giving a percentage of one’s possessions to charity. Often compared to tithing, *zakat* is intended to help poor and deprived Muslims. The Muslim community is obligated to both collect *zakat* and distribute it fairly.