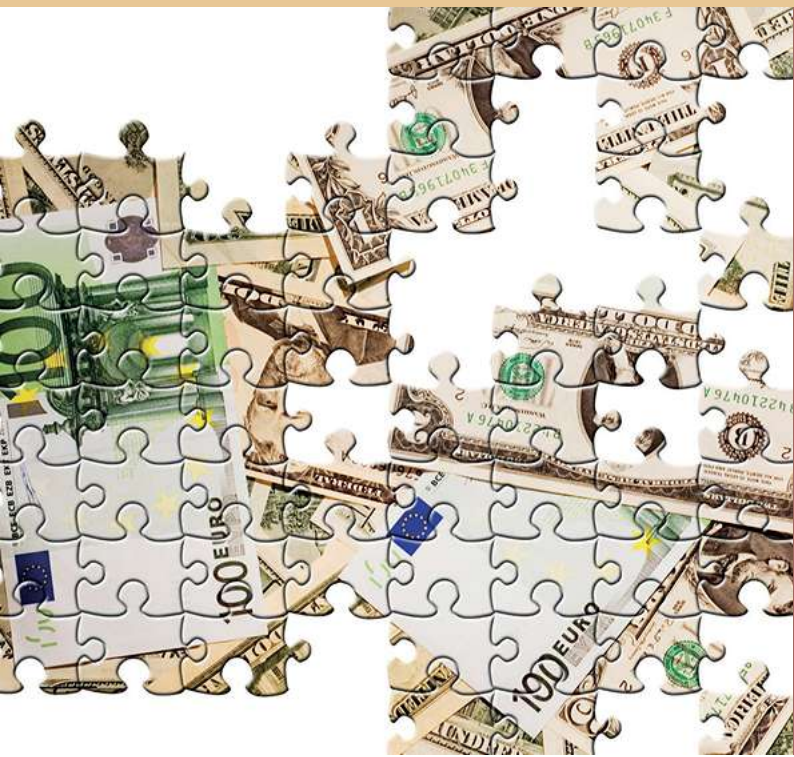


ANNUAL REPORT 2016



MONEYVAL
Committee of Experts
on the Evaluation of Anti-Money
Laundering Measures
and the Financing of Terrorism

COUNCIL OF EUROPE



CONSEIL DE L'EUROPE

ANNUAL REPORT 2016

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French edition:

Rapport annuel sur les activités de MONEYVAL 2016

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Abbreviations, acronyms and explanations

AML	Anti-money laundering
CDD	Customer Due Diligence
CDPC	European Committee on Crime Problems
CEPs	Compliance Enhancing Procedures
CETS 198	2005 Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism – the Warsaw Convention
CFT	Countering the financing of terrorism
COP	Conference of the Parties to the 2005 Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism – the Warsaw Convention (CETS 198)
Core Recommendations	FATF Core Recommendations R.1 Money laundering offence R.5 Customer due diligence R.10 Record keeping R.13 Suspicious transaction reporting SR II Criminalise terrorist financing SR IV Suspicious transaction reporting – terrorist financing
CTED	UN Counter-Terrorism Committee Executive Directorate
DNFBPs	Designated non-financial businesses and professions
EAG	Eurasian Group on Combating ML/TF
EDD	Enhanced Due Diligence
EPAS	Enlarged Partial Agreement on Sport
ERRG	Europe/Eurasia Regional Review Group
EU	European Union
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit
FSRB	FATF-Style Regional Body
FT	Financing of Terrorism
GDP	Gross Domestic Product
ICRG	International Co-operation Review Group of the FATF
ICPO-Interpol	International Criminal Police Organisation

IFIs	International financial institutions – IMF and World Bank
IMF	International Monetary Fund
Key Recommendations	FATF Key Recommendations R.3 Confiscation and provisional measures R.4 Secrecy laws consistent with the Recommendations R.23 Regulation, supervision and monitoring R.26 The FIU R.35 Conventions R.36 Mutual legal assistance R.40 Other forms of co-operation SR I Implement UN instruments SR III Freeze and confiscate terrorist assets SR V International co-operation
LEAs	Law enforcement authorities
MER	Mutual evaluation report
ML	Money laundering
MLA	Mutual legal assistance
NPO	Non-profit organisation
NRA	National risk assessment
OSCE	Organization for Security and Co-operation in Europe
PACE	Parliamentary Assembly of the Council of Europe
PEP	Politically exposed person
R	Recommendation
SAR	Suspicious activity report
SR	Special Recommendation
STR	Suspicious transaction report
TCSP	Trust and company service provider
TF (or FT)	Terrorist Financing
TFFFI	Terrorist Financing Fact-Finding Initiative
UN	United Nations
UNCTC	United Nations Counter-Terrorism Committee
UNODC	United Nations Office on Drugs and Crime
UNSCR	United Nations Security Council Resolutions
VTC	Voluntary Tax Compliance

Introduction from the chairman



I am honoured to present the 6th annual report since MONEYVAL was granted its own statute. The report covers the year 2016, during which we have witnessed again numerous horrible terrorist attacks in Council of Europe member states and elsewhere. Combatting the financing of terrorism is an indispensable element of fighting terrorism. 2016 has also seen the so-called “Panama Papers”, which have demonstrated the need for a global response to combat the abuse of companies and trusts, to ensure more transparency of beneficial ownership. Both phenomena underline the importance of the mandate of MONEYVAL.

Throughout the year, MONEYVAL has continued its 5th round of mutual evaluations which is based on the 2012 Recommendations of the Financial Action Task Force (FATF) and the 2013 Methodology. This new round is a novel territory for our 34 members, as it no longer focuses on whether states have the necessary laws and measures in place, but whether these are actually and effectively put to use. In 2016, we have seen that the results of this new round are rather mixed. Three out of the four states and territories evaluated in this new round have achieved

unsatisfactory results. These MONEYVAL members are now at risk of being identified by the FATF as countries and territories with strategic deficiencies. This will have significant economic consequences, not only for the financial institutions in these countries and territories, but also for the export industry. Given this prospect, we note that in some of our member countries there is insufficient support for their agencies that combat money laundering and terrorist financing. MONEYVAL will continue to assist its members to meet the expectations of the global AML/CFT network.

The assessments have also shown significant additional challenges for countries undergoing an evaluation in this new round. Firstly, countries need to demonstrate that they understand their money laundering and terrorist financing risks. To that effect, they are required to assess and identify these risks, which they usually do through a “national risk assessment”. We have seen that many countries are not satisfactorily conducting this exercise, with detrimental and cascading effects for the other areas of an evaluation. Secondly, MONEYVAL has detected difficulties with measures to ensure transparency of legal persons and entities. Our concerns about these deficiencies have been all the more confirmed through the revelations of the so-called “Panama Papers”. Thirdly, the reports have also shown that our members are not sufficiently investigating and prosecuting all forms of money laundering in accordance with the risks detected, and that there are practically no prosecutions and convictions for terrorist financing.

Global financial institutions are increasingly terminating or restricting business relationships with local banks in MONEYVAL countries – a dangerous practice called “de-risking”. De-risking threatens progress made on financial inclusion in our member countries and frustrates our efforts by pushing higher-risk transactions out of the regulated areas into less regulated or even underground services. It is my ambition to continue to urge regulators and international organisations responsible for supervision of the global financial institutions to combat de-risking more effectively.

On the positive side, MONEYVAL has been able in 2016 to increase its visibility in the anti-money laundering and combatting of terrorist financing global network which comprises the FATF and its nine "FATF-style regional bodies" (FSRBs). Our status as associate member of the FATF allows us to actively participate in the assessments of other countries, and thus ensure a level playing field between European and non-European jurisdictions. While this is an opportunity for the Council of Europe, it comes with an obligation to make the required resources available. For that reason, and to ensure the continued membership in the global network, the other FSRBs have increased their resources significantly over the last years. The MONEYVAL Secretariat currently has only five permanent staff members able to participate in evaluations. No matter how hard the Secretariat is working, it is not possible with such a small team to evaluate all our 34 members within the expected timeframe set by the global network. Without urgent and radical reinforcement, this will result in a problem not only for the Council of Europe, but also for all MONEYVAL

member states in the global network. MONEYVAL depends in its quest for reinforcement of its Secretariat on the support of those 20 European states which are members of the FATF (and thus define MONEYVAL's workload as the international AML/CFT standard-setter), but at the same time together contribute 90% of the total budget of the Council of Europe.

MONEYVAL is currently at a cross-road. The past two decades have seen four successful rounds of evaluations of its members and many instances where MONEYVAL contributed significantly to the Council of Europe's achievements in fighting against international organised crime and terrorism. MONEYVAL makes an important contribution to strengthening the rule of law and democracy in Europe, at a time of general political change and countries turning towards populism. Providing MONEYVAL with at least the minimum staff required is indispensable if it is to continue carrying out these important tasks.

Daniel Thelesklaf,
February 2017



Executive summary

MONEYVAL's work consists of the evaluation of anti-money laundering and counter-terrorist financing measures of its 34 members. The year 2016, which has seen numerous horrible terrorist attacks in Europe and elsewhere as well as the so-called "Panama Papers", has reconfirmed that both aspects of MONEYVAL's mandate are highly relevant.

Assessing member States against the globally agreed standard to combat money laundering and terrorist financing is the core mandate of MONEYVAL. Through peer pressure, its 34 members are constantly updating their anti-money laundering (AML) and combatting the financing of terrorism (CFT) strategies, as well as the implementation of these measures. MONEYVAL's reports are crucial to demonstrate the level of compliance of a specific jurisdiction. They are public and widely used by financial institutions around the globe to assess AML/CFT compliance when conducting business in a given jurisdiction. A negative report can have detrimental economic effects: banks risk losing access to the global financial architecture and investments may decrease. MONEYVAL finds

and helps reduce risks to the global financial system, identifies gaps in national AML/CFT systems and actively follows up the progress countries make to rectify them.

Throughout 2016, MONEYVAL continued the assessment of its 34 members on the basis of the 2012 FATF standards and the 2013 methodology (MONEYVAL's 5th round of mutual evaluations). Three mutual evaluation reports were adopted, three onsite visits were conducted, and three further members received the country training prior to their onsite visits. MONEYVAL also hosted an evaluator training seminar during which 30 AML/CFT experts were trained on the new standards and methodology in order to participate in MONEYVAL evaluations. At the same time, MONEYVAL continued the follow-up process of its previous 4th round of mutual evaluations by considering 21 follow-up reports. In total, 20 MONEYVAL States or territories were subject to active monitoring processes (through onsite visits, adopted reports, follow-up and compliance procedures).

Combatting terrorist financing remains an important element in the overall strategy of the Council of Europe to combat terrorism. In close co-operation with the Financial Action Task Force (FATF), MONEYVAL continued in 2016 the "Terrorist Financing Fact-Finding Initiative" (TFFFI), which had started in the previous year, with notable success: the large majority of its members for which fundamental or significant gaps in their implementation of the criminalisation of terrorist financing had been identified have remedied these gaps in the course of 2016. To mark its 50th Plenary session in April 2016, MONEYVAL held a special session on terrorist financing. The purpose of that special session was to keep delegations updated on the emerging terrorist financing threat, mainly related to "Da'esh" (also known as IS), and to promote measures on how to mitigate the related risks.

MONEYVAL continues its role as an internationally recognised and influential global player in the AML/CFT world. It is a leading associate member of the FATF and is respected as an effective monitoring mechanism for the quality of the outputs it delivers and the strength of its follow-up procedures. This in return strengthens the visibility and the relevance of the Council of Europe.

However, the global network of AML/CFT assessment bodies has entrusted the Council of Europe with the task of carrying out MONEYVAL's mandate under the condition that it provides sufficient resources to carry out this work. This is currently not the case, as significant and sustainable reinforcement of MONEYVAL's Secretariat is urgently needed.

Introduction and background

Money laundering – i.e. the process through which criminals give an apparently legitimate origin to proceeds of crime – is an expanding and increasingly international phenomenon. Current estimates of the amount of money laundered worldwide range from \$500 billion to a staggering \$1 trillion, with disastrous effects on the global economy, especially on vulnerable, developing economies.

The Council of Europe was the first international organisation to emphasise the importance of taking measures to combat the threats posed by money laundering for democracy and the rule of law. The Council's efforts led to the creation in 1997 of the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL). After the terrorist attacks of 11 September 2001, the Committee also started to increasingly apply international standards designed to combat terrorist financing.

MONEYVAL now works in close co-operation with the Financial Action Task Force (FATF) as one of the leading FATF-style regional bodies (FSRBs) and is an associate member of the FATF.

28 member States of the Council of Europe are assessed by MONEYVAL. In addition, Israel and the Holy See (including the Vatican City State), the UK Crown Dependencies of Jersey, Guernsey and the Isle of Man as well as the UK Overseas Territory of Gibraltar participate fully in the evaluation processes of MONEYVAL and are subject to its follow-up procedures. In total, MONEYVAL is now responsible for assessing 34 jurisdictions.

MONEYVAL's main activity consists in evaluating the implementation of the international AML/CFT standards. In 2015, it started its 5th round of mutual evaluations. The Committee has continued to pursue the follow-up process for its 4th round of mutual evaluations, the last evaluation of which was conducted in

2015. Other activities include studies on typologies of money-laundering and terrorist financing, joint actions with other AML/CFT-related bodies as well as the review of voluntary tax compliance programmes in its jurisdictions. Through these activities, MONEYVAL contributes to the protection of the global financial system from abuse. It also actively contributes to the fight against organised crime, as money laundering provides organised crime with its cash flow and the opportunity to invest in the legitimate economy.

MONEYVAL also assists in monitoring the implementation of the Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism (CETS 198). This convention reinforces current international standards, inter alia, by setting high requirements with respect to freezing, seizure and confiscation measures, the management of frozen and seized property and the possibility to take into account international recidivism when determining a penalty. It is important to note that the monitoring procedure under this convention was designed so as not to duplicate the work of MONEYVAL or the FATF. The Convention's monitoring body, the Conference of Parties to CETS 198, therefore focuses on those parts of the Convention that strengthen or even go beyond the requirements of global standards.

OVERVIEW OF WORK CONDUCTED IN 2016

2016 was an intense and fruitful year for MONEYVAL. Of the 34 States and jurisdictions subject to evaluation by MONEYVAL, 20 were subject to active monitoring processes (through onsite visits, adopted reports, follow-up and compliance procedures). 3 further States were visited in advance of their 5th round assessment. A table in Appendix I to this report shows the different activities mentioned above.

Principal achievements in 2016

- ▶ 3 onsite visits were undertaken under the 5th evaluation round: Hungary, the UK Crown Dependency of the Isle of Man and Slovenia;
- ▶ 3 MERs were discussed, adopted and published in 2016: Serbia (April), Hungary (September) and the UK Crown Dependency of the Isle of Man (December). The onsite visit of Slovenia took place from 7-19 November, and the report is expected to be discussed by MONEYVAL at its first Plenary in 2017 (30 May-1 June);
- ▶ 21 fourth-round follow-up reports on 14 countries were subject to Secretariat review, and plenary discussion and adoption (Azerbaijan, Bosnia and Herzegovina, Bulgaria, Croatia, Estonia, Israel, Latvia, Liechtenstein, Lithuania, Poland, Republic of Moldova, the Slovak Republic, Romania and “the former Yugoslav Republic of Macedonia”);
- ▶ 6 compliance reports for jurisdictions in Compliance Enhancing Procedures (CEPs) were presented to the Plenary (three reports each by the Czech Republic and Montenegro).

With the series of horrific terrorist attacks in Europe and the world in the year 2016, MONEYVAL reaffirmed that the fight against financing of terrorism is one of its primary missions. To that effect, MONEYVAL continued to assist the FATF in conducting follow-up activities to the Terrorist Financing Fact-Finding Initiative (TFFFI), undertaken to identify jurisdictions in the global network with fundamental or significant gaps in their implementation of FATF Recommendations 5 and 6. The Plenary established a follow-up procedure to the TFFFI within MONEYVAL which has delivered measurable effect within a short period of time. While a number of jurisdictions made important progress in addressing deficiencies under Recommendations 5 and 6 and were able to be removed from this ad hoc follow-up procedure, the countries remaining in that procedure are expected to have fully remedied the deficiencies by the time of the first Plenary session in 2017.

To mark its 50th Plenary session, MONEYVAL held a special session on terrorist financing. The purpose of the special session was to keep MONEYVAL delegations updated on the emerging terrorist financing threat, mainly related to “Da’esh” (also known as IS), and to promote measures on how to mitigate the related risks. The Plenary was opened by Ms Gabriella Battaini-Dragoni (Deputy Secretary General of the Council of Europe) and Mr David Lewis (Executive Secretary, FATF). Mr Michael Lauber (Attorney General of Switzerland) gave a keynote speech on Switzerland’s experience with terrorism and terrorist financing.

For countries which are expected to be evaluated under the 5th round of mutual evaluations in 2017 MONEYVAL continued to conduct onsite country trainings in order to raise awareness of the requirements of the revised FATF standards and to prepare major stakeholders for the onsite visits. Training seminars for the 5th round assessment visits were organised

in Andorra (February), Albania (October) and Latvia (November).

MONEYVAL also hosted an evaluator training seminar during which 30 AML/CFT experts were trained on the new standards and methodology in order to participate in MONEYVAL evaluations.

After the European Court of Human Rights ruled in June in the case of *Al-Dulimi and Montana Management Inc. v. Switzerland* that the confiscation of bank accounts in implementing targeted financial sanctions by the UN Security Council required the Council of Europe member states to provide the account holders with access to their domestic courts, MONEYVAL invited one of the judges for an exchange of views to its next Plenary. Although the resolution at issue in *Al-Dulimi* (UNSCR 1483 of 22 May 2003, concerning Iraq) does not relate to the financing of terrorism or proliferation of weapons of mass destruction, and consequently does not fall within the ambit of the FATF standards, the judgment is of high relevance for MONEYVAL delegations. The Committee subsequently issued guidance for its members on the reconciliation of the international AML/CFT standards with that judgment.

Representatives of MONEYVAL and its Secretariat continued to represent the Committee in related bodies of the Council of Europe (notably the Committee of Experts on Terrorism (CODEXTER), the Cooperation Group to Combat Drug Abuse and Illicit Trafficking in Drugs (the Pompidou Group) as well as the Council of Europe’s Global Project on Cybercrime) and at numerous international and European events, seminars and conferences. Most notably, the Chair of MONEYVAL was invited as a speaker to a hearing of the European Parliament’s Committee of Inquiry into Money Laundering, Tax Avoidance and Tax Evasion (PANA) in October. Members of MONEYVAL also continued to act as reviewers of mutual evaluation reports by other international bodies, e.g. the FATF.

STRUCTURE OF THIS REPORT

This report starts by setting out the mission and working framework of MONEYVAL with key information on past and current activities.

It goes on to present the results of MONEYVAL's main processes for 2016, namely the 5th round of mutual evaluations and the follow-up to the 4th round of mutual evaluations, as well as compliance enhancing procedures. The documents made reference to in this annual report are published on the MONEYVAL website¹.

The report continues with other key activities for MONEYVAL, including its partnerships with other organisations, representation of MONEYVAL in other forums, links with the Conference of the Parties (COP) to the Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism (CETS no. 198), as well as training sessions and seminars.

Finally, the report concludes with a section on staffing and resources.

1. www.coe.int/t/dghl/monitoring/moneyval/Countries/Country_profiles_en.asp.

Aim and status of MONEYVAL

MONEYVAL is a monitoring body of the Council of Europe entrusted with the task of assessing compliance with the principal international standards to counter money laundering and the financing of terrorism and the effectiveness of their implementation, as well as with the task of making recommendations to national authorities in respect of necessary improvements to their systems.

Through a dynamic process of mutual evaluations, peer review and regular follow-up of its reports, MONEYVAL aims to improve the capacities of national authorities to fight money laundering and the financing of terrorism more effectively.

MONEYVAL is a permanent monitoring mechanism of the Council of Europe reporting directly to the Committee of Ministers.

MEMBERS AND OBSERVERS

Evaluation by MONEYVAL currently covers, under Article 2 of the Statute of MONEYVAL:

- ▶ member States of the Council of Europe that are not members of the FATF (Article 2.2a of the Statute) and member States of the Council of Europe that become members of the FATF and request to continue to be evaluated by MONEYVAL (Article 2.2b of the Statute), currently:

- | | |
|---|-----------------------|
| – Albania | – Andorra |
| – Armenia | – Azerbaijan |
| – Bosnia and Herzegovina | – Bulgaria |
| – Cyprus | – Croatia |
| – Estonia | – Czech Republic |
| – Georgia | – Hungary |
| – Latvia | – Liechtenstein |
| – Malta | – Lithuania |
| – Monaco | – Republic of Moldova |
| – Poland | – Montenegro |
| – Russian Federation ² | – Romania |
| – Serbia | – San Marino |
| – Slovenia | – Slovak Republic |
| – “the former Yugoslav Republic of Macedonia” | – Ukraine |

- ▶ Non-member states of the Council of Europe (Article 2.2e of the Statute): Israel;
- ▶ The Holy See (including Vatican City State) by virtue of Resolution CM/Res(2011)5;
- ▶ The UK Crown Dependencies of Guernsey, Jersey and the Isle of Man by virtue of Resolution CM/Res(2012)6;
- ▶ The UK Overseas Territory of Gibraltar by virtue of Resolution CM/Res(2015)26.

In addition, the following countries, bodies, organisations and institutions have observer status with MONEYVAL and are entitled to send a representative to MONEYVAL meetings:

- ▶ the Parliamentary Assembly of the Council of Europe (PACE);
- ▶ the Council of Europe Development Bank (CEB);
- ▶ the European Committee on Crime Problems (CDPC);
- ▶ the Conference of the Parties of the Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism;
- ▶ the European Commission and the Secretariat General of the Council of the European Union;
- ▶ States with observer status of the Council of Europe (Canada, Japan, Mexico and the United States of America);
- ▶ the Secretariat of the Financial Action Task Force (FATF);
- ▶ Interpol;
- ▶ the International Monetary Fund;
- ▶ the United Nations International Drug Control Programme (ONUDC);
- ▶ the United Nations Counter-Terrorism Committee (CTC);
- ▶ the United Nations Crime Prevention and Criminal Justice Division (CCPCJ);
- ▶ the World Bank;
- ▶ the Commonwealth Secretariat;
- ▶ the European Bank of Reconstruction and Development (EBRD);
- ▶ any members of the FATF.³

2. The Russian Federation is also a member of FATF and the EAG (Eurasian Group on Combatting Money Laundering and Financing of Terrorism).

3. Note that two states are appointed by the FATF Presidency for a period of two years to participate in MONEYVAL Plenaries (currently France and Italy).

ACTIVITIES AND PROGRAMMES

Objectives

The objective of MONEYVAL is to ensure that its evaluated jurisdictions have in place effective systems to counter money laundering and terrorist financing and comply with the relevant international standards in these fields. MONEYVAL endeavours to achieve this by:

Methodology

- ▶ Assessing compliance with all relevant international standards in the legal, financial and law enforcement sectors through a peer review process of mutual evaluations;
- ▶ Issuing reports which provide detailed recommendations on ways to improve the effectiveness of domestic regimes to combat money laundering and terrorist financing and States' capacities to co operate internationally in these areas;
- ▶ Ensuring an effective follow-up of evaluation reports, including Compliance Enhancing Procedures (CEPs), to improve levels of compliance with international AML/CFT standards by the States and territories which participate in MONEYVAL's evaluation processes;
- ▶ Conducting typologies studies of money laundering and terrorist financing methods, trends and techniques and issue reports thereabout.

Mutual evaluation rounds and follow-up processes

MONEYVAL has completed four rounds of mutual evaluations. In 2015, it commenced its 5th round of mutual evaluations, which is based on the FATF 2012 Recommendations and the 2013 Methodology for assessing technical compliance with the FATF Recommendations and the effectiveness of AML/CFT systems. For each round, evaluations of MONEYVAL States and territories give rise to mutual evaluation reports.

Mutual evaluation rounds

First evaluation round (1998-2000)

The first round of mutual evaluations, based on the 1996 FATF Recommendations, was initiated in 1998 and onsite visits were concluded in 2000. 22 Council of Europe member States were evaluated in the first evaluation round.

Second evaluation round (2001-2004)

This second round was also based largely on the 1996 FATF Recommendations and included evaluation against the FATF's 2000 Criteria for non-cooperative States and territories. MONEYVAL concluded its second round of onsite visits in 2003. 27 Council of Europe member States were evaluated.

Third evaluation round (2005-2009)³

The third round of mutual evaluations was based on the 2003 revised FATF Recommendations. In addition, the evaluation reviewed aspects of compliance with the European Union's Third Anti-Money Laundering Directive, which came into force in 2007. 28 Council of Europe member States together with the Holy See (including Vatican City State) and Israel have been evaluated in the third evaluation round.

Follow-up evaluation round or "MONEYVAL's Fourth Round" (2009-2014)

MONEYVAL commenced a follow-up round of onsite visits in 2009. For each country, these evaluations focused on the effectiveness of implementation of core and key and some other important recommendations in the FATF 2003 Recommendations, together with any recommendations for which the country received either a non-compliant or partially compliant rating in the third round. In addition, the evaluation also reviewed aspects of compliance with the European Union's Third Anti-Money Laundering Directive.

Fifth evaluation round (started in 2015)

The FATF 2012 Recommendations and the 2013 Methodology constitute the basis of the 5th MONEYVAL round of evaluations. In this round of evaluations, the main emphasis is on the effective implementation of the FATF Recommendations by States and territories, with each onsite visit lasting at least two weeks. The first MER report (on Armenia) under this new round was adopted in December 2015.

4. Although the third round of evaluations concluded in 2009, the Holy See (including Vatican City State) was subsequently evaluated in 2011, with the report being adopted in 2012 following the adoption by the Committee of Ministers on 6 April 2011 of Resolution CM/Res(2011)5.

In 2016, MONEYVAL has conducted the following onsite visits and adopted the following reports:

5th round onsite visits and adoption of reports in 2016

- ▶ Serbia (onsite visit took place in October 2015), the report was adopted in April 2016;
- ▶ Hungary (7 – 18 March), the report was adopted in September 2016;
- ▶ UK Crown Dependency of the Isle of Man (25 April – 7 May), the report was adopted in December 2016;
- ▶ Slovenia (7 - 19 November); the report is tabled for discussion and adoption in May/June 2017.

WORKING GROUP ON EVALUATIONS

In 2015, MONEYVAL established a Working Group on Evaluations (WGE) to assist the Plenary by preparing the discussion and proposing solutions on technical and other significant issues. This allows the Plenary to focus primarily on effectiveness issues, matters of substance as well as recommendations to the assessed jurisdiction. Professor William Gilmore (scientific expert) and Mr Nicola Muccioli (San Marino) were nominated to co-chair this group for a mandate of two years. The WGE met on the afternoon before each MONEYVAL Plenary throughout 2016. Its terms of reference are contained in Appendix IV to MONEYVAL's Rules of Procedure for the 5th Round of Mutual Evaluations. In April 2016, the Plenary also adopted new Rules of Procedure for the WGE, which can be found in Appendix V to that document.

GOVERNANCE

Article 6 of the MONEYVAL Statute provides for a Bureau comprised of a Chair, a Vice-Chair and three other members. The Bureau has several tasks including assisting the Chair, to supervise the preparation of Plenary meetings and to ensure continuity between those meetings. The Bureau members are currently:

MONEYVAL Bureau elected for a term of two years in December 2015

Chair:	▶ Mr Daniel Thelesklaf (Liechtenstein)
Vice-Chair:	▶ Ms Elzbieta Frankow-Jaskiewicz (Poland)
Members:	▶ Mr Nedko Krumov (Bulgaria) ▶ Mr Franck Oehlert (France) ▶ Mr Alexey Petrenko (Russian Federation)

SCIENTIFIC EXPERTS

MONEYVAL is fortunate in having a panel of independent scientific experts. The role of a scientific expert is to provide neutral, experienced opinions and to assist the Chair and Secretariat in ensuring the consistency of MONEYVAL's outputs. This includes, among others, fulfilling a quality control function for draft MERs, attending all MONEYVAL Plenaries as well as enriching the debates with their experience and knowledge. In 2016, the scientific experts were:

MONEYVAL scientific experts

- ▶ Dr William Gilmore, Professor of Public International Law, Edinburgh University – Legal scientific expert
- ▶ Mr John Ringguth, former Executive Secretary to MONEYVAL – Legal scientific expert (newly appointed in January 2016)
- ▶ Mr Boudewijn Verhelst, Deputy Director of CTIF-CFI and Attorney General in Belgium – Law enforcement scientific expert
- ▶ Mr Andrew Strijker, former Head of the Dutch delegation to FATF – Financial scientific expert with special responsibility for the EU Directives
- ▶ Mr Philipp Röser, Executive Officer, Legal and International Affairs, Financial Market Authority, Liechtenstein – Financial scientific expert

GENDER EQUALITY RAPPOREUR

In line with the general policy of the Council of Europe, MONEYVAL appointed in December 2015 Ms Maja Cvetkovski (Slovenia) as a gender equality rapporteur of MONEYVAL. Ms Cvetkovski reported to the Plenary on gender equality issues concerning the mandate of MONEYVAL in September 2016.

Fourth mutual evaluation round

OBJECTIVES AND FORMAT

MONEYVAL commenced a follow-up round of on-site visits in 2009. 4th round onsite visits were concluded in January 2015, with the last reports being adopted later that year. For each state or territory evaluated, these evaluations focused on the effectiveness of implementation of core and key recommendations (as well as some other important 2003 FATF Recommendations) together with any recommendations for which the country received either a “non-compliant” or “partially compliant” rating. In addition, the evaluation also reviewed aspects of compliance with the European Union’s Third Anti-Money Laundering Directive.

MONEYVAL’s 4th round follow-up process broadly follows the practices and procedures used by the FATF in its 3rd round of assessments. Until April 2016, there were three types of processes that could occur following the discussion and adoption of a 4th round evaluation report: biennial update, regular follow-up and enhanced follow-up.

BIENNIAL UPDATE

Countries which had received “compliant” or “largely compliant” ratings in the six Core Recommendations in their evaluation report were only required to provide a biennial update of their progress, in meeting the deficiencies identified in their mutual evaluation report (MER) or in taking other action to enhance their AML/CFT regime. The biennial update started two years after the adoption of the respective MERs.

REGULAR FOLLOW-UP

Assessed countries which had received “partially compliant” or “non-compliant” ratings in any of the six Core Recommendations were placed in regular follow-up. The country was then expected to report back to the Plenary, initially within two years – though the Plenary could decide on a more expedited timetable –, and provide information on the actions it

had taken to address the factors and deficiencies underlying any of the respective Recommendations. Countries were encouraged to seek removal from the follow-up process within three years of the adoption of the 4th round MER, or soon thereafter. Before a State or territory could be removed from regular follow-up, it was required to demonstrate that it has an effective AML/CFT system in force, under which the State or territory has implemented the Key and Core Recommendations⁵ at a level of or essentially equivalent to “compliant” or “largely compliant”.

ENHANCED FOLLOW-UP

Where the Plenary was concerned about the lack of progress, the assessed country could be placed in an enhanced follow-up process. The procedures included requesting the country to provide regular reports on progress in remedying deficiencies earlier than two years from the adoption of the report, possibly coupled with placing the country into CEPs. These procedures provided further peer pressure to rectify deficiencies.

STREAMLINED FOLLOW-UP PROCESS AS OF APRIL 2016

At its 50th Plenary (12-15 April 2016), MONEYVAL decided to streamline the remainder of its follow-up procedure for the 4th round of mutual evaluations in order to create further capacities for its 5th round of mutual evaluations. At the same time, it decided to maintain (and, where appropriate, increase) the peer pressure to ensure that MONEYVAL jurisdictions have in place effective systems to counter money laundering and terrorist financing and comply with the relevant international standards. It was considered that such increased pressure may also help countries to prepare better for their forthcoming 5th round evaluation.

5. The Core Recommendations are Recommendations 1, 5, 10, 13 as well as Special Recommendations II and IV. The Key Recommendations are Recommendations 3, 4, 23, 26, 35, 36 and 40 and Special Recommendations I, III and V.

The Plenary adopted the proposal which can be broadly summarised as follows (the new procedure is laid out in detail in the amended Rule 13 of the 4th round rules of procedure, available on the MONEYVAL website): States or territories which were previously subject to the biennial update process are expected to regularly report any relevant developments to the Plenary through MONEYVAL's tour de table procedure. States or territories which were previously subject to regular or enhanced follow-up will remain in a streamlined follow-up process. They are expected to report back to the Plenary, if they have not yet done so, under the previous follow-up procedure within two years after the 4th round MER was adopted. The States or territories which remain in the streamlined follow-up process are expected to seek removal from that follow-up process within four years after the adoption of the 4th round MER at the latest. The Plenary encourages an earlier application for removal. If the State or territory has taken sufficient action to be removed from the follow-up process, the Plenary will ask that State or territory to regularly report about any relevant developments through MONEYVAL's tour de table procedure. If the State or territory has not taken sufficient action to be removed from the follow-up process, the Plenary will consider the application of Compliance Enhancing Procedures (CEPs). The streamlined follow-up process took effect as of September 2016, with a transitional period for those reports the Plenary had previously requested to be still considered. However, its effects have already been positively noted at the September and December Plenaries in 2016.

PUBLICATION POLICY

Unlike the 3rd round progress reports, 4th round follow-up reports are not routinely published. Biennial reports were published on the MONEYVAL website, while (previously regular or enhanced) follow-up reports, together with the Secretariat's analysis, are only published once the assessed country has successfully been removed from either regular or enhanced follow-up.

Fourth round follow-up reports

Plenary meetings	
50th meeting	<ul style="list-style-type: none"> ▶ Lithuania (Regular follow-up) ▶ Croatia (Regular follow-up) ▶ Republic of Moldova (Regular follow-up, interim report) ▶ Slovak Republic (Regular follow-up) ▶ Romania (Regular follow-up) ▶ Poland (Regular follow-up) ▶ "The former Yugoslav Republic of Macedonia" (Expedited follow-up)
51st meeting	<ul style="list-style-type: none"> ▶ Estonia (Regular Follow-up) ▶ Liechtenstein (Regular follow-up) ▶ Republic of Moldova (Regular follow-up) ▶ Latvia (Regular follow-up) ▶ Bulgaria (Regular follow-up) ▶ Bosnia and Herzegovina (Expedited follow-up)
52nd meeting	<ul style="list-style-type: none"> ▶ Israel (Regular follow-up) ▶ Croatia (Regular follow-up) ▶ Lithuania (Regular follow-up) ▶ Republic of Moldova (Regular follow-up) ▶ Slovak Republic (Regular follow-up) ▶ Azerbaijan (Regular follow-up) ▶ Poland (Regular follow-up) ▶ "The former Yugoslav Republic of Macedonia" (Expedited follow-up)



Regular follow-up report of Azerbaijan

Following the adoption of the 4th round MER in December 2014, Azerbaijan was placed into expedited follow-up and requested to report back one year after the evaluation. The analysis of the expedited report presented by the Secretariat in December 2015 has shown that clear progress had been achieved by the country in addressing deficiencies related to R.1, R.5 and SR.III. The Plenary therefore agreed that Azerbaijan should not be required to submit another expedited follow-up report and should seek to exit the regular follow-up process by no later than December 2017.

At the 52nd Plenary meeting, the Secretariat introduced Azerbaijan's interim progress report noting the improvements that had been made in regard to several core and key recommendations. The measures taken by Azerbaijan included, inter alia: resolution of a technical deficiency regarding the criminalisation of acquisition, possession and use of property of insignificant value; adoption of the guidance on simplified CDD measures; training carried out on the need to secure convictions on ML in the absence of a prior conviction for a predicate offence; and on-site supervision visit to the Postal Office.

At the same time, a number of legislative gaps still remained outstanding in relation to confiscation, preventive measures and freezing and confiscation of terrorist assets. It was also highlighted that amendments going in the direction of resolving some of these deficiencies were expected to enter into force in the near future.

As a result, the Plenary welcomed the progress made by Azerbaijan and invited the country to seek removal from the regular follow-up process in December 2018 at the latest. Taking note of Azerbaijan's wish to exit regular follow-up at an earlier stage, the Plenary invited to report back at the 54th Plenary and to seek exit from follow-up at that time.



Expedited follow-up report of Bosnia and Herzegovina

Following the adoption of the 4th Round MER in September 2015, Bosnia and Herzegovina was placed into expedited follow-up and requested to present its first expedited report at the 51st Plenary in September 2016.

The analysis of the first expedited report presented by the Secretariat in September 2016 has confirmed that significant steps had been taken to align legislation with CFT standards, through amendments to the FT offences at the levels of Bosnia and Herzegovina, the Federation of Bosnia and Herzegovina and the Brčko District, as well as through the very recent adoption of the Government Decision on Implementation of UNSCR 1373. The authorities stated that the final text of the decision had been changed before its adoption to remedy the gaps that were pointed out by the Secretariat in its analysis, which had been shared with the Bosnian authorities in advance. In the Republika Srpska, a new Criminal Code which was expected to be adopted in the first half of 2017 would include the necessary amendments for the FT offence and confiscation of derived and intermingled assets. It was also noted that important progress had been made on the preventive side, through the clarification of

CDD and STR obligations in the AML/CFT law, and on the operational independence of the FIU and its ability to obtain feedback upon disseminations to competent authorities. At the same time, the progress on supervision remained stagnant.

Taking into account the analysis of the Secretariat and the discussions, the Plenary invited Bosnia and Herzegovina to submit a further progress report and to seek to exit from the regular follow-up process at the latest in September 2019. In the meantime, the country was requested to keep the Plenary informed on its progress through the tour de table procedure, in particular on the envisaged new Criminal Code of the Republika Srpska, on the amendments to the by-laws related to R.13/SR.IV (STR), as well as on further measures to address the outstanding deficiencies under R.23 (supervision).



Regular follow-up report of Bulgaria

Following the adoption of 4th Round MER in 2013, Bulgaria was placed in regular follow-up and requested to report back to the Plenary every two years. A first progress report was presented in September 2015, when the decision was taken to request Bulgaria to present a further report in September 2016 in parallel with seeking exit from the follow-up process.

The analysis of the second Bulgarian follow-up report presented at the 51th Plenary in September 2016 have shown that the country had taken positive steps to remedy many of the deficiencies identified under several core and key recommendations (notably R.10, R.3, SR.I, SR.II and SR.III) which had been rated PC in the 2013 MER. At the same time, important shortcomings are still evident in relation to R.3 and SR.II. In view of that, the process of amending the Criminal Code initiated by the Ministry of Justice could be a good opportunity to introduce the missing elements. This would concern primarily the criminalisation of all offences of the Annex to the FT Convention, as well as the abolition of the purposive element of the terrorism/FT offence. Moreover, the Criminal Code reform will also affect the country's compliance with R.3 and SR.III.

Taking into account the progress made by the country as well as the remaining legislative gaps, the Plenary took the view that Bulgaria was not yet in a position to exit the regular follow-up procedure given that further progress is needed in particular with respect to SR.II and R.3. Therefore, Bulgaria was invited to submit a further progress report and to seek exit from the regular follow-up process at the 53rd Plenary in May/June 2017.



Regular follow-up report of Croatia

Following the adoption of the 4th round MER in 2013, Croatia was placed into regular follow-up. The country's first interim report was presented at the 48th plenary meeting, where Croatia was requested to provide a second interim report at the 50th Plenary due to the lack of progress.

At the 50th Plenary, the Secretariat presented its analysis of Croatia's second follow-up report stating that while minor improvements were noted regarding the criminalisation of ML, the major deficiencies underlying key and core R. 1, 3, 5, 23, 35, SRI and SR.III still remain outstanding. It was also added that the amendments to implement recommendations in relation to provisional measures and confiscation had not yet been made available for review. Another matter of concern was the fact that extensive amendments would only be undertaken once the 4th EU AMLD is adopted. Croatia was therefore invited to provide a further interim report at the 52nd Plenary.

The analysis of the third follow-up report in December 2016 at the 52nd Plenary demonstrated that the overall situation concerning the progress made in respect of the key and core recommendations has mainly remained unchanged, with the exception of minor improvements on R.23. The decision was taken to urge Croatia to address the remaining deficiencies as expeditiously as possible, and to invite the country to seek removal from the follow-up procedure no later than September 2017.



Regular follow-up report of Estonia

Estonia's 4th round mutual evaluation report was adopted in September 2014. The country was placed under the regular follow-up and requested to update the Secretariat on the progress made in addressing the deficiencies identified in the MER.

The Estonian authorities presented the first progress report at the 51st Plenary in September 2016. The Secretariat noted the progress made by the country with respect to core and key recommendations rated partially compliant in the MER. In particular, it was highlighted that Estonia had put forward amendments to the Penal Code which would address all of the technical deficiencies with respect to Recommendation 3 on confiscation. In addition, the Plenary welcomed

the fact that the Estonian courts had handed down the first FT conviction. However, the authorities were encouraged to bring the outstanding amendments to the FT offence into force as soon as possible. Other amendments to address deficiencies with respect to preventive requirements were in progress as part of the transposition of the EU's 4th AML Directive into domestic law.

As a result of the discussion, the Plenary was satisfied with the progress made by Estonia and requested the country to report back in two years' time and seek removal from the regular follow-up procedure in September 2018.



Regular follow-up report of Israel

Israel's 4th round report was adopted in December 2013. As a result, the country was placed in regular follow-up and was required to report back two years after the evaluation. A follow-up report was presented in December 2015, when the plenary decided that, despite the measures aimed at addressing the deficiencies underlying R.5 and R.10, further steps needed to be taken. As a result, Israel was requested to provide another interim follow-up report in 2016 at the 52nd plenary in December 2016. At that stage, the plenary examined the follow-up report submitted by the Israeli authorities and the Secretariat analysis. The Secretariat summarised the developments made as well as remaining areas of concern, stressing that several deficiencies in relation to core recommendations 5 and 10 and in relation to the application of the AML/CFT regime to all categories of DNFBPs and to Money Service Providers had not been addressed. Furthermore, it was noted that lawyers and accountants still did not have reporting obligations, although a supervisory authority had been set up and had conducted off-site inspections and an ethical rule forbidding lawyers and accountants to carry out high ML/TF risk transactions was in place.

Taking note of the progress made by Israel, the Plenary invited the country to seek removal from the regular follow-up process in December 2017.



Regular follow-up report of Latvia

Latvia's 4th round report was adopted in July 2012. A follow-up report was presented in September 2014,

when the Plenary decided that the overall progress achieved by the Latvian authorities was satisfactory except the rectification of deficiencies under SR.III and encouraged the country to seek removal from the follow-up process at the 48th Plenary in September 2015 or very soon thereafter. At the 48th and 49th Plenary meetings, Latvia did not seek exit from the follow-up due to on-going legislative reform aimed at remedying the shortcomings in the implementation of the UN targeted sanctions regime. The decision was taken that Latvia should seek removal from the follow-up process once the deficiencies under SR.III were rectified but no later than September 2016.

At the 51st plenary, the Secretariat presented Latvia's second follow-up report noting that the deficiencies underlying SR.III had been largely addressed through the adoption of new legislation on sanctions. In addition, progress had been achieved on other recommendations which were not key and core recommendations. As a result, the Plenary decided to remove Latvia from the regular follow-up process. The country will undergo its 5th round mutual evaluation in the second half of 2017.



Regular follow-up report of Liechtenstein

The 4th round MER on Liechtenstein was adopted in April 2014. As a result, the country was placed in regular follow-up, requiring it to report back two years after the evaluation. At the 51st Plenary, the Secretariat introduced Liechtenstein's first progress report noting a number of positive legislative developments that took place in the country. For instance, a new FIU Law had been adopted which addressed all the deficiencies that restricted the FIU's access to information. Furthermore, financial secrecy provisions were clarified to ensure unrestricted access, as appropriate, to information by the FIU and other competent authorities. The authorities had also taken measures to improve the implementation of preventive measures, particularly customer due diligence measures. In addition, technical deficiencies concerning preventive measures were being remedied as part of a process to transpose the EU's 4th AML Directive into domestic law. At the same time, despite the efforts of the prosecution service to challenge the high level of proof required by the courts with respect to the predicate offence underlying the laundering activity, no autonomous ML convictions had yet been achieved with respect to the laundering of proceeds generated by a foreign predicate offence.

The Plenary concluded that the progress made by Liechtenstein is satisfactory and invited the country to report back to the Plenary within two years' time and to seek removal from the regular follow-up process by September 2018.



Regular follow-up report of Lithuania

Lithuania's 4th round mutual evaluation report was adopted in 2012. The country was placed under regular follow-up while, in addition, compliance enhancing procedures (CEPs) were applied. Since then Lithuania submitted three compliance reports (in April and September 2014 as well as April 2015 respectively, when step 1 of the CEPs was lifted). The country was invited to report back in April 2016 and to seek removal from regular follow-up. At the 50th Plenary, it was noted that the country had taken positive steps to remedy many of the identified deficiencies, while further progress on R.5, R.13/SR.IV and SR.III remained outstanding. Therefore, Lithuania was requested to submit a further progress report and to seek to exit from the regular follow-up process in December 2016.

At the 52nd Plenary, the Secretariat presented its analysis of the second follow-up report stressing that, while the adoption of secondary legislation brought SR.III to a level equivalent to largely compliant, the deficiencies noted under R.5 and under R.13/SR.IV remained. The Lithuanian delegation emphasised a number of legislative developments (including a new AML/CFT law) that were underway and expected for spring 2017. Although Lithuania was currently not yet in a position to exit the regular follow-up procedure, it was decided not to impose the Compliance Enhancing Procedures which were considered counterproductive given the on-going reforms and the country's commitment to rectify the remaining deficiencies through the new AML/CFT law. The Plenary noted that a further application for removal from the 4th round at the 53rd Plenary in 2017 would not be strictly required in case the onsite visit is held in the first half of that year (Rule 13, paragraph 8 of the 4th round rules of procedure). Nevertheless, Lithuania was encouraged to submit the follow-up report in any event and seek removal at that meeting once the new AML/CFT law has entered into force.



Regular follow-up report of Poland

Following the adoption of the 4th round MER in 2013, Poland was placed into regular follow-up and was requested to inform MONEYVAL, no later than two years after the adoption of the report, of measures taken to address the deficiencies and to seek exit from the follow-up procedure within three years after the evaluation, or very soon thereafter. At the 47th and the 49th Plenary meetings the Polish authorities presented two interim follow-up reports and demonstrated that some legislative gaps regarding the criminalisation of ML and FT offences had been closed. At the same time, it was noted that there are still significant technical deficiencies in relation to ML/FT criminalisation, confiscation and terrorist-assets freezing regime. Therefore, the Plenary requested Poland to provide a further interim report at the 50th Plenary.

The analysis of the third Polish follow-up report presented at the 50th Plenary in April 2016 have shown that, while the Criminal Code was amended to rectify the deficiencies related to the criminalisation of ML and FT and consultations on a proposed draft law revising the confiscation system have been initiated, the overall progress was stagnant. Furthermore, no legislative amendments were reported by the authorities to address the deficiencies concerning terrorist-freezing regime and no draft texts were provided for review in relation to the adoption of the 4th EU AML/CFT Directive. It was therefore decided to request Poland to present a further follow-up report at the 52nd Plenary. At that stage, the Plenary examined the fourth interim report submitted by Poland and the Secretariat analysis. MONEYVAL decided that the deficiencies had not been adequately addressed, with a number of gaps remaining in relation to preventive measures, criminalisation of terrorist financing, confiscation of instrumentalities and instruments owned by third parties. As a result, Poland was urged to make swift progress and to provide another report for consideration at the 53rd Plenary (30 May – 1 June 2017). In line with MONEYVAL's revised rules of procedure, Poland is expected at that Plenary to seek removal from the 4th round of mutual evaluations. However, given the severity of the outstanding deficiencies, the Plenary recalled that it retains the possibility to apply Compliance Enhancing Procedures should sufficient progress not be demonstrated.



Regular follow-up report of Republic of Moldova

Following the adoption of the 4th round MER in December 2012, the Republic of Moldova was placed into regular follow-up. Two progress reports were presented at the 46th Plenary and the 49th Plenary where it was noted that the country was making progress, although the deficiencies related to R.5, R.13, R.23, SR.I, SR.III and SR.IV still give rise to concern. The Republic of Moldova was encouraged to continue informing the Plenary about the progress achieved in relation to key and core recommendations by presenting interim reports and to seek removal from the follow-up process in December 2016.

At the 50th Plenary, it was agreed that the legislative measures that were currently being taken by the country appear to be on the right track. At the 51st Plenary the Republic of Moldova provided a brief interim report on the progress made. The information submitted by the authorities mostly concerned the on-going legislative reforms and details about the draft AML/CFT Law. The Plenary took note of the legislative developments in the country and welcomed the fact that a new draft law was prepared with technical assistance provided by the Council of Europe.

In December, at the 52nd Plenary, the Republic of Moldova sought removal from the regular follow-up process. The analysis of the follow-up report conducted by the Secretariat concluded that positive steps had been taken to remedy many of the deficiencies identified under several key recommendations (notably R.3; SR.I; SR.III) which had been rated NC/PC in the 2012 MER. However, a new AML/CFT Law which addresses a number of deficiencies concerning key and core recommendations (notably R.5; R.13; R.23; SR.IV) is still in a draft form.

The Plenary decided that the Republic of Moldova was not yet in a position to exit the regular follow-up procedure and that the on-going process of drafting the new AML/CFT Law should be awaited. It was also noted that a further application for removal from the 4th round at the 53rd Plenary would not be strictly required since the onsite visit for the 5th round of mutual evaluations is envisaged for 2018 (Rule 13, paragraph 8 of the 4th round rules of procedure). Nevertheless, the Republic of Moldova was encouraged to submit the follow up report in any event and seek removal at its 53rd meeting once the new AML/CFT law enters into force.



Regular follow-up report of Romania

Romania's 4th round mutual evaluation report was adopted in April 2014. The country was placed under the regular follow-up and requested to provide, no later than two years after the adoption of the report, information on the actions it had taken to address the deficiencies noted in the MER. As for the removal from the follow-up process, the country was encouraged to seek exit from the procedure within three years after the adoption of the 4th round MER or very soon thereafter.

The analysis of Romania's follow-up report was presented by the Secretariat during the 50th Plenary meeting. It concluded that the country made limited progress since the adoption of MER. The National Risk Assessment has not yet been carried out, while deficiencies remain valid for most of key and core recommendations, with the exception of SR.II. Romania has also undertaken some initiatives resulting from its obligations with regard to the Fourth EU AML/CFT-Directive, including the creation of a Working Group to draft a law "for transposing the provisions of the Fourth EU AML/CFT-Directive, the Council of Commission Directive 2006/70/EC as well as the recommendations of the Moneyval Committee". Completion of these reforms is expected in early 2017. Given the on-going reforms and important domestic political developments in 2016, MONEYVAL decided to request Romania to provide a further interim follow-up report at the 53rd Plenary in 2017, in parallel with the country's application to exit the follow-up procedure.



Regular follow-up report of the Slovak Republic

Slovakia's 4th round report was adopted in September 2011. Follow up reports were presented at the 46th Plenary in December 2014, 48th Plenary in September 2015 and 49th Plenary in December 2015. Taking note of the measures undertaken by the Slovak Republic to address the deficiencies and the fact that in September 2015 the country did not apply for removal from the follow-up, the Plenary invited the Slovak Republic to seek exit from the regular follow-up procedure in April 2016.

At the 50th Plenary in April 2016, the Secretariat presented its analysis on the Slovak Republic's application to be removed from regular follow-up.

It was stressed that sufficient steps had been taken in order for R.1, R.13 and SR.IV to be considered equivalent to largely compliant. With regard to SR.II, the amendments introduced to the Criminal Code appeared to have broadly addressed the technical deficiencies. At the same time, the country did not address a number of serious gaps under R.26 and SR.III. For example, no formal safeguards were introduced to ensure FIU's operational independence and autonomy. In addition, deficiencies remain valid on timely amendment of lists published under UNSCR 1267, mechanisms for considering requests for freezing from other countries, and freezing of assets in the event of control or possession of assets. As a result, the Plenary requested the country to provide a further follow-up report at the 52nd Plenary in parallel with seeking exit from follow-up.

At the 52nd Plenary, the analysis of the Slovak Republic's report has shown that since April 2016 the country made further progress with regard to SR.III. The adopted measures addressed a number of gaps except the timely amendment of lists published under UNSCR 1267. As for R.26, no formal actions had been taken, although a proposal for organisational change related to the position of the FIU within the police force was prepared. Taking into consideration the analysis of the Secretariat, the Plenary decided that the Slovak Republic was not in a position to be removed from regular follow-up because of a number of deficiencies under some key recommendations. Therefore, the country was invited to seek removal from the follow-up process by providing a further follow-up report at the 53rd Plenary. The Plenary recalled that it retains the possibility to apply Compliance Enhancing Procedures should sufficient progress not be demonstrated, namely to address the remaining deficiencies under R.26 and SR.III.



Expedited follow-up report of "The former Yugoslav Republic of Macedonia" (FYROM)

Following the adoption of the 4th round report in April 2014, "the former Yugoslav Republic of Macedonia" was placed under regular follow-up and asked to report back in an expedited manner. The first expedited report presented in April 2015 demonstrated that the country had undertaken a number of measures, including the adoption of a new AML/CFT law and drafting of amendments to the Criminal Code and the law governing the freezing of terrorist assets.

In April 2016, the Secretariat presented the second expedited follow-up report of "the FYROM", agreeing that progress had been made on SR.I, II, IV and V. At the same time, the country was urged to bring the

amendments to the law governing the freezing of terrorist assets into force, as soon as possible, and to improve the supervisory regime. As a result, the Plenary invited “the FYROM” to provide an additional expedited follow-up report at the 52nd Plenary in December 2016.

In December 2016, “the FYROM” presented its third expedited follow-up report informing the Plenary about the finalisation of the ML/TF National Risk Assessment project that started in 2014. The authorities also emphasised the importance in the effective implementation of the FATF Recommendations of the EU/CoE project “Action against economic crime in ‘The

former Yugoslav Republic of Macedonia””, launched in October 2016. Furthermore, it was stated that the adoption of the new Law International Restrictive Measures would be one of the priorities upon constitution of a new government after parliamentary elections in December.

The Secretariat acknowledged the progress made by “the FYROM”, stressing however that the deficiencies under SR.III and R.23 remained outstanding. Thus the Plenary invited “the FYROM” to submit a further progress report and to seek to exit at the latest in the first half of 2018.

Fifth mutual evaluation round

OBJECTIVES AND FORMAT

MONEYVAL commenced a new round of mutual evaluations in 2015. For each State or territory, these evaluations shall be undertaken on the basis of the 2012 FATF standards and the 2013 Methodology for Assessing Compliance with the FATF Recommendations and the Effectiveness of AML/CFT Systems (hereinafter “the Methodology”), as amended from time to time. The assessment of technical compliance shall address the extent to which the country or territory complies with the specific requirements of the standards in laws, regulations or other required measures, which are in force and in effect, including in respect of the institutional framework and the existence, powers and procedures of competent authorities. The assessment of effectiveness shall evaluate the adequacy of the implementation of the standards and identify the extent to which the country or territory achieves a defined set of outcomes that are central to a robust AML/CFT system. The evaluation procedure is different from that of the fourth round (e.g. each onsite visit lasting at least two weeks) and also slightly differs in its follow-up processes. Unlike the fourth round, there are only two types of processes that can occur following the discussion and adoption of a 5th round evaluation report: *regular follow-up* and *enhanced follow-up*.

REGULAR FOLLOW-UP

Regular follow-up will be the default mechanism to ensure a continuous and on-going system of monitoring. This is the minimum standard that will apply to all members. Whenever a regular follow-up report is discussed, re-ratings for technical compliance are possible in appropriate cases. At the adoption of the country/territory’s MER, the normal first step is that the assessed country/territory would report back to the Plenary, within two and a half years after the MER and provide information on the actions it has taken or is taking to address the priority actions and recommendations, and deficiencies in its MER. The expectation is that significant progress would have been made.

The country/territory will provide a follow-up report to the Secretariat, before the report is due to be discussed by MONEYVAL. This report will be analysed and a summary report will be prepared which is a desk-based review. The Plenary will consider the report

(whether as a discussion or information item) and the progress made by the country/territory, and decide whether the country/territory should report back on a regular basis (its follow-up assessment), or should be placed in enhanced follow-up and report back sooner. A similar process would apply for subsequent regular follow-up reports.

ENHANCED FOLLOW-UP

In deciding whether to place a country/territory in enhanced follow-up, the Plenary would consider the following factors:

- a) After the discussion of the MER: a country/territory will be placed immediately into enhanced follow-up if any one of the following applies:
 - i) it has 8 or more NC/PC ratings for technical compliance, or
 - ii) it is rated NC/PC on any one or more of R.3, 5, 10, 11 and 20, or
 - iii) it has a low or moderate level of effectiveness for 7 or more of the 11 effectiveness outcomes, or
 - iv) it has a low level of effectiveness for 4 or more of the 11 effectiveness outcomes.

b) After the discussion of a follow-up report: the Plenary could decide to place the country/territory into enhanced follow-up at any stage in the regular follow-up process, if a significant number of priority actions have not been adequately addressed on a timely basis. Countries in enhanced follow-up would typically first report back four plenary meetings after the adoption of the country’s MER, and subsequently report twice more at intervals of three plenary meetings. The Plenary retains the discretion to vary the specific frequency of reporting. In addition to more frequent reporting, the Plenary may also apply other compliance measures to countries and territories, as set out under Compliance Enhancing Procedures (CEPs).

PUBLICATION POLICY

Unlike 4th round follow-up reports, 5th round follow-up reports together with the Secretariat’s analysis are routinely published on the MONEYVAL website.



Fifth round mutual evaluation report of Serbia

The report prepared by MONEYVAL analyses the implementation by Serbia of international standards on money laundering and terrorist financing since the last evaluation in 2009, and provides recommendations on how the system could be strengthened.

Serbia faces many significant money laundering threats and vulnerabilities, the report says, the major threat emanating from organised criminal groups involved in the smuggling and trafficking of narcotic drugs and trafficking of human beings. Tax evasion and corruption offences are considered to generate substantial criminal proceeds. The purchase of real estate, valuable moveable property and investment in securities is a preferred laundering method, which makes the banking, remittances and real estate sectors especially prone to money-laundering risk. The country is also greatly exposed to cross-border illicit flows.

Serbia as the first MONEYVAL country to have conducted a full scale national risk assessment, understands these risks. However, while banks and money remittance providers were found to apply effective measures to counter the risk, this was not the case with respect to real estate agents.

The report commends the authorities for their efforts to investigate one significant money laundering case connected with organised criminality, but also urged them to take immediate action to ensure that law enforcement efforts are fully commensurate with the money laundering risks faced by the country. A clear criminal policy on money laundering investigations and prosecutions should be established, including a centralised database for all the cases and a coordinated strategy.

With the separatist and/or extremist groups situated in the region and in certain parts of the southern regions of Serbia, the country also faces an elevated risk of financing of terrorism, particularly in relation to the non-profit sector and informal money remittances. The authorities acknowledge this and have taken measures to address the risk. However, there have been no convictions for financing of terrorism and only one prosecution. Besides, the existing mechanism of targeted financial sanctions regarding terrorism financing does not enable the implementation of the lists "without delay". This indicates that efforts in the field of fighting financing of terrorism should be intensified.

Serbia is to report back to MONEYVAL in May 2017 about the implementation of its recommendations under enhanced follow-up procedures.



Fifth round mutual evaluation report of Hungary

The report analyses the implementation by Hungary of international standards against money laundering and terrorist financing since the country's last evaluation in 2010, and provides recommendations on how the system could be strengthened. It finds that Hungary has a rather mixed understanding of its ML/FT risks. The NRA does not include sufficient depth with regard to potential ML/FT threats, vulnerabilities and their consequences. It also does not demonstrate the characteristics of a comprehensive assessment based on a robust methodology. The Hungarian authorities have not yet adopted a national AML/CFT strategy in the light of the outcome of the NRA, nor have they defined consequential policies and necessary actions coherently.

Hungary's use of financial intelligence and other information for ML/FT and associated predicate offence investigations demonstrates to a large extent the characteristics of an effective system. The good quality, timely and relevant work produced and assistance provided by the Hungarian Financial Intelligence Unit (HFIU) to other competent authorities contributes significantly to the efforts to detect and disrupt ML threats and deprive criminals of ill-gotten gains. However, law enforcement and other competent authorities did not demonstrate that they make appropriate use of financial intelligence and other relevant information for ML/FT investigations.

Although the number of investigations and prosecutions for ML are on the rise, the fight against ML activity is not a priority objective. The ML prosecutions are not commensurate with the risks and threats identified in the NRA. ML is treated mostly in a self-laundering context, with a limited number of cases highlighting structured ML schemes. The dependence of the ML offence on the identification of a specific predicate offence is a factor that has weighed on the effectiveness of the AML system.

The mandatory seizure/confiscation regime is legally sound and stringent, although the dependence on the predicate offence is a restraining factor. The statistics do not demonstrate the actual effective and successful application of the seizure/confiscation rules. However, some case examples are indicative of large amounts of proceeds susceptible to confiscation. The potential of the Asset Recovery Office (ARO) to provide support to investigations should be further exploited.

Hungary adopts a proactive approach against terrorism, albeit not particularly focused on the FT aspect. In the absence of FT-targeted investigations and prosecutions, an effectiveness assessment must rely mainly

on structural elements. Although the professionalism and good intelligence work of the Counter Terrorism Centre (TEK) and the HFIU are recognised, there are a number of considerations highlighting some weaknesses that should be addressed to achieve a better performing CTF regime.

Hungary has a legal basis to apply targeted financial sanctions regarding terrorist financing, but implementation has technical and effectiveness-related deficiencies. The application of freezing measures under the EU framework results in delays. Moreover, there are concerns related to the implementation procedures under the FRM Act. Deficiencies were also identified with regard to the national freezing mechanisms under the AML/CFT Act, in relation to communicating information to service providers and the application of criminal procedural measures for the enforcement of freezing measures.

Hungary has not undertaken a formal domestic review to determine if there is a subset within the NPO sector which may potentially be at risk of being misused for FT. There are doubts about the level of transparency of the NPO sector. No authority or mechanism has been designated to conduct outreach to the NPO sector on FT issues and to monitor the NPOs posing a higher FT risk.

AML/CFT supervisory activities in Hungary are not fully commensurate with the perception of ML/FT risks. While the Central Bank of Hungary (MNB) demonstrated a basic understanding of ML/FT risks for some FIs, this is not the case for all FIs. DNFBP supervisors do not identify and in principle maintain an understanding of ML/FT risks in their respective sectors, even though there are exceptions to this. Onsite inspections for compliance with AML/CFT obligations do not focus on areas of higher ML/FT risks. While the MNB and DNFBP supervisors are equipped with powers to impose administrative sanctions, the dissuasiveness of the sanctions imposed could be enhanced in order to create a greater incentive for all obliged entities to fully comply with the AML/CFT obligations.

Hungary demonstrates many characteristics of an effective system of international cooperation. Respective authorities use a wide and comprehensive framework of multilateral, bilateral and national legal instruments and other cooperation mechanisms to seek and provide good quality and timely international cooperation. The countries that gave input on the international co-operation of the Hungarian authorities found it to be generally satisfactory.

Hungary is to report back to MONEYVAL in December 2017 about the implementation of its recommendations under enhanced follow-up procedures.



Fifth round mutual evaluation report of the UK Crown Dependency of the Isle of Man

The report provides a summary of the AML/CFT measures in place in the Isle of Man ("IoM") as at the date of the on-site visit (25 April - 7 May 2016). It analyses the level of compliance with the FATF 40 Recommendations and the level of effectiveness of the IoM's AML/CFT system, and provides recommendations on how the system could be strengthened.

The coordination of anti-money laundering/countering the financing of terrorism ("AML/CFT") policies in the IoM is a strong point. The AML/CFT Strategic Group, assisted by the AML/CFT Technical Group, takes the lead in this area and has been extremely active in promoting sound AML/CFT policies and bringing about significant reforms. The Strategic Group was at the time of the on-site visit overseeing the implementation of an action plan based on the findings of the NRA. It is expected that the action plan, once completed, will result in significant improvements across many areas within the IoM's AML/CFT regime.

As a result of the National Risk Assessment ("NRA") completed in 2015, the authorities have a thorough understanding of where the money laundering ("ML") and financing of terrorism ("FT") vulnerabilities lie within the national institutional and legal framework. They are also aware of which sectors are most vulnerable to ML/FT, both through years of experience in supervision and a reasonably comprehensive assessment, conducted as part of the NRA process, of the products, services and customers present in the IoM.

While the authorities are aware that the ML/FT threats are mainly external, their understanding of threats may be incomplete due to (a) the limited aggregated data available on the volume and destination of outgoing and incoming flows of funds in the financial sector and (b) the absence of aggregated data on where the beneficial owners of assets managed or funds held in the IoM are from or which countries those funds are coming from. The absence of this data creates challenges in determining whether any flows leaving the IoM could potentially be linked to FT, terrorist groups or individual terrorists in other countries, especially in high-risk jurisdictions.

Financial intelligence generated by the financial intelligence unit ("FIU") has been used successfully by the Financial Crime Unit of the IoM Constabulary ("FCU") to develop evidence and trace criminal proceeds in some significant ML cases. However, other than those few cases, the FIU conducted limited in-depth analysis and, as a result, the intelligence products of the FIU only occasionally added significant value. The intelligence chain appears to be hampered by

the low quality of suspicious activity reports (“SARs”) received from reporting entities and the absence of reports on suspicions identified at the borders from the Customs and Excise Division (“CED”).

The authorities have been successful in prosecuting and achieving convictions for all types of ML, including self-laundering, third party ML and stand-alone ML. However, the number of convictions achieved is modest and the results do not reflect the risk-profile of the IoM. In the period under review, there were no domestically-initiated ML cases involving foreign predicate offences. Very few parallel financial investigations have been conducted. The FCU does not appear to take a proactive approach to identify, initiate and prioritise ML cases focusing on more complex cases, involving potential abuse of or by the IoM financial sector where property is the proceeds of foreign predicates. This also has an effect on the confiscation of proceeds of crime, since they are not identified through financial investigations and restrained at a very early stage. The overall value of property restrained and confiscated remains extremely low.

The authorities have not, to date, detected any potential cases of FT and therefore have not had the opportunity to demonstrate the effective investigation and prosecution of FT. This may be partly explained by the lack of awareness and proactive approach in relation to potential suspicions of FT. A number of cases were noted where potential FT activities should have been at least considered for investigation, especially in relation to FT SARs, matches with United Nations Security Council Resolutions (“UNSCRs”) and one mutual legal assistance (“MLA”) request. There is no local dedicated anti-terrorism unit although training has been provided to some police officers.

The IoM provides constructive and timely MLA, especially with respect to requests for restraint orders. Informal cooperation is conducted effectively to a large extent. The authorities regularly seek assistance from the United Kingdom (“UK”), although much less frequently from other countries.

Financial institutions (“FIs”) and designated non-financial businesses and professions (“DNFBPs”) assess ML/FT risk at business level, apply a risk-based approach to CDD and generally demonstrate knowledge of AML/CFT requirements. However, the evaluators are of the opinion that there is insufficient understanding of risks where FIs operate relationships for intermediary customers and where use is made of customer due diligence (“CDD”) information presented by third parties that have collected this information in turn from other parties (“information chains”). It is not clear that this inherent risk is being mitigated. Overall, the number of customers assessed as presenting a higher risk appears low compared to risks inherent in the IoM. There is no comprehensive requirement

to have an independent audit function (in relation to certain FIs and DNFBPs) to test the AML/CFT system.

Compliance by FIs and DNFBPs with AML/CFT requirements is actively supervised by the Financial Services Authority (“IOMFSA”) and the Gambling Supervision Commission (“GSC”). However, the current legislative framework for supervising compliance by DNFBPs (except trust and corporate service providers (“TCSPs”) and online gambling operators, which have been subject to supervision for a number of years) is still very new as is the application of a risk-based approach by the GSC. Furthermore, the IOMFSA does not routinely collect statistics and information that allow it to fully consider ML/FT risk in the financial sector as a whole and at sector level. Nor has the risk that arises from the use made by banks of CDD information provided through chains of introductions received sufficient attention from the IOMFSA. There has been over reliance in the past by the IOMFSA on the use of remediation plans to address AML/CFT issues, though steps have been taken to address this issue.

Measures to prevent the misuse of legal persons and legal arrangements for ML and FT are based around the IOMFSA’s long-standing regulation and supervision of TCSPs (which, unlike in many other countries, is not limited to AML/CFT compliance). However, it is common for TCSPs not to meet their customer (or beneficial owner(s) thereof) and to use professional intermediaries to collect (and certify) CDD information; and so there is an increased inherent risk that they may be provided with incomplete or false information. Measures do not extend to all trusts governed by IoM law. The authorities have not considered cases where legal persons and trusts established under IoM law have been used to disguise ownership or to launder the proceeds of crime.

The IoM is to report back to MONEYVAL at its first plenary in 2018 about the implementation of its recommendations under the enhanced follow-up procedures.



First follow-up report of Armenia

Following the adoption of the 5th round MER in December 2015, Armenia was placed in regular follow-up and requested to report back to the Plenary after two and a half years. In addition, Armenia was requested to report back on the progress made to implement the first recommended action under Immediate Outcome 11 at the 52nd Plenary in December 2016. At that occasion, the Secretariat reminded the Plenary that Armenia had been recommended to bring their sanctioning regime for

the financing of proliferation of weapons of mass destruction more explicitly into the AML/CFT Law to avoid any possible legal challenges to sanctions under R.7. Since the adoption of the MER, Armenia put forward amendments to the relevant provision in the AML/CFT Law to address this recommendation. The amendments were at an advanced stage of the

adoption process. The Plenary positively noted the action taken by Armenia to address the deficiency underlying R.7 and encouraged Armenia to adopt the amendments as expeditiously as possible. The Plenary adopted the interim report submitted by Armenia and invited the country to submit a full follow-up report for the first plenary of 2018.

Compliance enhancing procedures

STRUCTURE

MONEYVAL's Compliance Enhancing Procedures (CEPs) ensure that countries take steps to meet the international standards and follow MONEYVAL recommendations within an appropriate time frame. The Rules of Procedure in respect of CEPs changed at the end of 2013. The graduated process is as follows:

Steps in CEPs process

Step 1: MONEYVAL inviting the Secretary General of the Council of Europe to send a letter to the relevant Minister(s) of the State or territory concerned, drawing his/her/their attention to non-compliance with the reference documents and the necessary corrective measures to be taken.

Step 2: Arranging a high-level mission to the non-complying State or territory to meet relevant Ministers and senior officials to reinforce this message.

Step 3: In the context of the application of the 2012 FATF Recommendation 19 by MONEYVAL States and territories, issuing a formal public statement to the effect that a State or territory insufficiently complied with the reference documents and inviting the members of the global AML/CFT network to take into account the risks posed by the non-complying State or territory.

Step 4: Referring the matter for possible consideration under the FATF's International Co-operation Review Group (ICRG) process, if this meets the nomination criteria set out under the ICRG procedures.

The CEPs process can be applied flexibly according to need. Countries may be placed in the CEPs process as a result of Plenary discussions on mutual evaluation reports, follow-up reports, as a result of horizontal reviews of overall progress at the end of an evaluation round, or for other reasons.

Throughout the application of these steps, the country concerned is required to report to the Plenary

according to the calendar set, detailing the steps taken to achieve compliance, which in certain cases may include action plans endorsed at government level. If the Plenary is satisfied with the progress, the application of CEPs steps can be terminated.

CEPS REPORTS CONSIDERED IN 2016



Czech Republic

Following the Plenary decision in September 2015, and given the lack of progress on Recommendations 1, 3, 35 and Special Recommendation II, the Czech Republic was placed into the enhanced follow-up procedure and Step 1 of the Compliance Enhancing Procedures (CEPs) was applied. The country was requested to provide its first compliance report in April 2016. At that Plenary, the Committee agreed that the major shortcoming underlying Recommendation 1 remained outstanding, while the deficiencies in relation to both Special Recommendation II and Recommendation 35 still remained at a level equivalent to partially compliant. Due to the limited progress made with respect to the above-mentioned Recommendations, especially with respect to Special Recommendation II, and in light of the fact that the 4th round mutual evaluation report dates back to 2011, the Plenary decided to apply Step 2 of MONEYVAL's Compliance Enhancing Procedures.

As part of Step 2, a high-level mission to the Czech Republic took place from 8-9 June 2016. A MONEYVAL delegation, composed of the Chairman, the Director of Information Society and Action against Crime and the Executive Secretary, met with a number of high-level politicians (including the Minister of Justice) and senior civil servants to discuss the necessary legislative changes which are currently underway, in particular as far as the deficiencies identified by the FATF on terrorist financing are concerned.

At the subsequent September Plenary, the Chairman thanked the Czech delegation for the cooperative and constructive spirit in which the high-level mission was conducted. The Plenary welcomed that the Czech Republic has made certain progress since the last compliance report in April 2016, including a high-level statement by the Minister of Justice to the Council of Europe's Secretary General to rectify the outstanding issues identified in the 4th round MER of 2011. The Plenary welcomed in particular that the Czech government had recognised the urgency of rectifying deficiencies under SR.II and had submitted draft amendments to the Criminal Code to the Parliament, to be adopted in an expedited procedure. The Plenary considered that progress on the outstanding deficiencies identified in the 4th round MER of 2011 on R.1 also needed to be urgently accelerated. It found that the Czech Republic should have the necessary changes in place sufficiently in advance of the 5th round mutual evaluation in 2018, in order to be able to demonstrate their efficient application.

At the December Plenary, MONEYVAL noted positively that the Czech Republic had made further progress, in particular with regard to the rectification of the deficiencies under SR.II. Respective amendments to the Criminal Code had meanwhile passed the Chamber of Deputies in October and the Senate in late November (they entered into force on 1 February 2017). The Plenary found that the Czech Republic had demonstrated progress which made it unnecessary for it to revert at this point to any additional steps in the enhanced follow-up procedure. At the same time, the deficiencies on R.1 and SR.II remained outstanding, with the legislative procedure relating to SR.II at least being close to finalisation. In the absence of such formal finalisation of the legislative process before the December Plenary, and bearing in mind the outstanding deficiencies under R.1, the Plenary considered that, on the other hand, the lifting of CEPs would be premature. The Plenary had regard to Rule 13, paragraph 8 (as revised in April 2016) of MONEYVAL's 4th round Rules of Procedure which states that "[r]eporting under this follow-up procedure will be discontinued upon commencement of the 5th round process (i.e. within one year of a 5th round onsite visit)". Given that the onsite visit for the Czech Republic in the 5th round of mutual evaluations is envisaged for the first half of 2018, and the next MONEYVAL Plenary takes place in early June 2017, the Plenary suspended the CEPs once the official preparations for the Czech Republic's evaluation have commenced in 2017. In that event, the Plenary invited the Czech Republic to provide an update on developments through the tour de table procedure. Should the onsite visit to the Czech Republic, for whatever reasons, be postponed beyond the first half of 2018, the Plenary would invite the country to submit within the framework of the enhanced follow-up procedure a further compliance report at the occasion of the 53rd Plenary.



Montenegro

At MONEYVAL's 47th Plenary in April 2015, Montenegro was placed under Step 1 of CEPs. It was requested to submit a report by April 2016 on the progress and actions taken to address the deficiencies underlying each of the FATF Recommendations rated "partly compliant" (PC) or "non-compliant" (NC) in its 4th round report. The Secretariat reported that the authorities had made good progress in some areas, in particular, the creation of a Special Prosecutor's Office to streamline the investigation and prosecution of money laundering and terrorism offences. A Law on Seizure and Confiscation had been introduced to extend the circumstances in which mutual legal assistance could be provided, and amendments had also been made to the Law on Criminal Liability of Legal Entities and to the AML/CFT Law. Despite this, a number of deficiencies had still to be addressed. A number of amendments to the Criminal Code to address gaps in money laundering and terrorist financing offences were planned but would not be adopted by Parliament until the third quarter of 2017, and there were still important deficiencies in Montenegro's implementation of UNSCR 1267. More significantly, UNSCR 1373 has still not been implemented in Montenegro. Whilst amendments to laws administered by the Central Bank and Securities and Exchange Commission to provide each with additional powers to prevent criminals from owning or controlling financial institutions and to facilitate international cooperation were well advanced, it was noted that they would not come into force for some time. Furthermore, a number of other changes were still required to the AML/CFT Law, e.g. to extend its application to customers who are legal arrangements, to give additional supervisory powers to the FIU (in its capacity as a supervisor) and to address deficiencies highlighted in reporting suspicion of money laundering and terrorist financing. The Plenary acknowledged that, whilst progress had been made in a number of areas, priority should be given to addressing the remaining deficiencies, in particular those concerning the provisional freezing of terrorist assets. It was considered important to send a strong message to MONEYVAL's membership that any further delays in implementing UN Security Council Resolutions were not acceptable. The Plenary noted that, since technical assistance would be provided to the authorities, there would be a need for MONEYVAL to liaise with other parts of the Council of Europe. It requested Montenegro to provide a further follow-up report to the 51st Plenary in September 2016 to demonstrate that timely action had been taken to address the remaining deficiencies.

At that Plenary, MONEYVAL considered a written analysis of a second compliance report prepared by the Montenegrin authorities on action being taken to address remaining deficiencies highlighted in the country's 4th round mutual evaluation report. It was noted that the Government of Montenegro had adopted a Decision in July 2016 under the Law on International Restrictive Measures ("Law on IRM") to take action against "Da'esh" (also known as IS) and Al-Qaeda (and with them related individuals, groups, subjects and entities) in line with UNSCR 1267(1999). However, measures had not also been taken to address UNSCR 1988 (2011) and so there is no reference in the Decision to persons or entities that are designated by the 1988 Committee. There are also some inconsistencies between the Law on IRM and the Decision, and it is not certain that the Decision applies all parts of UNSCR 1267 (1999). Moreover, Montenegro had not yet taken measures to implement UNSCR 1373 (2001), though the authorities had now decided that they could do so through the Law on IRM. Notwithstanding the above, it was noted that technical support had been provided by the Council of Europe on the implementation of FATF Recommendation 6 (which replaces SR.III).

Whilst there had been only partial implementation of SR.III, and no commitment or timetable provided in respect of AML/CFT legislative amendments, the Secretariat considered that positive action was being taken to implement Recommendation 6 (which replaces SR.III), which has high-level political support. On this basis, it considered it premature to suggest the application of Step 2 under CEPS, since the Minister of Finance was aware of deficiencies and the necessary corrective measures to be taken. The Chairman informed the Plenary about the discussion in the Bureau on this issue, which had supported delaying the taking of a decision on the application of Step 2 measures until the 52nd Plenary. In reaching this conclusion, they had been mindful also of forthcoming national elections and the short period of time between Plenaries. However, he stressed the importance of implementing Recommendation 6 in line with the action plan that had been prepared: any delays would lead to serious consideration in December 2016 of application of Step 2 measures.

At the December Plenary, MONEYVAL welcomed the adoption by the Government of Montenegro of an Action Plan on the Implementation of UNSCR 1373 (2001) since the second compliance report was considered in September 2016. This Action Plan also deals with the application in Montenegro of UNSCR 1267 (1999). However, it was noted that the majority of implementation deadlines set in the Action Plan (some of which related to legislative amendments) were for the third quarter of 2017 which means that there would be a further delay in the rectification of deficiencies related to Special Recommendation III.

The Plenary also noted that the political commitment and revised timetable requested for other legislative amendments needed to address deficiencies highlighted in Montenegro's 4th Round MER (in respect of core and key Recommendations 1, 3, 5, 13, 23, 26 and 40 and Special Recommendations I, II, IV and V) had not been provided. The Chairman observed that deadlines set in April and September 2016 had not been met by the authorities, in part due to recent elections. However, it was important for the Plenary to take a consistent approach to the application of CEPs. In light of the foregoing, the Plenary decided to apply Step 2 of CEPs. This would entail a high-level mission to Montenegro and involve meetings with relevant Ministers and senior officials in order to stress the importance of prioritising actions to address deficiencies identified in the 4th round MER. The high-level mission will take place on 3-4 May 2017.

TERRORIST FINANCING FACT-FINDING INITIATIVE

In light of the unabated threat of "Da'esh" (also known as IS) and other terrorist groups, the FATF and the global AML/CFT network continued to focus on the global threat of terrorist financing. MONEYVAL, as well as the other FSRBs, assisted the FATF in conducting follow-up activities to the Terrorist Financing Fact-Finding Initiative (TFFFI), undertaken to identify jurisdictions in the global network with fundamental or significant gaps in their implementation of FATF Recommendations 5 and 6.

In April 2016 the Plenary, acting on a proposal from the Bureau and the Secretariat, approved the establishment of a follow-up procedure to the TFFFI within MONEYVAL. The jurisdictions with significant deficiencies were requested to provide the MONEYVAL Secretariat with an update of achieved and planned progress. In September, the Secretariat presented an information paper with an update on the follow-up process. While a number of jurisdictions made important progress in addressing deficiencies under Recommendations 5 and 6, it was emphasised that further concrete steps are required by many of the concerned countries which were requested to continue informing the Secretariat on any adopted and planned measures.

At the December Plenary, the Secretariat presented its analysis of the second progress update under the TFFFI follow-up procedure within MONEYVAL describing the actions made by the countries to remedy significant gaps in their legal frameworks. The decision was taken to remove Bosnia and Herzegovina, Montenegro and the Republic of Moldova from the procedure in light of progress made. The Plenary also noted positively the legislative amendments made by the Czech Republic whose follow-up was addressed at FATF-level (and



Ms Gabriella Battaini-Dragoni



Mr David Lewis



Mr Michael Lauber

which led to a removal from the process in February 2017). The countries remaining in the follow-up procedure (Cyprus, Lithuania, “The Former Yugoslav Republic of Macedonia” and Poland) were requested to fully address the deficiencies by the time of the next Plenary session.

In 2017, MONEYVAL will maintain its focus on combatting terrorist financing and the progress made regarding the deficiencies falling in the scope of the TFFFI will be further discussed at the 53th Plenary (30 May – 1 June).

50th PLENARY AND ITS SPECIAL SESSION ON TERRORIST FINANCING

MONEYVAL held its 50th Plenary session in April 2016. This anniversary Plenary was opened by Ms Gabriella Battaini-Dragoni, Deputy Secretary General of the Council of Europe. She highlighted that “in the past two decades, MONEYVAL has become a globally renowned player in the anti-money laundering and counter-terrorist financing community”. She added that MONEYVAL is the most experienced FATF-style regional body when it comes to conducting mutual evaluations that provides consistent and accurate interpretations of the FATF standards in the European region. “In the past year the Council of Europe has taken a number of important steps to help our member states combat violent extremism”, the Deputy Secretary General stated, and MONEYVAL’s actions to step up counter-terrorist financing measures “are a hugely valuable addition to this body of on-going work”.

This was followed⁶ by a keynote address by Mr David Lewis, Executive Secretary of the FATF. Mr Lewis stressed the essential role that MONEYVAL plays in the global AML/CFT network, being “one of the oldest and strongest FSRBs in the global network” and setting

“an example for all to follow”. Mr Lewis added that: “MONEYVAL was the only FSRB to conduct two rounds of evaluations under the 2004 FATF methodology and was the first FSRB to start assessing effectiveness.”

To mark its 50th Plenary session, MONEYVAL held at the end of that Plenary a special session on terrorist financing which had been organised by the Chair. The purpose of the special session was to keep MONEYVAL delegations updated on the emerging terrorist financing threat, mainly related to “Da’esh” (also known as IS), and to promote measures how to mitigate the related risks. The session was aimed at contributing to improve the ability of MONEYVAL delegations to take enhanced measures in their domestic framework and to improve domestic and international cooperation on terrorist financing.

Mr Michael Lauber, Attorney General of Switzerland, gave a keynote speech on Switzerland’s experience with terrorism and terrorism financing. Representatives of Israel, the Netherlands and France gave presentations on how financial intelligence units contribute to identifying and tackling terrorist funding sources, including of foreign terrorist fighters. A representative from the Russian Federation presented the latest resolutions of the United Nations Security Council on tackling “Da’esh” (also known as IS) funding sources; and the US presented its domestic system and practice of freezing terrorist assets. The European Commission presented the new EU Action Plan against Terrorist Financing; and the FATF presented its new Terrorist Financing Strategy. For a detailed agenda of this session, see Annex I to the report of the 50th Plenary of MONEYVAL, which is available on its website. The Secretariat circulated the different presentations, as far as they were available, to delegations and also made them available through the restricted website.

⁶ Both key addresses are available in full length on the MONEYVAL website.



Mr Juan Manuel Vega-Serrano, President of the FATF (second person from the right), giving the opening key address at MONEYVAL's 52nd Plenary in December 2016

Other important activities and initiatives in 2016

In addition to its normal evaluation cycles, progress and follow-up reports and other peer pressure assessment mechanisms, MONEYVAL engages in many other important activities, including those listed below.

KEY PARTNERSHIPS

As previously noted, MONEYVAL is a key partner in the global network of AML/CFT assessment bodies.



The Financial Action Task Force (FATF)

The Financial Action Task Force (FATF) continues to be MONEYVAL's primary international partner and collaborator. The FATF is an inter-governmental body established in 1989 and designed to set standards and promote effective implementation of anti-money laundering and terrorist financing measures. The FATF is therefore a policy-making body which works to generate the necessary political will to bring about national legislative and regulatory reforms. It operates in combination with FATF-style regional bodies, among which MONEYVAL is recognised as a leading member.

As an associate member of the FATF since 2006, MONEYVAL contributes to the policy-making work of the FATF. The Chair, the Vice-Chair and the Executive Secretary regularly attend and actively contribute in FATF working groups and plenary meetings, together with delegates from MONEYVAL countries and territories who participate under the MONEYVAL flag. Thus, MONEYVAL States and territories have real opportunities of inputting into the FATF's global AML/CFT policy-making.

Considerable MONEYVAL Secretariat resources are applied to following the work of each of the main FATF working groups, and in attendance at inter-sessional meetings – particularly the International Co-operation Review Group (ICRG) and the Evaluations

and Compliance Group (ECG), which deals with issues involving interpretation of the global standards and the development of the global AML/CFT Methodology.

In 2016, MONEYVAL attended three regular FATF Plenaries. Mr Juan Manuel Vega-Serrano, President of the FATF, opened MONEYVAL's 52nd Plenary in December.

MONEYVAL has mutual observer status with other associate members of the FATF and co-operates with them on a number of levels. The full list of associate members appears at Appendix IV to this report.

A new form of quality and consistency review has been introduced as part of the FATF mutual evaluation process including an external element. The main functions of the reviewers are to ensure MERs are of an acceptable level of quality and consistency, and to assist the assessment team by reviewing and providing timely input on the scoping note and the draft MER and Executive Summary including:

- ▶ commenting on the assessors' proposals for the scope of the onsite visit;
- ▶ commenting on whether there has been a correct interpretation of the FATF Standards and application of the Methodology (including the assessment of risks, integration of the findings on technical compliance and effectiveness, and areas where the analysis and conclusions are identified as being clearly deficient);
- ▶ checking whether the description and analysis supports the conclusions (including ratings), and whether, based on these findings, sensible priority recommendations for improvement are made;
- ▶ where applicable, highlighting potential inconsistencies with earlier decisions adopted by the FATF on technical compliance and effectiveness issues; and
- ▶ checking that the substance of the report is generally coherent and comprehensible.

International Co-operation Review Group & Europe/Eurasia Regional Review Group

In 2009, the G20 called on the FATF to identify jurisdictions which threatened the global financial system. Countries can be nominated directly or are considered automatically if their evaluation reports have a number of low ratings in important core and key Recommendations. All European jurisdictions identified for review by the International Co-operation Review Group (ICRG) are referred to the Europe/Eurasia Regional Review Group (ERRG). The ERRG, which was co-chaired in 2016 by the MONEYVAL Chairman, Mr Daniel Thelesklaf, in turn analyses the factual situations and reports from the region to the ICRG. Finally, the ICRG decides whether a full targeted review is required and final decisions are taken on this by the FATF Plenary. The ICRG process is intended to complement the follow-up procedures of the regional bodies.

MONEYVAL jurisdictions in the ICRG/ERRG process

Bosnia and Herzegovina

MONEYVAL decided in 2015 to refer Bosnia and Herzegovina to the International Cooperation Review Group (ICRG) process of the FATF, which is currently on-going.

The International Monetary Fund and the World Bank

Since 11 September 2001, the role of the international financial institutions (IFIs) in AML/CFT has expanded. The clear engagement of the IFIs with the FATF and MONEYVAL was based on the decisions of their Boards after the events of 11 September 2001 that AML/CFT issues should be routine parts of all their much larger financial sector assessments in their member States. In 2016, representatives from both the IMF and the World Bank actively participated in MONEYVAL plenary meetings. The World Bank acted as reviewer in several of MONEYVAL's report in 2016.

At the 52nd Plenary, the representative of the World Bank gave a detailed presentation on the joint World Bank/Egmont Project on "FIU cooperation with law enforcement authorities and prosecutors", in particular the preliminary findings from the outcome results of the FIU survey. The responses from 91 countries revealed the areas of potential concern related to access of FIUs to law enforcement information, spontaneous dissemination, dissemination upon request and FIUs involvement in financial investigations. He also pointed out that LEAs from 56 countries had already sent their responses to the survey. That information was currently being analysed to see how the LEAs perceived their cooperation with the FIUs. According to the project schedule, the final findings of the study

are going to be discussed at the Egmont Group Plenary in July 2017. The representative of the World Bank also informed the Plenary about the progress in completing NRA projects with Andorra, Cyprus, and the Holy See, and gave an update about ongoing projects with MONEYVAL jurisdictions.



The European Union

The EU has been actively involved in MONEYVAL since its inception. In fact, the EU encouraged its creation. It is represented in MONEYVAL through the European Commission and the Council of the European Union. As a distinctly European monitoring mechanism,

MONEYVAL has always had the European Union Directives as part of its mandate. In previous rounds, MONEYVAL additionally evaluated all its jurisdictions – whether EU members or not⁷ – on those parts of the 3rd AML/CFT EU Directive⁸ that depart from the FATF standards.

Representatives from the EU regularly attend the MONEYVAL plenary meetings and have provided the following updates. At the 51st Plenary, the representative of the European Commission (EC) provided a brief overview of the amendments to the 4th AML EU Directive, the recently adopted list of «high-risk third countries» having strategic deficiencies, as well as measures with regard to the implementation of the Commission's Action Plan for Strengthening the Fight against Terrorist Financing. The representative of the Commission provided at the 52nd Plenary a brief overview of the developments under the two AML priorities at EU level. In particular, the EC is in the negotiation process for the revision of the 4th AML EU Directive. The Plenary was also informed that the EU will finalise its first supranational risk assessment report by June 2017. By the end of the year, the EC is planning a review of the Cash-Control Regulation, as well as proposals for a Directive on criminalising ML at EU level, as well as for the improvement of mutual recognition on freezing and confiscation orders within the EU.

7. 12 MONEYVAL jurisdictions are currently member States of the EU.

8. Directive 2005/60/EC.



United Nations

The United Nations' global AML/CFT standards are embodied in the FATF standards. The United Nations Office on Drugs and Crime and Counter-Terrorism Committee Executive Directorate (CTED) send representatives to MONEYVAL. MONEYVAL has successfully collaborated on several occasions with CTED on its separate assessments of UN Security Council Resolution 1373 on terrorist financing in MONEYVAL countries. During the 52nd Plenary, the UNODC informed the Plenary about the main projects underway, specifically focusing on supporting the NRA of Bosnia and Herzegovina conducted together with the World Bank and providing a series of technical trainings for practitioners in South East Europe to counter the smuggling of migrants and investigate ML through virtual currencies.



The Organisation for Security and Co-operation in Europe (OSCE)

On 25-26 February 2016, Mr Matthias Kloth (Executive Secretary of MONEYVAL) and Mr Michael Stellini (Head of Unit in the MONEYVAL Secretariat) took part in a joint international workshop "Current issues of AML/CFT: nowadays challenges", which was organised by the OSCE, together with the "Deutsche Gesellschaft für Internationale Zusammenarbeit" (GIZ) and the State Financial Monitoring Service of Ukraine.

Egmont Group

The Egmont Group was established in 1995 as an international forum bringing together FIUs in order to improve and systemise AML/CFT co-operation, particularly at intelligence level. The work of the FIUs is an integral part of the FATF standards, and MONEYVAL evaluations. MONEYVAL has observer status and has actively participated in Egmont Group meetings and contributed to training of FIU staff.

Mutual collaboration by MONEYVAL with the Egmont Group enriches the evaluators' and the Secretariat's understanding of the working methods of FIUs. The Egmont Group was instrumental in pressing for FIU standards to be covered in an international legal instrument and contributed actively to the negotiation of the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism. MONEYVAL's law enforcement scientific expert, Mr Boudewijn Verhelst, was the Chair of the Egmont Group from 2010 to 2013.

At the 52nd Plenary, the representative of the Egmont Group updated the Plenary on the following technical

and training initiatives of the Group: (1) the Corporate Vehicles and Financial Products (CORFIN) course that was first held in June 2016 and which will be translated into four different languages; (2) e-learning courses developed together with the International Centre for Asset Recovery (ICAR); and (3) the FIU Information System Maturity Model (FISMM) and Securing an FIU (SEC-FIU) courses that have been offered since September 2015. The Plenary was also encouraged to cooperate in setting up the "Egmont Centre of Excellence and Leadership" (ECOFEL) which provides support to the FIUs to respond to technical training and capacity needs.

In his capacity as international policy adviser to Guernsey's FIU, Mr Richard Walker gave a presentation at the 51st Plenary about an ongoing project by the Egmont Group on STR reporting. The project will aggregate and analyse STR information by sector, by jurisdiction and by region in such a way that it can be used to provide examples for individual FIUs to help them reach conclusions on whether the number and pattern of STRs is consistent with peer jurisdictions and neighbouring jurisdictions. The survey focuses substantially on terrorist financing as well as money laundering, and to a large extent treats STRs made for these two purposes separately. As it is crucial for FIUs to have the most up to date information possible on terrorist financing issues so that they and other authorities can be as effective as possible, the survey aims to contribute significantly to this objective. Delegations were encouraged to respond to the survey, by giving fullest possible responses so that the best possible reports can be circulated to the membership.

The Eurasian Group on combating money laundering and financing of terrorism

The Eurasian group on combating money laundering and financing of terrorism (EAG) is a FATF-style regional body bringing together Belarus, India, Kazakhstan, China, Kyrgyzstan, Russia, Tajikistan, Turkmenistan and Uzbekistan. 14 more States and 18 international and regional organisations have observer status within the EAG. Representatives from the EAG regularly attend MONEYVAL plenary meetings, and the 3rd round evaluation of the Russian Federation was conducted jointly with the FATF and EAG.

The EAG representative informed the Committee at its 52nd Plenary about the main outcomes of the 25th EAG Plenary meeting held in New Delhi, India, including a discussion on "Da'esh" (IS) financing, the removal of Belarus from the follow-up process as well as the EAG monitoring procedure under the TFFFI. It was also added that a seminar on the main deficiencies identified in the new round of mutual evaluations was conducted in the margins of the Plenary.

European Bank for Reconstruction and Development (EBRD)

The European Bank for Reconstruction and Development (EBRD) is an international financial institution founded in 1991. As a multilateral developmental investment bank, the EBRD uses investment as a tool to build market economies. Initially focused on the countries of the former Eastern Bloc it expanded to support development in more than 30 countries from central Europe to central Asia. Besides Europe, member countries of the EBRD are from all 5 continents (i.e. North America, Africa, Asia and Australia). Representatives of the EBRD attend MONEYVAL meetings on a regular basis. At its 52nd Plenary, the representative of the EBRD informed the Plenary about two initiatives aimed at combatting ML/FT: (1) targeted consultancy for financial institution clients to improve their own AML/CFT programs and help them to implement international best practices and local legislation; (2) trainings and seminars in the countries where the EBRD operates dedicated to international AML/CFT standards.

The Group of International Finance Centre Supervisors (GIFCS)

The Group of International Finance Centre Supervisors (GIFCS) is a long-established group of financial services supervisors with a core interest of promoting the adoption of international regulatory standards especially in the banking, fiduciary and AML/CFT arena. Representatives of the GIFCS attend MONEYVAL meetings on a regular basis. At its 52nd Plenary, the representative of the GIFCS brought to the attention of the Plenary inter alia the following points: (1) one of its current priorities is to support the FATF initiative to engage with the private sector in FinTech and RegTech developments; (2) GIFCS is also participating in the G20 initiative to improve the transparency of beneficial ownership; (3) the organisation will soon present its work on TSCP supervision to the FATF.

PARTICIPATION IN OTHER FORUMS

Exchange of views with the Parliamentary Assembly and Committee of Ministers of the Council of Europe

Mr Daniel Thelesklaf, Chairman of MONEYVAL, took part in an exchange of views with the Standing Committee of the Parliamentary Assembly (Tallinn, 27 May 2016) and the Committee of Ministers (Strasbourg, 6 July 2016). The latter exchange of views took place on the occasion of the adoption of MONEYVAL's annual report 2015.

European Parliament

In his capacity as Chairman of MONEYVAL, Mr Thelesklaf was also invited as speaker to a hearing of the European Parliament's Committee of Inquiry into Money Laundering, Tax Avoidance and Tax Evasion (PANA) on 13 October in Brussels, which he had attended together with Mr Matthias Kloth, the Executive Secretary of MONEYVAL. On the same day, he also represented MONEYVAL at a workshop on "Protection of the EU's financial interests - Recovery of money and assets from third countries in fraud cases" which had been likewise organised by the European Parliament.

Scientific and research conference "Threats and Risks to Global Economy"

The Chair and the Executive Secretary also participated in the scientific and research conference "Threats and Risks to Global Economy" (2-3 November 2016), which had been organised on the occasion of the 15th anniversary of Rosfinmonitoring (the FIU of the Russian Federation).

Workshop on AML/CFT issues and current challenges

The Executive Secretary and Mr Michael Stellini (Head of Unit in the MONEYVAL Secretariat) took part in a workshop organised by the Armenian authorities (17-18 May 2016) on AML/CFT measures and current challenges, where issues identified in the MER of Armenia were discussed with representatives of the central bank, the general prosecutor's office, and the ministries of finance and justice as well as several LEAs.

Expert meeting on "Fostering Co-operation in Combatting Corruption and Money Laundering"

Mr Stellini also took part in an expert meeting on "Fostering Co-operation in Combatting Corruption and Money Laundering" on 5-6 September 2016 in Vienna, which was organised inter alia by the OSCE, the Office for Prevention and Fight Against Money Laundering of the Republic of Moldova and the EU High-Level Adviser in the field of Anti-Money Laundering in the Republic of Moldova and the United Nations Office on Drugs and Crime (UNODC). His presentation dealt with "Initiatives of the international organisations aimed at minimising risks of using off-shore companies for money laundering crimes".

Workshops on the Financing of Terrorism

Ms Astghik Karamanukyan from the MONEYVAL Secretariat participated in a workshop in Brussels on 30 June 2016 on the financing of terrorism, which was organised by the AME (Anti-Money Laundering

Europe), a Brussels-based interactive public/private sector forum on EU financial crime issues, as well as the Royal United Services Institute. The event addressed the main elements of the "EU's Action Plan to strengthen the fight against terrorist financing". Ms Karamanukyan talked about the experience in asset freezing of MONEYVAL non-EU countries assessed under its 5th round of mutual evaluations.

Ms Veronika Mets from the MONEYVAL Secretariat participated in a workshop on "Facing new challenges in combatting terrorist financing" held in Prague (19-20 September), which was organised inter alia by the Czech Ministry of Finance, the Council of Europe and Norway Grants. Ms Mets talked about challenges in conducting national risk assessments with regard to terrorist financing.

Workshop on effective supervision

Mr Michael Stellini participated in a workshop organised by the International Training and Methodology Centre for Financial Monitoring in Minsk, Belarus from 12 to 13 December. The focus will be on effective supervision. Mr Stellini spoke about best practices adopted by MONEYVAL countries which have been evaluated under the new round of evaluations. Mr Stellini also participated in a one-day consultation meeting with the Interagency AML/CFT Commission of the Russian Federation, together with representatives of the private sector. The meeting took place in Moscow on 15 December 2016.

Committee of Experts on Terrorism (CODEXTER) Drafting Group on Special Investigation Techniques

Mr Boudewijn Verhelst, scientific expert of MONEYVAL, took part in a meeting of the Committee of Experts on Terrorism (CODEXTER) Drafting Group on Special Investigation Techniques, which is tasked with the update of "Recommendation Rec(2005)10 of the Committee of Ministers to member states on 'special investigation techniques' in relation to serious crimes including acts of terrorism", originally adopted by the Committee of Ministers on 20 April 2005. The meeting took place in Rome on 18 February 2016.

TRAINING AND AWARENESS-RAISING

Evaluator trainings

In 2016, MONEYVAL organised a training seminar for future 5th round evaluators and the FATF 2013 Methodology. The seminar was held in Jerusalem (Israel) from 31 May to 3 June and gathered 30 participants from 28 MONEYVAL jurisdictions. The aim of the seminar was to train future evaluators in MONEYVAL's 5th round of mutual evaluations. MONEYVAL wishes to sincerely thank the authorities of Israel for hosting

this event, as well as the trainers (Mr John Ringguth, Mr Yehuda Schaffer, Mr Richard Walker and Mr Michael Stellini). This training is crucial in sending evaluation teams familiar with the 5th round standards on its evaluations.

Training for MONEYVAL 5th round assessed countries

As there are some significant changes from the 4th round procedures, the MONEYVAL Secretariat regularly conducts a two-day country training seminar for each evaluated country one year in advance of the onsite visit. The seminar addresses all the main stakeholders in the public and private sectors and in particular those people who will be involved in preparing the materials to be submitted by the country and who will be interviewed onsite. In 2016, training seminars for the 5th round assessment visits were organised in Andorra (February), Albania (October) and Latvia (November). This initiative will continue in 2017.

THE CONFERENCE OF THE PARTIES TO CETS No. 198

The 2005 Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism (or Warsaw Convention), which came into force on 1 May 2008, builds on the success of the 1990 Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime (or Strasbourg Convention). It is the first comprehensive anti-money laundering treaty covering prevention, repression and international co-operation in anti-money laundering and confiscation. More specifically, this instrument:

- ▶ provides States with enhanced possibilities to prosecute money laundering more effectively;
- ▶ equips States Parties with further confiscation tools to deprive offenders of criminal proceeds;
- ▶ provides important investigative powers, including measures to access banking information for domestic investigations and for the purposes of international co-operation;
- ▶ covers preventive measures, and the roles and responsibilities of financial intelligence units and the principles for international co-operation between financial intelligence units;
- ▶ applies all its provisions to financing of terrorism;
- ▶ covers the principles on which judicial international co-operation should operate between States Parties.

The Convention provides for a monitoring mechanism through a Conference of the Parties to ensure that its provisions are being effectively implemented. It counts to date 12 signatories, including the European Union, and 29 State Parties. In 2016, a new ratification came

from Turkey, while Azerbaijan and Germany signed the Convention. Italy ratified the Convention in February 2017. Mr Paolo Costanzo (Italy) acts as a scientific expert to the COP since 2011. As of 2017, Mr Branislav Bohacik (Slovak Republic) is the Chair of the COP, with Mr Jean-Sebastian Jamart (Belgium) as Vice-Chair.

The monitoring procedure under the Convention is particularly careful not to duplicate the work of MONEYVAL or of the FATF; it therefore focuses on those parts of the Convention that add value to the current global standards. The assessment is undertaken by three rapporteurs (on legal aspects, FIU related issues and international co-operation) in conjunction with the Secretariat and is based on the replies of the authorities to a detailed questionnaire. Where necessary, MONEYVAL and FATF reports are also drawn upon.

MONEYVAL's Executive Secretary is also the Executive Secretary to the COP, due to the relevance and interconnection of the COP's mandate to the work of MONEYVAL. Similarly, MONEYVAL's secretariat staff also provides full support to the COP.

The 8th meeting of the Conference of the Parties took place in Strasbourg from 25-26 October 2016. At that meeting, the Conference, inter alia: discussed the assessment reports on Armenia and Belgium and decided to adopt them, subject to the changes agreed during the Plenary discussion; took note of the follow-up reports by Poland and Croatia and invited Poland to provide an updated follow-up report at the next COP meeting; considered a survey of "Gathering examples of cases of the use or implementation of CETS 198's provisions"; and adopted a mutual legal assistance template for the Warsaw Convention. The Conference also elected Mr Besnik Muci (Albania), Ms Oxana Gâscă (Republic of Moldova) and Mr Sorin Tanase (Romania) as members of the Bureau for a term of office of two years, and thanked Ms Ani Melkonyan (Armenia) for her very valuable work in the Bureau of the COP in the past year.

MONEYVAL and the European Court of Human Rights' judgment in the case of *Al-Dulimi and Montana Management Inc. v. Switzerland*

In September, the Plenary heard a presentation by Judge Spano (Judge at the European Court of Human Rights, elected in respect of Iceland) on the recent Grand Chamber judgment in the case of *Al-Dulimi and Montana Management Inc. v. Switzerland* of 21 June 2016, concerning the implementation of targeted financial sanction of the United Nations Security Council. Although the resolution at issue in *Al-Dulimi* (UNSCR 1483 of 22 May 2003, concerning Iraq) does not relate to the financing of terrorism or proliferation of weapons of mass destruction, and consequently does not fall within the ambit of the FATF standards, the judgment is of high relevance for MONEYVAL

delegations. The European Court of Human Rights had found in that judgment that the right of access to court (Article 6 of the European Convention on Human Rights, ECHR) had been violated, which could also occur in the future with the implementation of UNSCRs which fall within the realm of the FATF and MONEYVAL. Several delegations raised issues with regard to the compatibility of the 2012 FATF standards with the requirements under Article 6 ECHR as pronounced by the Court in that judgment. The Plenary decided that the complexity of these issues deserved to be further discussed at the December meeting, and that meanwhile an ad hoc working group should draft a paper to facilitate members' task of reconciling their actions taken on the basis of the FATF standards with their obligations under the ECHR.

At the December Plenary, the Secretariat presented the paper elaborated by the ad hoc working group and stressed that the paper was aimed at giving MONEYVAL jurisdictions some guidance of how to reconcile their obligations under the ECHR with the international AML/CFT standards. Bearing in mind that the European Court of Human Rights is the final authority on the application and implementation of the ECHR and the FATF is the international standard-setter in the area of AML/CFT, the ad hoc working group had attempted to indicate some possible ways to apply these two sets of standards harmoniously. The Secretariat also recalled that a majority of FATF members are bound by the ECHR. Hence the implications of the *Al-Dulimi* judgment thus concern them as much as the members of MONEYVAL.

The Plenary adopted the paper and thanked all members of the *ad hoc* working group for their contribution. It suggested that the MONEYVAL delegation raises this issue with the FATF in order to communicate the outcome of the Plenary discussion in September and December 2016, as well as the main conclusions of the paper. It was agreed that such communication would be done with a view to agreeing a joint FATF/MONEYVAL approach to the implementation of R.6 by FATF/MONEYVAL members which are parties to the ECHR, including the possibility of reflecting such an approach in a future revision of the Methodology on R.6.

HUMAN RESOURCES

The MONEYVAL Secretariat currently comprises the Executive Secretary, four Council of Europe administrators, three administrators on secondment from national administrations (Ms Veronika Mets from Estonia; Mr Andrey Frolov from the Russian Federation; and Mr Andrew Le Brun from the UK Crown Dependency of Jersey), three administrative assistants, three temporary programme assistants (i.e. with a maximum contract duration of nine months per

year) and one communication officer. An additional position as administrator for the initial period of two years is in the course of being established through voluntary contributions by the following MONEYVAL members: Andorra, Liechtenstein, Malta and Monaco. MONEYVAL warmly thanks these countries for having made these important contributions. The Committee

also warmly thanks Armenia and Turkey for having made available secondments which ended in 2016. As the remaining secondees will depart within the course of 2017, and replacement is currently uncertain, all Council of Europe member States are urged to consider making sufficiently qualified secondees available to support the MONEYVAL Secretariat.

Conclusion

MONEYVAL's work to fight money laundering and the financing of terrorism remains a very important element in the overall structure of the Council of Europe. Because effective anti-money laundering measures take the profit out of crime and disrupt organised criminality, combatting money laundering is central to the integrity and protection of democracy and the rule of law in Council of Europe States. The continuous terrorist attacks in 2016 by "Da'esh" (also known as "IS") and other terrorist groups sadly demonstrated the importance of combatting the financing of terrorism as a cornerstone in the fight against terrorism. Both aspects underline how important MONEYVAL's mandate remains.

In 2016 MONEYVAL has continued to demonstrate that it is an important and irreplaceable partner in the global network of AML/CFT assessment bodies. Its work is highly valued at the international level and strengthens the visibility and the relevance of the Council of Europe.

However, the fact that the global network of AML/CFT assessment bodies has entrusted the Council of Europe with the task of carrying out MONEYVAL's mandate comes with the obligation to make sufficient resources available to carry out this work. Currently this is not the case, as significant and sustainable reinforcement of MONEYVAL's Secretariat is urgently needed..

Appendices

APPENDIX I – RANGE OF ACTIVITIES PER STATE/JURISDICTION IN 2016

	ERRG	4th Round Follow-up	CEPs	5th Round Training	5th Round Follow-up	5th Round MER	No Action
Albania				x			
Andorra				x			
Armenia					x		
Azerbaijan		x					
Bosnia & Herzegovina	x	x					
Bulgaria		x					
Croatia		x					
Cyprus							x
Czech Republic			x				
Estonia		x					
Georgia							x
Holy See							x
Hungary						x	
Israel		x					
Latvia		x		x			
Liechtenstein		x					
Lithuania		x					
Malta							x
Monaco							x
Montenegro			x				
Poland		x					
Republic of Moldova		x					
Romania		x					
Russian Federation							x
San Marino							x
Serbia						x	
Slovak Republic		x					
Slovenia						x (onsite visit only)	
“The former Yugoslav Republic of Macedonia”		x					
UK Crown Dependency of Guernsey							x
UK Crown Dependency of Jersey							x
UK Crown Dependency of the Isle of Man						x	
UK Overseas Territory of Gibraltar							x
Ukraine							x
Total	1	14	2	3	1	3	11

APPENDIX II – LIST OF 2003 40+9 FATF RECOMMENDATIONS

R.1	Money laundering offence
R.2	Criminalisation of Money laundering
R.3	Confiscation, freezing and seizing of proceeds of crime
R.4	Financial institution secrecy laws
R.5	Customer due diligence
R.6	Politically exposed persons
R.7	Correspondent banking
R.8	New technologies
R.9	Third parties and introduced business
R.10	Record keeping
R.11	Monitoring of transactions and relationships
R.12	Customer due diligence and record-keeping
R.13	Reporting of suspicious transactions
R.14	Tipping-off and confidentiality
R.15	Internal controls and foreign branches and subsidiaries
R.16	Suspicious transaction reporting
R.17	Sanctions
R.18	Shell banks
R.19	Higher-risk countries
R.20	Other designated non-financial businesses and professions
R.21	Higher-risk countries
R.22	Internal controls and foreign branches and subsidiaries
R.23	Regulation and supervision of financial institutions
R.24	Regulation and supervision of DNFBPs
R.25	Guidance and feedback
R.26	Financial intelligence units
R.27	Responsibilities of law enforcement and investigative authorities
R.28	Powers of law enforcement and investigative authorities
R.29	Powers of supervisors
R.30	Resources of Competent Authorities
R.31	National co-operation and coordination
R.32	Statistics
R.33	Transparency and beneficial ownership of legal persons
R.34	Transparency and beneficial ownership of legal arrangements
R.35	International instruments
R.36	Mutual legal assistance
R.37	Extradition
R.38	Mutual legal assistance: freezing and confiscation
R.39	Extradition
R.40	Other forms of international co-operation
RS.I	Implement UN instruments
RS.II	Terrorist financing offence
RS.III	Freezing and confiscating terrorist assets
RS.IV	Reporting of suspicious transactions
RS.V	International co-operation
RS.VI	Money or value transfer services
RS.VII	Wire transfers
RS.VIII	Non-profit organisations
RS.IX	Cash couriers

APPENDIX III – LIST OF 2012 40 FATF RECOMMENDATIONS AND 11 IMMEDIATE OUTCOMES AS PER FATF METHODOLOGY FROM FEBRUARY 2013

2012 FATF Recommendations	
R.1	Assessing Risks and applying a Risk-Based Approach
R.2	National Cooperation and Coordination
R.3	Money laundering offence
R.4	Confiscation and provisional measures
R.5	Terrorist financing offence
R.6	Targeted financial sanctions related to terrorism and terrorist financing
R.7	Targeted financial sanctions related to proliferation
R.8	Non-profit organisations
R.9	Financial institution secrecy laws
R.10	Customer due diligence
R.11	Record-keeping
R.12	Politically exposed persons
R.13	Correspondent banking
R.14	Money or value transfer services
R.15	New technologies
R.16	Wire transfers
R.17	Reliance on third parties
R.18	Internal controls and foreign branches and subsidiaries
R.19	Higher-risk countries
R.20	Reporting of suspicious transactions
R.21	Tipping-off and confidentiality
R.22	DNFBPs: Customer due diligence
R.23	DNFBPs: Other measures
R.24	Transparency and beneficial ownership of legal persons
R.25	Transparency and beneficial ownership of legal arrangements
R.26	Regulation and supervision of financial institutions
R.27	Powers of supervisors
R.28	Regulation and supervision of DNFBPs
R.29	Financial intelligence units
R.30	Responsibilities of law enforcement and investigative authorities
R.31	Powers of law enforcement and investigative authorities
R.32	Cash Couriers
R.33	Statistics
R.34	Guidance and feedback
R.35	Sanctions
R.36	International instruments
R.37	Mutual legal assistance
R.38	Mutual legal assistance: freezing and confiscation
R.39	Extradition
R.40	Other forms of international co-operation

Immediate Outcomes	
IO1	Money laundering and terrorist financing risks are understood and, where appropriate, actions coordinated domestically to combat money laundering and the financing of terrorism and proliferation.
IO2	International co-operation delivers appropriate information, financial intelligence, and evidence, and facilitates action against criminals and their assets.
IO3	Supervisors appropriately supervise, monitor and regulate financial institutions and DNFBNs for compliance with AML/CFT requirements commensurate with their risks.
IO4	Financial institutions and DNFBNs adequately apply AML/CFT preventive measures commensurate with their risks, and report suspicious transactions.
IO5	Legal persons and arrangements are prevented from misuse for money laundering or terrorist financing, and information on their beneficial ownership is available to competent authorities without impediments.
IO6	Financial intelligence and all other relevant information are appropriately used by competent authorities for money laundering and terrorist financing investigations.
IO7	Money laundering offences and activities are investigated and offenders are prosecuted and subject to effective, proportionate and dissuasive sanctions.
IO8	Proceeds and instrumentalities of crime are confiscated.
IO9	Terrorist financing offences and activities are investigated and persons who finance terrorism are prosecuted and subject to effective, proportionate and dissuasive sanctions.
IO10	Terrorists, terrorist organisations and terrorist financiers are prevented from raising, moving and using funds, and from abusing the NPO sector.
IO11	Persons and entities involved in the proliferation of weapons of mass destruction are prevented from raising, moving and using funds, consistent with the relevant resolutions of the UN Security Council.

APPENDIX IV – LIST OF FATF-STYLE REGIONAL BODIES

Asia/Pacific Group on Money Laundering (APG)	
Caribbean Financial Action Task Force (CFATF)	
Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL)	
Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG)	
Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG)	
Financial Action Task Force on Money Laundering of Latin America America (GAFILAT)	
Inter-Governmental Action Group against Money Laundering in West Africa (GIABA)	
Middle East and North Africa Financial Action Task Force (MENAFATF)	
Task Force on Money Laundering in Central Africa (GABAC)	

The Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) is a monitoring body of the Council of Europe entrusted with the task of assessing compliance with the principal international standards to counter money laundering and the financing of terrorism and the effectiveness of their implementation, as well as with the task of making recommendations to national authorities in respect of necessary improvements to their systems.

For more information on MONEYVAL, please visit our website: www.coe.int/moneyval

www.coe.int

The Council of Europe is the continent's leading human rights organisation. It comprises 47 member states, 28 of which are members of the European Union. All Council of Europe member states have signed up to the European Convention on Human Rights, a treaty designed to protect human rights, democracy and the rule of law. The European Court of Human Rights oversees the implementation of the Convention in the member states.