

AML Tuesday's Session #43 on:

Monaco's Follow-Up Process with the FATF

12 December 2023

Mutual Evaluation Report of Monaco

Effectiveness Ratings (IO Ratings)

IO.1	Risk, policy and co-ordination	Moderate
IO.2	International co-operation	Low
IO.3	Supervision	Low
IO.4	Preventive measures	Moderate
IO.5	Legal persons and arrangements	Moderate
IO.6	Financial intelligence	Moderate
IO.7	ML investigation and prosecution	Low
IO.8	Confiscation	Low
IO.9	TF investigation and prosecution	Moderate
IO.10	TF preventive measures and financial sanctions	Moderate
IO.11	PF financial sanctions	Moderate

* Immediate outcome effectiveness ratings: High, Substantial, Moderate and Low.

ICRG Listing (The Grey List)

Consequences of ICRG Listing

- Listing is a signal to the global financial and banking system that transactions and business relationships with a customer, financial institution or company in Monaco have a heightened risk of involving illicit funds.
- No economic sanctions are resulting directly from the listing.
- Reputational Risk – example Panama: The way individual people, companies, financial institutions and also governments feel about and think of Monaco will be impacted negatively. The international press will reflect this sentiment.
- Once listed, an overarching risk is that Monaco will be unable to implement the FATF imposed action plan in a reasonable period of time. The longer Monaco will remain on the list, the higher the risk that harsher measures and even bilateral sanctions will be imposed by foreign governments. As examples, in Iran and North Korea sanctions have severely curtailed foreign investment and trade flows, and almost eliminated access by these countries to global capital markets and vital payment systems such SWIFT. This is an unlikely scenario, as Monaco's leadership will actively seek to avoid it. Example to watch on an ongoing basis is Pakistan.

Political Consequences of ICRG Listing

- Listing can be used by any country as a powerful political instrument to further their interest in any area, including those not at all related to AML/CFT or even financial market issues.
- Monaco Investments abroad: being on the FATF's grey list can make potential negotiations with foreign countries in relation to Monaco pursued investments more challenging. There is a risk that Monaco's failure to improve its compliance with the FATF's recommendations, coupled with political opposition from the US and/or Europe, might derail negotiations on major investments in those countries.
- Foreign investments in the Monaco: Listing may result in a decrease of Monaco's attractiveness for foreign investments.

Private Sector Consequences of ICRG Listing

- Correspondent relationships with global banks may become more difficult/expensive to maintain or will be severed in the context of de-risking efforts.
 - Example is CFATF region, where decline had adverse effect on international trade, growth, financial inclusion, and started to raise fears over the stability and integrity of the financial system.
 - Ancillary risk is that informal sector may grow.
 - IMF has done a lot of work on this.
- Transactions from Monaco will likely be subject to enhanced monitoring and due diligence by foreign processing or receiving FIs. Foreign intermediary financial institutions are likely to demand greater documentation and transparency within Monaco's financial system and force Monegasque banks to enhance their own compliance procedures in order to maintain unhampered access to the global payment system and the worldwide communication network of FIs.








Private Sector Consequences of ICRG Listing (cont'd)

- The above is likely to result in cross border capital flows becoming more resource intense for Monegasque FIs and thus eventually also the customers. This may pose a challenge especially for the trade sector. Documentary requirements for export and import payments, such as letters of credit, may become more challenging to fulfil, potentially raising costs and hampering business for companies engaged in trade. At some point, if maintained for a long time, these barriers may affect ongoing trade and investment flows on a macro level.
- All of the above combined may result in a decreased appetite of global companies, investors, individuals etc. to conduct their business through the Monaco financial market, both due to reputational considerations and the outlined operational inconveniences and costs. Again Panama but also countries such as Cyprus are negative examples.

Individuals' Consequences of ICRG Listing

- Monaco nationals and Monaco legal entities may find it much more challenging to establish new or maintain existing business relationships with foreign FIs
- This may be particularly relevant for Monaco's corporate sector, where many legal entities are presumably operating through foreign non-resident accounts
- Result could easily be a decline in number of registered entities as beneficial owners choose to establish their corporate vehicles in a financial center/jurisdiction with less reputational exposure.

Countries currently on the ICRG List

- | | | |
|---|--|--|
|  Barbados |  Jamaica |  Syria |
|  Bulgaria |  Mali |  Tanzania |
|  Burkina Faso |  Mozambique |  Türkiye |
|  Cameroon |  Nigeria |  Uganda |
|  Croatia |  Philippines |  United Arab Emirates |
|  DR of Congo |  Senegal |  Vietnam |
|  Gibraltar |  South Africa |  Yemen |
|  Haiti |  South Sudan | |

The ICRG Process

Timeline of the ICRG Process



- From January 2023 to March 2024 (14 months) Monaco is expected to:
 - Demonstrate positive and tangible progress on all **11 Immediate Outcomes**
 - Address technical deficiencies in relation to **16 Recommendations**, particularly Recommendation 6
- ... in order to avoid listing

The Role of the Private Sector

The Role of the Private Sector

- Provide data and information through STRIX
- Review the updated risk assessments and implement them in entity's policies and procedures
- Improve policies and procedures on preventive measures
- Work with SICCFIN to improve quality of STRs
- Provide data and information to law enforcement authorities more promptly
- Cooperate with SICCFIN in relation to its supervisory powers
- Participate in FTA's awareness-raising campaign



*Thank you for your
time*

Financial Transparency Advisors GmbH
Zieglergasse 38/7/1070 Vienna, Austria

Phone: +43 1 890 8717 11

www.ft-advisors.com

<http://www.ft-advisors.com>

Next Session:

N/A

Topic:

N/A

Today's Host: Jan Bellenghi

Today's Presenter: Michael Stellini