AML Tuesday's Session #30 on:

ICRG Discussion

17 September 2024

MONEYVAL Mutual Evaluation Report of Monaco

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Effectiveness Ratings (IO Ratings)

IO.1	Risk, policy and co-ordination	**Moderate**
IO.2	International co-operation	**Moderate**
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.

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The ICRG Process

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Timeline of the ICRG Process

- December **2022** — Adoption of MER by MONEYVAL
- February **2023** — Referral to ICRG Group/ Start of Observation Period
- February **2024** — End of Observation Period/Presentation
- March/April **2024** — Presentation of POPR by Monaco
- June **2024** — Listing Decision by ICRG
- June **2025** — FATF Plenary: First tranche of Action Items
- October **2025** — FATF Plenary: Second tranche of Action Items
- February **2026** — FATF Plenary: Third tranche of Action Items
- March/April **2026** — On-site visit in Monaco
- June **2026** — FATF Plenary: De-Listing Decision by ICRG

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What's in the Action Plan?

From 79 Recommended Actions in the MONEYVAL MER to 10 action items

<u>Directly impacting the private sector</u>

- Improve quality and delays in relation to STRs
- More sanctions by the DDE
- Proportionate, effective and dissuasive sanctions by the AMSF and Bar Association where shortcomings are identified. The whole range of available sanctions should be applied, including publication where deemed necessary.

<u>Other actions items</u>

- Tax related risk assessment
- Increase in seizures by GPO
- Increase in outbound formal and information requests for information
- Strengthen resources at the AMSF-FIU
- Increase resources of the Prosecution and Investigative Judges
- Sentencing Review
- Sanctions for ML convictions should be effective, proportionate and dissuasive

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ICRG Listing (The Grey List)

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Grey vs Black List

Grey list - Jurisdictions under Increased Monitoring

Jurisdictions under increased monitoring are actively working with the FATF to address strategic deficiencies in their regimes to counter money laundering, terrorist financing, and proliferation financing. When the FATF places a jurisdiction under increased monitoring, it means the country has committed to resolve swiftly the identified strategic deficiencies within agreed timeframes and is subject to increased monitoring. This list is often externally referred to as the "grey list".

The FATF and FATF-style regional bodies (FSRBs) continue to work with the jurisdictions below as they report on the progress achieved in addressing their strategic deficiencies. The FATF calls on these jurisdictions to complete their action plans expeditiously and within the agreed timeframes. The FATF welcomes their commitment and will closely monitor their progress. The FATF does not call for the application of enhanced due diligence measures to be applied to these jurisdictions. The FATF Standards do not envisage de-risking, or cutting-off entire classes of customers, but call for the application of a risk-based approach. Therefore, the FATF encourages its members and all jurisdictions to take into account the information presented below in their risk analysis.

Black list - High-Risk Jurisdictions subject to a Call for Action

High-risk jurisdictions have significant strategic deficiencies in their regimes to counter money laundering, terrorist financing, and financing of proliferation. For all countries identified as high-risk, the FATF calls on all members and urges all jurisdictions to apply enhanced due diligence, and, in the most serious cases, countries are called upon to apply countermeasures to protect the international financial system from the money laundering, terrorist financing, and proliferation financing (ML/TF/PF) risks emanating from the country. This list is often externally referred to as the "black list". Since February 2020, only Iran once reported in January 2024 with no material changes in the status of its action plan.
Given heightened proliferation financing risks, the FATF reiterates its call to apply countermeasures on these high-risk jurisdictions.

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Countries currently on the Grey List

- Bulgaria
- Burkina Faso
- Cameroon
- Croatia
- DR of Congo
- Haiti
- Kenya
- Mali
- Mozambique
- Namibia
- Nigeria
- Philippines
- Senegal
- South Africa
- South Sudan
- Syria
- Tanzania
- Venezuela
- Vietnam
- Yemen

<u>Countries on the black list are Iran, DPRK and Myanmar</u>

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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: The way individual people, companies, financial institutions and also governments feel about and think of Monaco may be impacted negatively. The international press may 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. This is an unlikely scenario, as Monaco's leadership will actively seek to avoid it.

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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 conducted by FIs, DNFBPs and other businesses from Monaco will likely be subject to enhanced monitoring and due diligence by foreign processing or receiving FIs. Foreign intermediary FIs 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.

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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/DNFBPs 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.

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The Role of the Private Sector

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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 AMSF to improve quality and delays of STRs
- Provide data and information to law enforcement authorities more promptly
- Cooperate with AMSF in relation to its supervisory powers
- Participate in FTA's awareness-raising campaign

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The concrete implication of the grey-list on the private sector

- Although obliged entities in Monaco are required to assess the reputability and risk of a jurisdiction to better understand the risks they are exposed to, this obligation is not to be interpreted as being also applicable to Monegasque obliged entities with respect to Monaco itself. Therefore, obliged entities are not required to assess the jurisdictional risks arising from entertaining business relationships or conducting occasional transactions with Monegasque or resident clients.

- Therefore, obliged entities are not expected, solely because of Monaco's placement under increased monitoring by the FATF, to consider Monaco as non-reputable or as a high-risk jurisdiction. This development need not be considered as a trigger to revise or update the Business Risk Assessment or Customer Risk Assessments. Neither should this development, on its own, result in an intensification of AML/CFT measures, including the application of EDD, with respect to Monegasque or Monaco resident customers, including bodies corporate and legal arrangements established in Monaco or having Monegasque beneficial owners.

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Thank you for your time

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Next Session:
24 September, 2024

Topic:

Sector-Specific STR Typologies and Red Flag Scenarios applied in Practice
DPMS/Antiques/Car Dealers, Pawn Shops

Today's Host: Tamar Goderdzishvili

Today's Presenter: Michael Stellini